Natixis Bank (ZAO)

Financial Statements

For the year ended 31 December 2013

(Translated from the original in Russian – Unofficial Translation)

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Management is responsible for the preparation of the financial statements that present fairly the financial position of Natixis Bank (ZAO) (hereinafter, "Bank") at 31 December 2013, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2013 were approved by the Management Board on 30 May 2014.

On behalf of the Management Board:

E.A.Hodakova	"Натиксис Банк"	***I.A.Komarova***
Deputy Chairman of the Board	Natixis Bank (ZAO)	***Chief Accountant***
30 May 2014		*30 May 2014*
Moscow		Moscow

MAZARS

INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of Closed Joint-Stock Company «Natixis Bank»

Audited entity

Name: Closed Joint-Stock Company «Natixis Bank» (Natixis Bank (ZAO)).

Primary state registration number: 1037739058180

Registration number in the CBR from 17.01.2002 № 3390.

Location: 23, bld.1, 1st Tverskaya-Yamskaya st., Moscow, 125047

Auditor

Name: Closed Joint Stock Company "Mazars" (CJSC "Mazars").

Primary state registration number: 1027739734219.

Location: 24/27 Sadovaya-Samotechnaya st., Moscow, 127051.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - Noncommercial Partnership "Moscow Audit Chamber". The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 10303044761.

M MAZARS

We have audited the accompanying financial statements of **Natixis Bank (ZAO)** (the "Bank"), which comprise of the statement of financial position as of December 31, 2013, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Information

Financial statements of Natixis Bank (ZAO) for the year ended 31 December 2012 have been audited by another auditor, which issued unqualified audit opinion dated June 27, 2013.

CJSC «Mazars»

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "Мазар" "Mazars S.A." ОГРН 1027739734219 МОСКВА

Auditor

Terekhina A.A.

(auditor's qualification certificate № 03-000653 issued in accordance with order of SRO MOAP #211 dd May 14, 2014, OPH3 21403041298 for unlimited period of time).

May 30, 2014

Statement of financial position as at 31 December 2013
(in thousands of Russian Rubles)

	Notes	2013	2012
Assets			
Cash and cash equivalents	5, 25	1 760 724	4 492 120
Minimum reserve deposits with the Central Bank of the Russian Federation		143 569	321 491
Financial assets at fair value through profit or loss and spot transactions	6, 25	1 889 660	635 459
Financial assets at fair value through profit or loss, transferred without derecognition	6	718 609	2 468 057
Due from banks	7, 25	3 906 970	5 179 220
Loans to customers	8	11 345 056	11 727 577
Property, equipment and intangible assets	9	3 411	4 573
Other assets	12, 25	184 827	316 428
Total assets		**19 952 826**	**25 144 925**
Liabilities			
Financial liabilities at fair value through profit or loss and spot transactions	6, 25	419 782	300 946
Due to banks	10, 25	13 349 389	20 271 227
Customer accounts	11	2 660 494	1 443 994
Other liabilities	12, 25	63 297	54 479
Subordinated loan	13, 25	1 204 252	607 454
Deferred income tax liability	19	8 736	13 476
Total liabilities		**17 705 950**	**22 691 576**
Equity			
Share capital	14	1 153 089	1 153 089
Share premium		50 367	50 367
Retained earnings	15	1 043 420	1 249 893
Total equity		**2 246 876**	**2 453 349**
Total liabilities and equity		**19 952 826**	**25 144 925**

E.A.Hodakova
Deputy Chairman of the Board

30 May 2014

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1037739055120
"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

I.A.Komarova
Chief Accountant

30 May 2014

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027739734219
"Мазар"
"Mazars S.A."
МОСКВА

Statement of comprehensive income for the year ended 31 December 2013

(in thousands of Russian Rubles)

	Notes	2013	2012
Interest income	16, 25	835 665	977 383
Interest expense	16, 25	(427 585)	(365 312)
Net interest income before provision for impairment losses on interest-bearing assets		**408 080**	**612 071**
Recovery of provision for impairment losses on interest bearing assets	8	-	4 153
Net interest income		**408 080**	**616 224**
Net gain / (loss) on financial assets and liabilities at fair value through profit or loss		19 980	(49 373)
Net gain / (loss) on foreign exchange operations		24 983	(159 030)
Net gain on foreign currency translation		130 290	213 644
Fee and commission income	17	67 750	67 373
Fee and commission expense	17, 25	(63 553)	(80 750)
Provision for impairment losses on other assets	12	(117)	(71)
Other income		3 024	1 017
Operating income		**590 437**	**609 034**
Operating expenses	18, 25	(291 563)	(266 984)
Profit before income tax		**298 874**	**342 050**
Income tax expense	19	(67 458)	(62 181)
Net profit for the period		**231 416**	**279 869**
Comprehensive income for the period		**231 416**	**279 869**

E.A.Hodakova
Deputy Chairman of the Board

30 May 2014

I.A.Komarova
Chief Accountant

30 May 2014

The notes on pages 8-52 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2013
(in thousands of Russian Rubles)

	Share capital	Share premium	Retained earnings	Total equity
Balance at 31 December 2011	**1 153 089**	**50 367**	**1 130 520**	**2 333 976**
Comprehensive income	-	-	279 869	279 869
Dividends paid	-	-	(160 496)	(160 496)
Balance at 31 December 2012	**1 153 089**	**50 367**	**1 249 893**	**2 453 349**
Comprehensive income	-	-	231 416	231 416
Dividends paid	-	-	(437 889)	(437 889)
Balance at 31 December 2013	**1 153 089**	**50 367**	**1 043 420**	**2 246 876**

E.A.Hodakova
Deputy Chairman of the Board

30 May 2014

"Натиксис Банк"
Natixis Bank (ZAO)

I.A.Komarova
Chief Accountant

30 May 2014

"Мазар"
"Mazars S.A."

(in thousands of Russian Rubles)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		894 986	973 479
Interest paid		(424 407)	(366 985)
Gain /(loss) on foreign exchange operations		50 613	(238 207)
Gain/ (loss) on financial assets at fair value through profit or loss		9 352	(56 884)
Commission received		67 750	66 793
Commission paid		(60 789)	(78 062)
Other operating income received		22 664	1 017
Other operating expenses paid		(276 852)	(273 745)
Income taxes refunded /(paid)		37 564	(69 736)
Cash inflow /(outflow) from operating activities before changes in operating assets and liabilities		**320 881**	**(42 330)**
Changes in operating assets and liabilities			
Net decrease /(increase) in minimum reserve deposits with the Central Bank of the Russian Federation		177 922	(60 063)
Net decrease/ (increase) in financial assets at fair value through profit or loss		598 710	(556 596)
Net decrease in due from banks		1 282 424	1 984 913
Net decrease /(increase) in loans to customers		1 318 660	(2 509 648)
Net decrease /(increase) in other assets		7 178	(37 609)
Net (decrease) /increase in due to banks		(7 802 551)	4 340 389
Net increase in customer accounts		1 127 410	597 746
Net decrease in other liabilities		(2 936)	(133)
Net cash (used)/ received from operating activities		**(2 972 302)**	**3 716 669**
Cash flows from investing activities			
Proceeds on disposal of property and equipment		397	-
Acquisition of property and equipment	9	(2 000)	(491)
Net cash used in investing activities		**(1 603)**	**(491)**
Cash flows from financing activities			
Repayment of subordinated loan		(625 556)	-
Subordinated loan received		1 055 145	-
Dividends paid		(437 889)	(160 496)
Net cash outflows from financing activities		**(8 300)**	**(160 496)**
Effect of exchange rate changes on cash and cash equivalents		**250 809**	**(96 540)**
Net (decrease)/ increase in cash and cash equivalents		**(2 731 396)**	**3 459 142**
Cash and cash equivalents at beginning of year	5	4 492 120	1 032 978
Cash and cash equivalents at the end of the year	5	**1 760 724**	**4 492 120**

E.A.Hodakova
Deputy Chairman of the Board

30 May 2014

"Натиксис Банк"
Natixis Bank (ZAO)
ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1037739055180
МОСКВА

I.A.Komarova
Chief Accountant

30 May 2014

"Мазар"
"Mazars S.A."
ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027739734219
МОСКВА

The notes on pages 8-52 form an integral part of these financial statements.

1 Principal activities

Natixis Bank (ZAO) (the "Bank") is a commercial bank incorporated as a closed joint stock company in 2002. The Bank conducts its business under the banking license No. 3390 issued by the Central Bank of the Russian Federation. The Bank's primary business consists of commercial banking activities in the territory of the Russian Federation. The Bank holds a license for securities transactions and participates in the deposit insurance system.

The Bank is a subsidiary of Natixis, a legal entity incorporated under the laws of France (the "Parent Bank"), which holds a 100% stake in the Bank's share capital.

The Bank is registered at: 23, bld. 1, 1-st Tverskaya-Yamskaya street, Moscow, Russia. The Bank has no branches or representative offices.

These financial statements were authorized for issue by the Bank's Management Board on 30 May 2014.

