Joint Stock Company
“The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements in accordance with International Financial Reporting Standards and Auditors’ Report

31 December 2013

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Auditors' Report

To the Shareholders and Board of Directors

Joint Stock Company "The Ural Bank for Reconstruction and Development"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Joint Stock Company "The Ural Bank for Reconstruction and Development"

Registered by the Central Bank of the Russian Federation on 16 August 2012 Licence № 429.

Registered in the Unified State Register of Legal Entities on 23 August 2002 by Department of the Ministry for Taxes and Duties of Sverdlovsk region, Registration No. 1026600000350, Certificate series 66 No. 003024035.

Address of audited entity:
67, Sakko and Vancetti st., Yekaterinburg, Russia 620014.

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

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

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

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

Opinion

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

Kim A.A.

Director, power of attorney dated 1 October 2013 No. 72/13

ZAO KPMG

2 April 2014

Moscow, Russian Federation

In thousands of Russian Roubles	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	15 396 115	16 165 390
Mandatory cash balances with the Central Bank of the Russian Federation		1 224 444	1 140 186
Trading securities	8	10 764	191 998
Other securities at fair value through profit or loss	9	18 929 659	27 231 288
Securities available-for-sale	10	-	55 872
Investment securities held to maturity	11	28 508 359	8 237 047
Due from other banks	12	8 395 437	84 431
Loans and advances to customers	13	108 769 379	72 415 124
Finance lease receivables	14	1 502 734	839 354
Goodwill		162 122	162 122
Property and equipment	15	5 470 564	4 824 699
Intangible assets	16	264 203	181 911
Investment property	17	5 972 382	5 955 205
Advances to real estate developers	18	2 274 576	2 572 622
Current income tax asset		12 027	17 705
Deferred tax asset	31	494 767	564 512
Other assets	19	4 548 609	3 030 872
Assets held for sale	20	552 348	246 605
TOTAL ASSETS		**202 488 489**	**143 916 943**
LIABILITIES			
Due to other banks	21	40 740 015	26 692 854
Customer accounts	22	125 003 002	95 645 302
Debt securities in issue	23	19 189 266	8 939 999
Current income tax liability		86 327	89 541
Deferred tax liability	31	431 795	300 822
Other liabilities	24	1 581 196	389 669
Subordinated debt	25	4 324 551	2 468 741
TOTAL LIABILITIES		**191 356 152**	**134 526 928**
EQUITY			
Share capital	26	3 634 812	3 634 812
Share premium	26	1 581 956	1 581 956
Additional capital	26	2 379 203	2 379 203
Revaluation reserve for land and premises		1 297 849	1 378 827
Revaluation reserve for securities available-for-sale		-	1 236
Cumulative translation reserve		(32 964)	(8 544)
Retained earnings		2 271 481	422 525
TOTAL EQUITY		**11 132 337**	**9 390 015**
TOTAL LIABILITIES AND EQUITY		**202 488 489**	**143 916 943**

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 2 April 2014.

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	Notes	2013	2012
Interest income	28	21 769 793	13 530 680
Interest expense	28	(11 871 158)	(7 570 417)
Net interest income		**9 898 635**	**5 960 263**
(Provision) for/ recovery of impairment:			
- Loans and advances to customers	13	(6 368 694)	(2 103 329)
- Finance lease receivables	14	(33 419)	(1 358)
- Due from other banks		91	-
Net interest income after provision for impairment		**3 496 613**	**3 855 576**
Fee and commission income	29	5 691 062	2 304 608
Fee and commission expense	29	(459 651)	(280 245)
(Loss)/income from trading securities		(56 368)	3 645
Loss from other securities at fair value through profit or loss		(200 296)	(267 645)
Income from securities available-for-sale		1 509	1 227
Income/(loss) from trading in foreign currencies		253 047	(274 547)
Income from trading in precious metals		104 527	59 614
Foreign exchange translation income		148 293	291 323
Rental income		16 183	16 639
Loss from revaluation of land and premises	15	-	(8 153)
Loss from investment property	17	(91 530)	(150 825)
Income/(loss) from assignment of loans		681 259	(4 558)
Other operating income		55 841	25 585
Loss from termination of lease agreements		(2 705)	(41 125)
Administrative and other operating expenses	30	(7 061 073)	(4 519 916)
Profit before tax		**2 576 711**	**1 011 203**
Income tax expense	31	(508 297)	(164 771)
Profit		**2 068 414**	**846 432**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	Notes	2013	2012
Profit		**2 068 414**	**846 432**
Other comprehensive income for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation of securities available-for-sale		-	816
Realised revaluation reserve for securities available-for-sale		(1 236)	(177)
Foreign currency translation difference		(24 420)	20 482
Items that will not be reclassified to profit or loss:			
Revaluation of buildings	15	-	70 429
Other comprehensive (loss)/income, net of income tax		**(25 656)**	**91 550**
Total comprehensive income		**2 042 758**	**937 982**

Soloviev A.U.
President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings	Total equity
Balance as at 1 January 2012		**2 634 812**	**581 956**	**2 379 203**	**1 387 612**	**597**	**(29 026)**	**97 962**	**7 053 116**
Other comprehensive income/(loss) less deferred income tax									
Items that are or may be reclassified subsequently to profit or loss:									
Securities available-for-sale:									
- revaluation		-	-	-	-	816	-	-	816
- realised revaluation reserve		-	-	-	-	(177)	-	-	(177)
Foreign currency translation difference		-	-	-	-	-	20 482	-	20 482
Items that will not be reclassified to profit or loss:									
Premises:									
- revaluation	15	-	-	-	70 429	-	-	-	70 429
- realised revaluation reserve		-	-	-	(79 214)	-	-	79 214	-
Other comprehensive (loss)/income less deferred income tax		**-**	**-**	**-**	**(8 785)**	**639**	**20 482**	**79 214**	**91 550**
Profit		-	-	-	-	-	-	846 432	846 432
Total comprehensive (loss)/income		**-**	**-**	**-**	**(8 785)**	**639**	**20 482**	**925 646**	**937 982**

In thousands of Russian Roubles	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings	Total equity
Transactions with owners, recorded directly in equity									
Dividends declared	27	-	-	-	-	-	-	(601 090)	(601 090)
Dividends recovered	27	-	-	-	-	-	-	7	7
Issue of shares	26	1 000 000	1 000 000	-	-	-	-	-	2 000 000
Balance as at 31 December 2012		**3 634 812**	**1 581 956**	**2 379 203**	**1 378 827**	**1 236**	**(8 544)**	**422 525**	**9 390 015**
Other comprehensive (loss)/income less deferred income tax									
Items that are or may be reclassified subsequently to profit or loss:									
Securities available-for-sale:									
- realised revaluation reserve		-	-	-	-	(1 236)	-	-	(1 236)
Foreign currency translation difference		-	-	-	-	-	(24 420)	-	(24 420)
Items that will not be reclassified to profit or loss:									
Premises:									
- realised revaluation reserve		-	-	-	(80 978)	-	-	80 978	-
Other comprehensive (loss)/income less deferred income tax		**-**	**-**	**-**	**(80 978)**	**(1 236)**	**(24 420)**	**80 978**	**(25 656)**
Profit		-	-	-	-	-	-	2 068 414	2 068 414
Total comprehensive (loss)/income		**-**	**-**	**-**	**(80 978)**	**(1 236)**	**(24 420)**	**2 149 392**	**2 042 758**

In thousands of Russian Roubles	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for land and premises	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings	Total equity
Transactions with owners, recorded directly in equity									
Dividends declared	27	-	-	-	-	-	-	(300 436)	(300 436)
Balance as at 31 December 2013		**3 634 812**	**1 581 956**	**2 379 203**	**1 297 849**	**-**	**(32 964)**	**2 271 481**	**11 132 337**

Solovjev A.U
President

Sirazov M.R.
Chief accountant

In thousands of Russian Roubles	Notes	2013	2012
Cash flows from operating activities			
Interest received		19 527 175	12 898 165
Interest paid		(11 693 156)	(7 230 116)
Fees and commissions received		5 680 317	2 320 755
Fees and commissions paid		(462 205)	(289 354)
(Payments)/receipts from trading securities		(59 887)	9 165
Payments from other securities at fair value through profit or loss		(162 835)	(159 891)
(Payments)/receipts from securities available-for-sale		(34)	1 006
Receipts/(payments) from foreign currencies		284 120	(278 623)
Receipts from precious metals		4 128	43 851
Administrative and other operating expenses paid		(6 665 675)	(4 536 809)
Income tax paid		(298 701)	(446 959)
Proceeds from assignment of loans		1 088 557	-
Other operating income received		39 420	145 167
Cash flows from operating activities before changes in operating assets and liabilities		**7 281 224**	**2 476 357**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(84 258)	(265 841)
Trading securities		184 753	(67 563)
Other securities at fair value through profit or loss		8 251 791	(3 301 778)
Securities available-for-sale		54 974	246 732
Investment securities held to maturity		(19 747 140)	(8 237 047)
Due from other banks		(8 262 808)	(24 144)
Loans and advances to customers		(40 874 231)	(29 553 957)
Finance lease receivables		(696 799)	(151 272)
Advances to real estate developers		298 046	210 333
Other assets		(1 368 609)	(1 614 003)
Assets held for sale		21 936	17 941
Increase/(decrease) in operating liabilities			
Due to other banks		13 951 501	10 916 103
Customer accounts		28 631 094	26 435 756
Promissory notes in issue (included in debt securities in issue)		2 216 420	1 373 858
Other liabilities		1 181 602	110 516
Net cash used in operating activities		**(8 960 504)**	**(1 428 009)**
Cash flows from investing activities			
Acquisition of property and equipment		(1 098 113)	(642 750)
Proceeds from disposal of property and equipment		13 134	10 731
Acquisition of intangible assets	16	(129 269)	(63 968)
Acquisition of investment property		(23 768)	(312 542)
Proceeds from disposal of investment property		108 578	660 170
Net cash used in investing activities		**(1 129 438)**	**(348 359)**

In thousands of Russian Roubles	Notes	2013	2012
Cash flows from financing activities			
Proceeds from additional share issue	26	-	2 000 000
Dividends paid		(300 199)	(598 114)
Proceeds from bonds issued on domestic market (included in debt securities in issue)		5 799 600	2 497 697
Repayment of bonds issued on domestic market (included in debt securities in issue)		(1 640 209)	-
Proceeds from Euro commercial securities (included in debt securities in issue)		3 005 883	-
Repayment of Euro commercial securities (included in debt securities in issue)		(1 589 028)	-
Proceeds from loan participation notes (included in debt securities in issue)		2 204 180	-
Subordinated debt received		1 591 253	931 116
Net cash from financing activities		**9 071 480**	**4 830 699**
Effect of exchange rate changes on cash and cash equivalents		**249 187**	**(260 977)**
Net (decrease)/increase in cash and cash equivalents		**(769 275)**	**2 793 354**
Cash and cash equivalents at the beginning of the year		16 165 390	13 372 036
Cash and cash equivalents at the end of the year	**7**	**15 396 115**	**16 165 390**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

1 Introduction

These consolidated financial statements of Joint Stock Company “The Ural Bank for Reconstruction and Development” (the Bank) and its subsidiaries, special purpose entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company set up in accordance with regulations of the Russian Federation.

Principal activity. The Bank’s principal business activity is commercial and retail banking transactions within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBRF) on 16 August 2012. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003 (as in force on 28 December 2013). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 700 thousand per individual in case of the withdrawal of a license of a bank or CBRF imposed moratorium on payments.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

As at 31 December 2013 the ultimate controlling party of the Bank, Mr. I.A. Altushkin, affiliated with ZAO “Russian Copper Company”, ultimately controls 85.86% (31 December 2012: 85.31%) of the share capital of the Bank.

The Bank has 13 (2012: 13) branches and 506 (2012: 289) additional and operational offices in the Russian Federation.

The average number of employees during 2013 is 6 339 (2012: 4 454).

Registered address and place of business. The Bank’s registered address and place of business is 620014, 67, Sakko and Vancetti st., Yekaterinburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand).

2 Operating environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this country. The Government continues implementation of economic reforms and development of its legal, tax and regulatory legislation. Current actions of the Government are focused on modernization of the Russian economy, aimed at increasing productivity and product quality, as well as increasing the share of industries producing high-tech products and services. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The stability of the Russian economy in the future is dependent significantly upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The macroeconomic situation in 2013 continued the slowdown of business activity that began in the 4th quarter of 2012. The pace of economic growth has slowed in 2013 along with a decreasing consumer demand and capital investments. During 2013 the Russian national currency weakened in relation to main international currencies. In the past year, the CBRF carried out a further increase in exchange rate flexibility within the framework of the project to establish by 2015 a floating exchange rate. In addition, the CBRF continues to introduce measures to slow down the growth of unsecured consumer lending, which in 2012 and 2011, was a key driver of growth for the entire banking sector. By the end of 2013, banking sector assets grew by 16%, the growth rate of lending to large businesses amounted to 10% and the retail lending market experienced a 29% growth rate. Lending to small and medium-sized businesses was the only segment in 2013 that managed to maintain its earlier growth (about 18%).

There is still uncertainty about the future growth of the Russian economy and the ability of the Group and its counterparties to raise new borrowings at reasonable rates, which in turn can affect the financial position, results of operations and business prospects. As the Russian economy is sensitive to the negative trends on the global markets, there is still a risk of increased volatility on the Russian financial markets. Despite this, management believes that in the current situation they have taken all necessary measures to support the sustainability and growth of the business. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

3 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that land and premises, financial instruments at fair value through profit or loss and securities available-for-sale are stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3 Summary of significant accounting policies (continued)

In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

If an asset or a liability valued at a fair value, has both bid and ask prices, then short-term and long-term positions are valued at the bid price.

3 Summary of significant accounting policies (continued)

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with CBRF and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value these include interbank placements and receivables on repurchase agreements with other banks with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

3 Summary of significant accounting policies (continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Securities available-for-sale. This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available-for-sale are carried at fair value.

Investment securities held to maturity. Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that according to intention and ability of the Group will be held to maturity. Management determines the classification of investment securities held to maturity at the time of initial recognition. Investment securities held to maturity are carried at amortized cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost. When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment of principal or interest is overdue
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

3 Summary of significant accounting policies (continued)

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Sale and repurchase agreements. Sale and repurchase agreements (repo agreements) which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

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

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of significant accounting policies (continued)

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

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

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	1.3 - 2.5%
Equipment	11.8 – 33.3%

Intangible assets. All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 4 years.

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is recognized in the financial statements at cost less accumulated depreciation and impairment losses, if any. When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting. The depreciation method is and rates of depreciation on investment properties are similar to the method and rates of depreciation on premises described above.

3 Summary of significant accounting policies (continued)

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less impairment where required. Upon completion the real estate items are included in investment property or assets held for resale, depending on the Group's intentions in respect of these items.

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

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

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

Finance income from leases is recorded within interest income in profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more loss events that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as described above for loans carried at amortised cost.

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their cost and fair value less cost to sell as at the reclassification date. Assets held for sale are not depreciated.

