BANK CENTER-INVEST

CENTER-INVEST BANK GROUP

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
31 December 2013

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Center-invest Bank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's 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.

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.

ZAO PricewaterhouseCoopers Audit

14 March 2014
Moscow, Russian Federation

E.N. Kriventsev, Director (Licence no. 01-000198), ZAO PricewaterhouseCoopers Audit

Audited entity: Center-invest Bank

Certificate of inclusion in the Unified State Register of Legal Entities № 61 002690018 issued on 26 August [illegible]

62 Sokolova Avenue, Rostov-on-Don, Russia, 344000

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

In thousands of Russian Roubles	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	6 998 761	7 005 707
Mandatory cash balances with the Central Bank of the Russian Federation		528 130	552 854
Trading securities	8	2 096 680	1 682 658
Due from other banks	9	1 100 300	1 304 576
Loans and advances to customers	10	60 928 483	47 762 355
Finance lease receivables	11	617 050	643 094
Investment in associate	12	337 295	332 766
Intangible assets	13	301 801	309 979
Premises and equipment	14	2 458 882	2 530 490
Other financial assets	15	294 522	287 208
Other assets	16	285 306	260 150
TOTAL ASSETS		**75 947 210**	**62 671 837**
LIABILITIES			
Due to other banks	17	519 993	730 972
Customer accounts	18	49 418 580	44 062 862
Debt securities in issue	19	9 031 093	4 896 259
Borrowings from international financial institutions	20	5 906 408	3 070 200
Subordinated debt	21	1 817 953	1 834 138
Other financial liabilities	22	126 338	173 375
Deferred tax liability	28	184 730	204 456
Other liabilities	23	189 708	106 300
TOTAL LIABILITIES		**67 194 803**	**55 078 562**
EQUITY			
Share capital	24	1 258 709	1 258 709
Share premium	24	1 646 428	1 646 428
Revaluation reserve for land and premises		1 327 697	1 356 247
Retained earnings		4 519 573	3 331 891
TOTAL EQUITY		**8 752 407**	**7 593 275**
TOTAL LIABILITIES AND EQUITY		**75 947 210**	**62 671 837**

14 March 2014

G.I. Zhukov
Chairman of the Board

Открытое акционерное общество коммерческий банк «Центр-инвест» Рег. №2225 г. Ростов-на-Дону

T.I. Ivanova
Chief Accountant

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	**Note**	**2013**	**2012**
Interest income	25	8 179 845	6 494 937
Interest expense	25	(4 134 997)	(3 045 572)
Net interest income		**4 044 848**	**3 449 365**
Provision for loan portfolio impairment and impairment of finance lease receivables	10, 11	(804 640)	(888 460)
Net interest income after impairment provisions		**3 240 208**	**2 560 905**
Fee and commission income	26	952 993	895 566
Fee and commission expense	26	(226 306)	(208 854)
Gains less losses from trading securities		6 244	22 528
Gains less losses from trading in foreign currencies		51 525	66 358
Foreign exchange translation gains less losses		36 060	40 455
Losses less gains from conversion operations on the interbank market		(8 266)	(32 986)
Gains less losses from assignment of the rights of claim	10	-	80 962
Other provisions and expenses		(123 812)	(58 605)
Repayment of debt written off		122 571	45 169
Other operating income		20 259	29 377
Contributions to the state deposit insurance scheme		(139 226)	(117 069)
Administrative and other operating expenses	27	(2 135 200)	(1 900 369)
Share of result of associate	12	4 529	39
Profit before tax		**1 801 579**	**1 423 476**
Income tax expense	28	(391 696)	(322 861)
Profit for the year		**1 409 883**	**1 100 615**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment of the associate	12	-	13 528
Income tax recorded directly in other comprehensive income	28	-	(2 706)
Other comprehensive income for the year		-	**10 822**
Total comprehensive income for the year		**1 409 883**	**1 111 437**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for land and premises	Retained earnings	Total equity
Balance at 1 January 2012		**1 258 709**	**1 646 428**	**1 377 608**	**2 403 314**	**6 686 059**
Profit for the year		-	-	-	1 100 615	1 100 615
Other comprehensive income		-	-	13 528	(2 706)	10 822
Total comprehensive income for 2012		**-**	**-**	**13 528**	**1 097 909**	**1 111 437**
Dividends declared and paid						
- ordinary shares	29	-	-	-	(186 122)	(186 122)
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(34 889)	34 889	-
Balance at 31 December 2012		**1 258 709**	**1 646 428**	**1 356 247**	**3 331 891**	**7 593 275**
Profit for the year		-	-	-	1 409 883	1 409 883
Total comprehensive income for 2013		-	-	-	**1 409 883**	**1 409 883**
Dividends declared and paid						
- ordinary shares	29	-	-	-	(232 652)	(232 652)
- preference shares	29	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(28 550)	28 550	-
Balance at 31 December 2013		**1 258 709**	**1 646 428**	**1 327 697**	**4 519 573**	**8 752 407**

The notes set out on pages 5 to 70 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2013	2012
Cash flows from operating activities			
Interest received		8 032 229	6 347 864
Interest paid		(3 965 603)	(3 080 219)
Fees and commissions received		955 715	904 759
Fees and commissions paid		(226 074)	(201 919)
Losses less gains from trading securities		(1 986)	(12 957)
Income received from trading in foreign currencies		50 633	66 358
Losses less gains from conversion operations on the interbank market		(6 849)	(32 986)
Receipts from assignment of rights of claim		407 900	343 068
Repayment of debt written off		79 874	45 169
Other operating income received		20 114	33 701
Contributions to the state deposit insurance scheme		(132 932)	(113 548)
Staff costs paid		(1 306 448)	(1 042 719)
Operating expenses paid		(633 489)	(599 021)
Income tax paid		(372 135)	(322 614)
Cash flows from operating activities before changes in operating assets and liabilities		**2 900 949**	**2 334 936**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the CBRF		24 724	(68 763)
Net change in trading securities		(377 004)	(684 682)
Net change in due from other banks		204 057	707 151
Net change in loans and advances to customers		(14 136 843)	(7 020 994)
Net change in finance lease receivables		9 525	(110 769)
Net change in other financial and other assets		92 787	(24 470)
Net change in due to other banks		(202 330)	628 414
Net change in customer accounts		5 097 107	5 271 694
Net change in promissory notes		(119 644)	534 190
Net change in other financial and other liabilities		(41 301)	3 137
Net cash (used in)/from operating activities		**(6 547 973)**	**1 569 844**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(95 340)	(63 266)
Proceeds from disposal of premises and equipment	14	5 008	54 818
Acquisition of intangible assets	13	(28 115)	(16 701)
Net cash used in investment activities		**(118 447)**	**(25 149)**
Cash flows from financing activities			
Issue of bonds	19	5 681 921	3 065 000
Repurchase and repayment of bonds	19	(1 529 097)	(2 460 107)
Borrowings from international financial institutions	20	4 121 615	1 751 708
Repayment of borrowings from international financial institutions	20	(1 411 235)	(1 280 061)
Repayment of subordinated debt		(162 273)	-
Dividends paid	29	(250 705)	(204 221)
Net cash from financing activities		**6 450 226**	**872 319**
Effect of exchange rate changes on cash and cash equivalents		**209 248**	**(62 269)**
Net (decrease)/increase in cash and cash equivalents		**(6 946)**	**2 354 745**
Cash and cash equivalents at the beginning of the year		7 005 707	4 650 962
Cash and cash equivalents at the end of the year	7	**6 998 761**	**7 005 707**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for OAO KB Center-invest Bank (the "Bank") and its 100% subsidiary OOO Center-Leasing (the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group's principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 31 December 2013, the Bank has nine (2012: nine) branches within the Russian Federation. Additionally, the Bank has representative offices in Moscow, London and 108 (2012: 109) sub-branches in the Rostov, Volgograd, Stavropol and Krasnodar regions.

Registered address and place of business. The Bank's registered address is: 62 Sokolova Avenue, Rostov-on-Don, Russian Federation, 344000.

The average number of the Group's employees during 2013 was 1 544 (2012: 1 420).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Russian economy is especially sensitive to fluctuations of oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 33). The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

The Bank operates primarily in the South of Russia. Due to a diversified by industry economic structure the South of Russia demonstrates more dynamic and stable development trends than most other Russian regions. The growth rate demonstrated by the main industry of the region, agriculture, significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

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 its subsidiary use uniform accounting policies consistent with the Group's policies.

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at cost, 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. Refer to Note 5.

3 Summary of Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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 in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest 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 and received between parties to the contract that are an integral part of the effective interest rate.

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

3 Summary of Significant Accounting Policies (Continued)

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 on which 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; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

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 expired 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 risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature 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 the Group's 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 financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

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

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.

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

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.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of profit and loss and other comprehensive income 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 primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- the borrower considers or is implementing financial restructuring, which may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);
- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

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.

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

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

3 Summary of Significant Accounting Policies (Continued)

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

***Repossessed collateral*.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in other assets, and are subsequently measured and accounted for in accordance with the accounting policies for this category of assets.

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit 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 letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

Premises and equipment. Premises and equipment (except for land and buildings of the Group) 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, less accumulated depreciation and provision for impairment, where required.

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity 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. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred.

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

3 Summary of Significant Accounting Policies (Continued)

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of profit and loss and other comprehensive income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	2% – 2.5%
Other	20%

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

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

Acquired computer software licences 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 expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. 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 using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Inception of the lease. The inception of the lease is considered to be the date of the lease contract, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

3 Summary of Significant Accounting Policies (Continued)

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in consolidated statement of profit and loss and other comprehensive income when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

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

Customer accounts. Customer accounts are non-derivative financial 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 debentures 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.

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative financial liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts are carried at their fair value. All derivative instruments are carried 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 the consolidated statement of profit and loss and other comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit and loss and other comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

3 Summary of Significant Accounting Policies (Continued)

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 on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and 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 end of the reporting period, 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.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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 capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Group with account for IFRS profit are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

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.

3 Summary of Significant Accounting Policies (Continued)

Where loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each company's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of profit and loss and other comprehensive income.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.7292 and EURO 1 = RR 44.9699 (2012: USD 1 = RR 30.3727, EURO 1 = RR 40.2286).

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 in fee and commission income.

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. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation of prior period financial statements. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

3 Summary of Significant Accounting Policies (Continued)

Management has made these changes to the classification of the prior year's amounts in order to present better information to the users of these consolidated financial statements. The effect of reclassifications of information for the year 2012 and as at 31 December 2012 for the purpose of presentation of the consolidated financial statements was as follows:

In thousands of Russian Roubles	2012 (before reclassification)	Reclassification	2012 (after reclassification)
Consolidated statement of financial position			
Other securities at fair value through profit or loss	5 997	(5 997)	-
Other financial assets	281 211	5 997	287 208
Consolidated statement of profit and loss and other comprehensive income			
Repayment of debt written off	-	45 169	45 169
Other operating income	74 546	(45 169)	29 377

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit and loss and other comprehensive income, 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 before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults 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. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses by RR 281 323 thousand (2012: RR 298 036 thousand).