2 Operating environment

The Russian economy has features of emerging markets, such as a currency that is not freely convertible in most countries outside the Russian Federation, relatively high inflation and risks not typical for other markets. Tax, currency and customs legislation is subject to frequent changes and various interpretations. Besides, the necessity to further develop bankruptcy legislation, lack of a formalized procedure for registration and realization of collateralized property and other tax and legislative deficiencies complicate the work of financial institutions in the Russian Federation. Further direction of economic development of the Russian Federation depends very much on the efficiency of economic, tax and monetary policies of the Russian government.

The most important trend in 2013 in the Russian economy has been a significant slowdown in economic growth, expressed in slowing GDP growth in 2013 to 1.3%, according to preliminary estimates of the Ministry of Economic Development of the Russian Federation, primarily due to lower investment demand. External factors also largely determined the economic trends in Russia in 2013. In 2013, there has been a significant outflow of capital from emerging markets, including Russia. As a result, in 2013 the ruble lost 7.2% of its value against the dollar and 10.5% against the euro. Despite the relative stability of oil prices in 2013, reduction in the current account operations surplus, along with the above negative factors adversely affected the prospects of the Russian ruble. Inflation in 2013 was 6.5%, exceeding the upper limit of the target value of the Central Bank of the Russian Federation. The Bank of Russia had to influence foreign exchange operations, which began in May 2013 and led to some tension in the liquidity situation in the money market of the Russian ruble. As a result, the Bank of Russia has consistently increased the volume of refinancing the banking sector especially during tax periods. Due from banks to the Bank of Russia on repo transactions peaked - more than 3 trillion. rubles. Rates in the interbank market throughout the year remained at a high level, reaching during the tax periods the upper limit the interest rate corridor set by the Bank of Russia.

The accompanying financial statements represent management's assessment of possible impact of the existing operating environment on the Bank's operational and financial performance. Future developments of the financial and business environment may differ from management's assessment.

3 Accounting basis

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

These financial statements are non-consolidated financial statements of the Bank.

The Bank maintains its accounting records in accordance with the banking legislation of the Russian Federation ("RAS") and France. These financial statements have been prepared from the Russian statutory accounting records and adjusted to conform to IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate items in the statement of financial position and the statement of comprehensive income.

These financial statements have been prepared in the national currency of the Russian Federation, Russian Rubles, and presented in thousands of Russian rubles ("RUB thousand"). These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

3 Basis of preparation (continued)

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

Functional currency. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the “functional currency”). The functional currency of the financial statements is the Russian Ruble (RUB).

Adoption of new and revised standards.

The accounting policy is the same as the policy applied in the previous financial year apart from application of new and revised standards, which became obligatory for application in the period from 1 January 2013. Some new standards became obligatory for the Bank in the period from 1 January 2013 to 31 December 2013. Below are new and revised standards, which currently are applicable for the activities of the Bank, as well as their effect on the accounting policy of the Bank.

IAS 19 "Employee benefits" (“IAS 19”) issued in June 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IAS 19 prescribes the accounting and disclosure by employers for employee benefits. IAS 19 enhanced the accounting for post-employment benefits by removing the option that allows deferring the recognition of gains and losses, the so-called 'corridor approach'; improved the presentation of changes in assets and liabilities and increased the volume of disclosures about defined benefit plan. Application of IAS 19 did not have impact on the financial statements of the Bank.

IAS 27 "Separate Financial Statements" (“IAS 27”) revised in May 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IAS 27 outlines the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity presents separate financial statements. IAS 27 specifies that entities that prepare separate statutory financial statements shall recognize such investments at cost or in accordance with IFRS 9 "Financial Instruments". IAS 27 was issued simultaneously with IFRS 10 "Consolidated Financial Statements" and both the standards replace IAS 27 "Consolidated and Separate Financial Statements" (as revised in 2008). Application of IAS 27 did not have impact on the financial statements of the Bank.

IAS 28 "Investments in Associates and Joint Ventures" (“IAS 28”) revised in May 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IAS 28 outlines the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in joint ventures and associates. IAS 28 replaces IAS 28 "Investments in Associates" (as revised in 2003). Application of IAS 28 did not have impact on the financial statements of the Bank.

IFRS 11 "Joint Arrangements" (“IFRS 11”) issued in May 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 11 improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement will be determined by assessing the rights and obligations of the parties arising from that arrangement. The Standard provides for the classification of joint arrangements either as joint operations or as joint ventures. Besides, the Standard eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities–Non-Monetary Contributions by Venturers". Application of IFRS 11 did not have impact on the financial statements of the Bank.

IFRS 12 "Disclosure of Interest in Other Entities" (“IFRS 12”) issued in May 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint ventures, associates and unconsolidated structured entities. Application of IFRS 12 did not have impact on the financial statements of the Bank.

3 Basis of preparation (continued)

IFRS 13 "Fair Value Measurements" ("IFRS 13") issued in May 2011; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements. IFRS 13 does not provide any new guidance on how to measure assets and liabilities at fair value under IFRS, does not change when an entity is required to use fair value and does not consider presenting changes in the fair value. Application of IFRS 13 did not have significant impact on the financial statements of the Bank.

Amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") – "Presentation of Items of Other Comprehensive Income" issued in June 2011; effective for annual periods beginning on or after 1 July 2012, with earlier application permitted. According to these amendments, items presented in other comprehensive income are required to be grouped on the basis of whether they could be reclassified subsequently to profit or loss. These amendments change the presentation of other comprehensive income, but have no impact on the financial position or results of operations.

Amendments to IFRS 7 "Financial Instruments: Presentation" ("IAS 32") – "Disclosures – Offsetting Financial Assets and Financial Liabilities" issued in December 2011; effective for annual periods beginning on or after 1 January 2013, with retrospective application. These disclosures will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position and compare the statements of financial position prepared in accordance with IFRSs with those prepared in accordance with US GAAP. These changes did not have significant impact on the financial statements of the Bank.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" issued in June 2012; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. As part of transition to the specified standards, this guidance allows entities to disclose the adjusted comparative information only for the prior comparative period. These changes did not have significant impact on the financial statements of the Bank.

"Improvements to IFRS" (2009-2011) issued in May 2012; come into effect for annual reporting periods beginning on or after 1 January 2013. The International Accounting Standards Board issued a number of amendments to IFRS intended mainly for elimination of internal discrepancies and specification of definitions:

– Amendments to IAS 1 "Presentation of Financial Statements" clarify a complete set of financial statements and the requirements for providing comparative information. These changes did not have significant impact on the financial statements of the Bank;

– Amendments to IAS 16 "Property, Plant and Equipment" affected the classification of spare parts and servicing equipment as property, plant and equipment. These changes did not have significant impact on the financial statements of the Bank;

– Amendments to IAS 32 "Financial Instruments: Presentation" clarify the income tax consequences of distributions to holders of equity instruments. These changes did not have significant impact on the financial statements of the Bank;

– Amendments to IAS 34 "Interim Financial Reporting" affect the information required to be disclosed with regard to reporting segments. These changes did not have significant impact on the financial statements of the Bank;

– Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" clarify the repeated application of IFRS 1 and borrowing costs relating to assets for which the commencement date of capitalization is before the date of transition to IFRS. These changes did not have significant impact on the financial statements of the Bank.

Where applicable comparative information was adjusted to be in compliance with presentation of financial statements for the current period

New and revised IFRSs in issue but not yet effective. At the date of authorization of these financial statements, a number of new standards and interpretations were in issue, and effective from 1 January 2014, and which the Bank has not early adopted:

3 Basis of preparation (continued)

IFRS 9 "Financial Instruments" ("IFRS 9") originally issued in November 2009, subsequently reissued in October 2010 and amended in December 2011; effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. IFRS 9 will gradually replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 introduces new requirements to classification and measurement of financial assets. In particular, for the purposes of further measurement all financial assets should be classified as measured "at amortized cost" or "at fair value through profit or loss", therewith it is possible to irrevocably choose the recognition of revaluation of equity financial instruments not held for trading through other comprehensive income in the statement of other comprehensive income. Most of the requirements for the classification and measurement of financial liabilities were carried forward to IFRS 9 basically unchanged from IAS 39 "Financial Instruments: Recognition and Measurement." The main difference is the recognition and disclosure of effect of changes in the issuer's own credit risk of financial liabilities classified as at fair value through profit or loss in other comprehensive income. Currently the Bank is assessing the impact of IFRS 9 on the financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" ("IAS 32") – "Offsetting Financial Assets and Financial Liabilities" issued in December 2011; effective for annual periods beginning on or after 1 January 2014, with retrospective application. The amendments clarify the meaning of "currently has a legally enforceable right of set-off" and clarify the application of the IAS 32 offsetting criteria to settlement systems (such as clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Currently the Bank is assessing the impact of these changes on the financial statements.

The Management of the Bank believes that adoption of these standards will not have a significant impact on the financial statements of the Bank.