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

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

Debt securities in issue. Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is carried on the statement of financial position at amortised cost. Interest expense is recorded in profit or loss. Subordinated debt ranks after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

3 Summary of significant accounting policies (continued)

Term deals with precious metals. Term deals with precious metals include forward contracts for purchase/sale of precious metals settled in cash. Balances on these transactions are measured at fair value through profit or loss and the result is recorded in the gain less losses/ (losses less gains) arising from precious metals.

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

Income taxes are provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation enacted or substantively enacted by the reporting date. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within administrative and other operating expenses.

Deferred income tax is provided for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of significant accounting policies (continued)

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Other reserves. Other reserves of the Group comprise revaluation reserve for land and premises, revaluation reserve for securities available-for-sale and cumulative translation reserve. The revaluation reserve for land and premises included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Revaluation reserve for securities available-for-sale is transferred to profit or loss in case it is disposed through sale or repayment of securities. In case of a subsidiary or special purpose entity disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

Income and expense recognition. Interest income and expense are recorded in profit or loss for all financial instruments on an accrual basis. This method includes, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

The Bank receipts fee and commission income from the sale of package of banking services to customers, which are borrowers on consumer loans. Within purchase of package of services the customer has the right to join to the collective insurance programs, where the Bank is the policyholder and the insurance company assumes the insurance risk associated with the life, health and ability, job loss. Borrower determines for himself (herself) the necessity to purchase a package of banking services. The decision of the borrower in respect of the purchase of such package does not affect the interest rate offered to him (her). In case of purchase by a customer the package of banking services the Bank has a fee and commission income from the sale of this package, which is not an integral part of the overall profitability of consumer loans and recognized in profit or loss immediately at the moment the payment from the customers for banking services was made.

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

3 Summary of significant accounting policies (continued)

Foreign currency translation. The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2013 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 32.7292 (31 December 2012: USD 1 = RUB 30.3727).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown as fee and commission income in profit or loss.

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

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

4 Changes in accounting policies and comparative information

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

- IFRS 10 *Consolidated Financial statements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurements*
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)

4 Changes in accounting policies and comparative information (continued)

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

Subsidiaries, including structured entities

As a result of adoption of IFRS 10, the Group changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities (see Note 3).

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

Disclosure of Interests in Other Entities

The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

As a result of adoption of IFRS 12, the Group included new disclosures in the consolidated financial statements that are required under IFRS 12 and provided comparative information for new disclosures.

Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS *7 Financial Instruments*: *Disclosures* (see Note 37).

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

Presentation of items of other comprehensive income

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

Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The Group included new disclosures in the consolidated financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

4 Changes in accounting policies and comparative information (continued)

Comparative information is reclassified to conform to changes in presentation in the current year.

Specifically, because of changes in accounting policies of the Group, transactions with investment securities held to maturity in the consolidated statement of cash flows were moved from "Cash flows from investment activities" to "Cash flows from operating activities".

In addition, disclosure of information on concentration of risk in respect of transactions with issued securities was removed from the notes to consolidated financial statements due to the fact that these securities can be traded on the secondary market and the Group may not know their final holder as at the end of the reporting period.

5 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of land and premises. Over 11% (31 December 2012: 14%) of equity is represented by revaluation reserve for land and premises. As at 31 December 2013 the Group analysed price dynamics on the office property market in 2013. Based on the results of the analysis there were no significant changes in fair value of property during 2013, so no revaluation was made as at 31 December 2013.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and leases before the decrease can be identified with an individual loan or lease in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (refer to note 13).

Special purpose entities. Information on prosessional judjements in respect of estimation an control over special purpose entities is disclosed in note 38.

Fee and commission income from the sale of package of banking services. Information on the basis of which this commission income is recognized in profit or loss is disclosed in note 3.

6 New or revised standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. Analysis of possible impact of new standards on consolidated financial statement of the Group has not been performed yet.

6 New or revised standards and interpretations (continued)

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates general hedge accounting. The final standard is expected to be issued in 2014. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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

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

7 Cash and cash equivalents

In thousands of Russian Roubles	**2013**	**2012**
Cash on hand	6 119 771	4 388 683
Cash and balances with the CBRF (other than mandatory cash balances)	4 518 805	4 546 346
Correspondent accounts and overnight placements with banks:		
- Russian Federation	1 240 228	745 388
- other countries	1 638 239	4 344 189
Placements with other banks with original maturities of less than three months	1 414 139	2 109 869
Settlement accounts with trading systems	464 933	30 859
Agreements for purchase and re-sale of the securities to other banks with original maturities of less than three months	-	56
Total	**15 396 115**	**16 165 390**

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in note 33.

8 Trading securities

In thousands of Russian Roubles	2013	2012
Corporate shares	10 764	191 998
Total	**10 764**	**191 998**

As at 31 December 2013 and 2012 corporate shares are represented by shares of Russian regional energy, mining and oil companies traded on the domestic market.

Analysis by credit quality of trading securities as at 31 December 2013 and 2012 is as follows:

In thousands of Russian Roubles	2013	2012
- Rated BBB	5 192	5 125
- Rated from BB- to BB+	4 672	100 618
- Rated from B- to B+	-	84 336
- Not rated	900	1 919
Total	**10 764**	**191 998**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating or Moody's.

As at 31 December 2013 and 2012 the Group had no trading securities pledged under sale and repurchase agreements.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in note 33.

9 Other securities at fair value through profit or loss

In thousands of Russian Roubles	2013	2012
Corporate bonds	18 716 721	27 014 657
Russian government bonds	212 938	212 830
Municipal bonds	-	3 801
Total	**18 929 659**	**27 231 288**

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these of investments based on their fair value in accordance with a documented strategy.

As at 31 December 2013 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and other companies. These bonds have maturity dates ranging from April 2014 to June 2032, coupon rates ranging from 7.40% to 10.65% p.a. and yields to maturity as at 31 December 2013 ranging from 5.99% to 9.96 % p.a. depending on the type of bond issue.

As at 31 December 2013 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with a coupon rate of 6.00% p.a. and yield to maturity as at 31 December 2013 of 5.6% p.a.

9 Other securities at fair value through profit of loss (continued)

As at 31 December 2012 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and construction companies. These bonds have maturity dates ranging from February 2013 to April 2021, coupon rates ranging from 6.45% to 11.50% p.a. and yields to maturity as at 31 December 2012 ranging from 4.48% to 9.43 % p.a. depending on the type of bond issue.

As at 31 December 2012 municipal bonds are represented by Russian Rouble denominated securities issued by the regional administration of the Tver region. These bonds mature to December 2013 with a coupon rate of 15.00% p.a. and yield to maturity as at 31 December 2012 of 8.52% p.a.

As at 31 December 2012 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with a coupon rate of 6.50% p.a. and yield to maturity as at 31 December 2012 of 6.45% p.a.

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Russian government bonds**	**Total**
- Rated from A- to A+	630 765	-	630 765
- Rated BBB	18 005 902	212 938	18 218 840
- Rated from BB- to BB+	6 574	-	6 574
- Rated from B- to B+	73 480	-	73 480
Total	**18 716 721**	**212 938**	**18 929 659**

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Russian government bonds**	**Municipal bonds**	**Total**
- Rated from A- to A+	1 080 778	-	-	1 080 778
- Rated BBB	22 932 206	212 830	-	23 145 036
- Rated from BB- to BB+	2 363 820	-	-	2 363 820
- Rated from B- to B+	637 853	-	3 801	641 654
Total	**27 014 657**	**212 830**	**3 801**	**27 231 288**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating or Moody's.

The table below shows carrying amount of other securities at fair value through profit or loss pledged under sale and repurchase agreements as at 31 December 2013 and 2012.

In thousands of Russian Roubles	**2013**	**2012**
Corporate bonds	12 164 459	16 363 178
Total	**12 164 459**	**16 363 178**

Geographical, currency, maturity and interest rate and analyses of other securities at fair value through profit and loss are disclosed in note 33.

10 Securities available-for-sale

In thousands of Russian Roubles	2013	2012
Municipal bonds	-	55 872
Total	**-**	**55 872**

As at 31 December 2012 municipal bonds were represented by Russian Rouble denominated securities issued by the government of the Sakha Republic, and the regional administration of the Samara region. These bonds mature from April 2013 to December 2013 with coupon rates ranging from 7.95% to 9.30% p.a. and yields to maturity as at 31 December 2012 ranging from 7.07% to 7.75% p.a. depending on the type of bond issue.

Analysis by credit quality of securities available-for-sale outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	2012
- Rated BBB	50 818
- Rated from BB- to BB+	5 054
Total	**55 872**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating or Moody's.

As at 31 December 2012 the Group had no securities available-for-sale pledged under sale and repurchase agreements.

Geographical, currency, maturity and interest rate analyses of securities available for sale are disclosed in note 33.

11 Investment securities held to maturity

In thousands of Russian Roubles	2013	2012
Corporate bonds	26 376 406	5 028 599
Municipal bonds	2 131 953	3 208 448
Total	**28 508 359**	**8 237 047**

As at 31 December 2013 corporate bonds are represented by Russian Rouble denominated securities, issued by a mortgage lending agency, industrial and other companies, and the State Corporation engaged in scientific research and development in natural and engineering science. These bonds have maturity dates ranging from February 2014 to September 2032 , coupon rates ranging from 6.90% to 13.75% p.a. and yields to maturity as at 31 December 2013 ranging from 5.41% to 9.96% p.a. depending on the type of bond issue.

As at 31 December 2013 municipal bonds are represented by Russian Rouble denominated securities, issued by the Government of Republic of Sakha (Yakutia), and by the Administration of Krasnoyarsk region, Samara region, Nizhny Novgorod region and Tver region. These bonds have maturity dates ranging from April 2014 to December 2017, coupon rates ranging from 7.49% to 9.95% p. a. and yields to maturity as at 31 December 2013 from 7.11% to 8.48% p. a.

11 Investment securities held to maturity (continued)

As at 31 December 2012 corporate bonds are represented by Russian Rouble denominated securities issued by a mortgage lending agency and the State Corporation engaged in scientific research and development in natural and engineering science. These bonds have maturity dates ranging from December 2013 to September 2028, coupon rates ranging from 8.60% to 10.50% p.a. and yields to maturity as at 31 December 2013 ranging from 7.42% to 8.12 % p.a. depending on the type of bond issue.

As at 31 December 2012 municipal bonds are represented by Russian Rouble denominated securities, issued by the Government of Republic of Sakha (Yakutia), Khanty-Mansi Autonomous Okrug — Yugra, and by the Administration of Krasnoyarsk region, Samara region, Nizhny Novgorod region and Tver region. These bonds have maturity dates ranging from April 2013 to December 2017, coupon rates ranging from 7.49% to 15.00% p. a. and yields to maturity as at 31 December 2012 from 7.07% to 9.14% p. a.

Analysis by credit quality of investment securities held to maturity outstanding at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Total**
- Rated from A- to A+	607 604	-	607 604
- Rated BBB	14 357 001	342 964	14 699 965
- Rated from BB- to BB+	10 636 773	1 699 492	12 336 265
- Rated from B- to B+	775 028	89 497	864 525
Total	**26 376 406**	**2 131 953**	**28 508 359**

Analysis by credit quality of other securities held to maturity outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Total**
- Rated BBB	4 525 524	824 962	5 350 486
- Rated from BB- to BB+	503 075	2 294 465	2 797 540
- Rated from B- to B+	-	89 021	89 021
Total	**5 028 599**	**3 208 448**	**8 237 047**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating or Moody's.

The table below shows carrying amount of investment securities held to maturity pledged under sale and repurchase agreements as at 31 December 2013 and 2012.

In thousands of Russian Roubles	**2013**	**2012**
Corporate bonds	26 376 406	5 028 599
Municipal bonds	2 042 457	2 980 708
Total	**28 418 863**	**8 009 307**

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in note 33.

12 Due from other banks

In thousands of Russian Roubles	2013	2012
Short-term placements with other banks with original maturities of more than three months	8 400 099	89 184
Allowance for impairment	(4 662)	(4 753)
Total	**8 395 437**	**84 431**

At 31 December 2013 and 2012 due from other banks are represented by Russian Rouble denominated current term deposits and promissory notes of other banks placed in the Russian Federation.

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2013 and 2012 is as follows:

In thousands of Russian Roubles	2013	2012
- Rated from A-to A+	6 543 945	-
- Rated BBB	1 648 045	75 930
- Rated from BB- to BB+	199 375	4 000
- Rated from B- to B+	4 072	4 500
- Not rated	4 662	4 754
Total before allowance for impairment	**8 400 099**	**89 184**

Ratings are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating or Moody's.

Due from other banks are not collateralized.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in note 33.

13 Loans and advances to customers

In thousands of Russian Roubles	2013	2012
Loans to legal entities		
- Related parties	9 855 766	12 874 812
- Corporate loans	33 476 967	23 564 061
- Small and medium size businesses	8 067 850	4 587 390
Total loans to legal entities	**51 400 583**	**41 026 263**
Loans to individuals		
- Express loans	15 293 418	9 656 980
- Loans to employees participating in payroll projects	6 297 168	4 824 373
- Unsecured consumer loans	38 349 861	18 579 226
- Collateralised consumer loans	5 584 214	2 376 550
Total loans to individuals	**65 524 661**	**35 437 129**
Total loans and advances to customers before allowance for impairment	**116 925 244**	**76 463 392**
Allowance for impairment	(8 155 865)	(4 048 268)
Total	**108 769 379**	**72 415 124**

13 Loans and advances to customers (continued)

Starting from 2012 the retail strategy of the Group was focused on lending to loyal and low-risk borrowers. Following this strategy, the Group increased its portfolio of loans to individuals in 2013 mainly to these categories of customers, which have a credit history in the Bank.

Movements in the allowance for impairment for loans to legal entities during the year 2013 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2013	**29 670**	**492 620**	**283 306**	**805 596**
(Recovery) charge of provision	(8 628)	146 202	564 051	701 625
Write offs	-	(106 790)	(17 897)	(124 687)
Allowance for impairment as at 31 December 2013	**21 042**	**532 032**	**829 460**	**1 382 534**

Movements in the allowance for impairment for loans to individuals during the year 2013 are as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2013	**2 297 438**	**93 428**	**737 918**	**113 888**	**3 242 672**
Charge of provision	3 358 986	109 525	1 896 404	302 154	5 667 069
Write offs	(1 702 793)	(45 269)	(366 378)	(21 970)	(2 136 410)
Allowance for impairment as at 31 December 2013	**3 953 631**	**157 684**	**2 267 944**	**394 072**	**6 773 331**

Movements in the allowance for impairment for loans to legal entities during the year 2012 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2012	**17 484**	**408 394**	**112 005**	**537 883**
Charge of provision	12 186	87 258	192 020	291 464
Write offs	-	(3 032)	(20 719)	(23 751)
Allowance for impairment as at 31 December 2012	**29 670**	**492 620**	**283 306**	**805 596**

13 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to individuals during the year 2012 are as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total**
Allowance for impairment as at 1 January 2012	**1 715 007**	**48 656**	**311 731**	**57 470**	**2 132 864**
Charge of provision	1 157 353	44 819	538 831	70 862	1 811 865
Write offs	(574 922)	(47)	(112 644)	(14 444)	(702 057)
Allowance for impairment as at 31 December 2012	**2 297 438**	**93 428**	**737 918**	**113 888**	**3 242 672**

Key assumptions and judgments for estimating the loan impairment

Loans to legal entities

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

The objective indicators of loan impairment for loans to legal entities include the following:

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

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

In determining the impairment allowance for loans legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate, equipment and vehicles. For loans not assessed on an individual basis valuations for real estate are estimated at market value with discount rates from 0.2 to 0.4
- the historic actual recovery rate of loans overdue more than 90 days is taken into account when estimating future recoveries on overdue loans
- the value of real estate, equipment and vehicle collateral used in discounted future cash flows for the calculation of the allowance on individually assessed impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2013 would be RUB 500 180 thousand lower/higher (31 December 2012: RUB 402 207 thousand).