Revaluation of premises and equipment. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the Southern Federal District, the Bank and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties. If the price per square meter of land had increased by 10%, the carrying value of land would have increased by RR 51 710 thousand (2012: RR 52 770 thousand). If the price per square meter of building had increased by 10%, the carrying value of building would have increased by RR 182 954 thousand (2012: RR 187 275 thousand).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment of investment in associate. The Group management considered impairment of the investment in the associate (Note 12), taking into consideration assessment made by an independent appraiser and discussions of the value with potential investors in this industry. The Group management concluded that no impairment of carrying value of this investment was required. This conclusion largely depends on the correct assessment of (1) further growth of tariffs for services of TEPTS, (2) further solvency of clients of TEPTS, (3) discount rate applied to future cash flows. These parameters largely depend on the macroeconomic situation and the level of governmental regulation in the Russian Federation. Refer to Note 2.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements and SIC-12, Consolidation - special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard did not have any material impact on the Group's consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value, which management considers is the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. The effect of these changes was recorded as a change in estimate in profit or loss for 2013 as follows:

In thousands of Russian Roubles	**Effect of adoption of IFRS 13 credit/(debit)**
Gains less losses from trading securities	(1 759)
Income tax credit	352

The Standard also resulted in additional disclosures in these consolidated financial statements. Refer to Note 34.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. The standard did not have any material impact on the Group's consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1 "***Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2013)*** changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest income in profit or loss; and (ii) remeasurements in other comprehensive income. The standard did not have any material impact on the Group's consolidated financial statements.

"Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The standard did not have any material impact on the Group's consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in May 2012 and effective from 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10, Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group's consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group's consolidated financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

Furthermore, the IASB has issued the following pronouncements not yet adopted in Russia:

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on the disclosures in its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2013**	**2012**
Cash on hand	3 037 536	2 386 228
Cash balances with the CBRF (other than mandatory reserve deposits)	1 915 632	2 535 582
Correspondent accounts and overnight placements with banks		
- Russian Federation	520 607	384 237
- other countries	1 452 965	1 595 270
- settlement accounts with trading systems	72 021	104 390
Total cash and cash equivalents	**6 998 761**	**7 005 707**

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2013 and 31 December 2012 is as follows:

In thousands of Russian Roubles	**Country**	**Fitch/S&P rating**	**2013**	**2012**
Bank 1	Russia	BBB+	355 788	250 922
Bank 2	Russia	BBB	54 290	1 564
Bank 3	Russia	BBB	35 711	39 923
Non-banking credit institutions	Russia	-	74 664	91 672
Other	Russia	-	154	156
Total for the Russian Federation			**520 607**	**384 237**
Bank 4	Germany	A-	1 022 097	606 052
Bank 5	US, UK	A	397 786	943 907
Bank 6	Italy	BBB	8 579	15 547
Bank 7	Austria	A	5 714	5 217
Bank 8	UK	A-	1 972	12 480
Others with a rating not lower than A		-	16 817	12 067
Total for other countries			**1 452 965**	**1 595 270**

Settlement accounts with trading systems represent balances on the Moscow Stock Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances and transactions is disclosed in Note 36.

8 Trading Securities

In thousands of Russian Roubles	2013	2012
Corporate bonds	2 038 905	1 521 829
Eurobonds	-	109 008
Total debt securities	**2 038 905**	**1 630 837**
Shares of closed mutual funds	57 775	51 821
Total equity securities	**57 775**	**51 821**
Total trading securities	**2 096 680**	**1 682 658**

Corporate bonds are interest bearing securities denominated in Russian Roubles and freely tradable on the Russian market. Corporate securities were mainly issued by large Russian companies and banks.

Eurobonds are interest bearing securities denominated in euro and are freely tradable on the market. The actual borrower with regards to these securities is the Moscow Government.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values, the Group does not analyse or monitor their impairment indicators.

Analysis by credit quality of debt trading securities (showing Fitch/S&P rating) is as follows at 31 December 2013:

In thousands of Russian Roubles	Corporate bonds	Eurobonds	Total
Neither past due nor impaired			
BBB+ rated	513 193	-	513 193
BBB rated	977 377	-	977 377
BBB- rated	548 335	-	548 335
Total trading securities	**2 038 905**	**-**	**2 038 905**

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

In thousands of Russian Roubles	Corporate bonds	Eurobonds	Total
Neither past due nor impaired			
BBB+ rated	383 617	-	383 617
BBB rated	781 636	109 008	890 644
BBB- rated	306 160	-	306 160
B+ rated	50 416	-	50 416
Total trading securities	**1 521 829**	**109 008**	**1 630 837**

8 Trading Securities (Continued)

The debt securities are not collateralised. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets.

Interest rate analysis of trading securities is disclosed in Note 31.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

9 Due from Other Banks

In thousands of Russian Roubles	**2013**	**2012**
Placements with the Bank of Russia	1 100 000	1 300 320
Long-term placements with other banks	300	4 256
Total due from other banks	**1 100 300**	**1 304 576**

Analysis by credit quality of amounts due from other banks (showing Fitch/S&P rating) outstanding at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Placements with the Bank of Russia**	**Long-term placements with other banks**	**Total**
Neither past due nor impaired			
Placements with the Bank of Russia	1 100 000	-	1 100 000
BBB	-	300	300
Total due from other banks	**1 100 000**	**300**	**1 100 300**

The Bank of Russia is not officially rated.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2012, is as follows:

In thousands of Russian Roubles	**Placements with the Bank of Russia**	**Long-term placements with other banks**	**Total**
Neither past due nor impaired			
Non-ratable	1 300 320	4 037	1 304 357
BBB	-	219	219
Total due from other banks	**1 300 320**	**4 256**	**1 304 576**

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2013 and 31 December 2012. Refer to Note 34.

Interest rate analysis of due from other banks is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2013	2012
Loans to small and medium size enterprises (SME loans)	27 431 220	21 369 021
Corporate loans	10 013 885	10 265 442
Loans to individuals – consumer loans and car loans	16 767 900	11 638 510
Loans to individuals – mortgage loans	9 528 709	7 469 744
Total loans and advances to customers before provision for loan impairment	**63 741 714**	**50 742 717**
Less: Provision for loan impairment	(2 813 231)	(2 980 362)
Total loans and advances to customers	**60 928 483**	**47 762 355**

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2013	**1 164 176**	**931 282**	**570 352**	**314 552**	**2 980 362**
Provision for loan impairment during the year	601 557	(108 803)	223 303	78 141	794 198
Provision on assigned loans written off	(35 410)	(25 466)	(1 281)	-	(62 157)
Amounts written off during the year as uncollectible	(702 544)	(56 287)	(99 489)	(40 852)	(899 172)
Provision for loan impairment at 31 December 2013	**1 027 779**	**740 726**	**692 885**	**351 841**	**2 813 231**

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2012	**992 558**	**968 418**	**543 849**	**250 263**	**2 755 088**
Provision for loan impairment during the year	661 379	57 326	100 074	66 184	884 963
Provision on assigned loans written off	(153 354)	(39 244)	(381)	-	(192 979)
Amounts written off during the year as uncollectible	(336 407)	(55 218)	(73 190)	(1 895)	(466 710)
Provision for loan impairment at 31 December 2012	**1 164 176**	**931 282**	**570 352**	**314 552**	**2 980 362**

10 Loans and Advances to Customers (Continued)

In 2013 the Group assigned its rights to overdue and impaired loans totalling (before impairment provision) to RR 470 507 thousand (2012: RR 407 381 thousand) for RR 408 350 thousand (2012: RR 295 364 thousand). The net result of assignment of rights to these loans was RR 0 thousand (2012: RR 80 962 thousand) recorded in the consolidated statement of profit and loss and other comprehensive income.

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

	2013		2012	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals (total), incl.	26 296 609	41.3	19 108 254	37.7
- consumer loans	*15 050 578*	*23.6*	*10 427 945*	*20.6*
- mortgage loans	*9 528 709*	*15.0*	*7 469 744*	*14.7*
- car loans	*1 717 322*	*2.7*	*1 210 565*	*2.4*
Trade	9 817 090	15.4	8 309 004	16.3
Agriculture	9 522 235	14,9	7 943 839	15.7
Manufacturing	7 587 481	11.9	5 687 423	11.2
Transport	3 790 226	5.9	2 830 367	5.6
Construction	2 413 220	3.8	2 985 631	5.9
Financial companies	223 164	0.4	309 651	0.6
Energy	55 033	0.1	986 905	1.9
Real estate	95 333	0.1	94 309	0.2
Other	3 941 323	6.2	2 487 334	4.9
Total loans and advances to customers before provision for loan impairment	**63 741 714**	**100.0**	**50 742 717**	**100.0**

As at 31 December 2013 the Group had 10 major borrowers with aggregate loan amounts (including finance lease investments) of RR 9 605 430 thousand, or 14.9% of the loan portfolio and finance lease receivables before impairment (2012: the Group had 10 borrowers with aggregate loan amounts of RR 8 646 901 thousand, or 16.8% of the loan portfolio and finance lease receivables before impairment).

Information about collateral at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Loans collateralised by:	27 383 552	9 475 523	12 465 044	9 325 425	58 649 544
- real estate	*17 678 509*	*7 646 823*	*2 533 954*	*8 519 316*	*36 378 602*
- tradable securities	*399 803*	*-*	*-*	*-*	*399 803*
- motor vehicles	*3 866 340*	*341 575*	*5 299 346*	*13 846*	*9 521 107*
- agricultural equipment	*1 264 550*	*126 454*	*38 092*	*2 975*	*1 432 071*
- property	*1 650 635*	*329 883*	*226 853*	*79 457*	*2 286 828*
- pledge of rights	*86 092*	*-*	*-*	*74 754*	*160 846*
- goods in turnover	*819 529*	*264 789*	*2 563*	*-*	*1 086 881*
- third parties' guarantees	*1 618 094*	*765 999*	*4 364 236*	*635 077*	*7 383 406*
Unsecured loans	47 668	538 362	4 302 856	203 284	5 092 170
Total loans and advances to customers before provision for loan impairment	**27 431 220**	**10 013 885**	**16 767 900**	**9 528 709**	**63 741 714**

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Loans collateralised by:	21 264 919	8 916 360	9 345 037	7 458 861	46 985 177
- real estate	*13 955 594*	*7 084 174*	*1 924 781*	*6 456 760*	*29 421 309*
- tradable securities	*12 600*	*272 088*	*6 386*	*-*	*291 074*
- motor vehicles	*3 400 899*	*453 483*	*3 997 985*	*43 338*	*7 895 705*
- agricultural equipment	*877 242*	*104 786*	*15 434*	*-*	*997 462*
- property	*1 097 180*	*419 219*	*276 690*	*413 673*	*2 206 762*
- pledge of rights	*88 002*	*-*	*1 771*	*59 329*	*149 102*
- goods in turnover	*547 056*	*296 121*	*707*	*-*	*843 884*
- guarantees of third parties	*1 286 346*	*286 489*	*3 121 283*	*485 761*	*5 179 879*
Unsecured loans	104 102	1 349 082	2 293 473	10 883	3 757 540
Total loans and advances to customers before provision for loan impairment	**21 369 021**	**10 265 442**	**11 638 510**	**7 469 744**	**50 742 717**