Key assumptions. The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the period ended. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Judgments made by the respective structural subdivision when applying the accounting policies, having a material effect on amounts recognized in the financial statements and being the most important for the financial statements are disclosed in Note 27.

4 Significant accounting policies

Key valuation techniques. The Bank uses the following methods for recognition and evaluation of financial instruments: at fair value, at amortized cost or at cost.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction. A financial instrument has a quoted market price in an active market if the quotes for such instruments are regularly determined and related information is available at the stock exchange through information and analytical systems or from other information sources, and if such quotes reflect real and regular market transactions carried out on an arm's length basis.

The fair value of financial instruments quoted at an active market is determined based on:

- Stock market quotations (quoted market prices), generally, for financial instruments traded through trade organizers;
- Demand prices for financial assets and supply prices for financial liabilities, and estimated fair value determined based on the data from information and analytic systems (e.g., Reuters and Bloomberg), market dealers and other sources.

With absence of current quoted market prices to determine the fair value the following information may be used:

- The latest quoted market price (demand/supply price) according to external independent sources, if no material changes occurred in the economic environment between the date of estimation and the reporting date;
- The actual price of the latest transaction performed by the Bank in the active market, if there were no significant changes in the economic environment between the transaction date and the reporting date.

In case of a material change in the economic environment, the latest quoted market price (price of the transaction) should be adjusted based on changes in the quoted market price (price of the transaction) for similar financial instruments. For debt securities, the latest quoted market price (price of the transaction) may be adjusted based on changes in maturity of such debt security.

4 Significant accounting policies (continued)

Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the Bank would receive in a forced transaction, involuntary liquidation or distress sale.

The model of discounted cash flows and the analysis of financial information on investees are used for determination of the fair value of financial instruments when the information on their quoted market prices is unavailable from external sources. If there is a method for valuation of a financial instrument widely applicable by market participants, which confirms the valuation results with the prices of actual market transactions, it can be used to determine the price of such financial instrument.

Such method may be selected for each particular case of fair value determination, and unless otherwise substantiated, valuation methods based on stock market prices and demand/supply quoted prices should be applied. Determination of the fair values of financial instruments when the information on their quoted market prices is unavailable from external sources depends on various factors, circumstances and requires application of professional judgment.

The Bank classifies the information used for determination of the fair value of a financial instrument based on the significance of the input data used for valuation, as follows:

- The current market prices for financial instruments identical with the financial instrument under evaluation (level 1);
- If the information on current quoted market prices is unavailable – the most recent market transaction price, if no significant changes in the operating environment occurred from the date of transaction, and current quoted market prices on comparable financial instruments, if the operating environment changed from the date of transaction, and the information based on observable market data (level 2);
- The prices calculated using valuation techniques with inputs not based on observable market data (level 3).

Amortized cost of a financial asset or a financial liability is the amount at which the financial instrument was measured at initial recognition, less cash received or paid (principal amount, interest income (expense) or other payments under agreement) adjusted for accumulated depreciation charged on the difference between the initially recognized amount and actually received (paid) amount on the financial instrument, and for financial asset impairment loss recognized. This difference is depreciated using effective interest rate. Accrued interest includes amortization of transaction costs deferred at initial recognition and any premiums or discounts to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expenses, including accrued coupon income and amortized discount and premium, are not presented separately but included in the carrying value of respective assets and liabilities.

With respect to variable financial assets and liabilities cash flows and effective interest rate are recalculated at the date of establishment of a new coupon (interest) rate. The effective interest rate is recalculated based on the current amortized cost and expected future payments. Current amortized cost of the financial instrument does not change, and the amortized cost is measured applying the newly established effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, if applicable, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Bank estimates cash flows taking into account all contractual terms and conditions relating to the financial instrument (for example, the early repayment option), but not future credit losses.

Such calculation includes all fees and commission paid or received by parties to the contract and is an integral part of the effective interest rate, transaction costs and all other premiums and discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

4 Significant accounting policies (continued)

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those cases when it is not possible to estimate the cash flows or the expected life of a financial instrument, the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of its acquisition and includes transaction costs.

Only investments in equity instruments, which have no quoted market prices and the fair value of which cannot be measured reliably, and derivative financial instruments related to such equity instruments and which are subject to extinguishment with such equity instruments are measured at cost. Transaction costs are additional costs directly related to the acquisition, issue or disposal of a financial instrument and include fees and commissions paid to agents, advisers, brokers, and dealers; levies paid to regulatory agencies and stock exchanges, and taxes and duties levied on the transfer of assets. Transaction costs do not include debt premium or discount, financing costs, internal administrative or holding costs.

Initial recognition of financial instruments. A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Gains and losses at initial recognition of a financial asset or a financial liability are only recognized if there is a difference between the transaction price and the fair value that may be substantiated through other current market transactions with the same instrument or a valuation method which is based on the available market data.

Subject to standard terms and conditions of settlements, the purchase and sale of financial assets is recognized at the transaction date, i.e. the date when the Bank must buy or sell the asset, or at the date of settlement, i.e. the date of delivery of the financial asset by the Bank or to the Bank. The selected method is applied by the Bank consistently to all purchases and sales of financial assets related to the same category of financial assets. For this purpose financial assets held for trading form a category separate from financial assets at fair value through profit or loss.

When accounting at the date of the deal, it is envisaged:

- The recognition of a financial asset receivable and the liability for its payment at the transaction date;
- The derecognition of an asset which is the subject of sale, recognition of any gain or loss on its disposal and recognition of receivables from the customer which is repayable at the transaction date.

When accounting for at the date of settlements, it is stipulated:

- The recognition of an asset at the date of transfer to the Bank;
- The derecognition of an asset and recognition of any gain or loss on its disposal at the date of delivery by the Bank.

When accounting at the date of settlements, the Bank recognizes any change in fair value of a financial asset receivable during the period between the transaction and the date of settlements, the same as it accounts for changes in value of an acquired asset, i.e. changes in value are not recognized in relation to the assets recorded at cost or amortized cost. Changes in value are included in profit or loss with respect to assets classified as financial assets at fair value through profit or loss and recognized in other comprehensive income of the statement of comprehensive income with respect to available-for-sale assets.

When accounting for at the date of settlements before settlements all transactions are classified as operations with derivative financial instruments.

Impairment of financial assets. For objective recognition of risks accepted the Bank makes allowances for loans to customers and due from banks.

A financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events occurred after the initial recognition of the asset (a “loss event”) and if this loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be measured reliably.

4 Significant accounting policies (continued)

The key indicators of impairment of a financial asset (a 'loss event') are as follows:

- a regular payment has been overdue and the delay happened not due to a payment system failure;
- The borrower or the issuer has significant financial problems, which may be confirmed by the borrower's/issuer's financial statements received by the Bank;
- The borrower or the issuer considers possible bankruptcy;
- There are unfavorable changes in the borrower's/issuer's solvency caused by changes in the national and regional economy, which have impact on the borrower or issuer;
- The cost of collateral decreased considerably due to unfavorable market conditions;
- The lender, for economic or legal reasons, granted the borrower special terms of a loan that the lender would not otherwise consider;
- Assets are given out to the borrower to repay a debt on a previously provided asset;
- The lack of an active market for this financial asset due to financial difficulties of the issuer (not because the asset is no longer traded in the market);
- There is the information available on breaches by the issuer/borrower of contractual terms and conditions relating to similar financial assets.

Impairment losses on financial assets at amortized cost are recognized included profit and loss as incurred as a result of one or more events (a "loss event") occurred after the initial recognition of the financial asset.

The Bank does not recognize impairment losses at initial recognition of financial assets.

If the Bank has no impartial evidence of impairment for an individually evaluated asset, regardless its materiality, this asset is included in a group of financial assets with similar parameters of credit risk and assessed for impairment in aggregate with those assets.

For the purposes of an aggregate assessment, financial assets are grouped by similar characteristics of credit risk. These characteristics relate to the assessment of future cash flows for groups of such assets and are evidence of the debtors' ability to repay all due amounts related to the assessed assets in accordance with contractual terms and conditions.

Impairment loss on a financial asset either decreases directly carrying value of the asset or is recognized by means of making a provision for possible losses on impairment of the asset in the amount necessary to decrease the carrying value of the asset to the current value of estimated future cash flows (which does not include a future loss on the loan which, presently, have not yet been incurred) discounted using the initial effective interest rate on this asset. The calculation of the discounted value of estimated future cash flows from a secured financial asset includes cash flows which may be generated as a result of realization of the collateral less selling costs, regardless of the probability of such sale.

If in the subsequent period the impairment loss on financial asset decreases, and the decrease may be related objectively to an event occurring after the impairment was recognized, and the previously recognized impairment loss is reversed in profit or loss through adjusting the allowance.

After adjustment of a loan as a result of impairment to recoverable amount, the interest income is recorded based on the interest rate which was used for discounting future cash flows in order to assess the impairment loss.

Financial assets that cannot be repaid and in relation to which the company has completed all the required procedures for partial or complete compensation and determined the total amount of loss, are written off against the allowance for impairment losses included in the statement of financial position.