Loans to individuals

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan.

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

13 Loans and advances to customers (continued)

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months
- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2013 would be RUB 587 513 thousand lower/higher (31 December 2012: RUB 321 945 thousand).

The loan portfolio structure as at 31 December by economic sectors is as follows:

	2013		2012	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	65 524 661	56.0	35 437 129	46.3
Metallurgy and metals trade	11 754 634	10.1	14 709 678	19.2
Trade	21 554 441	18.4	10 116 320	13.2
Services	12 560 092	10.7	8 229 681	10.8
Manufacturing	4 088 916	3.5	2 825 408	3.7
Construction	929 017	0.8	1 816 240	2.4
Other	513 483	0.5	3 328 936	4.4
Total loans and advances to customers before allowance for impairment	**116 925 244**	**100.0**	**76 463 392**	**100.0**

As at 31 December 2013 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 9 855 766 thousand, or 8% of the gross loan portfolio (31 December 2012: RUB 12 874 812 thousand, or 17% of the gross loan portfolio).

At 31 December 2013 the Group has 20 borrowers (31 December 2012: 14 borrowers) with aggregated loan amounts above RUB 500 000 thousand. The total aggregate amount of these loans is RUB 31 571 018 thousand (31 December 2012: RUB 25 541 684), or 27% (31 December 2012: 33%) of the gross loan portfolio.

13 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
Loans to individuals					
Current and not past due:	6 724 113	5 896 771	32 050 426	4 724 459	49 395 769
- with credit history of less than 90 days	2 019 737	1 077 644	9 421 481	785 757	13 304 619
- with credit history of more than 90 days	4 704 376	4 819 127	22 628 945	3 938 702	36 091 150
Past due:	8 569 305	400 397	6 299 435	859 755	16 128 892
- loans past due less than 30 days	1 632 232	180 311	2 291 139	228 826	4 332 508
- loans past due 31 to 90 days	1 948 519	85 987	1 893 197	166 287	4 093 990
- loans past due 91 to 210 days	2 297 902	63 724	1 136 445	215 790	3 713 861
- loans past due 211 to 360 days	1 780 430	40 513	573 250	139 629	2 533 822
- loans past due over 360 days	910 222	29 862	405 404	109 223	1 454 711
Total loans to individuals before allowance for impairment	**15 293 418**	**6 297 168**	**38 349 861**	**5 584 214**	**65 524 661**
Allowance for impairment	(3 953 631)	(157 684)	(2 267 944)	(394 072)	(6 773 331)
Total	**11 339 787**	**6 139 484**	**36 081 917**	**5 190 142**	**58 751 330**
Allowance for impairment to gross loans, %	25.85	2.50	5.91	7.06	10.34

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	9 855 766	32 763 005	6 637 221	49 255 992
Past due:	-	713 962	1 430 629	2 144 591
- loans past due less than 30 days	-	10 260	288 008	298 268
- loans past due 31 to 90 days	-	-	234 815	234 815
- loans past due 91 to 180 days	-	3 944	262 222	266 166
- loans past due 181 to 360 days	-	45 195	303 989	349 184
- loans past due over 360 days	-	654 563	341 595	996 158
Total loans to legal entities before allowance for impairment	**9 855 766**	**33 476 967**	**8 067 850**	**51 400 583**
Allowance for impairment	(21 042)	(532 032)	(829 460)	(1 382 534)
Total	**9 834 724**	**32 944 935**	**7 238 390**	**50 018 049**
Allowance for impairment to gross loans, %	0.21	1.59	10.28	2.69

13 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not past due:	5 108 388	4 617 934	16 862 314	2 198 712	28 787 348
- with credit history of less than 90 days	2 313 323	1 127 582	5 731 463	906 132	10 078 500
- with credit history of more than 90 days	2 795 065	3 490 352	11 130 851	1 292 580	18 708 848
Past due:	4 548 592	206 439	1 716 912	177 838	6 649 781
- loans past due less than 30 days	721 271	80 833	471 286	26 242	1 299 632
- loans past due 31 to 90 days	687 204	33 779	328 987	23 102	1 073 072
- loans past due 91 to 210 days	846 612	28 348	371 832	8 416	1 255 208
- loans past due 211 to 360 days	634 884	19 572	250 343	5 344	910 143
- loans past due over 360 days	1 658 621	43 907	294 464	114 734	2 111 726
Total loans to individuals before allowance for impairment	**9 656 980**	**4 824 373**	**18 579 226**	**2 376 550**	**35 437 129**
Allowance for impairment	(2 297 438)	(93 428)	(737 918)	(113 888)	(3 242 672)
Total	**7 359 542**	**4 730 945**	**17 841 308**	**2 262 662**	**32 194 457**
Allowance for impairment to gross loans, %	23.79	1.94	3.97	4.79	9.15

In thousands of Russian Roubles	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total loans to legal entities**
Loans to legal entities				
Current and individually not impaired	12 874 812	22 627 586	4 100 138	39 602 536
Past due:	-	936 475	487 252	1 423 727
- loans past due less than 30 days	-	168	90 168	90 336
- loans past due 31 to 90 days	-	2 990	73 028	76 018
- loans past due 91 to 180 days	-	-	127 393	127 393
- loans past due 181 to 360 days	-	161 271	90 527	251 798
- loans past due over 360 days	-	772 046	106 136	878 182
Total loans to legal entities before allowance for impairment	**12 874 812**	**23 564 061**	**4 587 390**	**41 026 263**
Allowance for impairment	(29 670)	(492 620)	(283 306)	(805 596)
Total	**12 845 142**	**23 071 441**	**4 304 084**	**40 220 667**
Allowance for impairment to gross loans, %	0.23	2.09	6.18	1.96

13 Loans and advances to customers (continued)

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit needs. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the loans to individuals as current and not impaired if there is no overdue amount as at the reporting date, and no evidence that individuals will not be able to meet their obligations to repay of the loans in full and on time.

The Group assesses the credit quality of current and not impaired corporate loans by analyzing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower
- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower
- the borrower is not sued for defaults on loans granted by other credit institutions
- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

Current and individually not impaired corporate loans are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as past due under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are past due.

Analysis of collateral

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. The fair value of the collateral is determined by the Risk Department of the Bank based on market data and internal guidelines of the Group. As part of the assessment the comparative method is mainly used. The fair value of commodities in circulation is determined on the date of the loan by the Risk Department of the Bank and is not subsequently updated.

The fair value of collateral in respect of loans to legal entities as at 31 December 2013 is described below.

Loans without collateral and unsecured portions of partially secured exposures are presented in the category "No collateral or other credit enhancement".

Corporate guarantees represented in the tables below are unrated.

13 Loans and advances to customers (continued)

In thousands of Russian Roubles	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Current and individually not impaired			
Securities	9 111 932	9 111 932	-
Real estate	3 320 203	3 038 901	281 302
Motor vehicles	699 650	305 742	393 908
Finished goods and inventories	534 148	264 521	269 627
Equipment	364 594	252 791	111 803
Property rights	169 479	164 497	4 982
Other collateral	2 416	-	2 416
Corporate guarantees	9 492 167	-	-
Guarantees of individuals	6 748 764	-	-
No collateral or other credit enhancement	18 570 795	-	-
Total	**49 014 148**	**13 138 384**	**1 064 038**
Past due			
Real estate	122 083	87 816	34 267
Motor vehicles	39 156	22 143	17 013
Equipment	29 205	27 716	1 489
Finished goods and inventories	47 916	45 942	1 974
Guarantees of individuals	355 451	-	-
Corporate guarantees	111 525	-	-
No collateral or other credit enhancement	298 565	-	-
Total	**1 003 901**	**183 617**	**54 743**
Total loans to legal entities net of allowance for impairment	**50 018 049**	**13 322 001**	**1 118 781**

13 Loans and advances to customers (continued)

The fair value of collateral in respect of loans to corporate customers as at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Carrying amount of loans to customers**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Current and individually not impaired			
Real estate	5 892 670	5 464 755	427 915
Motor vehicles	960 366	659 249	301 117
Equipment	684 218	274 988	409 230
Finished goods and inventories	798 814	140 147	658 667
Securities	13 794 470	13 794 470	-
Corporate guarantees	5 016 096	-	-
Guarantees of individuals	3 016 660	-	-
No collateral or other credit enhancement	9 315 729	-	-
Total	**39 479 023**	**20 333 609**	**1 796 929**
Past due			
Real estate	325 960	298 828	27 132
Motor vehicles	22 511	12 018	10 493
Equipment	107 574	100 850	6 724
Finished goods and inventories	40 203	37 821	2 382
Corporate guarantees	8 342	-	-
Guarantees of individuals	87 439	-	-
No collateral or other credit enhancement	149 615	-	-
Total	**741 644**	**449 517**	**46 731**
Total loans to legal entities net of allowance for impairment	**40 220 667**	**20 783 126**	**1 843 660**

The tables above exclude the effects of over collateralization.

The recoverability of current and individually not impaired loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to retail customers are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors market prices every six months and adjusts the fair value of collateral if significant changes in market prices are observed. The Group performs a valuation of the fair value of collateral for impaired loans to retail customers also every six months, using the same methods as for corporate loans. Loans to retail customers secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in "Collateralised consumer loans". Loans to retail customers included in "Express loans" and "Loans to employees participating in payroll projects" are not secured.

13 Loans and advances to customers (continued)

The analysis of the fair value of collateral in respect of loans to individuals past due more than 30 days as at 31 December 2013 and 2012 is as follows:

In thousands of Russian Roubles	2013	2012
Real estate	32 222	13 446
Motor vehicles	13 727	17 600
Other collateral	2 665	-
Total	**48 614**	**31 046**

The tables above show the fair value of collateral excluding the effects of over collateralization.

As at 31 December 2013, for collateralized consumer loans that are neither past due or overdue less than 30 days management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The actual net realizable value of the collateral on loans to legal entities and individuals can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in note 33. Information on related party transactions is disclosed in note 39.

14 Finance lease receivables

Finance lease receivables as at 31 December 2013 of RUB 1 125 950 thousand (2012: RUB 665 877 thousand), RUB 781 623 thousand (31 December 2012: RUB 421 612 thousand) and RUB 75 767 thousand (31 December 2012: RUB 34 574 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2013 and 2012 are as follows:

In thousands of Russian Roubles	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Finance lease payments receivable at 31 December 2013	**830 774**	**1 102 976**	**49 590**	**1 983 340**
Unearned finance income	(76 037)	(358 268)	(28 121)	(462 426)
Allowance for impairment	(9 779)	(8 397)	(4)	(18 180)
Present value as at 31 December 2013	**744 958**	**736 311**	**21 465**	**1 502 734**
Finance lease payments receivable at 31 December 2012	**454 799**	**641 657**	**25 607**	**1 122 063**
Unearned finance income	(43 188)	(213 548)	(12 834)	(269 570)
Allowance for impairment	(6 589)	(6 434)	(116)	(13 139)
Present value as at 31 December 2012	**405 022**	**421 675**	**12 657**	**839 354**

14 Finance lease receivables (continued)

Analysis of changes in the allowance for impairment of finance lease receivables is as follows:

In thousands of Russian Roubles	2013	2012
Allowance for impairment as at 1 January	**13 139**	**11 781**
Charge of provision	33 419	1 358
Write-offs	(28 378)	-
Allowance for impairment as at 31 December	**18 180**	**13 139**

Analysis by credit quality of finance lease receivables outstanding at 31 December 2013 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	1 469 691	(12 348)	1 457 343
Overdue:	51 223	(5 832)	45 391
- overdue less than 30 days	11 237	-	11 237
- overdue 31-90 days	1 893	(375)	1 518
- overdue 91-210 days	5 429	-	5 429
- overdue 211-360 days	26 370	(518)	25 852
- overdue more than 360 days	6 294	(4 939)	1 355
Total	**1 520 914**	**(18 180)**	**1 502 734**

Analysis by credit quality of finance lease receivables outstanding at 31 December 2012 is as follows:

In thousands of Russian Roubles	Before allowance for impairment	Allowance for impairment	Net amount
Not overdue	825 890	(8 200)	817 690
Overdue:	26 603	(4 939)	21 664
- overdue less than 30 days	18 448	-	18 448
- overdue 91-210 days	2 275	-	2 275
- overdue 211-360 days	5 880	(4 939)	941
Total	**852 493**	**(13 139)**	**839 354**

Information about the fair value of collateral is as follows:

In thousands of Russian Roubles	31 December 2013	31 December 2012
Motor vehicles	853 326	488 435
Equipment	596 235	333 626
Premises	50 639	23 339
Total	**1 500 200**	**845 400**

The table above reflects the fair value of collateral excluding the effects of overcollateralization.

The fair value of collateral as at 31 December 2013 and 2012 is estimated by the Bank's Risk department based on current market prices.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in note 33.

15 Property and equipment

In thousands of Russian Roubles	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
Cost or valuation as at 1 January 2012		4 905 983	1 435 731	167 648	6 509 362
Accumulated depreciation		(782 693)	(737 530)	-	(1 520 223)
Carrying amount as at 1 January 2012		**4 123 290**	**698 201**	**167 648**	**4 989 139**
Additions		37 875	282 611	229 915	550 401
Transfers		44 713	86 556	(131 269)	-
Transfer to "Investment Property"	17	(501 025)	(4 649)	-	(505 674)
Disposals – cost		(10 641)	(132 867)	-	(143 508)
Disposals - accumulated depreciation		1 602	124 606	-	126 208
Depreciation charge	30	(115 820)	(155 931)	-	(271 751)
Revaluation recognized in profit or loss for the period		(8 153)	-	-	(8 153)
Revaluation recognized in other comprehensive income		88 037	-	-	88 037
Carrying amount as at 31 December 2012		**3 659 878**	**898 527**	**266 294**	**4 824 699**
Cost or valuation as at 31 December 2012		3 688 315	1 648 274	266 294	5 602 883
Accumulated depreciation		(28 437)	(749 747)	-	(778 184)
Carrying amount as at 31 December 2012		**3 659 878**	**898 527**	**266 294**	**4 824 699**
Additions		177 798	324 480	527 350	1 029 628
Transfers		29 509	167 538	(197 047)	-
Transfer to "Investment Property"	17	(19 095)	-	-	(19 095)
Transfer from "Investment property"	17	9 347	-	-	9 347
Disposals – cost		(31 501)	(93 350)	-	(124 851)
Disposals - accumulated depreciation		10 974	75 931	-	86 905
Depreciation charge	30	(116 619)	(219 450)	-	(336 069)
Carrying amount as at 31 December 2013		**3 720 291**	**1 153 676**	**596 597**	**5 470 564**
Cost or valuation as at 31 December 2013		3 854 120	2 046 942	596 597	6 497 659
Accumulated depreciation		(133 829)	(893 266)	-	(1 027 095)
Carrying amount as at 31 December 2013		**3 720 291**	**1 153 676**	**596 597**	**5 470 564**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and office and computer equipment.