The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2013 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Current and not impaired					
Individually significant borrowers					
- A1 rated	3 264 114	5 257 403	-	-	8 521 517
- A3 rated	2 106 401	-	-	-	2 106 401
- B2 rated	1 075 430	592 480	-	-	1 667 910
Loans assessed on a portfolio basis					
- agriculture	5 353 942	284 392	-	-	5 638 334
- trade	6 624 566	216 369	-	-	6 840 935
- manufacturing	3 111 921	2 005 968	-	-	5 117 889
- other	4 604 602	856 354	-	-	5 460 956
- mortgage loans	-	-	-	8 804 360	8 804 360
- car loans	-	-	1 650 658	-	1 650 658
- consumer loans	-	-	14 118 924	-	14 118 924
Total current and not impaired	**26 140 976**	**9 212 966**	**15 769 582**	**8 804 360**	**59 927 884**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	139 681	-	520 664	399 334	1 059 679
Total past due but not impaired	**139 681**	**-**	**520 664**	**399 334**	**1 059 679**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	520 554	-	-	520 554
Loans assessed on a portfolio basis					
- up to 180 days overdue	281 463	-	141 921	83 284	506 668
- over 181 days overdue	869 100	280 365	335 733	241 731	1 726 929
Total impaired loans and advances to customers	**1 150 563**	**800 919**	**477 654**	**325 015**	**2 754 151**
Total gross amount of loans and advances to customers	**27 431 220**	**10 013 885**	**16 767 900**	**9 528 709**	**63 741 714**
Less: Provision for impairment	(1 027 779)	(740 726)	(692 885)	(351 841)	(2 813 231)
Total loans and advances to customers	**26 403 441**	**9 273 159**	**16 075 015**	**9 176 868**	**60 928 483**

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2012 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	2 210 009	5 899 472	-	-	8 109 481
- A3 rated	988 204	-	-	-	988 204
- B2 rated	1 007 634	736 958	-	-	1 744 592
Loans assessed on a portfolio basis					
- agriculture	4 229 431	219 904	-	-	4 449 335
- trade	5 312 080	397 891	-	-	5 709 971
- manufacturing	2 587 793	1 094 709	-	-	3 682 502
- other	3 309 251	1 049 203	-	-	4 358 454
- mortgage loans	-	-	-	6 936 996	6 936 996
- car loans	-	-	1 114 854	-	1 114 854
- consumer loans	-	-	9 737 634	-	9 737 634
Total current and not impaired	**19 644 402**	**9 398 137**	**10 852 488**	**6 936 996**	**46 832 023**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	107 126	-	465 860	228 656	801 642
Total past due but not impaired	**107 126**	-	**465 860**	**228 656**	**801 642**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	548 094	-	-	548 094
Loans assessed on a portfolio basis					
- up to 180 days overdue	493 581	-	43 312	59 464	596 357
- over 181 days overdue	1 123 912	319 211	276 850	244 628	1 964 601
Total impaired loans and advances to customers	**1 617 493**	**867 305**	**320 162**	**304 092**	**3 109 052**
Total gross amount of loans and advances to customers	**21 369 021**	**10 265 442**	**11 638 510**	**7 469 744**	**50 742 717**
Less: Provision for impairment	(1 164 176)	(931 282)	(570 352)	(314 552)	(2 980 362)
Total loans and advances to customers	**20 204 845**	**9 334 160**	**11 068 158**	**7 155 192**	**47 762 355**

10 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology required by IAS 39 “Financial Instruments: Recognition and Measurement”, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group’s policy is to classify each loan as ‘neither past due nor impaired’ until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A 1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Bank in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, the analysis of movements on the borrower’s settlement accounts with the Bank indicates insufficient turnovers for repayment of borrowings, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations to the Bank in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and budgeted performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the funds for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Bank by selling the available collateral.

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

10 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Assets (before provision for loan impairment)**	**Fair value of collateral**	**Assets (before provision for loan impairment)**	**Fair value of collateral**
Loans to small and medium enterprises (SME)	13 106 215	26 995 466	14 325 005	5 358 474
Corporate loans	5 723 059	14 176 919	4 290 826	1 546 627
Consumer loans and car loans	11 541 124	23 978 723	5 226 776	646 773
Mortgage loans	9 245 949	26 195 368	282 760	62 311

The effect of collateral at 31 December 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Assets (before provision for loan impairment)**	**Fair value of collateral**	**Assets (before provision for loan impairment)**	**Fair value of collateral**
Loans to small and medium enterprises (SME)	8 826 820	17 870 088	12 542 201	4 929 115
Corporate loans	1 564 535	3 720 559	8 700 907	3 842 536
Consumer loans and car loans	8 736 429	19 421 535	2 902 081	426 294
Mortgage loans	7 337 271	19 829 070	132 473	105 497

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. At 31 December 2013 fair value of these guarantees RR 21 988 196 thousand (2012: RR 16 786 132 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the credit department using analysis of comparable offers in the open market, subject to information available on specific features of assets being evaluated based on the Group's internal guidelines. In the current economic conditions there exists an uncertainty as to complete repossession of collateral. Provision for impairment reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan or the amount received from the disposal of the collateral will be insufficient.

Carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2013 and 31 December 2012. Refer to Note 34.

Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances and transactions is disclosed in Note 36.

11 Finance Lease Receivables

In thousands of Russian Roubles	2013	2012
Total investments in finance lease	742 546	799 682
Less: Unearned future finance income	(122 234)	(132 987)
Less: Provision for impairment	(3 262)	(23 601)
Total finance lease receivables	**617 050**	**643 094**

The primary factor that the Group considers in determining whether a finance lease receivable is impaired is its overdue status. The rights to the leased assets revert to the Group in the event of default by the lessee.

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

In thousands of Russian Roubles	Corporate business	SME	Total
Current and not impaired	61 931	546 535	608 466
Total current and not impaired	**61 931**	**546 535**	**608 466**
Past due but not impaired			
- 1 to 90 days overdue	-	7 186	7 186
Total past due but not impaired	-	**7 186**	**7 186**
Impaired			
- over 1 year overdue	-	4 660	4 660
Total impaired	-	**4 660**	**4 660**
Total finance lease receivables (gross)	**61 931**	**558 381**	**620 312**
Less: Provision for impairment	-	(3 262)	(3 262)
Total finance lease receivables	**61 931**	**555 119**	**617 050**

11 Finance Lease Receivables (Continued)

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

In thousands of Russian Roubles	Corporate business	SME	Total
Current and not impaired	84 993	534 559	619 552
Total current and not impaired	**84 993**	**534 559**	**619 552**
Past due but not impaired			
- 1 to 90 days overdue	-	12 239	12 239
Total past due but not impaired	**-**	**12 239**	**12 239**
Impaired			
- 91 to 180 days overdue	-	1 405	1 405
- 181 days to 1 year overdue	1 175	5 904	7 079
- over 1 year overdue	479	25 941	26 420
Total impaired	**1 654**	**33 250**	**34 904**
Total finance lease receivables (gross)	**86 647**	**580 048**	**666 695**
Less: Provision for impairment	(1 158)	(22 443)	(23 601)
Total finance lease receivables	**85 489**	**557 605**	**643 094**

The Group applies a single approach in assessing impairment of overdue loans and finance lease receivables. General principles, individual and collective risk assessment, rating system and other components of assessment for leasing and loans are the same. Individually significant loans related to leasing are determined based on initial investments under a finance lease. The Group believes that all lease receivables are collateralised.

Movements in the provision for uncollectible finance lease receivables during 2013 and 2012 are as follows:

In thousands of Russian Roubles	2013	2012
Provision for impairment of finance lease receivables as at 1 January	**23 601**	**21 812**
Provision for impairment of finance lease receivables during the year	10 442	3 497
Amounts written off during the year as uncollectible and provision repaid by selling assets	(30 781)	(1 708)
Provision for impairment of finance lease receivables at 31 December	**3 262**	**23 601**

11 Finance Lease Receivables (Continued)

Fair value of leased assets related to finance lease receivables as at 31 December 2013 and 31 December 2012 is as follows:

In thousands of Russian Roubles	**2013**	**2012**
Motor vehicles	898 817	743 941
Industrial equipment	214 608	266 555
Construction equipment	86 580	103 844
Agricultural equipment	81 951	153 323
Real estate	22 422	2 500
Office equipment	4 008	4 153
Trading equipment	1 023	1 945
Fair value of collateral in respect of finance lease receivables	**1 309 409**	**1 276 261**

The collateral for finance lease receivables is also the asset for lease. All investments into finance lease are over-collateralised assets.

The structure of finance lease receivables by leased assets is as follows:

	2013		**2012**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Motor vehicles	440 032	70.9	389 916	58.4
Industrial equipment	108 141	17.4	165 701	24.8
Construction equipment	34 166	5.5	44 667	6.7
Agricultural equipment	26 991	4.4	63 132	9.5
Office equipment	2 083	0.3	1 123	0.2
Trading equipment	429	0.1	1 126	0.2
Real estate	8 470	1.4	1 030	0.2
Total finance lease receivables (before provision for impairment)	**620 312**	**100.0**	**666 695**	**100.0**

The structure of finance lease receivables by economic sector is as follows:

	2013		**2012**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	215 314	34.7	205 941	30.9
Transport	104 750	16.9	89 088	13.4
Construction	81 376	13.1	63 076	9.4
Manufacturing	57 308	9.2	137 237	20.6
Agriculture	21 991	3.6	50 924	7.6
Energy	245	0.0	617	0.1
Other	139 328	22.5	119 812	18.0
Total finance lease receivables (before provision for impairment)	**620 312**	**100.0**	**666 695**	**100.0**

11 Finance Lease Receivables (Continued)

The analysis of investment in finance lease receivables and the net investment in finance lease receivables by maturity is disclosed below:

In thousands of Russian Roubles	Due within 1 year	Due between 1 and 5 years	Total
Total investments in finance lease at 31 December 2013	**387 444**	**355 102**	**742 546**
Unearned finance income	(72 821)	(49 413)	(122 234)
Less: Provision for impairment	(1 654)	(1 608)	(3 262)
Finance lease receivables as at 31 December 2013	**312 969**	**304 081**	**617 050**
Total investments in finance lease at 31 December 2012	**405 121**	**394 561**	**799 682**
Unearned finance income	(77 782)	(55 205)	(132 987)
Less: Provision for impairment	(11 588)	(12 013)	(23 601)
Finance lease receivables as at 31 December 2012	**315 751**	**327 343**	**643 094**

Fair value of finance lease receivables is disclosed in Note 34.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in Note 31. Information on related party balances and transactions is disclosed in Note 36.

12 Investment in Associate

Before December 2007 OAO TEPTS Teploenergo was a subsidiary of the Center-invest Bank. Following the additional share issue in December 2007, Center-invest Bank Group holds 47.31% in the capital of Teploenergo and EBRD holds a 25% share.

The table below summarises the movements in the carrying amount of the Group's investment in the associate.