If in case of a revision of the terms relating to impaired financial assets the revised terms materially differ from the previous ones, the new asset is recorded at fair value.

Derecognition of financial instruments. The Bank only derecognizes a financial asses if one of the following conditions is met:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank transfers the financial asset and this transfer complies with derecognition criteria;

4 Significant accounting policies (continued)

A financial asset is only considered as transferred to the Bank if one of the following conditions is met:

- The Bank transfers the contractual rights to receive the cash flows related to the financial asset;
- The Bank retains its contractual rights to receive cash flows related to the financial asset, but assumes a contractual obligation to pay cash to one or more recipients, and subject to the following requirements:
- The Bank has no obligation on payments to ultimate customers, unless the Bank has received the equivalent amounts from the original customer (short-term advance payments made by the Bank with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition);
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to ultimate customers for the obligation to pay them cash flows;
- The Bank has an obligation to remit any cash flows it collects on behalf of ultimate customers without a material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments shall be passed to the eventual recipients.

When an entity transfers a financial asset the Bank shall evaluate the extent to which it retains the risks and rewards related to ownership of the financial asset. If the Bank:

- Transfers substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall be derecognized. The rights and obligations arisen or retained upon transferring a financial asset are recognized separately as assets and liabilities;
- Retains substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall continue to be recognized;
- Neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Bank shall determine whether it retains the control over the financial asset. If the control is not retained, the Bank derecognizes the transferred financial asset. The rights and obligations arisen or retained upon transferring a financial asset are recognized separately as assets and liabilities. If the Bank retains the control over a financial asset, the Bank continues to recognize the transferred asset to the degree it continues to participate in this asset.

If financial assets are re-registered with material changes in conditions, such assets are derecognized and further recognized in the statement of financial position as newly acquired.

If financial assets are re-registered without material changes in conditions, such assets are recognized at the carrying value of the transferred financial asset.

A financial liability is derecognized in case of repayment, cancellation or expiry of this liability. If one existing financial liability is replaced with another liability to the same lender at materially different conditions or in case of making material changes in the terms of the existing liability, the original liability is derecognized and the new liability is recognized charging the difference in their carrying values to profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with commercial banks, accounts with the Central Bank of the Russian Federation and overnight deposits. All short-term interbank placements, beyond overnight deposits, are included in advances to banks.

Minimum reserve deposits with the Central Bank of the Russian Federation. Minimum reserve deposits with the Central Bank of the Russian Federation are recorded at amortized cost and represent non-interest bearing reserves with the CBR which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets and liabilities at fair value through profit or loss ("FVTPL"). This category includes financial assets at fair value through profit or loss held for trading and other financial assets designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as held for trading if it is acquired for the purpose of selling it in the near term or is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking. Derivative financial instruments having a positive fair value (i.e. potentially profitable terms) are also designated as financial assets at fair value through profit or loss held for trading unless they are derivative financial instruments designated as effective hedging instruments.

4 Significant accounting policies (continued)

Other financial assets classified as at fair value through profit or loss comprise financial assets included in this category at initial recognition. The Bank includes financial assets in this category only if one of the following requirements is met:

– Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise where such assets and liabilities were measured, or relevant gain or loss was recognized, using various methods;

– A group of financial assets is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy. Information about these financial assets managed on a fair value basis is submitted to the CEO.

– A financial asset includes an embedded derivative financial instrument which shall be recognized separately.

Initially and subsequently financial assets measured at fair value through profit or loss are valued at fair value which is calculated either based on quoted market prices or applying various valuation techniques. The valuation techniques are presented in section “Key valuation techniques”.

Realized and non-realized income and expenses on operations with financial assets at fair value through profit or loss are recognized in the statement of comprehensive income in the period when they were received or incurred, included in income less expenses on the operations with financial assets at fair value through profit or loss. Interest income from financial assets at fair value through profit or loss is measured using the effective interest rate method and recognized in the statement of comprehensive income as interest income on financial assets at fair value through profit or loss. Received dividends are included in other operating income in the statement of comprehensive income. The Bank classifies financial assets at fair value through profit or loss in an appropriate category at the date of acquisition. Derivative financial assets classified into this category and other financial assets classified as measured at fair value through profit or loss at initial recognition are not reclassified.

Securities repurchase and reverse repurchase agreements. Transactions on sale and repurchase of securities (“repos”) which actually ensure for the counterparty income of the lender are considered as borrowing operations secured by securities. Securities transferred under repo agreements are included in financial assets at fair value through profit or loss. If terms of the transaction allow the recipient of financial assets to sell or re-pledge them, such financial assets are recorded separately in the statement of financial position as financial assets transferred without derecognition in accordance with categories from which they were transferred. Respective liabilities on the borrowings are recorded within the line “Due to banks”. The difference between the sale price of the security and its repurchase price is recognized as an interest expense and accrued throughout the term of the repo using the effective interest rate method.

Transactions on purchase and resale of securities (“reverse repos”) which actually ensure for the Bank income of the lender are considered as lending operations secured by securities. Securities purchased under reverse repo agreements are not recognized in the statement of financial position. Respective receivables on loans issued are included in due from banks or loans to customers.

The difference between the purchase price of the security and its resale price is recognized as interest income and accrued throughout the term of the repo agreement using the effective interest rate method. Securities provided by the Bank as loans to counterparties continue to be recognized as securities in the original line in the statement of financial position. If terms of the deal allow the recipient of the financial assets to sell or re-pledge them, such financial assets are reclassified in a separate item of statement of financial position.

Securities received as a loan are not recognized in financial statements. If such securities are sold to third parties, the financial result of purchase and sale of these securities is recorded in the statement of comprehensive income in income less expenses on operations with financial assets at fair value through profit or loss. A liability for return of these securities is recorded as held for trading at the fair value and included in financial liabilities at fair value through profit or loss.

4 Significant accounting policies (continued)

Due from banks. Due from banks include non-derivative financial assets with fixed or defined payments not quoted in an active market issued by the Bank to counterparty banks (including the Central Bank of the Russian Federation), except for:

- Overnight deposits;
- Financial assets the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.
- Due from other banks are recognized from the date of the issuance (placement). Due from other banks are initially recognized at fair value. Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of the reclassification. Profit or loss already stated in the statement of comprehensive income as at the date of the reclassification of financial assets from "at fair value through profit or loss" are not recovered.

Further, loans issued and deposits placed are carried at amortized cost net of any allowance for impairment losses. Amortized cost is based on fair value of loan issued or deposit placed calculated using prevalent interest rates for similar loans and deposits as at the date of loan issuance or deposit placement. The difference between the fair value and the nominal amount of loan (deposit) arising at the origination of loans (placement of deposits) at interest rates above or below the prevailing rates is recognized in the statement of comprehensive income at the date of loan issuance (deposit placement) in income (expenses) from assets placed at the rates above (below) market rates. Subsequently, the carrying value of these loans (deposits) is adjusted by depreciation amount of this income/(expense), and the interest income is recognized in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is presented in section "Impairment of financial assets".

Loans to customers. Loans to customers include non-derivative financial assets with fixed or defined payments that are not quoted in an active market, other than:

- Financial assets that the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.

Loans to customers are initially recognized at fair value plus transaction costs (i.e. fair value of the recovery paid or received). Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of the reclassification. Profit or loss already stated in the statement of comprehensive income as at the date of the reclassification of financial assets from "at fair value through profit or loss" are not recovered.

Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method.

Loans to customers are recognized from the date of the issuance to borrowers. Loans issued at interest rates different from the market interest rates are measured as at the date of issuance at fair value which consists of future interest payments and principal debt amount discounted applying market interest rates for similar loans. The difference between the fair value and the nominal value of a loan is recognized in the statement of comprehensive income as income from the assets placed at interest rates above the market rates, or as an expense on the assets placed at interest rates below the market rates. Subsequently, the carrying value of these loans is adjusted for depreciation of income/(expense), and the respective income is recognized in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is presented in section "Impairment of financial assets".

4 Significant accounting policies (continued)

Property and equipment and intangible assets. Property, equipment and intangible assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and amortization (for intangible assets). Property, equipment and intangible assets acquired before 1 January 2003 are carried at historical cost restated to the equivalent purchasing power of the Russian Ruble as at 31 December 2002, less accumulated depreciation.

At each reporting date the Bank assesses whether there is any indication of impairment of property and equipment and intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as an impairment loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of property, equipment and intangible assets are determined by reference to the carrying amount and included in the statement of comprehensive income. Repairs and maintenance costs are charged to the statement of comprehensive income as incurred.

Depreciation and amortization. Depreciation and amortization of property, equipment and intangible assets are applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

- Motor vehicles – 14% per annum;
- Furniture – 5-33% per annum;
- Office and computer equipment – 14-48% per annum; and
- Intangible assets – 10-33% per annum.