15 Property and equipment (continued)

The fair value of premises is included in Level 3 in the fair value hierarchy (see note 37).

As at 31 December 2013 the Group analysed price dynamics on the office property market in 2013. Based on the results of the analysis there were no significant changes in fair value of land and premises during 2013, so no revaluation was made as at 31 December 2013. As at 31 December 2013, the carrying value of land and premises approximately equals their fair value.

Land and premises were revalued as at 1 December 2012 by an independent appraiser LCC "SRG-Appraisal" who has appropriate professional qualifications and recent experience in appraisal of similar objects of property.

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

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

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties' rental rates
- the vacancy rate of 9.1% was assumed for the properties located in Ekaterinburg; the vacancy rate of 4.8% was assumed for the properties located in other regions
- capitalization rates from 8.4% to 13.3% were assumed depending on size and location of the property.

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

Changes in the estimates above could effect the value of land and premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the valuation of land and premises as at 31 December 2013 would be RUB 106 702 thousand higher/lower (2012: RUB 108 024 thousand).

Based on valuation results the carrying amount of land and premises was increased by RUB 88 037 thousand and recognized in revaluation reserve. As at 31 December 2012 an increase in deferred tax liability of RUB 17 608 thousand is recognised in other comprehensive income in respect of the revaluation.

At 31 December 2013, the carrying amount of land and premises would have been RUB 2 813 804 thousand (31 December 2012: RUB 2 652 169 thousand) had the assets been carried at cost less depreciation and impairment losses.

16 Intangible assets

In thousands of Russian Roubles	Notes	Software licenses
Cost as at 1 January 2012		201 000
Accumulated amortisation		(53 971)
Carrying amount as at 1 January 2012		**147 029**
Additions		63 968
Disposals - cost		(1 134)
Disposals - accumulated amortisation		1 134
Amortisation charge	30	(29 086)
Carrying amount as at 31 December 2012		**181 911**
Cost as at 31 December 2012		263 834
Accumulated amortisation		(81 923)
Carrying amount as at 31 December 2012		**181 911**
Additions		129 269
Disposals – cost		(107)
Disposals - accumulated amortisation		24
Amortisation charge	30	(46 894)
Carrying amount as at 31 December 2013		**264 203**
Cost as at 31 December 2013		392 996
Accumulated amortisation		(128 793)
Carrying amount as at 31 December 2013		**264 203**

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

17 Investment property

In thousands of Russian Roubles	Notes	Land and buildings
Cost as at 1 January 2012		6 057 332
Accumulated depreciation		(9 457)
Carrying amount as at 1 January 2012		**6 047 875**
Transfer from "Property and equipment"	15	505 674
Additions		114 036
Disposals – cost		(629 225)
Disposals - accumulated depreciation		2 984
Depreciation charge		(86 139)
Carrying amount as at 31 December 2012		**5 955 205**
Cost as at 31 December 2012		6 047 817
Accumulated depreciation		(92 612)
Carrying amount as at 31 December 2012		**5 955 205**
Transfer from "Assets held for sale"		222 584
Transfer to" Assets held for sale "		(85 411)
Transfer from "Property and equipment"	15	19 095
Transfer to"Property and equipment"	15	(9 347)
Additions		23 768
Disposals – cost		(65 072)
Disposals - accumulated depreciation		1 441
Depreciation charge		(89 881)
Carrying amount as at 31 December 2013		**5 972 382**
Cost as at 31 December 2013		6 152 980
Accumulated depreciation		(180 598)
Carrying amount as at 31 December 2013		**5 972 382**

The fair value of investment property as of 31 December 2013 is RUR 6 789 000 thousand (31 December 2012: RUB 7 001 914 thousand). Fair values are estimated based on actual market data by an independent appraiser with appropriate professional qualifications and recent experience in appraisal of similar objects of investment property.

The fair value of investment property is included in Level 3 in the fair value hierarchy (see note 37).

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

The market approach is based upon an analysis of the results of comparable sales or offers of similar buildings. Adjustments were applied for size, condition, class and bargain discount.

17 Investment property (continued)

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties' rental rates
- management and maintenance expenses, underutilization of investment property and loss during collection of rent payments was assumed in the range from 20.4% to 23.3% depending on the item
- capitalization rates from 8.3% to 14.4% were assumed depending on function of property.

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

As at 31 December 2013 investment property with carrying amount of RUB 5 710 719 thousand is pledged under repurchase agreements.

The following table shows profit and losses from operations with investment property for years ended 31 December 2013 and 2012.

In thousands of Russian Roubles	**2013**	**2012**
Income		
Rental income	217 963	103 602
Income from disposal	108 578	101 239
Total	**326 541**	**204 841**
Expenses		
Property tax	118 139	120 466
Utility costs and repairs	107 069	66 543
Depreciation	89 881	86 139
Expenses from disposal	63 631	67 311
Advertising and marketing services	35 195	15 171
Insurance	32	36
Other	4 124	-
Total	**418 071**	**355 666**
Loss from operation with investment property	**91 530**	**150 825**

18 Advances to real estate developers

Advances to real estate developers represent investments in investment contracts for construction of apartment buildings, business centres, hotels and other properties in Moscow, Yekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group generally intends to sell the majority of these investments close to completion stage. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts, which is recognised as interest income.

Advances to real estate developers are neither past due or impaired as of 31 December 2013 and 2012. These investments are secured by the underlying real estate. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

Geographical, currency, maturity and interest rate analyses of advances to real estate developers are disclosed in note 33.

19 Other assets

In thousands of Russian Roubles	Notes	2013	2012
Settlements on cash and other operations		136 261	87 030
Investments in nonconsolidated subsidiaries		88 571	8 383
Credit and debit cards receivables		59 370	140 041
Settlements on transactions with securities and precious metals		43 763	606 638
Precious metals forward contracts	36	15 652	37 529
Foreign exchange forward contracts	36	4 969	34 054
Deferred expenses on other raised funds		-	29 335
Other		942	849
Total other financial assets		**349 528**	**943 859**
Prepayments for administrative services		3 095 967	1 666 165
Equipment purchased for finance leases		529 810	22 053
Prepaid taxes other than income tax		213 558	66 049
Prepayments for construction in progress		203 124	203 188
Precious metals		38 314	49 634
Deferred expenses		16 888	13 470
Other		101 420	66 454
Total other non-financial assets		**4 199 081**	**2 087 013**
Total		**4 548 609**	**3 030 872**

As at 31 December 2013 RUB 2 311 221 thousand included in prepayments for administrative services is represented by advances given on supply agreements for equipment for further resale and trade receivables for commission agreements (31 December 2012: RUB 933 767 thousand).

Geographical, currency and maturity analyses of other assets are disclosed in note 33. The information on related party transactions is disclosed in note 39.

20 Assets held for sale

In thousands of Russian Roubles	2013	2012
Premises and land	454 227	243 594
Motor vehicles	34 108	2 744
Other property	64 013	267
Total	**552 348**	**246 605**

Assets held for sale included property obtained from borrowers as settlement for loans.

Management believes that fair value of assets held for sale as at 31 December 2013 and 31 December 2012 is not different significantly from carrying amount. Fair value of assets held for sale is estimated based on market data and internal assessment. As part of the evaluation, the comparative method is mainly used.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in these consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2013 and 2012. These assets are expected to be sold within 1 year.

21 Due to other banks

In thousands of Russian Roubles	2013	2012
Sale and repurchase agreements on securities	35 662 483	21 957 382
Short-term deposits	4 718 389	4 080 951
Correspondent accounts and overnight placements	359 143	654 521
Total	**40 740 015**	**26 692 854**

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

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties even in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2013 these securities include investments securities held to maturity with carrying value of RUB 28 418 863 thousand (31 December 2012: 8 009 307 thousand) and other securities at fair value through profit or loss with a carrying value of RUB 12 164 459 thousand (31 December 2012: 16 368 178 thousand). These securities are presented as "pledged under sale and repurchase agreements" in notes 8-11. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances from banks. As at 31 December 2013 the obligations under direct repurchase agreements amounted to RUB 35 662 483 thousand (31 December 2012: RUB 21 957 382 thousand), including obligations under direct repurchase agreements with the CBRF of RUB 28 322 135 thousand. (31 December 2012: RUB 19 355 043 thousand).

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

Geographical, currency, maturity and interest rate of due to other banks are disclosed in note 33.

22 Customer accounts

In thousands of Russian Roubles	**2013**	**2012**
State and public organisations		
- Current/settlement accounts	14 874	5 450
- Term deposits	-	1 000 000
Other legal entities		
- Current/settlement accounts	11 272 044	12 714 653
- Term deposits	22 042 701	15 105 340
- Other funds	6 543 912	-
Individuals		
- Current/demand accounts	6 646 747	6 060 467
- Term deposits	78 482 724	60 759 392
Total	**125 003 002**	**95 645 302**

State and public organisations exclude government owned profit oriented businesses.

At 31 December 2013 the Group has 18 customers (31 December 2012: 12 customers) with balances above RUB 300 000 thousand. The aggregate balances from these customers are RUB 19 152 452 thousand (31 December 2012: RUB 10 989 449 thousand), or 15% (31 December 2012: 11%) of total customer accounts.

At 31 December 2013 in customer accounts included deposits of RUB 9 579 thousand (31 December 2012: RUB 1 926 028 thousand) held as collateral for irrevocable commitments under import letters of credit.

As at 31 December 2013 in customer accounts the Group recognized financial liabilities in respect of cash received by the second part of repurchase transactions in the amount of RUB 6 543 912 thousand secured by investment property. Investment property totalling RUB 5 710 719 thousand, sold under sale and repurchase agreements, was transferred to a third party and the Group received cash. These items can be re-pledged or sold by counterparties, even in the case of absence of default by the Group of its obligations, but the counterparty has an obligation to return them at the end of the contract term. The Group has determined that it retains substantially all the risks and rewards related to this investment property and therefore has not derecognised it. These properties are presented as "pledged under sale and repurchase agreements" in note 17.

The economic sector concentrations as at 31 December within customer accounts are as follows:

	2013		**2012**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	85 129 471	68.1	66 819 859	69.9
Services	14 181 757	11.3	8 996 966	9.4
Trade	12 488 216	10.0	7 291 526	7.6
Manufacturing	5 048 825	4.0	3 138 123	3.3
Construction	3 907 344	3.1	2 964 220	3.1
Government	14 874	-	1 005 450	1.0
Other	4 232 515	3.5	5 429 158	5.7
Total	**125 003 002**	**100.0**	**95 645 302**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in note 33. The information on related parties transactions is disclosed in note 39.

23 Debt securities in issue

In thousands of Russian Roubles	**2013**	**2012**
Bonds issued on the domestic market	8 328 163	4 087 499
Promissory notes	7 031 457	4 852 500
Loan participation notes	2 199 697	-
Euro commercial securities	1 629 949	-
Total	**19 189 266**	**8 939 999**

As at 31 December 2013 debt securities in issue are represented by Russian Rouble denominated bonds in amount of RUB 8 328 163 thousand (31 December 2012: RUB 4 087 499 thousand) issued by the Group.

The following table provides information about the bonds:

Issuer				**The Bank**
Series	02	BO-1	BO-05	BO-08
Issue, thousand rubles	2 000 000	2 000 000	2 000 000	3 000 000
Nominal value, rubles	1 000	1 000	1 000	1 000
Date of issue	April 2011	October 2012	April 2013	September 2013
Maturity date	May 2014	September 2015	April 2020	September 2016
Interest rate of the first two coupons, % p.a.	9.5	12.5	11.15	10.75
Interest rate of third coupon, % p.a.	9.5	determined by the issuer	determined by the issuer	determined by the issuer
Interest rate of other coupons, % p.a	determined by the issuer	determined by the issuer	determined by the issuer	determined by the issuer
Coupon period	183 days	182 days	182 days	6 months
Date of offer	13.05.2013	06.10.2014	23.04.2014	24.09.2014

As at 31 December 2013 bonds BO-01 of RUB 843 306 thousand were repaid.

On 27 June 2013 the Group issued loan participation notes in the amount of USD 68 million for a period of 5.5 years at a fixed interest rate of 12% p. a. The issuer is the structured entity UBRD Capital Limited. As at 31 December 2013 these loan participation notes are stated at amortized cost RUB 2 199 697 thousand.

As at 31 December 2013 issued debt securities include Euro commercial papers denominated in USD amounting to RUB 1 629 949 thousand (31 December 2012: nil) as follows:

Country of issue	Ireland	Ireland	Ireland
Issuer	UBRD Finance Limited	UBRD Finance Limited	UBRD Finance Limited
Guarantor	JSC "The Ural Bank for Reconstruction and Development"	JSC "The Ural Bank for Reconstruction and Development"	JSC "The Ural Bank for Reconstruction and Development"
Issue, USD	7 500 000	35 800 000	7 500 000
Discount amount, USD	341 756	1 053 963	347 066
Date of issue	April 2013	October 2013	December 2013
Maturity	January 2014	April 2014	September 2014

As at 31 December 2013 and 2012 the estimated fair values of debt securities in issue approximate their carrying values.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in note 33. The information on related parties transactions is disclosed in note 39.

24 Other liabilities

In thousands of Russian Roubles	Notes	2013	2012
Trade payables		805 274	83 279
Payables for mandatory insurance of deposits		82 078	61 519
Payables for construction of investment property		45 597	-
Foreign currency forward contracts	36	19 082	10 217
Precious metals forward contracts	36	6 576	35 330
Settlements on plastic cards		4 599	3 206
Other		51 815	49 804
Total other financial liabilities		**1 015 021**	**243 355**
Advance payments under sale agreements		410 618	-
Taxes other than income tax payable		78 549	72 054
Advance payments under lease agreements		37 882	36 201
Provision for financial guaranties contracts		34 442	33 538
Settlements with staff on payroll and other		285	149
Other		4 399	4 372
Total other non-financial liabilities		**566 175**	**146 314**
Total		**1 581 196**	**389 669**

As at 31 December 2013 RUB 481 188 thousand included in trade payables is represented by trade payables on cession agreements and RUB 163 368 thousand is represented by trade payables for commission agreements.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in note 33. The information on transactions with related parties is disclosed in note 39.