In thousands of Russian Roubles	2013	2012
Carrying amount at 1 January	**332 766**	**319 199**
Share in profit of associate	4 529	39
Share of revaluation of property, plant and equipment of associate	-	13 528
Carrying amount at 31 December	**337 295**	**332 766**

12 Investment in Associate (Continued)

Summarised financial information on the associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	**2013**	**2012**
Total current assets	298 274	272 210
Total non-current assets	786 484	808 382
Total current liabilities	(156 626)	(129 568)
Total non-current liabilities	(215 186)	(247 651)
Revenue	558 786	536 330
Profit	9 574	83
% interest held	47.31%	47.31%

13 Intangible Assets

In thousands of Russian Roubles	**Note**	**2013**	**2012**
Carrying value			
Balance at 1 January		403 408	425 261
Additions		28 115	16 701
Disposals/fully amortised		(15 784)	(38 554)
Balance at 31 December		**415 739**	**403 408**
Accumulated depreciation			
Balance at 1 January		93 429	95 587
Depreciation charge	27	36 293	36 396
Disposals/fully amortised		(15 784)	(38 554)
Balance at 31 December		**113 938**	**93 429**
Net carrying amount at 31 December		**301 801**	**309 979**

Residual value of intangible assets includes investments into the following software: SAP for Banking, SAP Business Warehouse data storage, TranzWare processing centre, CFT settlement centre, SAP Process Integration, GEMINI IBSC remote banking service system, SAP Human Capital Management, Terrasoft XRM Bank and other. Amortisation on operating software was charged based on useful lives from 3 to 10 years. Software not put in operation has no indicators of impairment.

14 Premises and Equipment

In thousands of Russian Roubles	Note	Land	Premises	Other	Total
Residual value as at 31 December 2011		**529 699**	**1 981 779**	**199 154**	**2 710 632**
Carrying value					
Balance at the beginning of the year		529 699	1 994 384	968 004	3 492 087
Additions		212	7 776	55 278	63 266
Disposals		(2 215)	(73 283)	(46 311)	(121 809)
Balance at the end of the year		**527 696**	**1 928 877**	**976 971**	**3 433 544**
Accumulated depreciation					
Balance at the beginning of the year		-	12 605	768 850	781 455
Depreciation charge	27	-	47 695	123 564	171 259
Disposals		-	(4 171)	(45 489)	(49 660)
Balance at the end of the year		-	**56 129**	**846 925**	**903 054**
Residual value as at 31 December 2012		**527 696**	**1 872 748**	**130 046**	**2 530 490**
Carrying value					
Balance at the beginning of the year		527 696	1 928 877	976 971	3 433 544
Additions		-	34 655	85 890	120 545
Disposals		-	(3 927)	(59 440)	(63 367)
Transfer to other assets		(10 596)	(28 063)	-	(38 659)
Balance at the end of the year		**517 100**	**1 931 542**	**1 003 421**	**3 452 063**
Accumulated depreciation					
Balance at the beginning of the year		-	56 129	846 925	903 054
Depreciation charge	27	-	47 014	103 509	150 523
Disposals		-	-	(59 253)	(59 253)
Transfer to other assets		-	(1 143)	-	(1 143)
Balance at the end of the year		**-**	**102 000**	**891 181**	**993 181**
Residual value as at 31 December 2013		**517 100**	**1 829 542**	**112 240**	**2 458 882**

As at 31 December 2013 and 31 December 2012, independent valuation of premises and land was not performed, since there were no significant changes on the real estate market of the Southern Federal District in the years 2012 and 2013. Premises and land were independently valued at 31 December 2011 by an independent firm of valuers, ZAO BDO, Moscow, who hold a recognised and relevant professional qualification and who have recent professional experience in valuation of assets of similar location and category. The appraisal was based on the market value.

The carrying amount of premises and land at 31 December 2013 includes RR 1 572 675 thousand (2012: RR 1 599 128 thousand) of revaluation surplus relating to premises and land of the Group. At 31 December 2013, the carrying amount of premises and land would have been RR 773 967 thousand (2012: RR 801 316 thousand) had the assets been carried at cost less depreciation.

14 Premises and Equipment (Continued)

At 31 December 2013 the Group did not have premises and equipment leased under operating lease contracts (2012: the total value of premises and equipment included RR 13 621 thousand related to the premises and equipment leased under operating lease contracts). The income from lease of these premises and equipment for the year 2013 amounted to nil (2012: RR 2 360 thousand).

15 Other Financial Assets

In thousands of Russian Roubles	2013	2012
Trade receivables and prepayments	114 281	73 383
Plastic cards receivables	77 894	132 970
Endowment fund	64 767	39 253
Other securities at fair value through profit or loss	5 997	5 997
Settlements on brokerage operations	11	707
Settlements on other operations	31 572	34 898
Total other financial assets	**294 522**	**287 208**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any.

Other financial assets are mainly neither overdue, nor impaired. There is no collateral on other financial assets.

Endowment Fund "Education and Science of SFD" initiated and co-founded by Center-invest Bank, commenced its work in May 2007. The Group made contributions to the Fund in the amount of RR 90 000 thousand on a repayable and interest free basis. Upon recognition these contributions were recorded at their fair value and further amortised at applicable effective interest rate.

Carrying value of each class of other financial assets approximates their fair value at 31 December 2013 and 31 December 2012. Fair value of other financial assets is disclosed in Note 34.

16 Other Assets

In thousands of Russian Roubles	2013	2012
Repossessed collateral	228 231	170 808
Equipment purchased for finance leasing purposes	49 959	62 577
Prepayments to suppliers of equipment for finance leasing purposes	40 389	24 689
Prepaid taxes and recoverable taxes (other than income tax)	27 365	36 538
Other	51 172	45 808
Less impairment provision	(111 810)	(80 270)
Total other assets	**285 306**	**260 150**

Repossessed collateral represents assets obtained by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets, mostly represented by real estate and land plots, were initially recognised at fair value when acquired using reports on the property's estimated value, prepared by accredited valuers approved by the Bank's departments based on a comparative assessment approach, which reflects the property value in relation to equivalent objects with available market value, subject to required adjustments. As at 31 December 2013 the Group set up an impairment provision for this class of assets amounting to RR 111 810 thousand (2012: RR 80 270 thousand).

16 Other Assets (Continued)

Movements in the provision for impairment of other assets during 2013 and 2012 are as follows:

In thousands of Russian Roubles	2013	2012
Provision for other assets at 1 January	**80 270**	**69 052**
Charge to provision for other assets during the period	101 042	37 858
Amounts written off during the year as uncollectible and released upon disposal of assets	(69 502)	(26 640)
Provision for other assets at 31 December	**111 810**	**80 270**

17 Due to Other Banks

In thousands of Russian Roubles	2013	2012
Current term placements of other banks	519 416	728 832
Correspondent accounts and overnight placements of other banks	577	2 140
Total due to other banks	**519 993**	**730 972**

The structure of current term deposits of other banks as at 31 December 2013 and 31 December 2012:

In thousands of Russian Roubles	2013	2012
Loan from MSP Bank under the SME lending programme	500 000	500 000
Loans from Raiffesenlandesbank for trade financing	19 416	17 372
Term loan from Citibank (Russia)	-	211 460
Total current term deposits	**519 416**	**728 832**

Carrying value of each class of due to other banks approximates fair value at 31 December 2013 and 31 December 2012. Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. Information on related party balances and transactions is disclosed in Note 36.

18 Customer Accounts

In thousands of Russian Roubles	2013	2012
State and public organisations		
- Current/settlement accounts	344 624	723 289
- Term deposits	11 295	2 527
Other legal entities		
- Current/settlement accounts	10 287 323	9 834 559
- Term deposits	1 182 658	1 268 149
Individuals		
- Current/demand accounts	4 863 110	4 139 362
- Term deposits	32 729 570	28 094 976
Total customer accounts	**49 418 580**	**44 062 862**

18 Customer Accounts (Continued)

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2013		2012	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	37 592 680	76.1	32 234 338	73.1
Trade	3 260 650	6.6	3 286 672	7.5
Construction	1 841 691	3.7	2 092 553	4.7
Manufacturing	1 045 414	2.1	1 047 864	2.4
Agriculture	774 862	1.6	627 822	1.4
Financial services	485 670	1.0	75 222	0.2
Transport	464 844	0.9	422 385	1.0
Education	324 250	0.7	685 532	1.6
Municipal organisations	200 180	0.4	231 723	0.5
Energy	152 467	0.3	167 496	0.4
Telecommunications	34 053	0.1	46 392	0.1
Other	3 241 819	6.5	3 144 863	7.1
Total customer accounts	**49 418 580**	**100.0**	**44 062 862**	**100.0**

At 31 December 2013 the total aggregate balance of 10 largest clients of the Group was RR 2 996 934 thousand or 6.1% of customer accounts (2012: the total aggregate balance of 10 largest customers amounted to RR 2 924 150 thousand or 6.6% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2013 and 31 December 2012. Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. Information on related party balances and transactions is disclosed in Note 36.

19 Debt Securities in Issue

In thousands of Russian Roubles	**2013**	**2012**
Bonds	8 582 801	4 336 093
Promissory notes	448 292	560 166
Total debt securities in issue	**9 031 093**	**4 896 259**

19 Debt Securities in Issue (Continued)

Each bond has par value of RR 1 000 and an embedded put option at par value and exercisable at the moment of coupon income change.

Issue	CINBO-02	CINBO-BO1	CINBO-BO5	CINBO-BO2	CINBO-BO6	CINBO-BO3	CINBO-BO7
Par value, RR	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Quantity	3 000 000	1 500 000	1 000 000	1 500 000	1 000 000	1 500 000	2 000 000
Initial placement date	June 2009	June 2011	June 2011	April 2012	March 2013	March 2013	November 2013
Maturity	June 2014	June 2014	June 2014	April 2015	March 2016	March 2016	November 2018
Next offer date	June 2014	June 2014	June 2014	April 2015	March 2014	March 2014	November 2015
At 31 December 2013							
Number of bonds in issue	2 476 585	340	2	1 500 000	1 000 000	1 500 000	2 000 000
including repurchased by subsidiary	7 092	-	-	-	1 561	4 500	-
Coupon rate, %	9.40	0.50	0.50	10.20	10.25	10.25	9.20
Weighted average price, RR	1005.0	992.8	1000.6	1016.0	1012.4	1003.0	998.3
At 31 December 2012							
Number of bonds in issue	2 696 444	272 534	70 002	1 500 000	-	-	-
including repurchased by subsidiary	160 684	-	-	67 345	-	-	-
Coupon rate, %	10.40	9.70	9.70	9.70	-	-	-
Weighted average price, RR	1006.0	1000.0	1000.0	1001.50	-	-	-

Carrying value of each class of debt securities in issue approximates fair value at 31 December 2013 and 31 December 2012. Refer to Note 34.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 31.

20 Borrowings from International Financial Institutions

In thousands of Russian Roubles	2013	2012
Term borrowings from EBRD	2 940 198	1 990 290
Term borrowings from IFC	1 152 658	468 845
Term borrowings from OeEB	715 846	310 337
Term borrowings from EABD	601 337	300 728
Term borrowings from ResponsAbility	496 369	-
Total borrowings from international financial institutions	**5 906 408**	**3 070 200**

In 2007 – 2013 the Group opened several credit lines with International Finance Corporation (“IFC”), European Bank for Reconstruction and Development (“EBRD”), Austrian Bank of Economic Development (Oesterreichische Entwicklungsbank AG (OeEB)), Eurasian Bank for Development (EABD) and Credit Suisse Microfinance Fund Management Company and responsAbility SICAV (Lux) (ResponsAbility).