Operating leases. Where the Bank is the lessee, and the risks and rewards of the ownership of leased property are not transferred by the lessor to the Bank, the total lease payments are charged by the lessee to the statement of comprehensive income on a straight-line basis over the period of the lease.

Borrowings. Borrowings include customer accounts and due to other banks**.** Borrowings are initially recorded at the fair value of the funds received, net of any transaction costs incurred. Subsequently, borrowings are stated at amortized cost, and any difference between the proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings at interest rates different from the market rates are measured as at the date of the receipt at fair value which includes future interest payments and the principal debt amount discounted using market interest rates for similar loans. The difference between the fair value and the nominal amount of borrowings is recognized in the statement of comprehensive income as income from borrowings issued at interest rates below the market rates, or as expense from borrowings issued at the rates above the market rates. Subsequently, the carrying value of these borrowings is adjusted for depreciation of initial income/(expense) from borrowings, and the respective expenses are recognized as interest expenses in the statement of comprehensive income using the effective interest rate method.

Credit commitments. The Bank assumes credit commitments including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments in case a client fails to fulfill its obligations to third parties, and exposed to the same credit risk as loans.

Commitments to issue loans with interest rates lower than market rates and financial guarantees are initially recognized at fair value which is generally confirmed by the amount of fee and commission received. This amount is amortized on a straight-line basis over the term of the commitment, with the exception to a commitment to issue a loan if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realize this loan within a short period after the issuance; such commission income related to a commitment on origination of a loan is accounted for as deferred income and included in the carrying value of the loan at initial recognition. As at the end of each reporting period liabilities are measured at the largest of the two values: amortized cost of the initial recognition and the best estimation of the expenses on settlement of the liability as at the end of the reporting period.

An allowance is made on loan commitments, if there is a probability of incurring a loss.

Share capital. Share capital is recognized at cost adjusted for inflation.

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

4 Significant accounting policies (continued)

Dividends. Dividends declared after the reporting period are recognized in the events after the reporting period. If dividends are declared by the holder of equity instruments after the reporting period, such dividends are not recognized as liabilities as at the reporting date. Dividends are reported as earnings distribution in the financial statements upon approval by the general meeting of shareholders.

Subordinated loan. Subordinated loan is initially recognized at fair value. Subsequently, subordinated loan is stated at amortized cost using the effective interest rate method.

Income and expense recognition. Interest income and expense are recognized in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest rate method.

Fees and commissions related to the effective interest rate include fees and commissions received or paid in connection with formation or acquisition of a financial asset or issuance of a financial liability (for example, fees and commissions for creditworthiness assessment, evaluation and accounting of guarantees or collateral, for settlement of instrument provision conditions and for processing of transaction documents). Fees for the commitment to loan extension at market rates received by the Banks are an integral part of the effective interest rate if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realize this loan within a short period after the extension. The Bank does not classify loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

All other commission income and other income and other expenses are generally recognized on an accrual basis over the period of service provision depending on the completeness extent of a particular transaction determined as the share of an actually rendered service in the total scope of services to be provided.

Income tax. Tax expenses are presented in the financial statements in accordance with the RF legislation currently in force. Income tax expense in the statement of comprehensive income for the year comprises current income tax and changes in deferred income tax.

Current income tax is calculated on the basis of amounts expected to be paid to tax authorities or refunded by tax authorities in respect of the taxable profit or losses for the current and prior periods using income tax rates in effect as at the end of the reporting period. Taxable profit or losses are based on estimates if financial statements are approved before the submission of respective tax returns. Other tax expense, other than income tax, is included in operating expenses.

Deferred income tax is assessed using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at income tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on income tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes are levied by the same taxation authority. Net deferred income tax assets represent income taxes which can be utilized against future income and are recognized in the statement of financial position. A deferred tax asset arising from the carry forward of tax losses is recognized only to the extent it is probable to utilize the appropriate tax benefit.

Foreign currency revaluation. Items included in the Bank's financial statements are measured using the currency of primary economic environment where the Bank operates ("functional currency"). The financial statements are presented in the currency of the Russian Federation which is the Bank's functional currency and the currency of presentation.

Transactions denominated in foreign currency are recorded at the official exchange rate established by the Central Bank of the Russian Federation at the date of transaction.

4 Significant accounting policies (continued)

The date of transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS.

A foreign exchange difference arising on settlements of transactions denominated in foreign currencies at exchange rates different from the official CBR rate are included in the statement of comprehensive income within income less expenses on foreign exchange operations.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the date of initial recognition.

As at 31 December 2013, the official exchange rate used for revaluating foreign currency account balances was as follows:

- RUB 32.7292 to USD 1 (31 December 2012: RUB 30.3727 to USD 1);
- RUB 44.9699 to EUR 1 (31 December 2012: RUB 40.2286 to EUR 1).

At present, the currency of the Russian Federation is not a freely convertible currency in most countries outside the Russian Federation.

Derivative financial instruments. Derivative financial instruments are financial instruments which meet all of the following criteria:

- Their value changes in response to the change in an underlying variable, provided that in case of a non-financial variable this variable does not specifically relate to a party to the agreement;
- No initial investment or small initial investment is required for their acquisition;
- They are settled at a future date.

Derivative financial instruments, including forward foreign exchange contracts and cross currency and interest rate swaps, are initially recognized in the statement of financial position at fair value and are subsequently remeasured to fair value.

Fair value is estimated using quoted market prices, discounted cash flow models, or spot rates at the year-end, depending on the type of transaction. Derivative financial instruments with positive fair values are offset against derivative financial instruments with negative fair values only when there is a legally enforceable right to offset.

Derivative financial instruments are recognized in the statement of financial position in the line “Financial assets at fair value through profit or loss” if their fair value is positive, or in the line “Financial liabilities at fair value through profit or loss”, if their fair value is negative.

Changes in the fair values of derivatives are recognized in the statement of comprehensive income as income less expenses on foreign exchange operations and income less expenses on operations with financial assets at fair value through profit or loss depending on the type of transaction.

A derivative financial instrument is derecognized upon discharge of assets and liabilities under a derivative financial instrument according to a contract, as well as upon expiration of the contract maturity period. The date of derivative derecognition is the date of the discharge of assets and liabilities under a derivative according to a contract.

The Bank does not enter into transactions designated as hedge transactions under IAS 39.

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

Accounting for the effects of inflation. Until 31 December 2002, it was considered that there is hyperinflation in the Russian economy. Therefore, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The effect of IAS 29 application is that non-monetary items of the financial statements, including capital components, were recalculated in units for 31 December 2002, by applying respective inflation indices to the original value, and in subsequent periods accounting was performed on the basis of the recalculated value.

The adjustment amounts were calculated on the basis of conversion rates based on the consumer price indices (CPI) of the Russian Federation published by the Federal State Statistics Service (until 2004 - the State Statistics Committee of the Russian Federation), and in compliance with indices obtained from other sources for periods before 1992.

(in thousands of Russian Rubles)

4 Significant accounting policies (continued)

Accrued liabilities. An accrued liability is a non-financial liability of uncertain timing or amount.

Accrued liabilities are recognized if the Bank has contingent liabilities (legal or constructive) that occurred before the end of the reporting period. Meanwhile there is a high probability that outflow of economic resources will be required for the settlement of these liabilities, and the amount of liabilities can be measured reliably.

Employees' benefits and related expenses. All benefits the Bank provides to employees in exchange for their service, or termination of employment, are considered as employees' benefits.

Costs associated with payroll, including compensation and incentive payments are accrued in the period in which the associated services are rendered by the employees of the Bank, and the costs associated with the payment of accrued leave, temporary disability benefits and child care - when due. The Bank pays annual bonuses to the employees for the year. Such payments are recognized in the period for which they are paid. Payments to the state funds, which arise or occur at the time of actual obligations to employees in accordance with the legislation of the Russian Federation, are recorded in the accounting period in which the Bank accrues expenses. The Bank takes obligations related to unused vacation, employees of the Bank. Such liabilities are recognised in the statement of financial position under "Other liabilities" with simultaneous accounting in the statement of comprehensive income for the vacation related to current accounting period, or in retained earnings for the vacation related to previous reporting periods.

The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which provides for calculating current contributions by the employer as a percentage of current total payments to staff. Such expense is charged in the period when the related salaries are earned. The Bank has no post-retirement benefits or other significant compensated benefits requiring accrual. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees.

Transactions with related parties. The Bank enters into related party transactions. Parties are considered to be related, inter alia, if one party has the ability to control the other party, is under common control with the other party, is under joint control of the other party and a third party, or may exercise significant influence over the other party in making financial or operational decisions. In considering a related party relationship, the Bank pays attention to the economic substance of such relationship and not merely the legal form.

5 Cash and cash equivalents

	2013	**2012**
Cash on hand	3 698	8 557
Balances with the Central Bank of the Russian Federation (other than minimum reserve deposit)	422 196	835 340
Correspondent accounts and overnight deposits with the banks of:		
- the Russian Federation	328	250
- other countries	1 334 502	3 647 973
Total cash and cash equivalents	**1 760 724**	**4 492 120**

Geographical, currency and interest rate analyses of cash and cash equivalents, and analysis of counterparties by assigned ratings are disclosed in Note 21.