25 Subordinated debt

On 30 December 2013 the Group attracted a non-secured subordinated debt of USD 30 million for 6 years. The loan was granted by Singapore company XANGBO GLOBAL MARKETS PTE LTD at a contractual interest rate of 8.25% p.a. As at 31 December 2013 this subordinated debt was accounted for at amortised cost of RUB 982 100 thousand.

On 28 February 2013 the Group attracted a non-secured subordinated debt of USD 20 million for 6 years. The loan was granted by Singapore company XANGBO GLOBAL MARKETS PTE LTD at a contractual interest rate of 8.25% p.a. As at 31 December 2013 this subordinated debt was accounted for at amortised cost of RUB 673 229 thousand.

On 27 December 2012 the Group attracted a non-secured subordinated debt of USD 30 million for 6 years. The loan was granted by Singapore company XANGBO GLOBAL MARKETS PTE LTD at a contractual interest rate of 8.25% p.a. As at 31 December 2013 this subordinated debt was accounted for at amortised cost of RUB 982 794 thousand (31 December 2012: RUB 912 000 thousand).

On 21 December 2007 the Group attracted a non-secured subordinated debt of USD 50 million for 10 years. The loan was granted by The Royal Bank of Scotland at a contractual interest rate of Libor plus 8.0% p.a. As at 31 December 2013 this subordinated debt was accounted for at amortised cost of RUB 1 686 428 thousand (31 December 2012: RUB 1 556 741 thousand).

In the event of the Bank's liquidation the creditors under this subordinated debt would be the last ones entitled to receive repayment.

Geographical, currency, maturity and interest rate of subordinated debt are disclosed in note 33.

26 Share capital, share premium and additional capital

In thousands of Russian Roubles	Number of outstanding shares	Ordinary shares
At 1 January 2012	668 121 000	2 634 812
At 31 December 2012	1 001 454 334	3 634 812
At 31 December 2013	1 001 454 334	3 634 812

On 29 June 2012 the CBRF registered the Bank’s issue of shares in the amount of RUB 1 000 000 thousand. The issue comprises placements of 333 333 334 ordinary uncertificated registered shares with the nominal value of RUB 3. The share capital after the issue in accordance with Russian accounting amounts to RUB 3 004 363 thousand. As a result of the additional issue, share premium recognized in equity increased by RUB 1 000 000 thousand and as at 31 December 2013 amounted to RUB 1 581 956 thousand (31 December 2012: RUB 1 581 956 thousand).

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2013 and 2012 all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2013 all ordinary shares have a nominal value of RUB 3 per share (31 December 2012: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

As at 31 December 2013 additional capital amounts to RUB 2 379 203 thousand (31 December 2012: RUB 2 379 203 thousand).

27 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2013 are RUB 4 995 963 thousand (31 December 2012: RUB 4 303 313 thousand) (calculation of the reserves under Russian Accounting Rules is unaudited by ZAO KPMG).

On 30 September 2013 at a meeting of the Board of Directors on the results of the first 9 months of 2013 dividends were declared at the rate of RUB 0.30 to one issued ordinary share of the Bank. The total amount was RUB 300 436 thousand.

On 20 April 2012 at a meeting of the Board of Directors on the results of 2011 dividends were declared at the rate of RUB 0.45 to one issued ordinary share of the Bank. The total amount was RUB 300 654 thousand.

On 9 November 2012 at a meeting of the Board of Directors on the results for the first 9 months of 2012 dividends were declared at the rate of RUB 0.30 to one issued ordinary share of the Bank. The total amount of dividends was RUB 300 436 thousand.

On 1 June 2012 dividends declared before 2006 were restored to retained earnings in the amount of RUB 7 thousand due to the expiration of the claim for payment of declared dividends.

28 Interest income and expense

In thousands of Russian Roubles	**2013**	**2012**
Interest income		
Loans and advances to customers	17 473 536	10 169 478
Other securities at fair value through profit or loss	1 972 789	2 495 417
Investment securities held to maturity	1 963 874	525 122
Finance lease receivables	215 992	143 399
Due from other banks	140 877	17 935
Correspondent accounts with other banks	2 725	97 702
Advances to real estate developers	-	54 024
Securities available-for-sale	-	27 603
Total	**21 769 793**	**13 530 680**
Interest expense		
Term deposits of individuals	6 490 666	4 440 914
Sale and repurchase agreements	1 782 299	1 286 795
Debt securities in issue	1 448 260	486 349
Term placements of legal entities	1 429 348	845 717
Subordinated debt	286 928	143 362
Term placements of other banks	216 011	186 323
Current/settlement accounts	205 916	171 974
Correspondent accounts of other banks	11 730	8 983
Total	**11 871 158**	**7 570 417**
Net interest income	**9 898 635**	**5 960 263**

The information on transactions with related parties is disclosed in note 39.

29 Fee and commission income and expense

In thousands of Russian Roubles	2013	2012
Fee and commission income		
Client service packages	3 533 412	1 055 548
Transactions with plastic cards and cheques	786 835	522 541
Letters of credit	516 325	42 569
Settlement transactions	485 972	417 904
Cash transactions	115 261	106 678
Guarantees issued	58 958	56 303
Cash collection	25 934	20 137
Transactions with securities	3 364	3 842
Fiduciary activities	1 044	1 403
Other	163 957	77 683
Total	**5 691 062**	**2 304 608**
Fee and commission expense		
Transactions with plastic cards and cheques	201 869	108 212
Cash collection	84 841	53 940
Letters of credit	59 452	44 398
Settlement transactions	58 879	49 465
Transactions with securities	12 442	8 225
Currency transactions	12 222	7 878
Transactions with precious metals	4 669	2 635
Other	25 277	5 492
Total	**459 651**	**280 245**
Net fee and commission income	**5 231 411**	**2 024 363**

Fee and commission income, included in line "Client service packages", are commission for insurance services, granting access to the system of remote banking and other services (see note 3).

The information on transactions with related parties is disclosed in note 39.

30 Administrative and other operating expenses

In thousands of Russian Roubles	Notes	2013	2012
Staff costs		3 905 129	2 545 420
Operating lease expense for property and equipment		591 077	287 453
Advertising and marketing services		522 611	252 740
Depreciation of property and equipment	15	336 069	271 751
Contributions to State deposit insurance system		300 492	221 319
Professional services		259 767	235 804
Other costs of property and equipment		220 807	109 165
Acquisition of fittings and materials		209 706	140 842
Information and communication services		161 942	49 199
Taxes other than income tax		110 303	103 903
Security services		85 604	84 659
Amortisation of intangible assets	16	46 894	29 086
Insurance of employees and business property		31 594	37 643
Computer software maintenance		29 573	37 534
Other		249 505	113 398
Total		**7 061 073**	**4 519 916**

Included in staff costs are statutory social security and pension contributions of RUB 780 581 thousand (2012: RUB 507 087 thousand).

31 Income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2013	2012
Current tax	301 930	356 956
Income tax (over)/under provided in prior years	(765)	262
Deferred tax	207 132	(192 447)
Income tax expense for the year	**508 297**	**164 771**

The income tax rate applicable to the majority of income is 20% (2012: 20%). A reconciliation between the expected and the actual tax expense is provided below.

In thousands of Russian Roubles	2013	2012
Profit before tax	**2 576 711**	**1 011 203**
Theoretical tax at applicable rate	515 342	202 241
Non-deductible costs	18 041	3 990
Income on state securities taxed at lower tax rates	(15 211)	(22 244)
Income tax (over)/under provided in prior years	(765)	262
Other differences	(9 110)	(19 478)
Income tax expense	**508 297**	**164 771**

As at 31 December 2013 a decrease in deferred tax liability of RUB 6 414 thousand (31 December 2012: an increase of RUB 22 889 thousand) is recorded directly in other comprehensive income in respect of the revaluation of land and premises, securities available-for-sale and cumulative translation reserve (refer to notes 10 and 15).

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2012: 20%).

31 Income tax expense (continued)

In thousands of Russian Roubles	**Deferred tax asset**		**Deferred tax liability**		**Net position**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Trading and other securities at fair value through profit or loss	52 054	16 350	-	(21)	52 054	16 329
Securities available-for-sale	-	-	-	(309)	-	(309)
Investment securities held to maturity	18 483	10 530	-	-	18 483	10 530
Due from other banks	942	961	-	-	942	961
Loans and advances to customers	221 485	287 179	(111 675)	-	109 810	287 179
Finance lease receivables	4 749	4 930	(28 452)	(13 522)	(23 703)	(8 592)
Property and equipment	14 433	10 444	(272 969)	(261 212)	(258 536)	(250 768)
Intangible assets	-	-	(39 272)	(30 136)	(39 272)	(30 136)
Investment property	163 540	225 013	(2 039)	-	161 501	225 013
Advances to real estate developers	-	-	(51 870)	(51 870)	(51 870)	(51 870)
Assets held for sale	44 925		-	-	44 925	-
Customer accounts	-	3 424	-	-	-	3 424
Debt securities in issue	18 026	12 430	-	-	18 026	12 430
Subordinated debt	-	-	(2 129)	(2 091)	(2 129)	(2 091)
Tax losses carry-forward	87 054	106 592	-	-	87 054	106 592
Foreign currency translation difference	8 240	2 135	-	-	8 240	2 135
Other	7 551	2 559	(70 104)	(59 696)	(62 553)	(57 137)
Total	**641 482**	**682 547**	**(578 510)**	**(418 857)**	**62 972**	**263 690**
Including:						
Deferred tax asset					**494 767**	**564 512**
Deferred tax liability					**(431 795)**	**(300 822)**

The tax losses carry-forward expire in year 2023.

31 Income tax expense (continued)

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

In thousands of Russian Roubles	**31 December 2012**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2013**
Trading and other securities at fair value through profit or loss	16 329	35 725	-	52 054
Securities available-for-sale	(309)	-	309	-
Investment securities held to maturity	10 530	7 953	-	18 483
Due from other banks	961	(19)	-	942
Loans and advances to customers	287 179	(177 369)	-	109 810
Finance lease receivables	(8 592)	(15 111)	-	(23 703)
Property and equipment	(250 768)	(7 768)	-	(258 536)
Intangible assets	(30 136)	(9 136)	-	(39 272)
Investment property	225 013	(63 512)	-	161 501
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	-	44 925	-	44 925
Customer accounts	3 424	(3 424)	-	-
Debt securities in issue	12 430	5 596	-	18 026
Subordinated debt	(2 091)	(38)	-	(2 129)
Tax losses carry-forward	106 592	(19 538)	-	87 054
Foreign currency translation difference	2 135	-	6 105	8 240
Other	(57 137)	(5 416)	-	(62 553)
Total	**263 690**	**(207 132)**	**6 414**	**62 972**

31 Income tax expense (continued)

In thousands of Russian Roubles	**31 December 2011**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2012**
Trading and other securities at fair value through profit or loss	(29 759)	46 088	-	16 329
Securities available-for-sale	(149)	-	(160)	(309)
Investment securities held to maturity	-	10 530	-	10 530
Due from other banks	961	-	-	961
Loans and advances to customers	288 943	(1 764)	-	287 179
Finance lease receivables	(2 858)	(5 734)	-	(8 592)
Property and equipment	(171 130)	(62 030)	(17 608)	(250 768)
Intangible assets	(28 303)	(1 833)	-	(30 136)
Investment property	24 704	200 309	-	225 013
Advances to real estate developers	(41 384)	(10 486)	-	(51 870)
Customer accounts	1 833	1 591	-	3 424
Debt securities in issue	9 534	2 896	-	12 430
Subordinated debt	(2 538)	447	-	(2 091)
Tax losses carry-forward	84 650	21 942	-	106 592
Foreign currency translation difference	7 256	-	(5 121)	2 135
Other	(47 628)	(9 509)	-	(57 137)
Total	**94 132**	**192 447**	**(22 889)**	**263 690**

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

32 Segment analysis

The Group has four reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Financial markets – representing financial instrument trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.
- Global markets – representing documentary operations and operations on attracting funds on international markets, such as Eurobonds and Euro commercial papers.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

32 Segment analysis (continued)

Segment information for the reportable segments as at and for the year ended 31 December 2013 is set out below.

In thousands of Russian Roubles	Retail banking	Corporate banking	Financial markets	Transactions on global markets	Total
Interest income from external operations	10 304 889	5 541 519	4 130 081	152 252	20 128 741
Interest expense	(6 498 414)	(2 225 092)	(2 450 237)	(402 488)	(11 576 231)
Gains/(losses) from transactions with other segments	3 023 331	(1 000 908)	636 521	-	2 658 944
Fee and commission income	4 297 436	671 320	208	46 917	5 015 881
Loss from transactions with securities	-	-	(50 730)	-	(50 730)
Gain/(loss) from transactions with foreign currencies and precious metals	53 406	127 196	(14 018)	-	166 584
Other operating income	280 235	39 292	-	-	319 527
Administrative and other operating expenses	(2 348 345)	(1 013 389)	(29 332)	(9 462)	(3 400 528)
Profit before tax	**9 112 538**	**2 139 938**	**2 222 493**	**(212 781)**	**13 262 188**
Segment assets	**62 587 771**	**66 287 839**	**46 501 617**	**8 818 094**	**184 195 321**
Segment liabilities	**85 048 249**	**42 977 828**	**54 719 653**	**6 701 510**	**189 447 240**

Segment information for the main reportable segments as at and for the year ended 31 December 2012 is set out below.

In thousands of Russian Roubles	Retail banking	Corporate banking	Financial markets	Total
Interest income from external operations	5 479 888	4 530 711	3 117 352	13 127 951
Interest expense	(4 441 615)	(1 296 273)	(1 920 887)	(7 658 775)
Gains/(losses) from transactions with other segments	2 552 957	(996 943)	317 471	1 873 485
Fee and commission income	1 580 843	597 556	(3 538)	2 174 861
Loss from transactions with securities	-	-	(225 390)	(225 390)
Gain/(loss) from transactions with foreign currencies and precious metals	54 746	138 640	(31 333)	162 053
Other operating income	165 106	21 399	-	186 505
Administrative and other operating expenses	(2 214 960)	(679 352)	(33 627)	(2 927 939)
Profit before tax	**3 176 965**	**2 315 738**	**1 220 048**	**6 712 751**
Segment assets	**38 090 975**	**51 127 470**	**36 360 604**	**125 579 049**
Segment liabilities	**66 447 668**	**34 007 325**	**31 347 223**	**131 802 216**

In the tables above, administrative and other operating expenses are allocated between the segments based on the percentage of the number of employees attributable to each segment. Property and equipment are not allocated between segments in management accounting. Income and expenses from transactions with other segments represent income and expenses from lending and borrowing between segments and is calculated by using a transfer rate determined by management. Pricing in transactions between segments are carried out on an arm's length.