20 Borrowings from International Financial Institutions (Continued)

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	Currency	Original issue date	Repayable by tranches by:	Balance at 31 December 2013	Balance at 31 December 2012
Term borrowings from EBRD	Roubles	November 2009	April 2016	2 756 509	1 582 824
	USD	March 2009	October 2014	183 689	407 466
Term borrowings from IFC	Roubles	May 2010	February 2016	1 152 658	468 845
Term borrowings from OeEB	USD	August 2009	April 2014	41 120	114 207
	EUR	September 2012	April 2019	674 726	196 130
Term borrowings from EABD	Roubles	June 2012	April 2016	601 337	300 728
Term borrowings from ResponsAbility	Roubles	August 2013	February 2017	496 369	-
Total borrowings from international financial institutions				**5 906 408**	**3 070 200**

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2013 and 31 December 2012, as interest rate of these borrowings is floating. Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of borrowings from international financial institutions are disclosed in Note 31. Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

21 Subordinated Debt

In thousands of Russian Roubles	2013	2012
Subordinated loan from DEG	991 937	917 136
Subordinated loan from EBRD	661 334	611 475
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	164 682	305 527
Total subordinated debt	**1 817 953**	**1 834 138**

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date
Subordinated loan from DEG	30 000	June 2008	October 2018
Subordinated loan from EBRD	20 000	April 2008	October 2018
Subordinated loan from Black Sea Bank of Reconstruction and Development (Greece)	10 000	April 2007	April 2014

21 Subordinated Debt (Continued)

The carrying value of subordinated loans approximates fair value at 31 December 2013 and 31 December 2012, as interest rate of these loans is floating. Refer to Note 34.

The claims of other lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31.Information on covenants related to borrowings is disclosed in Note 33. Information on related party balances is disclosed in Note 36.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2013	2012
Prepayment under lease contracts		53 092	45 414
Deferred income on guarantees issued	33	36 260	32 641
Trade payables		22 238	27 269
Plastic cards payables		7 703	54 436
Foreign exchange forward contracts		1 417	-
Other accrued liabilities		5 628	13 615
Total other financial liabilities		**126 338**	**173 375**

At 31 December 2013, the estimated fair value of other financial liabilities approximates the carrying value. Refer to Note 34.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	Note	2013	2012
Income tax liability		41 245	1 958
Taxes payable other than on income		37 372	30 886
Deposits insurance agency		36 813	30 519
Provisions for contingent liabilities	33	18 682	6 835
Other		55 596	36 102
Total other liabilities		**189 708**	**106 300**

Movements in the provision for liabilities and charges during 2013 and 2012 are as follows:

In thousands of Russian Roubles	2013	2012
Provision for liabilities and charges at 1 January	6 835	2 856
Provision for liabilities and charges during the period	18 284	6 080
Use of provision during the period	(6 437)	(2 101)
Provision for liabilities and charges at 31 December	**18 682**	**6 835**

23 Other Liabilities (Continued)

The provision for liabilities and charges includes a provision for legal claims brought against the Group by borrowers and lessees. The balance at 31 December 2013 is expected to be utilised by the end of 2014. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 33.

24 Share Capital

	Number of outstanding shares			Ordinary shares	Preference shares	Share premium	Total
In thousands of Russian Roubles except for number of shares	**Ordinary shares**	**Preference shares with a par value of RR 4**	**Preference shares with a par value of RR 1000**				
At 1 January 2012	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2012	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**
At 31 December 2013	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 866 000 thousand (2012: RR 866 000 thousand). At 31 December 2013 and 31 December 2012 all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (2012: RR 10 per share). Each share carries one vote.

The preference shares have nominal value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2012: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

Share premium represents the excess of contributions received over the nominal value of shares issued.

25 Interest Income and Expense

In thousands of Russian Roubles	**2013**	**2012**
Interest income		
Loans and advances to SME	3 378 106	2 644 886
Loans to individuals – consumer and car loans	2 104 642	1 445 122
Corporate loans	1 166 871	1 110 007
Loans to individuals – mortgage loans	1 014 486	810 662
Impaired loans	179 096	215 887
Debt trading securities	155 294	51 345
Finance income arising from leasing	123 343	117 616
Due from other banks	57 822	99 135
Overnight placements with other banks	108	219
Correspondent accounts with other banks	77	58
Total interest income	**8 179 845**	**6 494 937**
Interest expense		
Term deposits of individuals	2 561 157	1 967 484
Bonds issued	712 041	481 584
Borrowings from international financial institutions and subordinated debt	570 510	401 541
Term deposits of legal entities	99 429	100 464
Promissory notes issued	68 080	22 986
Term placements of other banks	66 955	16 688
Current accounts of legal entities	53 091	54 825
Term placements of the Bank of Russia	3 734	-
Total interest expense	**4 134 997**	**3 045 572**
Net interest income	**4 044 848**	**3 449 365**

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	2013	2012
Fee and commission income		
- Settlement transactions	403 245	377 133
- Plastic card transactions	241 518	209 945
- Cash transactions	197 438	198 642
- Guarantees issued	46 731	44 397
- Currency transactions	35 740	34 504
- Cash collection	861	5 414
- Fiduciary activities	371	909
- Other	27 089	24 622
Total fee and commission income	**952 993**	**895 566**
Fee and commission expense		
- Plastic card transactions	101 408	77 297
- Settlement transactions	49 134	46 390
- Cash collection	35 618	58 455
- Collection agencies	24 358	17 051
- Interbank transactions	6 369	5 911
- Currency transactions	2 615	2 842
- Guarantees received	222	202
- Other	6 582	706
Total fee and commission expense	**226 306**	**208 854**
Net fee and commission income	**726 687**	**686 712**

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2013	2012
Staff costs		1 290 603	1 041 201
Maintenance and rent of premises and equipment		205 807	184 186
Depreciation of premises and equipment	14	150 523	171 259
Taxes other than on income		86 102	83 145
Consulting and information services		77 435	67 770
Security		43 155	95 340
Repair of premises and equipment		39 607	36 344
Amortisation of intangible assets	13	36 293	36 396
Benefits paid to the Board of Directors		35 693	24 040
Telecommunication and mail		29 451	27 810
Advertising and marketing services		28 806	25 670
Staff costs other than salary		26 366	22 515
Travel and entertainment expenses		16 574	12 371
Insurance		15 494	9 265
Maintenance and repair of motor vehicles		14 383	18 448
Stationary		12 276	12 100
Charity		3 314	933
Other		23 318	31 576
Total administrative and other operating expenses		**2 135 200**	**1 900 369**

Included in staff costs are statutory pension contributions of RR 191 967 thousand, social security contributions and contributions to the obligatory medical insurance fund of RR 59 689 thousand (2012: RR 155 680 thousand and RR 50 528 thousand accordingly).

28 Income Taxes

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

Income tax expense comprises the following:

In thousands of Russian Roubles	2013	2012
Current tax	411 422	337 174
Deferred tax	(19 726)	(14 313)
Income tax expense for the year	**391 696**	**322 861**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group's income is 20% (2012: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2013	2012
Profit before tax	**1 801 579**	**1 423 476**
Theoretical tax charge at statutory rate (2013: 20%; 2012: 20%)	360 316	284 695
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	31 380	38 166
Income tax expense for the year	**391 696**	**322 861**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and their income 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%).

In thousands of Russian Roubles	1 January 2013	Credited/(charged) to profit or loss	31 December 2013
Loans and advances to customers	95 058	(1 506)	93 552
Other assets	33 834	6 591	40 425
Other liabilities	11 661	14 018	25 679
Other	5 393	285	5 678
Gross deferred tax asset	**145 946**	**19 388**	**165 334**
Premises and equipment	(272 574)	4 379	(268 195)
Investment in associate	(62 566)	(906)	(63 472)
Finance lease receivables	(6 791)	(393)	(7 184)
Other	(8 471)	(2 742)	(11 213)
Gross deferred tax liability	**(350 402)**	**338**	**(350 064)**
Less offsetting with deferred tax assets	145 946	19 388	165 334
Net deferred tax liability	**(204 456)**	**19 726**	**(184 730)**

28 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2012	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2012
Loans and advances to customers	74 928	20 130	-	95 058
Other assets	34 194	(360)		33 834
Other Liabilities	7 569	4 092		11 661
Other	15 085	(9 692)	-	5 393
Gross deferred tax asset	**131 776**	**14 170**	**-**	**145 946**
Premises and equipment	(274 146)	1 572	-	(272 574)
Investment in associate	(59 853)	(7)	(2 706)	(62 566)
Finance lease receivables	(6 697)	(94)	-	(6 791)
Other	(7 143)	(1 328)	-	(8 471)
Gross deferred tax liability	**(347 839)**	**143**	**(2 706)**	**(350 402)**
Less offsetting with deferred tax assets	131 776	14 170	-	145 946
Net deferred tax liability	**(216 063)**	**14 313**	**(2 706)**	**(204 456)**

The main part of the net deferred tax liability is expected to be settled in the term more than 12 months, or has no stated maturity.

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 taxation authority.

29 Dividends

	2013		2012	
In thousands of Russian Roubles	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	-	-	-
Dividends declared during the period	232 652	18 099	186 122	18 099
Dividends paid during the period	(232 652)	(18 099)	(186 122)	(18 099)
Dividends payable at 31 December	**-**	**-**	**-**	**-**

During 2013 the Bank declared and paid dividends on preference shares with nominal value of RR 1 000 – RR 200 per share (2012: RR 200 per share) and on preference shares with nominal value of RR 4 – RR 0.8 per share (2012: RR 0.8 per share). During 2013 the Bank declared and paid dividends on ordinary shares – RR 3 per share (2012: RR 2.4 per share). All dividends are declared and paid in Russian Roubles.

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the chief operating decision maker (CODM) are performed by the Management Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, private customers, deposits, investment savings products, custody, credit and debit cards, municipal payments.

Factors that management used to identify the reportable segments

The Group’s segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail banking, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending and leasing. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment – treasury. Retail banking and plastic cards have been aggregated into one segment – retail banking.

In addition, the Bank's Management Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing of efficiency of their performance.

Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted to statutory subsequent events;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model required by IAS 39;
- income on impaired loans is not recognised;
- commission income related to lending and commission expenses on borrowings is recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- funds are generally reallocated between segments ignoring internal interest rates.