As at 31 December 2013 included in cash and cash equivalents was the interest accrued on correspondent accounts in the amount of RUB 197 thousand (2012: RUB 269 thousand).

(in thousands of Russian Rubles)

6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions

	Note	2013	2012
Financial assets at fair value through profit or loss and spot transactions			
Corporate bonds		2 055 533	2 672 067
Derivative financial instruments and spot transactions	22, 25	552 736	431 449
Total financial assets at fair value through profit or loss and spot transactions		**2 608 269**	**3 103 516**
Financial liabilities at fair value through profit or loss and spot transactions			
Derivative financial instruments and spot transactions	22, 25	419 782	300 946
Total financial liabilities at fair value through profit or loss and spot transactions		**419 782**	**300 946**

Corporate bonds. Corporate bonds are debt securities of Russian banks and companies denominated in Russian Rubles freely tradable in the Russian Federation in organized security markets.

The following table presents the terms of corporate bonds as at 31 December 2013:

	Maturity date		Coupon rate, % per annum		Yield to maturity/offer, % per annum	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	July 2014	October 2023	7.40%	13.50%	6.10%	9.92%

The following table presents the terms of corporate bonds as at 31 December 2012:

	Maturity date		Coupon rate, % per annum		Yield to maturity/offer, % per annum	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	May 2014	October 2023	7.40%	9.25%	6.08%	8.43%

As at 31 December 2013, in order to mitigate the credit risk, the Bank received guarantees from the Parent Bank for certain corporate bonds in the amount of RUB 130 917 thousand (2012: RUB 273 354 thousand).

As at 31 December 2013 financial assets at fair value through profit or loss include corporate bonds provided as security under sale and repurchase agreements with a fair value of RUB 718 609 thousand (2012: RUB 2 468 057 thousand). Refer to Note 10.

Information on derivative financial instruments and spot transactions is presented in Note 22.

Geographical and currency analyses and analysis of financial assets at fair value through profit or loss by assigned ratings are disclosed in Note 21.

(in thousands of Russian Rubles)

7 Due from banks

	2013	2012
Due from banks	3 132 327	5 179 220
Reverse sale and repurchase agreements (REPO)	774 643	-
Total due from banks	**3 906 970**	**5 179 220**

All due from banks are current and unimpaired.

As at 31 December 2013 and 2012, due from banks included accrued interest income of RUB 16 662 thousand and RUB 39 219 thousand, respectively.

As at 31 December 2013 the Bank did not have deposits placed with the Parent Bank (2012: deposits totaling RUB 640 328 were placed with the Parent Bank, representing 12% of the total due from banks).

In addition, as at 31 December 2013 and 2012 the Bank had placed loans with 6 and 8 banks totaling RUB 3 518 471 thousand and RUB 4 878 496 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2013 the carrying value of reverse sale and repurchase agreements and fair value of assets pledged as collateral for these agreements were as following:

	2013	
	Carrying value of loan	**Fair value of collateral**
Corporate bonds of Russian companies	774 643	887 327
Total reverse sale and repurchase agreements	**774 643**	**887 327**

As at 31 December 2013, the Bank had obtained guarantees from the Parent Bank for certain due from banks, totaling RUB 752 772 thousand (2012: RUB 1 609 753 thousand) (Note 25) in order to mitigate the credit risk.

Geographical, currency, maturity and interest rate analyses of due from banks, and analysis of counterparties by assigned ratings are presented in Note 21.

(in thousands of Russian Rubles)

8 Loans to customers

	2013	2012
Loans to customers	11 345 056	11 727 577
Less: provision for impairment	-	-
Total loans to customers	**11 345 056**	**11 727 577**

Movements in the provision for impairment of the loan portfolio are presented below:

	2013	2012
Provision for impairment of the loan portfolio at 1 January	**-**	**4 153**
Charge/ (recovery) of provision for impairment	-	(4 153)
Provision for impairment of the loan portfolio at 31 December	**-**	**-**

The structure of the Bank's loan portfolio by industry:

	2013		2012	
	Amount	**%**	**Amount**	**%**
Energy	5 169 628	46	3 703 404	31
Metallurgy	1 620 998	14	4 326 622	37
Manufacturing	1 392 701	12	1 529 415	13
Chemical industry	1 311 373	12	1 519 470	13
Trade	947 362	8	192 655	2
Financial sector	493 522	4	456 011	4
Food manufacturing	409 472	4	-	-
Total loans to customers	**11 345 056**	**100**	**11 727 577**	**100**

The table below summarizes carrying values of loans to customers by type of collateral obtained by the Bank:

	2013	2012
Loans collateralized by guarantees of		
-the Parent Bank	5 596 455	7 584 620
-third parties	303 390	1 020 110
Loans collateralized by pledge of:		
-securities	826 450	921 708
-contractual receivables	625 530	695 292
-assets	67 463	67 941
- inventories	1 007 649	179 912
Unsecured loans	2 918 119	1 257 994
Total loans to customers	**11 345 056**	**11 727 577**

8 Loans to customers (continued)

As at 31 December 2013 and 2012, the Bank had granted loans to 13 and 10 borrowers (groups of borrowers) totaling RUB 11 145 500 thousand and RUB 11 534 922 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2013 and 2012, loans to customers included accrued interest income of RUB 16 987 thousand and RUB 38 580 thousand, respectively.

As at 31 December 2013 and 2012, the Bank had no impaired loans to customers.

As at 31 December 2013 and 2012, the Bank's maximum exposure to credit risk on loans to customers was RUB 11 345 056 thousand and RUB 11 727 577 thousand, respectively.

As at 31 December 2013 and 2012, most of the loans were granted to companies operating in the Russian Federation, which creates a significant risk concentration in one geographic region.

Geographical, currency, maturity and interest rate analyses of loans to customers and an analysis of borrowers by assigned ratings are presented in Note 21.

(in thousands of Russian Rubles)

9 Property, equipment and intangible assets

	Note	Motor vehicles	Furniture	Office and computer equipment	Intangible assets	Total
Net book value at 31 December 2011		**248**	**3 423**	**4 641**	**79**	**8 391**
Historical cost/indexed historical cost						
Balance, beginning of the year		1 160	8 977	20 904	10 152	41 193
Additions		-	-	491	-	491
Balance, end of the year		**1 160**	**8 977**	**21 395**	**10 152**	**41 684**
Accumulated depreciation and amortization						
Balance, beginning of the year		912	5 554	16 263	10 073	32 802
Charge for the year	18	166	1 379	2 685	79	4 309
Balance, end of the year		**1 078**	**6 933**	**18 948**	**10 152**	**37 111**
Net book value at 31 December 2012		**82**	**2 044**	**2 447**	**-**	**4 573**
Historical cost/indexed historical cost						
Balance, beginning of the year		1 160	8 977	21 395	10 152	41 684
Additions		-	-	2 000	-	2 000
Disposals		(1 160)	(866)	(4 318)	-	(6 344)
Balance, end of the year		**-**	**8 111**	**19 077**	**10 152**	**37 340**
Accumulated depreciation and amortization						
Balance, beginning of the year		1 078	6 933	18 948	10 152	37 111
Charge for the year	18	82	1 183	1 878	-	3 143
Disposals		(1 160)	(866)	(4 299)	-	(6 325)
Balance, end of the year		**-**	**7 250**	**16 527**	**10 152**	**33 929**
Net book value at 31 December 2013		**-**	**861**	**2 550**	**-**	**3 411**

Intangible assets comprise software and information systems.

As at 31 December 2013 and 2012, the carrying amount of fully depreciated property and equipment and fully amortized intangible assets used by the Bank was RUB 27 850 thousand and RUB 22 491 thousand, respectively.

(in thousands of Russian Rubles)

10 Due to banks

	2013	2012
Current term loans and deposits from banks	12 742 231	16 974 989
Due to the CBR under repurchase agreements	607 158	2 129 020
Correspondent accounts	-	1 167 218
Total due to banks	**13 349 389**	**20 271 227**

As at 31 December 2013, due to banks totaling RUB 607 158 thousand (2012: RUB 2 129 020 thousand) related to the CBR and had been received under repurchase agreements with the effective interest rate of 5.60% maturing on 9 January 2014 (2012: effective interest rate of 5.55% maturing on 9 January 2013).

Securities sold under the repurchase agreements comprise corporate bonds with fair value at 31 December 2013 totaling RUB 718 609 thousand (2012: RUB 2 468 057 thousand). In the statement of financial position as at 31 December 2013 and 2012, the said securities were stated as financial instruments at fair value through profit or loss (Note 6).

As at 31 December 2013 and 2012, due to banks included accrued interest expense of RUB 3 195 thousand and RUB 11 895 thousand, respectively.

As at 31 December 2013 and 2012, due to banks included RUB 8 640 820 thousand and RUB 12 494 006 thousand, respectively, received from the Parent Bank (Note 25), representing 65% and 62%, respectively, of the total due to banks.