32 Segment analysis (continued)

Reconciliations of reportable segment profit or loss, assets and liabilities as at and for the years ended 31 December 2013 and 2012 are as follows:

In thousands of Russian Roubles	2013	2012
Segment profit before tax	**13 262 188**	**6 712 751**
Allowance for impairment of loans and advances to customers per management accounts	(6 226 778)	(1 741 015)
Unallocated administrative and other operating expenses	(3 725 674)	(1 655 316)
Elimination of revenues on transactions with other segments	(2 658 944)	(1 873 485)
Other revenues	1 090 729	42 847
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	1 422 561	332 196
- loss from revaluation of property and equipment	-	(8 153)
- elimination of profit from transactions with subsidiaries, SPE and unit investment funds	48 328	(281 964)
- administrative and other operating expenses on accrual basis	20 011	111 302
- income from assignment of loans	(407 299)	-
- depreciation and financial result from realization of property, investment property and intangible assets	(307 268)	(45 796)
- securities at fair value	185 244	(39 274)
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	(175 244)	(363 672)
- income/(loss) of subsidiaries, SPE and unit investment funds from transactions with third parties	132 309	(130 771)
- securities at amortized cost	(39 764)	(52 068)
- other adjustments	(43 688)	3 621
Consolidated profit before tax	**2 576 711**	**1 011 203**
Segment assets	**184 195 321**	**125 579 049**
Unallocated assets	25 352 351	24 947 003
Allowance for impairment of loans and advances to customers per management accounts	(9 624 344)	(8 053 118)
IFRS accounting policy adjustments:		
- assets of subsidiaries, SPE and unit investment funds from transactions with third parties	14 467 198	13 505 591
- elimination of balances with subsidiaries, SPE and unit investment funds	(13 256 021)	(12 716 380)
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	1 445 637	3 986 958
- securities at fair value	1 457 570	529 366
- write-offs of loans and advances to customers	(1 066 193)	(2 666 419)
- revaluation of premises, depreciation, investment property and intangible assets	(508 222)	(369 940)
- deferred income tax asset	494 767	564 512
- interest income on loans and advances to customers	463 448	(1 290 105)
- write-off of receivables from general business transactions to expenses	(598 538)	(102 174)
- goodwill	162 122	162 122
- securities at amortized cost	(93 513)	(52 651)
- derivatives at fair value	4 347	12 213
- other adjustments	(407 441)	(119 084)
Consolidated assets	**202 488 489**	**143 916 943**

32 Segment analysis (continued)

In thousands of Russian Roubles	2013	2012
Segment liabilities	**189 447 240**	**131 802 216**
Unallocated liabilities	21 495	20 618
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, SPE and unit investment funds	(3 999 500)	(325 102)
- liabilities of subsidiaries, SPE and unit investment funds from transactions with third parties	5 851 528	2 792 378
- deferred tax liabilities	431 795	300 822
- administrative and other operating expenses on accrual basis	101 803	75 256
- derivatives at fair value	19 082	8 736
- debt securities issued at amortized cost	74 904	68 877
- subordinated debt at amortized cost	(10 645)	(10 456)
- other adjustments	(581 550)	(206 417)
Consolidated liabilities	191 356 152	134 526 928

Geographical segments. The Group operates in the Russian Federation and foreign countires. Segment information for the main geographical segments is set out below for the years ended 31 December 2013 and 2012.

In thousands of Russian Roubles	**Russia**	**Other countries**	**Total**
2013			
Segment assets	150 662 714	33 532 607	184 195 321
External revenues	23 956 042	1 508 107	25 464 149
Credit related commitments	10 858 360	2 702 248	13 560 608
2012			
Segment assets	101 434 435	24 144 614	125 579 049
External revenues	15 050 679	438 638	15 489 317
Credit related commitments	10 870 619	2 294 585	13 165 204

In presenting geographical information the allocation of external revenues and assets and credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

33 Financial risk management, corporate governance and internal control

Corporate governance framework.

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

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

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

General activities of the Bank are managed by the sole executive body of the Bank – President and collective executive body of the Bank – Management Board.

33 Financial risk management, corporate governance and internal control (continued)

The Board of Directors elects the President for a term of five years. The Management Board of the Bank is formed by the decision of the Board of Directors of the Bank for a term of two years and acts on the basis of effective legislation of Russian Federation, the Charter of the Bank, as well as on the basis of the general shareholder's meeting approval of the Regulation on the Management Board of the Bank. The Management Board of the Bank is responsible for management of operational activities of the Bank except for resolving issues referred to the exclusive jurisdiction of general shareholder's meeting, the Board of Directors and the President of the Bank. The executive bodies of the Bank are responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank.

Internal control policies and procedures

The Bank's internal control system represents the set of bodies and directions of internal control ensuring the maintenance of order of implementation and achievement of the objectives set by the legislation of the Russian Federation, the CBRF and internal documents of the Bank.

The purpose of internal controls is to ensure:

- the efficiency and effectiveness of financial - economic activity related to banking operations and transactions, the effectiveness of asset and liability management, including the soundness of assets, Bank Risk Management
- accuracy, completeness, objectivity and timeliness of preparation and presentation of financial, accounting, statistical and other reports (for internal and external users), as well as information security
- compliance with regulations and internal documents of the Bank
- prevention of Bank involvement and participation of its employees in unlawful activities, including those related to the legalization (laundering) of proceeds from crime and terrorist financing, as well as timely provision in accordance with the legislation of the Russian Federation information to public authorities and the CBRF.

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

- control by the Bank's management over organization of its activities, including the following issues:
  - establishment and operation of effective internal control
  - establishment of effective systems of transmission and exchange of information
  - assessment of risks affecting the achievement of objectives.
- control over the functioning of the banking risk management and assessment of banking risks, providing the identification and analysis of internal (the complexity of the organizational structure, the level of qualifications of employees, organizational changes, staff turnover, etc.) and external (changes in economic environment of the credit institution, applied technologies etc.) factors that impact on the Bank's activity
- control over the distribution of powers in banking transactions and other transactions, which includes both current control (material, physical, control limits, etc.) and subsequent control (carried out by appropriate inspections), as well as the development of systems coordination (approval) operations and transactions which exceed the limits
- control over the management of information flows (receipt and transmission of information) and information security, including overall control exercised to ensure the smooth and ongoing operation, and program control, which is performed manually and automated procedures controlling the processing of banking operations and other transactions
- ongoing monitoring of the internal control system in order to assess the degree of compliance with the objectives of the Bank, to identify gaps, develop proposals and control over the implementation of decisions on improvement of internal control system.

33 Financial risk management, corporate governance and internal control (continued)

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with employees responsible for maintaining of financial and economic activity and for recognition of relevant transactions in accounting and analytical accounting of the Bank. Summaries submitted to the Board of Directors and Management Board.

The following bodies perform internal control functions in accordance with powers specified in the founding and internal documents:

- governing bodies, defined by the clause 11.1 of Federal Law No 395-1 dated 02.12.1990 On Banks and Banking Activities
- Committees and Commissions
- financial monitoring function
- law directory
- Risk Department
- operation directory
- professional securities market participant controller
- Internal Audit function
- revision commission (controller)
- Chief Accountant (deputies) of the Bank
- Treasury Department
- security
- information system security function
- heads (deputies) and chief accountants (deputies) of Bank's branches
- heads (deputies) of supplementary and front offices
- other departments and employees.

Information on the system of internal control, the order of their establishment and authority are contained in the Charter of the Bank. The organizational structure of the Bank in terms of segregation of duties between the officials, bodies and entities engaged in internal controls, is appropriate for the nature and scale of operations.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 On banks and banking activity, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, Head of internal audit function and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

Financial risk management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objective of the financial risk management is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

33 Financial risk management, corporate governance and internal control (continued)

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

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to note 35.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning.

Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management).

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group,
- Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days
- the borrower has one delay in interest payment exceeding 15 calendar days
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent
- a failure to fulfill, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement
- two consecutive delays in contractual lease payments
- violation of contractual requirements on the use of leased property
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

The Group applies two methods for collecting problem corporate loans: voluntary and compulsory.

33 Financial risk management, corporate governance and internal control (continued)

Voluntary repayment of loan by problem borrowers stipulates the actions of responsible staff described below if it is possible to contact the borrower during a certain period of time is possible.

If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating
- reviewing the reasons for overdue balances (default)
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and evacuation of the problem borrower's property to the Group
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case it is not possible to contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount
- on the basis of a review of the relationship of net operating income received from gross loan placements, and actual losses (past due amounts with consideration of the recovery coefficient).

The process of issuing loans to individuals is carried out via a system of consumer loan support.

The system includes the following three basic elements (software modules/automated work stations (AWS)): "Point of sales" (AWS "PS"), "Risk Manager" (AWS "RM") and "Claims Group" (AWS "CG").

- AWS "PS" is the place of input and storage of personal client data. Personal client data is entered by employees at points of sales on the basis of information provided by the client.
- AWS "RM" is a module of evaluation of individual loan applications on the basis of programme codes. The module contains all information received as a result of application of client evaluation methods, evaluation results and limits.
- AWS "CG" is a working module of the services in charge of security and problem loan management. The module reflects the flow of loan applications considered by the Security Service staff who provides an opinion on these applications.

In case of a positive decision from the Security Service and a non-zero limit in AWS "RM" on the basis of evaluation of the loan application, loan issue is automatically confirmed in AWS "PS". Then the employee of the point of sale can generate all necessary documents for issuance of the loan from AWS "PS".

Individual clients are evaluated on the basis of scoring models developed with the help of special software on the basis of accumulated statistical data. These methods include procedures for calculation of scoring rates on the basis of personal data as a separate borrower evaluation factor.

33 Financial risk management, corporate governance and internal control (continued)

The application is rejected or approved on the basis of automatic comparison of the borrower's scores and the established cut-off level.

The Group applies the system of monitoring of the individual loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the effectiveness of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

Problem loan recovery work is based on two strategies depending on the type of the lending product: 1) the express loan strategy; and 2) the consumer loan strategy (above RUB 100 thousand).

Work with problem express loan recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 30 calendar days).

2. If the payment is overdue by more than 30 days all procedures are passed to the Department for Problem Individual Loans:

- during 60 calendar days from the date of receipt of the problem loan agreement the issue is handled by the operative Response Unit of the Department. Responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.
- during subsequent 120 days problem loans are handled by the Department of Long-term Past Due Loans with participation of the Legal Department. Work with problem borrowers comprises the entire set of measures from telephone calls to visits and court proceedings.

3. Write-off of uncollectible loans.

Problem consumer loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal) the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 7 calendar days).

2. If the payment is overdue by more than 7 days all procedures are passed to the Group for Overdue Consumer Loans of the Department for Problem Individual Loans.

- during 60 calendar days from the date of transfer of the problem loan, responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work.
- if the Group for Overdue Consumer Loans concludes that the loan cannot be collected on the basis of out-the-court procedures, all materials on the borrower are passed to the Legal Department for collecting the debt by judicial means.

3. Write-off of uncollectible loans.

The Risk Department performs an ageing analysis of outstanding loans and follows up past due balances. Management is provided with information on ageing analysis and other information relating to credit risk. The information on credit risk for loans is provided in note 13.

Credit risk for unrecognised financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assessment impairment as it does for recognised financial instruments through established credit approvals, risk control limits and monitoring procedures.

33 Financial risk management, corporate governance and internal control (continued)

Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

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

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

These securities received as collateral / pledged, may be pledged or sold during the term of the transaction, but must be returned before the maturity of the transaction. Terms of the transaction also provide to each counterparty the right to terminate the relevant transactions as a result of failure of a counterparty to provide collateral.

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

RUB'000	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position**	**Net amount**
Liabilities					
Repurchase agreements	(35 662 483)	-	(35 662 483)	35 662 483	-
Total financial liabilities	**(35 662 483)**	**-**	**(35 662 483)**	**35 662 483**	**-**

33 Financial risk management, corporate governance and internal control (continued)

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

RUB'000	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position	Net amount
Liabilities					
Repurchase agreements	(21 957 382)	-	(21 957 382)	21 957 382	-
Total financial liabilities	**(21 957 382)**	**-**	**(21 957 382)**	**21 957 382**	**-**

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost

The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk.

The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee convenes in order to change the current portfolio management procedures.

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2013.

33 Financial risk management, corporate governance and internal control (continued)

In thousands of Russian Roubles	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	12 292 292	2 399 350	641 997	3 793	58 683	15 396 115
Mandatory cash balances with the CBRF	1 224 444	-	-	-	-	1 224 444
Trading securities	10 764	-	-	-	-	10 764
Other securities at fair value through profit or loss	18 929 659	-	-	-	-	18 929 659
Investment securities held to maturity	28 508 359	-	-	-	-	28 508 359
Due from other banks	8 873	8 386 564	-	-	-	8 395 437
Loans and advances to customers	87 216 894	21 549 318	3 167	-	-	108 769 379
Finance lease receivables	1 502 734	-	-	-	-	1 502 734
Advances to real estate developers	1 906 857	367 719	-	-	-	2 274 576
Other financial assets	290 802	38 085	14	-	6	328 907
Total monetary assets	**151 891 678**	**32 741 036**	**645 178**	**3 793**	**58 689**	**185 340 374**
LIABILITIES						
Due to other banks	38 791 653	853 957	1 094 405	-	-	40 740 015
Customer accounts	109 338 231	12 117 932	2 931 885	558 318	56 636	125 003 002
Debt securities in issue	15 060 000	4 037 808	91 458	-	-	19 189 266
Subordinated debt	-	4 324 551	-	-	-	4 324 551
Other financial liabilities	825 725	163 638	-	-	-	989 363
Total monetary liabilities	**164 015 609**	**21 497 886**	**4 117 748**	**558 318**	**56 636**	**190 246 197**
Net position	**(12 123 931)**	**11 243 150**	**(3 472 570)**	**(554 525)**	**2 053**	**(4 905 823)**
Derivative financial instruments	**5 200 847**	**(9 208 159)**	**1 349 097**	**517 108**	**2 136 070**	**(5 037)**
Net position including derivative instruments	**(6 923 084)**	**2 034 991**	**(2 123 473)**	**(37 417)**	**2 138 123**	**(4 910 860)**

33 Financial risk management, corporate governance and internal control (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2012.