30 Segment Analysis (Continued)

Information about reportable segment profit or loss, assets and liabilities

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

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail banking**	**Total**
2013				
External revenues:				
Interest income	7 439 984	217 875	22 293	7 680 152
Fee and commission income and other operating income	565 813	564 402	422 177	1 552 392
Gains less losses from trading securities	-	8 757	-	8 757
Total income	**8 005 797**	**791 034**	**444 470**	**9 241 301**
Interest expense	-	(1 577 323)	(2 569 692)	(4 147 015)
Provision for impairment	(650 470)	390	(1 126)	(651 206)
Fee and commission expenses and other expenses	(92 092)	(100 565)	(103 392)	(296 049)
Segment result	**7 263 235**	**(886 464)**	**(2 229 740)**	**4 147 031**
Total reportable segment assets	**61 670 795**	**3 736 073**	**-**	**65 406 868**
Total reportable segment liabilities	**-**	**(28 884 623)**	**(37 389 622)**	**(66 274 245)**

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

In thousands of Russian Roubles	**Lending and leasing**	**Treasury**	**Retail banking**	**Total**
2012				
External revenues:				
Interest income	5 905 308	151 527	7 595	6 064 430
Fee and commission income and other operating income	450 302	527 321	404 234	1 381 857
Gains less losses from trading securities	-	16 833	-	16 833
Total income	**6 355 610**	**695 681**	**411 829**	**7 463 120**
Interest expense	-	(1 134 261)	(1 974 561)	(3 108 822)
Provision for impairment	(549 462)	(2 107)	(83)	(551 652)
Fee and commission expenses and other expenses	(132 047)	(85 346)	(79 170)	(296 563)
Segment result	**5 674 101**	**(526 033)**	**(1 641 985)**	**3 506 083**
Total reportable segment assets	**48 805 606**	**4 031 125**	**-**	**52 836 731**
Total reportable segment liabilities	**-**	**(22 555 152)**	**(32 044 702)**	**(54 599 854)**

30 Segment Analysis (Continued)

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

In thousands of Russian Roubles	2013	2012
Total revenues for reportable segments	**9 241 301**	**7 463 120**
Accrual method application to fee and commission income	25 551	66 383
Fair value of trading securities portfolio recalculation	(5 600)	33 459
Recognition of interest income on impaired loans	117 659	95 906
Consolidation effect	(7 952)	(62 117)
Foreign exchange translation gains less losses	(36 060)	(40 455)
Other	(1 462)	78 601
Total consolidated revenues	**9 333 437**	**7 634 897**

Total consolidated revenues comprise interest income, fee and commission income, gains less losses on transactions with trading securities, foreign currency, from assignment, repayment of debt written off and other operating income.

In thousands of Russian Roubles	2013	2012
Total reportable segment result	**4 147 031**	**3 506 083**
Administrative expenses	(2 243 576)	(1 944 552)
Application of effective interest rate method	34 673	67 653
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	(7 017)	33 459
Recognition of interest income on impaired loans	117 659	95 906
Recognition of loan loss provision	(96 742)	(166 571)
Consolidation effect	9 911	23 578
Events after the end of the reporting period	(87 999)	(71 673)
Depreciation/amortisation recalculation	(31 196)	(47 188)
Other	(41 165)	(73 219)
Profit before tax	**1 801 579**	**1 423 476**

In thousands of Russian Roubles	2013	2012
Total reportable segment assets	**65 406 868**	**52 836 731**
Unallocated assets	10 448 406	10 016 446
Recognition of loan loss provision	128 670	77 275
Recognition of interest income on impaired loans	293 519	312 087
Application of effective interest rate method to fee and commission income	(313 635)	(342 652)
Finance lease adjustments	(175 483)	(181 723)
Fair value of trading securities portfolio recalculation	(8)	1 751
Consolidation effect	293 141	64 926
Other	(134 268)	(113 004)
Total consolidated assets	**75 947 210**	**62 671 837**

30 Segment Analysis (Continued)

In thousands of Russian Roubles	2013	2012
Total reportable segment liabilities	**66 274 245**	**54 599 854**
Unallocated liabilities	1 016 248	812 249
Application of effective interest rate method to fee and commission expenses	(43 983)	(39 358)
Consolidation effect	(47 819)	(291 738)
Other	(3 888)	(2 445)
Total consolidated liabilities	**67 194 803**	**55 078 562**

Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 25 and 26.

Major customers

The Group does not have customers, revenues from which exceed 10% of total revenues.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, business event (including legal, strategic and reputational risks) and system risk.

The Bank's risk management function is viewed as a full set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by an adequate reserves level;
- Covering risks by an adequate capital level;
- Monitoring compliance with internal procedures and regulations.

The Bank manages risks on the basis of the document "Risk Management Policy of OAO KB Center-invest" approved by the Bank's Board of Directors in February 2009. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures; mandatory business lines and types of risks for monitoring; interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Accepting the risks on the basis of the level of profitability and risks associated with business lines;
- Priority of lending operations development;
- Regulatory revaluation of market risks associated with assets;
- Consideration of the risk level in evaluating business lines' efficiency;
- Capital and reserves management.

31 Financial Risk Management (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 perform an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Bank manages credit risks on the basis of the following principles:

- Avoiding the risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting of the concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating of the collateral;
- Using a system of corporate and personal guarantees;
- Diversifying of the loan portfolio;
- Limiting of the officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving of the methods of reviewing borrowers' financial and business activity enabling to adequately evaluate the level of risk associated with loans and other credit instruments;
- Regular monitoring of borrowers' financial position, state of collateral and debt servicing;
- Using the same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using of selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering the credit risks by an adequate capital and reserves level;
- Performing of the preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees, the exposure to credit risk is the amount of the commitment. Refer to Note 33.

Such risks are monitored on a regular basis.

Lending transactions are approved according to individual decision-making limits and the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million (2012: RR 10 million) (without positive credit history) and RR 20 million (2012: RR 20 million) (with positive credit history) to 25% (2012: 25%) of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million (2012: RR 10 million) (without positive credit history) and RR 20 million (2012: RR 20 million) (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Transactions of borrowers and a group of related borrowers – legal entities and entrepreneurs with an aggregate debt of up to RR 3 million (2012: RR 3 million) on standard loan programmes are approved by sole decisions of authorised persons who are confirmed by the order of the Chairman of the Bank's Management Board.

31 Financial Risk Management (Continued)

Transactions of borrowers and groups of related borrowers – individuals on standard loan programmes are approved by authorised persons within the limits set by the order of the Chairman of the Bank's Management Board.

Loan applications originated by the relevant client relationship managers are considered on the basis of standardised procedures and passed on to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk credit officers are monitoring the borrowers based on a structured analysis of borrowers’ business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by the appropriate Credit Committee, the Risk Management Committee and the Committee for Problem Loans. The Group uses formalised internal credit ratings in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and conducts a set of measures aimed at collection of overdue debts.

Additionally, in 2013 to minimize credit risks the Bank set up a control group comprised of most experienced employees of the Head Office and branches. Loans are allocated among them at random and through a random sampling technique on a monthly basis. The control group reviews compliance of an issued loan with the Bank's requirements (decision of an authorised body, correct and full documentation, quality of monitoring, etc.). The Group’s credit departments review ageing analysis of outstanding loans and follow up past due balances. The ageing and other information about credit risk is disclosed in Note 10.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the 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 assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity instruments, all of which are exposed to general and specific market movements.

The Bank manages market risks and monitors corresponding limits on a regular basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading operations;
- Setting limits on financial investments;
- Setting limits on homogeneous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with possible losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer’s industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

31 Financial Risk Management (Continued)

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2013, the level of market risk was RR 86 645 thousand under a limit of RR 1 353 206 thousand (2012: RR 71 137 thousand under a limit of RR 1 026 461 thousand).

Currency risk. The Group is exposed to currency risk associated with possible losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby, decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to risks associated with changes in precious metals' prices due to the absence of such transactions.

As at 31 December 2013 the ten day currency VAR level was RR 1 152 thousand (2012: RR 1 048 thousand).

Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	At 31 December 2013				At 31 December 2012			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Spot Contracts**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Spot Contracts**	**Net position**
Russian roubles	66 673 833	(61 225 492)	286 721	**5 735 062**	53 982 645	(49 565 293)	-	**4 417 352**
US Dollars	4 346 064	(4 035 675)	(301 653)	**8 736**	4 228 966	(4 215 463)	-	**13 503**
Euro	1 518 748	(1 545 396)	13 515	**(13 133)**	999 218	(974 249)	-	**24 969**
Other	25 281	(12 385)	-	**12 896**	27 623	(12 801)	-	**14 822**
Total	**72 563 926**	**(66 818 948)**	**(1 417)**	**5 743 561**	**59 238 452**	**(54 767 806)**	-	**4 470 646**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date, with all other variables held constant:

	2013		2012	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 20% (2012: 11%)	1 747	1 747	1 485	1 485
US dollar weakening by 20% (2012: 11%)	(1 747)	(1 747)	(1 485)	(1 485)
Euro strengthening by 20% (2012: 6%)	(2 627)	(2 627)	1 498	1 498
Euro weakening by 20% (2012: 6%)	2 627	2 627	(1 498)	(1 498)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

31 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

The management monitors exposure to interest rate risk on a quarterly basis and sets limits on the level of interest rate risk that may be undertaken.

The Group evaluates new products from the point of their impact on interest rate risk. Treasury department of the Group operates daily within approved limits on the level of interest rate risk whereas Risk Management department independently monitors compliance of actual level of interest rate to the approved limits.

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

The table below summarises the Group’s exposure to interest rate risks. The table presents the aggregated amounts of the Group’s financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non interest bearing assets**	**Total**
31 December 2013							
Total financial assets	10 218 691	6 064 964	6 317 857	13 873 735	36 024907	63 772	72 563 926
Total financial liabilities	(18 128 626)	(3 782 858)	(7 280 785)	(7 344 837)	(30 283 259)	-	(66 820 365)
Net interest sensitivity gap at 31 December 2013	**(7 909 935)**	**2 282 106**	**(962 928)**	**6 528 898**	**5 741 648**	**63 772**	**5 743 561**
31 December 2012							
Total financial assets	10 974 240	4 671 469	5 544 096	12 215 080	25 775 749	57 818	59 238 452
Total financial liabilities	(15 524 473)	(5 126 730)	(7 533 960)	(5 395 873)	(21 186 770)	-	(54 767 806)
Net interest sensitivity gap at 31 December 2012	**(4 550 233)**	**(455 261)**	**(1 989 864)**	**6 819 207**	**4 588 979**	**57 818**	**4 470 646**

All of the Group’s debt instruments reprice within 5 years (2012: all reprice within 5 years).