Geographical, currency, maturity and interest rate analyses of due to banks are presented in Note 21.

11 Customer accounts

	2013	2012
Legal entities		
- Term deposits	2 145 830	916 301
- Current/settlement accounts	514 664	527 693
Total customer accounts	**2 660 494**	**1 443 994**

The following table presents customer accounts broken down by industry:

	2013		2012	
	Amount	**%**	**Amount**	**%**
Energy	1 967 176	74	743 847	52
Financial sector	313 779	12	204 277	14
Transport	297 078	11	414 585	29
Other	82 461	3	81 285	5
Total customer accounts	**2 660 494**	**100**	**1 443 994**	**100**

Geographical, currency, maturity and interest rate analyses of customer accounts are presented in Note 21.

(in thousands of Russian Rubles)

12 Other assets and other liabilities

	2013	2012
Other financial assets		
Funds on stock exchanges	134 262	163 213
Prepayments and other debtors	39 057	24 680
Less: provision for impairment	(369)	(252)
Other non-financial assets		
Prepaid income tax	11 877	128 787
Total other assets	**184 827**	**316 428**
Other financial liabilities		
Bonuses payable	35 875	29 814
Payables for rendered services	21 721	19 575
Other non-financial liabilities:		
Tax liabilities, other than income tax	3 521	2 842
Other liabilities	2 180	2 248
Total other liabilities	**63 297**	**54 479**

Movements in the provision for impairment of other assets are presented below:

	2013	2012
Provision for impairment of other assets at 1 January	**252**	**181**
Provision for impairment	117	71
Provision for impairment of other assets at 31 December	**369**	**252**

13 Subordinated loan

In April 2013, the Bank raised a subordinated loan from the Parent Bank in the amount of EUR 26.5 million, maturing not later than April 2023. The interest rate on the subordinated loan equals EURIBOR (for EUR deposits maturing within three months) +4 pct. pts. As at 31 December 2013 this rate was 4.224%.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

In May 2013 the Bank repaid raised in 2006 subordinated loan from the Parent Bank in the amount of USD 20 million, maturing not later than May 2013. The interest rate on the subordinated loan equals LIBOR (for USD deposits maturing within six months) +1.5 pct. pts, or 2.02% as at 31 December 2012.

14 Share capital

Share capital authorized, issued and fully paid comprises:

	2013			2012		
	Number of shares	Par value	Inflation-adjusted amount	Number of shares	Par value	Inflation-adjusted amount
Ordinary shares	111 618	1 116 180	1 153 089	111 618	1 116 180	1 153 089
Total share capital	**111 618**	**1 116 180**	**1 153 089**	**111 618**	**1 116 180**	**1 153 089**

All ordinary shares have a par value of RUB 10 thousand per share. Each share carries one vote.

(in thousands of Russian Rubles)

15 Retained earnings

In accordance with the Russian legislation, the Bank distributes its profit as dividends or transfers it to reserves on the basis of financial statements prepared in accordance with RAS. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's Charter which stipulates creation of a reserve for such purposes in the amount of at least 15% of the Bank's share capital recorded in the Bank's RAS books. Annual contributions to the reserve amount to 5% of the Bank's net profit in accordance with RAS, until the minimum reserve amount is reached. As at 31 December 2013 and 2012, the Bank's reserve fund in accordance with RAS totaled RUB 85 390 thousand and RUB 62 343 thousand, respectively.

16 Interest income and expense

	2013	2012
Interest income		
Interest income on assets recorded at amortized cost	654 666	803 108
Interest income on assets at fair value through profit or loss	180 999	174 275
Total interest income	**835 665**	**977 383**
Interest income on assets recorded at amortized cost comprises		
Interest on loans to customers	459 934	478 994
Interest on due from banks	194 732	324 114
Total interest income on assets recorded at amortized cost	**654 666**	**803 108**
Interest expense		
Interest expense on financial liabilities recorded at amortized cost	427 585	365 312
Total interest expense	**427 585**	**365 312**
Interest expense on liabilities recorded at amortized cost comprises		
Interest on due to banks	261 510	292 811
Interest on customer accounts	125 154	57 923
Interest on subordinated loan	40 921	14 578
Total interest expense on liabilities recorded at amortized cost	**427 585**	**365 312**
Net interest income before provision for impairment of interest-bearing assets	**408 080**	**612 071**

(in thousands of Russian Rubles)

17 Fee and commission income and expense

	2013	2012
Fee and commission income		
Lending operations	22 687	28 873
Opened letters of credit	30 090	22 884
Currency control	9 260	10 155
Payment transactions	4 373	4 290
Guarantees issued	1 340	1 171
Total fee and commission income	**67 750**	**67 373**
Fee and commission expense		
Guarantees received	56 503	74 470
Payment transactions	2 307	2 242
Other	4 743	4 038
Total fee and commission expense	**63 553**	**80 750**
Net fee and commission income/ (expense)	**4 197**	**(13 377)**

18 Operating expenses

	Note	2013	2012
Staff costs		178 344	149 896
Professional services		24 499	23 008
Unified social tax		21 754	18 637
Leases		17 773	16 012
Other taxes, other than income tax		11 225	12 513
Repairs and maintenance of property and equipment		10 346	9 033
Communications		10 218	18 395
Business development and business trip expenses		6 771	7 316
Insurance		4 942	3 374
Depreciation and amortization	9	3 143	4 309
Security		194	210
Other		2 354	4 281
Total operating expenses		**291 563**	**266 984**

(in thousands of Russian Rubles)

19 Income tax

Income tax expense comprises:

	2013	2012
Current income tax expense	72 198	57 210
Changes in deferred taxation due to origination and reversal of temporary differences	(4 740)	4 971
Income tax expense for the year	**67 458**	**62 181**

Current income tax rate applicable to the Bank's profit for 2013 and 2012 is 20%. Reconciliation between theoretical and actual income tax expense is provided below.

	2013	2012
Profit before tax	**298 874**	**342 050**
Theoretical income tax expense at the statutory rate of 20% (2012: 20%)	59 775	68 410
Adjustments for non-taxable income and non-deductible expenses:		
-Non-deductible expenses/ (non-taxable income)	7 683	(6 229)
Income tax expense for the year	**67 458**	**62 181**

Differences between IFRS and Russian tax legislation give rise to certain temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and for income tax purposes.

	2012	Movement	2013
Tax effect of deductible temporary differences			
Effect of calculation of amortized cost of loans to customers	4 738	2 967	7 705
Total deferred tax asset	**4 738**	**2 967**	**7 705**
Tax effect of taxable temporary differences			
Property, equipment and intangible assets	(138)	50	(88)
Effect of accrued/deferred income/expenses and gains and losses from term transactions	(18 076)	1 723	(16 353)
Total deferred tax liability	**(18 214)**	**1 773**	**(16 441)**
Total deferred tax liability, net	**(13 476)**	**4 740**	**(8 736)**

(in thousands of Russian Rubles)

20 Dividends

In 2013, the Bank declared and paid dividends for 2012 in the amount of RUB 437 889 thousand. All dividends were declared and paid in Russian Rubles.

In accordance with the Russian Federation law, only retained earnings that are accumulated in the Bank's statutory financial statements may be distributed between the Bank's shareholders. The Bank's retained earnings for 2013 amounted to RUB 200 209 thousand (2012: RUB 460 936 thousand). However, the amount of RUB 10 010 thousand must be contributed to the Bank's reserve fund in order to comply with the legislation of Russian Federation.

21 Financial risk management

Management of risk is fundamental to the Bank’s business. The main risks inherent in the Bank’s operations include financial risks (credit, market, geographical, currency, liquidity and interest rate risks), operational and legal risks.

The Bank’s risk management activities include identifying, measuring and controlling the above risks and making management decisions to avoid or minimize such risks.

Credit risk

The Bank is exposed to credit risk which is the risk that a party to a financial instrument will fail to discharge a contractual obligation and cause the other party to incur a financial loss.

The Bank controls the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers.

The Bank has a Credit Committee which makes decisions on credit risk-bearing operations.

The Bank’s credit structural subdivisions monitor the credit risk level by analyzing market information, financial performance and counterparties’ activities and inform the Credit Committee about the monitoring results.

Credit risk is also managed through setting and consolidating requirements to the borrowers on collateral for credit liabilities, collateral valuation and insurance, and the procedure of repossession of collateral.

The Department of Loan Administration and Documentary Operations controls observance of lending authorities and limits on an ongoing basis.

Subsequent control over customer lending is exercised by the Internal Control Service during internal audits conducted according to the audit plan approved by the Bank’s Supervisory Board.

Maximum exposure to credit risk

The Bank’s maximum exposure to credit risk depends greatly on individual exposures of borrowers and risks inherent in the state of market economy.