In thousands of Russian Roubles	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	9 449 895	5 859 490	816 916	12 948	26 141	16 165 390
Mandatory cash balances with the CBRF	1 140 186	-	-	-	-	1 140 186
Trading securities	191 998	-	-	-	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	-	-	-	27 231 288
Securities available-for-sale	55 872	-	-	-	-	55 872
Investment securities held to maturity	8 237 047	-	-	-	-	8 237 047
Due from other banks	8 500	75 931	-	-	-	84 431
Loans and advances to customers	62 010 360	10 328 692	76 072	-	-	72 415 124
Finance lease receivables	839 354	-	-	-	-	839 354
Advances to real estate developers	1 964 623	607 999	-	-	-	2 572 622
Other financial assets	841 888	19 112	11 271	-	5	872 276
Total monetary assets	**111 971 011**	**16 891 224**	**904 259**	**12 948**	**26 146**	**129 805 588**
LIABILITIES						
Due to other banks	24 839 178	881 736	971 940	-	-	26 692 854
Customer accounts	85 020 346	7 422 719	2 798 441	339 439	64 357	95 645 302
Debt securities in issue	8 346 708	301 210	292 081	-	-	8 939 999
Subordinated debt	-	2 468 741	-	-	-	2 468 741
Other financial liabilities	197 808	-	-	-	-	197 808
Total monetary liabilities	**118 404 040**	**11 074 406**	**4 062 462**	**339 439**	**64 357**	**133 944 704**
Net position	**(6 433 029)**	**5 816 818**	**(3 158 203)**	**(326 491)**	**(38 211)**	**(4 139 116)**
Derivative financial instruments	**3 316 022**	**(6 338 226)**	**3 141 854**	**(129 847)**	**36 233**	**26 036**
Net position including derivative instruments	**(3 117 007)**	**(521 408)**	**(16 349)**	**(456 338)**	**(1 978)**	**(4 113 080)**

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 10% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

33 Financial risk management, corporate governance and internal control (continued)

	2013		2012	
In thousands of Russian Roubles	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
10% appreciation of USD against RUB	162 799	162 799	(41 713)	(41 713)
10% depreciation of USD against RUB	(162 799)	(162 799)	41 713	41 713
10% appreciation of precious metals against RUB	(2 993)	(2 993)	(36 507)	(36 507)
10% depreciation of precious metals against RUB	2 993	2 993	36 507	36 507
10% appreciation of Euro against RUB	(169 878)	(169 878)	(1 308)	(1 308)
10% depreciation of Euro against RUB	169 878	169 878	1 308	1 308

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio’s value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and the Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% from a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules.

The below table represents model limits and actual exposure for the year ended 31 December for the equity trading portfolio and potential exposure on profit or loss:

In thousands of Russian Roubles	**Exposure during 2013**	**Exposure during 2012**
Capital drawdown – limit	-	320 000
Capital drawdown – fact	-	99 078
30-day 95% VaR on portfolio (limits)	-	119 065

There were no limits on trading operations with shares as at 31 December 2013.

Interest rate risk. The bond portfolio’s fair value is exposed to changes in interest rate. The Group manages the bond portfolio’s value as a result of changes in market rates (bond yield) by limiting the bond portfolio’s duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio’s value in case of a 100 b.p. increase in rates. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

The table below reflects the bond portfolio’s sensitivity for the year ended 31 December 2013 due to changes in interest rates.

	Exposure during 2013	
In thousands of Russian Roubles	**Profit or loss**	**Equity**
Changes in portfolio’s fair value in case of a 100 b.p. increase in rates at year end	(310 498)	(310 498)

The table below reflects the bond portfolio’s sensitivity for the year ended 31 December 2012 due to changes in interest rates.

	Exposure during 2012	
In thousands of Russian Roubles	**Profit or loss**	**Equity**
Changes in portfolio’s fair value in case of a 100 b.p. increase in rates at year end	(163 149)	(163 285)

33 Financial risk management, corporate governance and internal control (continued)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December is as follows.

	2013		2012	
In thousands of Russian Roubles	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 b.p. parallel rise	(20 585)	(20 585)	(21 473)	(21 473)
100 b.p. parallel fall	20 585	20 585	21 473	21 473

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the rate on liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, except subordinated debt, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. To manage the margin, management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2013				2012			
% p.a.	**RUB**	**USD**	**Euro**	**Other currencies**	**RUB**	**USD**	**Euro**	**Other currencies**
ASSETS								
Cash and cash equivalents	0.31	0.24	0.74	-	1.24	1.02	1.00	-
Other securities at fair value through profit or loss	8.76	-	-	-	8.85	-	-	-
Securities available-for-sale	-	-	-	-	8.85	-	-	-
Investment securities held to maturity	7.85	-	-	-	8.58	-	-	-
Due from other banks	8.89	0.35	-	-	9,16	-	-	-
Loans and advances to customers	23.21	7.79	14.79	-	19.46	7.87	8.64	-
Finance lease receivables	20.71	-	-	-	23.05	-	-	-
Advances to real estate developers	-	-	-	-	2.10	-	-	-
LIABILITIES								
Due to other banks	5.46	0.87	5.22	-	5.68	0.85	6.28	-
Customer accounts								
- current and settlement accounts	1.33	0.46	0.46	-	1.42	0.31	0.31	-
- term deposits	9.85	5.36	5.18	4.07	9.85	5.36	5.18	4.07
Debt securities in issue								
- promissory notes	9.98	3.83	4.13	-	7.41	2.38	3.19	-
- bonds issued on domestic market	10.78	-	-	-	11.00	-	-	-
- euro commercial securities	-	5.96	-	-	-	-	-	-
- loan participation notes	-	12.16	-	-	-	-	-	-
Subordinated debt	-	8.88	-	-	-	8.72	-	-

33 Financial risk management, corporate governance and internal control (continued)

Geographical risk concentrations. The geographical concentration of assets and liabilities at 31 December 2013 is set out below.

In thousands of Russian Roubles	**Russia**	**Other countries**	**Total**
ASSETS			
Cash and cash equivalents	13 588 317	1 807 798	15 396 115
Mandatory cash balances with the CBRF	1 224 444	-	1 224 444
Trading securities	10 764	-	10 764
Other securities at fair value through profit or loss	18 299 063	630 596	18 929 659
Investment securities held to maturity	27 900 755	607 604	28 508 359
Due from other banks	8 873	8 386 564	8 395 437
Loans and advances to customers	86 680 472	22 088 907	108 769 379
Finance lease receivables	1 502 734	-	1 502 734
Advances to real estate developers	2 274 576	-	2 274 576
Other financial assets	338 390	11 138	349 528
Total financial assets	**151 828 388**	**33 532 607**	**185 360 995**
Total non-financial assets	**14 816 273**	**2 311 221**	**17 127 494**
TOTAL	**166 644 661**	**35 843 828**	**202 488 489**
LIABILITIES			
Due to other banks	40 180 641	559 374	40 740 015
Customer accounts	117 933 094	7 069 908	125 003 002
Debt securities in issue	15 359 620	3 829 646	19 189 266
Subordinated debt	-	4 324 551	4 324 551
Other financial liabilities	282 833	732 188	1 015 021
Total financial liabilities	**173 756 188**	**16 515 667**	**190 271 855**
Total non-financial liabilities	**673 679**	**410 618**	**1 084 297**
TOTAL	**174 429 867**	**16 926 285**	**191 356 152**
Net position	**(7 785 206)**	**18 917 543**	**11 132 337**
Credit related commitments	**10 858 360**	**2 702 248**	**13 560 608**

33 Financial risk management, corporate governance and internal control (continued)

The geographical concentration of assets and liabilities at 31 December 2012 is set out below.

In thousands of Russian Roubles	**Russia**	**Other countries**	**Total**
ASSETS			
Cash and cash equivalents	10 135 342	6 030 048	16 165 390
Mandatory cash balances with the CBRF	1 140 186	-	1 140 186
Trading securities	191 998	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	27 231 288
Securities available-for-sale	55 872	-	55 872
Investment securities held to maturity	8 237 047	-	8 237 047
Due from other banks	8 500	75 931	84 431
Loans and advances to customers	54 433 420	17 981 704	72 415 124
Finance lease receivables	839 354	-	839 354
Advances to real estate developers	2 572 622	-	2 572 622
Other financial assets	886 928	56 931	943 859
Total financial assets	**105 732 557**	**24 144 614**	**129 877 171**
Total non-financial assets	**14 039 772**	**-**	**14 039 772**
TOTAL	**119 772 329**	**24 144 614**	**143 916 943**
LIABILITIES			
Due to other banks	26 419 471	273 383	26 692 854
Customer accounts	92 790 334	2 854 968	95 645 302
Debt securities in issue	8 939 999	-	8 939 999
Subordinated debt	-	2 468 741	2 468 741
Other financial liabilities	235 184	8 171	243 355
Total financial liabilities	**128 384 988**	**5 605 263**	**133 990 251**
Total non-financial liabilities	**536 677**	**-**	**536 677**
TOTAL	**128 921 665**	**5 605 263**	**134 526 928**
Net position	**(9 149 336)**	**18 539 351**	**9 390 015**
Credit related commitments	**10 870 619**	**2 294 585**	**13 165 204**

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held.

33 Financial risk management, corporate governance and internal control (continued)

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department. The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes performing daily calculations of liquid assets necessary for covering resource base risks, reviewing the level and structure of liquid assets and available liquidity forming instruments, providing access to different finance sources, maintaining liquidity contingency plans and monitoring compliance with legal requirements to balance liquidity ratios. Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash within 1 month. Therefore other securities at fair value through profit or loss as well as securities available for sale as at 31 December 2013 and 2012 are classified as "Demand and less than 1 month" in the tables below. The fair value of securities which are classified in this category with maturity more than 12 months amounts to RUB 17 454 600 thousand (31 December 2012: RUB 20 684 987 thousand).

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower. Accordingly, 80% of term deposits from individuals in categories "On demand and less than 1 month", "From 1 to 3 month", "From 3 to 12 months" and "From 1 to 3 years" are classified in the category "Over 3 years" to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest.

The table below shows analysis of term deposits from individuals as at 31 December 2013 and 2012 on the basis of contractual maturity.

In thousands of Russian Roubles	**2013**	**2012**
On demand and less than 1 month	1 754 797	2 703 108
From 1 to 3 month	3 844 006	6 238 687
From 3 to 12 months	21 967 558	19 180 215
From 1 to 3 years	7 880 673	5 191 620
Over 3 years	43 035 690	27 445 762
Total	**78 482 724**	**60 759 392**

32 Financial risk management, corporate governance and internal control (continued)

The Group uses investment securities held to maturity for cash management purposes. The Bank acquires only securities that meet the requirements of the Lombard list of CBRF, because of this the Group may raise cash using their securities through repurchase operations. As at 31 December 2013 investment securities held to maturity amounted to RUB 28 418 863 thousand (31 December 2012: RUB 8 009 307 thousand) were sold under agreements to repurchase, but the Group retains substantially all the risks and rewards related to these securities, and therefore has not derecognised them (see note 11). Management believes, that the contract terms of sale and repurchase agreements are not meaningful for liquidity analysis, because after termination of these agreements new agreements on the pledge of these securities will be concluded. Consequently the Group includes direct sale and repurchase agreements as a long-term source of funding. Expected maturity terms of underlying borrowing transactions are presented in accordance with relevant maturity of securities held to maturity, which are pledged under direct sale and repurchase agreements. The table below shows analysis of amounts of due to other banks as at 31 December 2013 and 31 December 2012 by contractual maturity.

In thousands of Russian Roubles	**2013**	**2012**
On demand and less than 1 month	36 320 920	24 205 168
From 1 to 3 month	1 048 655	947 626
From 3 to 12 months	1 743 681	685 621
From 1 to 3 years	646 184	366 274
Over 3 years	980 575	488 165
Total	**40 740 015**	**26 692 854**

32 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2013.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and cash equivalents	15 396 115	-	-	-	-	15 396 115
Mandatory cash balances with the CBRF	227 017	25 543	161 200	104 528	706 156	1 224 444
Trading securities	10 764	-	-	-	-	10 764
Other securities at fair value through profit or loss	18 929 659	-	-	-	-	18 929 659
Investment securities held to maturity	-	486 087	3 164 934	13 773 844	11 083 494	28 508 359
Due from other banks	-	-	8 392 137	3 300	-	8 395 437
Loans and advances to customers	2 094 456	2 714 288	22 745 802	39 127 393	42 087 440	108 769 379
Finance lease receivables	78 217	136 993	529 749	613 684	144 091	1 502 734
Advances to real estate developers	-	-	1 757 317	517 259	-	2 274 576
Other financial assets	260 015	-	-	-	89 513	349 528
Total financial assets	**36 996 243**	**3 362 911**	**36 751 139**	**54 140 008**	**54 110 694**	**185 360 995**
LIABILITIES						
Due to other banks	11 360 945	1 437 717	4 528 155	12 671 650	10 741 548	40 740 015
Customer accounts	23 176 091	2 607 658	16 456 814	10 671 220	72 091 219	125 003 002
Debt securities in issue	1 597 644	3 839 987	6 130 071	4 608 909	3 012 655	19 189 266
Subordinated debt	-	109 040	256 598	643 412	3 315 501	4 324 551
Other financial liabilities	560 842	-	454 179	-	-	1 015 021
Total financial liabilities	**36 695 522**	**7 994 402**	**27 825 817**	**28 595 191**	**89 160 923**	**190 271 855**
Net liquidity gap as at 31 December 2013	**300 721**	**(4 631 491)**	**8 925 322**	**25 544 817**	**(35 050 229)**	**(4 910 860)**
Cumulative liquidity gap as at 31 December 2013	**300 721**	**(4 330 770)**	**4 594 552**	**30 139 369**	**(4 910 860)**	

33 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2012.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and cash equivalents	16 165 390	-	-	-	-	16 165 390
Mandatory cash balances with the CBRF	256 817	42 431	104 688	91 137	645 113	1 140 186
Trading securities	191 998	-	-	-	-	191 998
Other securities at fair value through profit or loss	27 231 288	-	-	-	-	27 231 288
Securities available-for-sale	55 872	-	-	-	-	55 872
Investment securities held to maturity	-	-	2 252 899	312 567	5 671 581	8 237 047
Due from other banks	-	-	4 500	79 931	-	84 431
Loans and advances to customers	1 546 202	3 661 550	15 784 414	26 106 523	25 316 435	72 415 124
Finance lease receivables	45 220	77 318	282 485	349 499	84 832	839 354
Advances to real estate developers	-	-	382 908	2 189 714	-	2 572 622
Other financial assets	906 668	-	27 959	-	9 232	943 859
Total financial assets	**46 399 455**	**3 781 299**	**18 839 853**	**29 129 371**	**31 727 193**	**129 877 171**
LIABILITIES						
Due to other banks	17 034 999	947 626	2 719 696	433 000	5 557 533	26 692 854
Customer accounts	21 543 355	3 559 328	8 781 817	7 645 074	54 115 728	95 645 302
Debt securities in issue	673 773	3 461 037	1 042 685	3 752 327	10 177	8 939 999
Subordinated debt	-	66 870	134 860	356 533	1 910 478	2 468 741
Other financial liabilities	243 355	-	-	-	-	243 355
Total financial liabilities	**39 495 482**	**8 034 861**	**12 679 058**	**12 186 934**	**61 593 916**	**133 990 251**
Net liquidity gap as at 31 December 2012	**6 903 973**	**(4 253 562)**	**6 160 795**	**16 942 437**	**(29 866 723)**	**(4 113 080)**
Cumulative liquidity gap as at 31 December 2012	**6 903 973**	**2 650 411**	**8 811 206**	**25 753 643**	**(4 113 080)**	

33 Financial risk management, corporate governance and internal control (continued)

The amounts disclosed in the tables below are the expected undiscounted cash flows on financial liabilities.