At 31 December 2013, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 261 143 thousand (2012: if interest rates had been 200 basis points higher/lower, profit would have been RR 251 630 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

31 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Group:

	2013				2012			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash balances with the CBRF	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements with other banks	0.0	0.1	0.0	0.0	0.5	0.0	0.0	0.0
Debt trading securities	7.4	-	-	-	7.9	-	2.9	-
Due from other banks								
- Placements with the Bank of Russia	4.5	-	-	-	4.5	-	-	-
- Placements with other banks	1.0	-	-	-	1.0	-	-	-
Loans and advances to customers:								
- Corporate loans	11.3	7.8	7.6	-	11.6	8.0	7.6	-
- Loans to SME	13.3	6.6	6.5	-	13.3	6.4	7.2	-
- Loans to individuals - consumer loans	16.0	11.7	-	-	15.7	11.9	-	-
- Loans to individuals - car loans	14.2	-	-	-	14.4	-	-	-
- Mortgage loans	12.5	11.9	-	-	12.4	12.2	-	-
Finance lease receivables	18.5	11.6	13.2	-	18.7	0.0	8.1	-
Liabilities								
Due to other banks	9.3	-	3.3	-	9.4	-	3.4	-
Customer accounts								
- Demand deposits of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
- Term deposits of legal entities	8.0	1.4	2.1		7.9	1.5	-	-
- Term deposits of individuals	8.6	3.4	2.9	1.0	8.6	3.5	3.0	1.0
Promissory notes issued	8.2	-	-	-	6.0	-	-	-
Bonds issued	9.7	-	-	-	10.1	-	-	-
Loans from international financial institutions	10.3	6.3	4.1	-	10.9	6.3	4.2	-
Subordinated debt	-	6.1	-	-	-	4.8	-	-

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

Other price risk. The Group is exposed to limited risk as a result of fluctuation of equity securities' prices. Transactions with equity instruments are monitored and authorised by the Group's Treasury. The amount of the 10-day VaR in a 99% confidence interval for the Bank's equity portfolio was RR 10 399 thousand as at 31 December 2013 (2012: RR 8 499 thousand).

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity for the year and at the reporting date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of Russian Roubles	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	5 545 796	395 750	1 054 655	2 560	6 998 761
Mandatory cash balances with the CBRF	528 130	-	-	-	528 130
Trading securities	1 841 909	-	-	254 771	2 096 680
Due from other banks	1 100 300	-	-	-	1 100 300
Loans and advances to customers	60 113 545	-	814 938	-	60 928 483
Finance lease receivables	617 050	-	-	-	617 050
Other financial assets	283 409	5	105	11 003	294 522
Total financial assets	70 030 139	395 755	1 869 698	268 334	72 563 926
Other assets	3 383 284	-	-	-	3 383 284
Total assets	**73 413 423**	**395 755**	**1 869 698**	**268 334**	**75 947 210**
Liabilities					
Due to other banks	500 028	-	19 416	549	519 993
Customer accounts	49 354 242	2 453	27 860	34 025	49 418 580
Debt securities in issue	9 031 093	-	-	-	9 031 093
Borrowings from international financial institutions	-	1 152 658	4 152 413	601 337	5 906 408
Subordinated debt	-	-	1 817 953	-	1 817 953
Other financial liabilities	126 338	-	-	-	126 338
Total financial liabilities	59 011 701	1 155 111	6 017 642	635 911	66 820 365
Other liabilities	374 438	-	-	-	374 438
Total liabilities	**59 386 139**	**1 155 111**	**6 017 642**	**635 911**	**67 194 803**
Net position	**14 027 284**	**(759 356)**	**(4 147 943)**	**(367 577)**	**8 752 407**
Credit related commitments (Note 33)	**8 692 655**	**-**	**-**	**-**	**8 692 655**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2012 is disclosed in table below:

	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	5 410 437	930 862	662 905	1 503	7 005 707
Mandatory cash balances with the CBRF	552 854	-	-	-	552 854
Trading securities	1 528 806	-	-	153 852	1 682 658
Due from other banks	1 304 576	-	-	-	1 304 576
Loans and advances to customers	47 586 487	-	175 868	-	47 762 355
Finance lease receivables	643 094	-	-	-	643 094
Other financial assets	285 113	-	-	2 095	287 208
Total financial assets	**57 311 367**	**930 862**	**838 773**	**157 450**	**59 238 452**
Other assets	3 433 385	-	-	-	3 433 385
Total assets	**60 744 752**	**930 862**	**838 773**	**157 450**	**62 671 837**
Liabilities					
Due to other banks	711 506	-	17 372	2 094	730 972
Customer accounts	44 018 941	3 192	21 100	19 629	44 062 862
Debt securities in issue	4 896 259	-	-	-	4 896 259
Borrowings from international financial institutions	-	468 845	2 300 627	300 728	3 070 200
Subordinated debt	-	-	1 834 138	-	1 834 138
Other financial liabilities	173 375	-	-	-	173 375
Total financial liabilities	**49 800 081**	**472 037**	**4 173 237**	**322 451**	**54 767 806**
Other liabilities	310 756	-	-	-	310 756
Total liabilities	**50 110 837**	**472 037**	**4 173 237**	**322 451**	**55 078 562**
Net position	**10 633 915**	**458 825**	**(3 334 464)**	**(165 001)**	**7 593 275**
Credit related commitments (Note 33)	**7 224 390**	-	-	-	**7 224 390**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 10.

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

31 Financial Risk Management (Continued)

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Audit and Compliance Committee with the Board of Directors, regularly controlled by the Asset and Liability Committee and are used in the current operations of the Bank.

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months Less than 5 years**	**Over 5 years**	**Total**
Liabilities							
Due to other banks	577	11 404	7 861	27 116	629 915	-	676 873
Customer accounts	16 131 548	1 659 043	2 506 027	5 527 114	27 511 469	-	53 335 201
Debt securities in issue	430 025	128 254	2 755 161	2 815 904	4 692 475	-	10 821 819
Borrowings from international financial institutions	100 237	636 859	839 927	1 303 916	3 748 270	86 036	6 715 245
Subordinated debt	82 013	-	135 862	52 210	2 053 283	-	2 323 368
Gross settled forwards	315 182	-	-	-	-	-	315 182
Contingent credit related commitments	338 347	884 620	1 173 548	3 129 566	3 166 574	-	8 692 655
Other financial liabilities	74 845	13 816	-	-	-	-	88 661
Total potential future payments for financial obligations	**17 472 774**	**3 333 996**	**7 418 386**	**12 855 826**	**41 801 986**	**86 036**	**82 969 004**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

31 Financial Risk Management (Continued)

The maturity analysis of financial liabilities 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 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities							
Due to other banks	2 140	11 404	227 543	27 412	675 014	-	943 513
Customer accounts	15 442 029	1 427 021	2 759 413	5 653 360	22 604 032	-	47 885 855
Debt securities in issue	134 870	420 306	4 192 455	577 628	374 050	-	5 699 309
Borrowings from international financial institutions	-	766 812	338 003	685 799	1 789 076	-	3 579 690
Subordinated debt	-	922 648	20 766	172 051	277 954	731 554	2 124 973
Contingent credit related commitments	196 007	831 667	723 915	2 547 374	2 925 427	-	7 224 390
Other financial liabilities	132 783	6 984	967	-	-	-	140 734
Total potential future payments for financial obligations	**15 907 829**	**4 386 842**	**8 263 062**	**9 663 624**	**28 645 553**	**731 554**	**67 598 464**

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

31 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2013:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	6 998 761	-	-	-	-	-	-	6 998 761
Mandatory cash balances with the CBRF	528 130	-	-	-	-	-	-	528 130
Trading securities	2 096 680	-	-	-	-	-		2 096 680
Due from other banks	1 100 300	-	-	-	-	-	-	1 100 300
Loans and advances to customers	1 244 551	4 637 584	4 162 705	13 126 907	28 786 409	8 970 327	-	60 928 483
Finance lease receivables	35 606	60 974	82 536	135 505	302 429	-	-	617 050
Investment in associate	-	-	-	-	-	-	337 295	337 295
Intangible assets	-	-	-	-	-	-	301 801	301 801
Premises and equipment	-	-	-	-	-	-	2 458 882	2 458 882
Other financial assets	134 184	8 938	3 125	47 292	94 986	-	5 997	294 522
Other assets	28 616	41 435	25 126	65 168	124 961	-	-	285 306
Total assets	**12 166 828**	**4 748 931**	**4 273 492**	**13 374 872**	**29 308 785**	**8 970 327**	**3 103 975**	**75 947 210**
Liabilities								
Due to other banks	577	-	132	-	519 284	-	-	519 993
Customer accounts	16 033 993	1 371 053	2 063 036	4 766 716	25 183 782	-	-	49 418 580
Debt securities in issue	430 025	68 691	2 527 214	2 510 616	3 494 547	-	-	9 031 093
Borrowings from international financial institutions	99 001	584 635	712 269	1 092 544	3 339 364	78 595	-	5 906 408
Subordinated debt	81 823	-	105 134	-	1 630 996	-	-	1 817 953
Other financial liabilities	76 273	14 914	2 339	12 956	19 856	-	-	126 338
Deferred income tax liability							184 730	184 730
Other liabilities	64 296	99 111	35	14 049	12 217	-	-	189 708
Total liabilities	**16 785 988**	**2 138 404**	**5 410 159**	**8 396 881**	**34 200 046**	**78 595**	**184 730**	**67 194 803**
Net liquidity gap at 31 December 2013	**(4 619 160)**	**2 610 527**	**(1 136 667)**	**4 977 991**	**(4 891 261)**	**8 891 732**	**2 919 245**	**8 752 407**
Cumulative liquidity gap as at 31 December 2013	**(4 619 160)**	**(2 008 633)**	**(3 145 300)**	**1 832 691**	**(3 058 570)**	**5 833 162**	**8 752 407**	

31 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability. The expected maturities are as follows at 31 December 2012:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	7 005 707	-	-	-	-	-	-	7 005 707
Mandatory cash balances with the CBRF	552 854	-	-	-	-	-	-	552 854
Trading securities	1 682 658	-	-	-	-	-	-	1 682 658
Due from other banks	1 300 539	-	-	-	4 037	-	-	1 304 576
Loans and advances to customers	1 465 327	3 556 699	4 499 660	11 456 089	20 602 936	6 181 644	-	47 762 355
Finance lease receivables	27 181	63 980	85 313	144 674	321 946	-	-	643 094
Investment in associate	-	-	-	-	-	-	332 766	332 766
Intangible assets	-	-	-	-	-	-	309 979	309 979
Premises and equipment	-	-	-	-	-	-	2 530 490	2 530 490
Other financial assets	158 697	6 859	4 484	38 239	72 932	-	5 997	287 208
Other assets	8 402	103 667	9 536	39 888	98 657	-	-	260 150
Total assets	**12 201 365**	**3 731 205**	**4 598 993**	**11 678 890**	**21 100 508**	**6 181 644**	**3 179 232**	**62 671 837**
Liabilities								
Due to other banks	2 140	-	11 581	199 998	517 253	-	-	730 972
Customer accounts	15 254 485	1 122 909	2 262 888	4 924 372	20 498 208	-	-	44 062 862
Debt securities in issue	134 870	415 399	4 002 192	343 798	-	-	-	4 896 259
Borrowings from international financial institutions	-	722 164	279 229	566 352	1 502 455	-	-	3 070 200
Subordinated debt	-	917 136	8 908	151 864	151 389	604 841	-	1 834 138
Other financial liabilities	132 978	8 552	2 433	9 587	19 825	-	-	173 375
Deferred income tax liability	-	-	-	-	-	-	204 456	204 456
Other liabilities	51 851	35 512	30	12 601	6 306	-	-	106 300
Total liabilities	**15 576 324**	**3 221 672**	**6 567 261**	**6 208 572**	**22 695 436**	**604 841**	**204 456**	**55 078 562**
Net liquidity gap at 31 December 2012	**(3 374 959)**	**509 533**	**(1 968 268)**	**5 470 318**	**(1 594 928)**	**5 576 803**	**2 974 776**	**7 593 275**
Cumulative liquidity gap as at 31 December 2012	**(3 374 959)**	**(2 865 426)**	**(4 833 694)**	**636 624**	**(958 304)**	**4 618 499**	**7 593 275**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the successful 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 of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer 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 for the Group.