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2013 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	11 420 816	1 447 224	4 613 876	12 734 085	11 068 977	41 284 978
Customer accounts,	23 194 922	2 702 102	18 096 751	13 709 500	84 889 333	142 592 608
including term deposits from individuals	7 005 015	825 603	5 612 262	2 544 354	84 080 872	100 068 106
Debt securities in issue	1 605 091	3 901 605	10 760 457	538 756	2 759 726	19 565 635
Subordinated debt	-	110 511	272 372	767 413	5 021 595	6 171 891
Derivative financial instrument liabilities	25 658	-	-	-	-	25 658
Operating lease commitments	45 356	86 638	345 853	239 688	92 485	810 020
Guarantees issued	96 141	451 590	3 074 663	407 448	11 247	4 041 089
Import letters of credit	614 802	93 076	2 820 956	-	77 890	3 606 724
Unused commitments to extend credit	5 912 795	-	-	-	-	5 912 795
Other financial liabilities	560 842	-	454 179	-	-	1 015 021
Total financial and contingent liabilities	**43 476 423**	**8 792 746**	**40 439 107**	**28 396 890**	**103 921 253**	**225 026 419**

The analysis of financial liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2012 is as follows.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
LIABILITIES						
Due to other banks	17 063 365	960 243	2 756 800	483 401	5 712 413	26 976 222
Customer accounts,	21 566 597	3 682 123	9 798 478	9 848 338	56 983 157	101 878 693
including term deposits from individuals	6 611 788	1 339 281	4 678 515	1 693 827	56 981 773	71 305 184
Debt securities in issue	675 321	3 499 047	4 997 808	125 316	15 907	9 313 399
Subordinated debt	-	67 670	142 782	420 904	2 972 381	3 603 737
Derivative financial instrument liabilities	45 547	-	-	-	-	45 547
Operating lease commitments	30 871	58 616	230 623	131 042	82 454	533 606
Guarantees issued	661 255	156 441	1 536 683	598 463	166 022	3 118 864
Import letters of credit	475 100	221 627	2 678 662	-	-	3 375 389
Unused commitments to extend credit	6 670 951	-	-	-	-	6 670 951
Other financial liabilities	243 355	-	-	-	-	243 355
Total financial and contingent liabilities	**47 432 362**	**8 645 767**	**22 141 836**	**11 607 464**	**65 932 334**	**155 759 763**

33 Financial risk management, corporate governance and internal control (continued)

Management believes the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding.

Despite amounts of guarantees can be withdrawn at any moment, liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

34 Capital management

The Group's objectives when managing capital are (i) to comply with capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the President and Chief Accountant. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013, this minimum level is 10.0% (31 December 2012: 10.0%). As at 31 December 2013 the statutory capital ratio calculated based on requirements set by the CBRF is 11.04% (31 December 2012: 11.01%) (calculation of this ratio is unaudited by ZAO KPMG).

In addition, the Group calculates the amount of capital and capital adequacy ratios in accordance with CBRF requirements based on Basel III requirements. The amount of capital and capital adequacy ratios were used by the CBRF in 2013 for information purposes and not for supervision purposes. The Group has complied with all externally imposed capital requirements as at 31 December 2013 and 2012.

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

34 Capital management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord as at 31 December 2013 and 2012:

In thousands of Russian Roubles	**31 December 2013**	**31 December 2012**
Tier 1 capital		
Share capital	3 634 812	3 634 812
Share premium	1 581 956	1 581 956
Additional capital	2 379 203	2 379 203
Retained earnings	2 271 481	422 525
Less goodwill	(162 122)	(162 122)
Total Tier 1 capital	**9 705 330**	**7 856 374**
Tier 2 capital		
Revaluation reserve for property and equipment	1 297 849	1 378 827
Revaluation reserve for securities available-for-sale	-	1 236
Cumulative translation reserve	(32 964)	(8 544)
Loan participation notes	528 114	-
Qualifying subordinated debt	4 324 551	2 468 741
Total Tier 2 capital	**6 117 550**	**3 840 260**
Total capital	**15 822 880**	**11 696 634**
Capital adequacy ratio		
Risk weighted average of assets	170 619 670	124 313 467
Total capital	15 822 880	11 696 634
Tier 1 capital ratio, %	5.7	6.3
Total capital ratio, %	9.3	9.4

Revaluation reserve for property and equipment and for securities available-for-sale, cumulative translation reserve and long-term subordinated debt are included in calculation of capital adequacy ratios within limits set for tier 2 capital.

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

35 Contingencies and commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

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

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

From 1 January 2012 the new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bringing them closer to the principles of the OECD. This also creates additional uncertainty due to the practical application of tax laws in some cases.

New transfer pricing rules require taxpayers to provide documentation of controlled transactions and defines new principles and tools for additional taxes and interest, if prices in controlled transactions differ from the market.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under operating leases are as follows.

In thousands of Russian Roubles	**2013**	**2012**
Less than 1 year	477 847	320 110
From 1 to 5 years	318 041	207 337
More than 5 years	14 132	6 159
Total	**810 020**	**533 606**

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

35 Contingencies and commitments (continued)

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

Outstanding credit related commitments as at 31 December are as follows:

In thousands of Russian Roubles	**2013**	**2012**
Guarantees issued	4 041 089	3 118 864
Import letters of credit	3 606 724	3 375 389
Commitments to extend credit	3 125 806	4 451 013
Unused limits on overdraft loans	2 786 989	2 219 938
Total	**13 560 608**	**13 165 204**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments as at 31 December are denominated in the following currencies:

In thousands of Russian Roubles	**2013**	**2012**
Russian Roubles	9 788 220	9 485 781
USD	3 487 691	2 816 886
Euro	284 697	862 537
Total	**13 560 608**	**13 165 204**

Funds management and trust activities. The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

Custody activities. The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

36 Derivative financial instruments and operations with precious metals

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2013 and 2012. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

36 Derivative financial instruments and operations with precious metals (continued)

	2013		2012	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement	903 156	32 729	2 912 742	803 321
- USD payable on settlement	-	(7 499 942)	(4 694 163)	(5 092 394)
- Euro receivable on settlement	-	2 585 769	2 816 002	1 130 424
- Euro payable on settlement	(1 236 672)	-	-	(804 572)
- RUB receivable on settlement	338 485	4 895 222	1 905 348	3 917 136
- RUB payable on settlement	-	(32 860)	(2 905 875)	(365)
- Other currencies receivable on settlement	-	-	-	36 233
Net fair value of foreign exchange forwards	**4 969**	**(19 082)**	**34 054**	**(10 217)**
Forwards with precious metals: fair values, at the reporting date, of				
- USD receivable on settlement	489 908	7 101	1 403 112	-
- USD payable on settlement	(1 521 435)	(1 619 676)	(151 624)	(1 519 220)
- Precious metals receivable on settlement	296 333	713 707	151 709	1 483 890
- Precious metals payable on settlement	(485 826)	(7 106)	(1 765 446)	-
- Receivable on settlement in rubles	-	-	399 778	-
- Receivable on settlement in other currencies	1 236 672	899 398	-	-
Net fair value of forwards with precious metals	**15 652**	**(6 576)**	**37 529**	**(35 330)**

Geographical, currency and maturity analyses of derivative financial instruments are disclosed in note 33. Information on related party transactions is disclosed in note 39.

37 Fair value of financial instruments

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgement.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

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

Financial instruments carried at fair value. The Group measures fair values for financial instruments recorded on the statement of financial position 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 identical or 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 table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	18 929 659	-	18 929 659
- equity investments	10 764	-	10 764
- derivative assets	-	20 621	20 621
- derivative liabilities	-	(25 658)	(25 658)
Total	**18 940 423**	**(5 037)**	**18 935 386**

37 Fair value of financial instruments (continued)

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

In thousands of Russian Roubles	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	27 231 288	-	27 231 288
- equity investments	191 998	-	191 998
- derivative assets	-	71 583	71 583
- derivative liabilities	-	(45 547)	(45 547)
Available-for-sale financial assets:			
- debt fixed income instruments	55 872	-	55 872
Total	**27 479 158**	**26 036**	**27 505 194**

For more detailed information by types of financial instruments measured at fair value, please, refer to notes 8, 9, 10 and 36.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Loans and receivables carried at amortised cost and investment securities held to maturity. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. To discount the future cash flows for loans to corporate customers and small and medium businesses the discount rates used were 12.41% and 16.01% respectively (31 December 2012: 10.80% and 18.93%). To discount the future cash flows for loans to individuals, the discount rate used was 27.86% (31 December 2012: 29.93%).

The fair value of investment securities held to maturity as at 31 December 2013 is RUB 28 550 185 thousand (31 December 2012: RUB 8 255 345 thousand).

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand. The estimated fair values of liabilities carried at amortised cost approximate their carrying values. To discount the future cash flows of short-term deposits of legal entities the Group used a discount rate of 8.76% (31 December 2011: 8.03%).

The fair value of loan participation notes as at 31 December 2013 is RUB 2 428 670 thousand and approximates its carrying amount.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices (refer to note 36).

38 Group companies

As at 31 December 2013 the Group has the following main consolidated subsidiaries, structured entities and mutual funds:

The name	Country of incorporation	Principal activity	Share, %
Subsidiary			
UBRD Finance Limited	Ireland	issue of debt securities	100
Structured entities			
OOO "UBRiR-Finance"	Russian Federation	management of securities	-
OOO "UBRiR-leasing"	Russian Federation	leasing company	-
OOO "Fininvest K"	Russian Federation	ownership of property and equipment	-
Sebright Finance Limited	United Kingdom	ownership of property and equipment	-
OOO "Invest Techno"	Russian Federation	ownership of property and equipment	-
UBRD Capital Limited	Ireland	issue of debt securities	-
Mutual funds			
Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost"	Russian Federation	ownership of property and equipment	100
Closed unit investment fund "UBRR -Nedvizhimost"	Russian Federation	ownership of items of investment property	100
Closed unit investment fund "Antey"	Russian Federation	ownership of items of investment property	100
Closed unit investment fund "NIKS"	Russian Federation	ownership of items of investment property	100
Open unit investment fund "Aktivnye investitsii"	Russian Federation	investments in securities	-
Open unit investment fund "Alternativniy protsent"	Russian Federation	investments in securities	-
Open unit investment fund "Bazovye otrasli"	Russian Federation	investments in securities	-
Open unit investment fund "Lombardniy spisok"	Russian Federation	investments in securities	-
Open unit investment fund "Mobilniy capital"	Russian Federation	investments in securities	-

38 Group companies (continued)

As at 31 December 2012 the Group has the following main consolidated subsidiaries, structured entities and mutual funds:

The name	Country of incorporation	Principal activity	Share, %
Structured entities			
OOO "UBRiR-Finance"	Russian Federation	management of securities	-
OOO "UBRiR-leasing"	Russian Federation	leasing company	-
OOO "Fininvest K"	Russian Federation	ownership of property and equipment	-
OOO "Investleasing"	Russian Federation	leasing company	-
OOO "FinTrust"	Russian Federation	financial intermediation	-
Sebright Finance Limited	United Kingdom	ownership of property and equipment	-
OOO "Invest Techno"	Russian Federation	ownership of property and equipment	-
OOO "Uralstroyinvestservice"	Russian Federation	ownership of property and equipment	-
OOO UK "Invest-Ural"	Russian Federation	investment funds management	-
Mutual investment funds			
Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost"	Russian Federation	ownership of property and equipment	100
Closed unit investment fund "UBRR -Nedvizhimost"	Russian Federation	ownership of investment property	100
Closed unit investment fund "Antey"	Russian Federation	ownership of investment property	100
Closed unit investment fund "NIKS"	Russian Federation	ownership of investment property	100
Open unit investment fund "Aktivnye investitsii"	Russian Federation	investments in securities	-
Open unit investment fund "Alternativniy protsent"	Russian Federation	investments in securities	-
Open unit investment fund "Bazovye otrasli"	Russian Federation	investments in securities	-
Open unit investment fund "Lombardniy spisok"	Russian Federation	investments in securities	-
Open unit investment fund "Mobilniy capital"	Russian Federation	investments in securities	-

In 2013 the following changes took place in the composition of the Group:

- to raise funds from international capital markets, the Group formed two new companies: a subsidiary UBRD Finance Limited and structured entity UBRD Capital Limited, established in Ireland
- in December 2013 as a result of termination of two agreements the Group lost control over structured entities LLC "Investleasing" and LLC "FinTrust"
- in addition, due to the immateriality of assets and liabilities of entities LLC "Uralstroyinvestservice", LLC UK "Invest-Ural", the financial statements of these entities are not included in the consolidated financial statements.

As at 31 December 2013 and as at 31 December 2012 the financial statements of CJSC "Stozhok" were not included in the consolidated financial statements due to the immateriality of assets and liabilities of this entity.

38 Group companies (continued)

In 2012 the Group established open mutual fund «Mobilniy capital» in the amount of RUB 10 thousand for investment in securities.

As at 31 December 2013 and 2012 mutual funds are under control of OOO UK "Invest-Ural".

Financial support given to subsidiaries and structured entities

During the year ended 31 December 2013, the Group issued guarantees of USD 50 800 thousand (2012: nil) to holders of notes issued by certain structured entities that the Group consolidates. These guarantees would require the Group to reimburse the note holders for losses that they incur if the underlying assets do not perform up to the specified amount of their contractual cash flows.

39 Related party transactions

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

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

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 8%-18%)	197 748	9 855 766	15 942
Allowance for impairment of loans and advances to customers	(985)	(21 042)	(79)
Other assets	-	2 181	889
Customer accounts (contractual interest rates: 0%-11.5%)	235 573	1 177 268	117 501
Foreign exchange forward contracts	-	(1 215)	-
Forward contracts with precious metals	-	7 670	-
Other liabilities	-	16 937	-

The income and expense with related parties for the year ended 31 December 2013 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	12 312	1 028 852	1 409
Interest expense	(21 508)	(70 769)	(8 222)
Fee and commission income	386	11 963	144
Income from trading in foreign currencies	-	48 338	4
Income from trading in precious metals	15	244 693	-
Other operating income	45	15	6

At 31 December 2013 the other commitments with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Guarantees issued	-	32 359	-

39 Related party transactions (continued)

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

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 3%-18%)	182 433	12 874 812	28 214
Allowance for impairment of loans and advances to customers	(703)	(29 670)	(109)
Other assets	-	468 118	944
Customer accounts (contractual interest rates: 0%-11.25%)	201 908	2 909 729	130 277
Foreign exchange forward contracts	-	17 147	-
Other liabilities	-	63 444	-

The income and expense with related parties for the year ended 31 December 2012 year were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	11 486	1 190 243	946
Interest expense	(8 419)	(61 928)	(9 040)
Fee and commission income	720	240 867	170
Income from trading in foreign currencies	-	54 778	24
Income from trading in precious metals	-	120 508	-
Other operating income	9	2 017	4

At 31 December 2012 the other commitments with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Guarantees issued	-	397 554	-

Other related parties represent eight members of the Management Board and five members of the Board of Directors of the Bank. In 2013 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 151 330 thousand (2012: RUB 132 381 thousand). Social security costs amount to RUB 16 042 thousand (2012: RUB 14 057 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2013.

40 Events after reporting date

7 January 2014 the Group repaid the second issue of Euro commercial papers in amount of USD 7.5 million, which were issued in April 2013. Purchasers were investors from Russia, Switzerland, Luxembourg and other European countries.