31 Financial Risk Management (Continued)

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank's Management Board. This activity includes the following:

- Collecting the information on operating losses;
- Identifying sources of operational risk in the credit institution's activity;
- Identifying and preventing of fraud in banking transactions; Developing of the regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank's information security and continuity are ensured by the Bank's Information Security Policy developed on the basis of ISO and approved by the Board of Directors. The Bank has adopted the set of documents on the Bank of Russia's standardization "Ensuring Information Security of the Banking System of the Russian Federation". The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank's property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel I is as follows:

In thousands of Russian Roubles	**2013**	**2012**
Tier 1 capital		
Share capital	1 258 709	1 258 709
Share premium	1 646 428	1 646 428
Retained earnings	4 519 573	3 331 891
Total tier 1 capital	**7 424 710**	**6 237 028**
Tier 2 capital		
Revaluation reserve for premises and equipment	1 327 697	1 356 247
Subordinated debt	1 573 456	1 573 812
Total tier 2 capital	**2 901 153**	**2 930 059**
Total capital	**10 325 863**	**9 167 087**

32 Management of Capital (Continued)

As at 31 December 2013 the Bank's capital adequacy ratio calculated in accordance with Basel I is 15.6% (2012: 17.4%).

Management of the Bank believes that the Group and the Bank complied with all externally imposed capital requirements throughout 2013 and 2012.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2013 the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. A provision of RR 18 862 thousand (2012: RR 6 835 thousand) has been made as internal professional advice has indicated that it is likely that a liability will eventuate.

Tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital expenditure commitments. At 31 December 2013 the Group did not have contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets (2012: RR 862 thousand).

33 Contingencies and Commitments (Continued)

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a claim on early repayment of the loan. The Group was in compliance with all covenants as at 31 December 2013.

As at 31 December 2012 the Group did not comply with covenants regarding the ratio of impaired loans in the loan portfolio. The Bank launched negotiations with the relevant creditors regarding this situation in due time. However, by the end of 2012 the Bank only managed to obtain an informal confirmation to soften this covenant. The creditors signed additional agreements on cancellation of the covenant regarding the ratio of impaired loans in the loan portfolio in 2013.

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 of 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 cash deposits and therefore carry less risk than a direct borrowing.

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 are as follows:

In thousands of Russian Roubles	**2013**	**2012**
Guarantees issued	2 074 005	1 521 724
Import documentary letters of credit	-	9 027
Total credit related commitments	**2 074 005**	**1 530 751**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 36 260 thousand at 31 December 2013 (2012: RR 32 641 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2013**	**2012**
Russian roubles	2 017 594	1 499 180
US Dollars	42 085	15 490
Euro	14 326	16 081
Total	**2 074 005**	**1 530 751**

The Group has loan commitments of RR 6 618 650 thousand (2012: RR 5 693 639 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 528 130 thousand (2012: RR 552 854 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

34 Fair Value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly, and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2013				31 December 2012			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Trading securities								
- Corporate bonds	2 038 905	-	-	2 038 905	1 521 829	-	-	1 521 829
- Shares of closed mutual funds	49 942	7 833	-	57 775	51 821	-	-	51 821
- Eurobonds	-	-	-		109 008	-	-	109 008
Other financial assets								
- Other securities at fair value through profit or loss	-	-	5 997	5 997	-	-	5 997	5 997
NONFINANCIAL ASSETS								
- Land and premises		2 346 642		2 346 642		2 400 444		2 400 444
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**2 088 847**	**2 354 475**	**5 997**	**4 449 319**	**1 682 658**	**2 400 444**	**5 997**	**4 089 099**

	31 December 2013				31 December 2012			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
LIABILITIES CARRIED AT FAIR VALUE								
Other financial liabilities								
- Foreign exchange forward contracts	-	1 417	-	1 417	-	-	-	-
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**1 417**	**-**	**1 417**	**-**	**-**	**-**	**-**

34 Fair Value (Continued)

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Russian Roubles	**31 December 2013** Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents	6 998 761	-	-	6 998 761
Mandatory cash balances with the Central Bank of the Russian Federation	528 130	-	-	528 130
Due from other banks	1 100 300	-	-	1 100 300
Loans and advances to customers	-	-	60 316 343	60 928 483
- Loans to small and medium entities	-	-	*26 165 970*	*26 403 441*
- Corporate loans	-	-	*9 227 503*	*9 273 159*
- Loans to individuals – consumer and car loans	-	-	*15 735 338*	*16 075 015*
- Mortgage loans	-	-	*9 187 532*	*9 176 868*
Finance lease receivables	-	-	609 327	617 050
Other financial assets	-	-	288 525	288 525
TOTAL	**8 627 191**	-	**61 214 195**	**70 461 249**

In thousands of Russian Roubles	**31 December 2012** Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents	7 005 707	-	-	7 005 707
Mandatory cash balances with the Central Bank of the Russian Federation	552 854	-	-	552 854
Due from other banks	1 304 576	-	-	1 304 576
Loans and advances to customers	-	-	47 323 936	47 762 355
- Loans to small and medium entities	-	-	*20 042 177*	*20 204 845*
- Corporate loans	-	-	*9 255 583*	*9 334 160*
- Loans to individuals – consumer and car loans	-	-	*10 854 449*	*11 068 158*
- Mortgage loans	-	-	*7 171 727*	*7 155 192*
Finance lease receivables	-	-	645 343	643 094
Other financial assets	-	-	281 211	281 211
TOTAL	**8 863 137**	-	**48 250 490**	**57 549 797**

34 Fair Value (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2013			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES				
Due to other banks		-	519 993	519 993
Customer accounts		-	49 418 580	49 418 580
Debt securities in issue	8 638 586	-	448 292	9 031 093
- Promissory notes	-	-	*448 292*	*448 292*
- Bonds issued on domestic market	*8 638 586*	-	-	*8 582 801*
Borrowings from international financial institutions	-	-	5 906 408	5 906 408
Subordinated debt	-	-	1 817 953	1 817 953
Other financial liabilities	-	-	124 921	124 921
TOTAL	**8 638 586**	**-**	**58 236 147**	**66 818 948**

	31 Decmber 2012			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES				
Due to other banks		-	730 972	730 972
Customer accounts		-	44 062 862	44 062 862
Debt securities in issue	4 359 969	-	560 166	4 896 259
- Promissory notes	-	-	*560 166*	*560 166*
- Bonds issued on domestic market	*4 359 969*	-	-	*4 336 093*
Borrowings from international financial institutions	-	-	3 070 200	3 070 200
Subordinated debt	-	-	1 834 138	1 834 138
Other financial liabilities	-	-	173 375	173 375
TOTAL	**4 359 969**	**-**	**50 431 713**	**54 767 806**

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

34 Fair Value (Continued)

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. These main used rates are analysed below:

In thousands of Russian Roubles	**2013**	**2012**
RR		
Loans and advances to customers		
Loans to SME	8.6% – 15.3%	11.3% – 16.2%
Corporate loans	9.1% – 14.0%	11.3% – 16.2%
Loans to individuals – consumer loans	10.8% – 16.7%	11.0% – 16.3%
Loans to individuals – car loans	12.6% – 14.3%	14.3% – 14.9%
Mortgage loans	10.8% – 12.3%	10.0% – 12.2%
Finance lease receivables	19.9%	18.2% – 19.9%
Currency		
Loans and advances to customers		
Corporate loans and loans to SME	6.4% – 8.5%	6.5% – 7.3%
Loans to individuals – consumer loans	10.0%	10.0%
Mortgage loans	9.0%	9.0%
Finance lease receivables	11.8%	12.1%

Current rates on the Group's liabilities approximate market rates as they relate to short-term instruments or instruments with floating rates.

The Group’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, the Group classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (1) assets designated as such upon initial recognition, and (2) those classified as held for trading.

As at 31 December 2013 and 31 December 2012 all financial assets were designated as “Loans and receivables” except for trading securities (Note 8) and other securities (Note 15) which are classified as at fair value through profit or loss. All of the Group’s financial liabilities except for derivatives (Note 22) were carried at amortised cost.

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, 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.

The Group’s policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

The consolidated financial statements of the Group include the following significant transactions and balances with related parties.

36 Related Party Transactions (Continued)

In thousands of Russian Roubles	2013 Significant shareholders	2013 Associate	2013 Manage-ment and Board of Directors	2012 Significant shareholders	2012 Associate	2012 Manage-ment and Board of Directors
Correspondent accounts with banks	5 714	-	-	5 217	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2013: 8% – 12.5%; 2012: 8% – 18%)	-	31 856	8 425	-	7 232	11 501
Customer accounts (contractual interest rate: 2013: 0.1% – 9.8%; 2012: 0% – 10%)	-	4 330	213 470	-	3 935	446 353
Borrowings from international financial institutions (contractual interest rate: 2013: 7% – 11%; 2012: 7% – 11%)	2 940 198	-	-	1 990 290	-	-
Subordinated debt (contractual interest rate: 2013: 6.4%; 2012: 5%)	1 653 271	-	-	1 528 611	-	-

In thousands of Russian Roubles	2013 Significant shareholders	2013 Associate	2013 Manage-ment and Board of Directors	2012 Significant shareholders	2012 Associate	2012 Manage-ment and Board of Directors
Interest income	-	7 227	752	-	5 597	1 082
Interest expense	(364 362)	(16)	(11 739)	(287 150)	(106)	(29 339)
Fee and commission income	-	1 082	18	-	963	-
Administrative expenses excluding management remuneration	-	-	(2 347)	-	-	(1 690)

The major shareholders of the Bank at 31 December 2013 and 31 December 2012 are as follows:

Shareholder	2013 Equity share, %	2013 Voting rights share, %	2012 Equity share, %	2012 Voting rights share, %
European Bank for Reconstruction and Development	24.58	27.45	24.58	27.45
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	20.10	22.45	20.10	22.45
Erste Bank	9.80	9.80	9.80	9.80
Firebird funds	8.87	9.90	8.87	9.90
Vysokov Vasiliy Vasilievich	8.07	9.01	8.07	9.01
Vysokova Tatiana Nikolaevna	7.91	8.83	7.91	8.83
Rekha Holdings Limited	7.29	8.15	7.29	8.15

36 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Russian Roubles	**2013** Expense	**2013** Accrued liability	**2012** Expense	**2012** Accrued liability
Short-term benefits:				
- Salaries	21 682	-	15 363	-
- Short-term bonuses	82 469	-	54 449	-
Long-term bonus scheme	4 768	11 074	6 306	6 306
Retirement benefits	-	-	326	-
Total	**108 919**	**11 074**	**76 444**	**6 306**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

In 2013 the Board of Directors consisted of 7 persons (2012: 7 persons). As at the end of 2013 the Management Board consisted of 4 persons (2012: 3 persons).