The following table presents the Bank’s maximum exposure to credit risk with respect to financial assets and credit-related commitments. For financial assets, the maximum exposure to credit risk corresponds to the current value of an asset before taking account of any offsets or received collateral. For credit-related commitments, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if they were to be called upon by counterparties as at 31 December 2013:

	Maximum exposure to credit risk	Collateral	Net exposure to credit risk after collateral
Cash and cash equivalents, less cash on hand	1 757 026	-	1 757 026
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	143 569
Due from banks	3 906 970	(752 772)	3 154 198
Loans to customers	11 345 056	(8 426 937)	2 918 119
Financial assets at fair value through profit or loss and spot transactions	2 608 269	(163 646)	2 444 623
Other financial assets	179 950	-	179 950
Credit-related commitments	2 169 185	(589 126)	1 580 059

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Provided below is the analysis of the Bank's maximum exposure to credit risk of its assets and credit-related commitments as at 31 December 2012:

	Maximum exposure to credit risk	Collateral	Net exposure to credit risk after collateral
Cash and cash equivalents, less cash on hand	4 483 563	-	4 483 563
Minimum reserve deposits with the Central Bank of the Russian Federation	321 491	-	321 491
Due from banks	5 179 220	(1 609 753)	3 569 467
Loans to customers	11 727 577	(10 469 583)	1 257 994
Financial assets at fair value through profit or loss and spot transactions	3 103 516	(273 354)	2 830 162
Other financial assets	187 641	-	187 641
Credit-related commitments	3 549 606	(1 013 135)	2 536 471

Financial assets are graded based on the current rating assigned by leading international rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The table below presents a grouping of the Bank's current financial assets and credit-related commitments which are neither past due nor impaired as at 31 December 2013:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	269 683	1 064 819	422 196	328	-	1 757 026
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	143 569	-	-	143 569
Due from banks	-	-	907 157	2 672 518	327 295	3 906 970
Loans to customers	-	-	1 886 223	1 789 447	7 669 386	11 345 056
Financial assets at fair value through profit or loss and spot transactions	-	76 711	963 924	1 137 116	430 518	2 608 269
Other financial assets	-	-	129 682	-	43 268	172 950
Credit-related commitments	-	-	-	1 287 386	881 799	2 169 185

An analysis of unimpaired financial assets and credit-related commitments by assigned ratings as at 31 December 2012 is provided below:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	228 752	3 419 221	835 390	200	-	4 483 563
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	321 491	-	-	321 491
Due from banks	-	640 328	1 360 424	2 727 728	450 740	5 179 220
Loans to customers	-	-	1 985 486	4 456 313	5 285 778	11 727 577
Financial assets at fair value through profit or loss and spot transactions	-	282 207	1 269 125	1 416 159	136 025	3 103 516
Other financial assets	-	-	-	-	187 641	187 641
Credit-related commitments	-	2 000 000	-	1 049 553	500 053	3 549 606

The Bank enters into numerous transactions where the counterparties are not rated by internationally recognized rating agencies. The Bank has developed internal models which allow it to determine the ratings of counterparties which are comparable to ratings of the international rating agencies.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

A methodology has been developed by the Bank to assess financial position of corporate borrowers. This methodology allows calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method allows assigning of ratings on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activities and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.
A model of the borrower's scoring assessment has been developed by the Bank to assess and decide on loans to small and medium enterprises. The scoring model has been developed for standard loan products and includes key performance indicators: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The Bank applies internal methodologies to specific corporate loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the separate statement of financial position. Therefore, more detailed information is not presented.

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

The following table provides an analysis of neither past due nor impaired loans to corporate customers that are classified in two categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have unexceptionable credit history with the Bank and other creditors; which proved to be profitable and well performing businesses with no signs of decline of their financial stability;
- The "Moderately performing" category with moderate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Bank and other creditors with minor exceptions in the past; which proved to be well performing businesses in the past but are characterized by average financial performance at the moment.

	2013	**2012**
Top performing loans	6 531 172	5 285 778
Moderately performing loans	1 138 214	-
Total	**7 669 386**	**5 285 778**

The banking industry is generally exposed to credit risk through loans to customers and inter bank deposits. With regard to loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on an ongoing basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are observed.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Geographic risk

Geographical analysis of the Bank's assets and liabilities as at 31 December 2013 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	426 222	1 064 819	269 683	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	-	143 569
Financial assets at fair value through profit or loss and spot transactions	1 812 949	76 711	-	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	718 609
Due from banks	3 906 970	-	-	3 906 970
Loans to customers	9 575 808	-	1 769 248	11 345 056
Other financial assets	153 881	5 938	13 131	172 950
Total financial assets	**16 738 008**	**1 147 468**	**2 052 062**	**19 937 538**
Property, equipment and intangible assets	3 411	-	-	3 411
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**15 288**	**-**	**-**	**15 288**
Total assets	**16 753 296**	**1 147 468**	**2 052 062**	**19 952 826**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	18 947	400 835	-	419 782
Due to banks	4 708 569	8 640 820	-	13 349 389
Customer accounts	2 643 258	5 776	11 460	2 660 494
Subordinated loan	-	1 204 252	-	1 204 252
Other financial liabilities	35 875	21 721	-	57 596
Total financial liabilities	**7 406 649**	**10 273 404**	**11 460**	**17 691 513**
Deferred tax liabilities	8 736	-	-	8 736
Other non-financial liabilities	5 701	-	-	5 701
Total non-financial liabilities	**14 437**	**-**	**-**	**14 437**
Total liabilities	**7 421 086**	**10 273 404**	**11 460**	**17 705 950**
Net balance sheet position	**9 332 210**	**(9 125 936)**	**2 040 602**	**2 246 876**
Off-balance sheet credit-related commitments	**2 169 185**	**-**	**-**	**2 169 185**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

Geographical analysis of the Bank's assets and liabilities as at 31 December 2012 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	844 147	3 419 221	228 752	4 492 120
Minimum reserve deposits with the Central Bank of the Russian Federation	321 491	-	-	321 491
Financial assets at fair value through profit or loss and spot transactions	353 252	282 207	-	635 459
Financial assets at fair value through profit or loss, transferred without derecognition	2 468 057	-	-	2 468 057
Due from banks	4 538 892	640 328	-	5 179 220
Loans to customers	10 626 156	-	1 101 421	11 727 577
Other financial assets	179 215	8 136	290	187 641
Total financial assets	**19 331 210**	**4 349 892**	**1 330 463**	**25 011 565**
Property, equipment and intangible assets	4 573	-	-	4 573
Other non-financial assets	128 787	-	-	128 787
Total non-financial assets	**133 360**	**-**	**-**	**133 360**
Total assets	**19 464 570**	**4 349 892**	**1 330 463**	**25 144 925**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	62 908	238 038	-	300 946
Due to banks	7 777 221	12 494 006	-	20 271 227
Customer accounts	1 422 723	9 684	11 587	1 443 994
Subordinated loan	-	607 454	-	607 454
Other financial liabilities	29 814	19 575	-	49 389
Total financial liabilities	**9 292 666**	**13 368 757**	**11 587**	**22 673 010**
Deferred tax liabilities	13 476	-	-	13 476
Other non-financial liabilities	5 090	-	-	5 090
Total non-financial liabilities	**18 566**	**-**	**-**	**18 566**
Total liabilities	**9 311 232**	**13 368 757**	**11 587**	**22 691 576**
Net balance sheet position	**10 153 338**	**(9 018 865)**	**1 318 876**	**2 453 349**
Off-balance sheet credit-related commitments	**1 549 606**	**2 000 000**	**-**	**3 549 606**

Assets, liabilities and credit-related commitments are generally classified by the country where the counterparty is located. Cash and property and equipment are classified based on their physical location.

21 Financial risk management (continued)

Market risk

Market risk is a risk that the value of financial instrument will change due to market price changes regardless of whether these changes have been caused by factors specific to a particular investment or issuer, or by factors affecting all outstanding securities. The Bank is exposed to market risks due to the effect of general and specific market fluctuations on its products.

The Bank is exposed to market risk related to open positions on currency operations, money market transactions and debt instruments. The Bank's Assets and Liabilities Management Committee manages market risk by setting open position limits for specific financial instruments, stop-loss limits, and structural limits. The Bank also uses the "Value-at-Risk" method to control market risk exposure. The Value-at-Risk method is used for making quantitative risk assessment for each type of the Treasury Department transactions. Value-at-risk is defined as the maximum potential loss during a specific period of time (one day) estimated based on expected changes in the market prices at a set probability level (99%). This statistical method allows comparison of market risks across various portfolios and establishing the limit of value-at-risk for various types of transactions. The Market Risk Control Department controls compliance with the limits on a daily basis and informs the Bank's management and business units of their use.

Stock market risk

Stock market risk is the risk of potential losses due to unfavorable changes in the securities market, including changes in the market value of securities, changes in price ratios for various securities or stock indices, and changes in the amounts of dividends.

The Bank manages the stock market risk by means of a system of volume limits to the Bank's transactions in the stock market. The Bank is extremely conservative in its operations with securities and only trades in securities of the leading issuers.

Currency risk

The Bank is exposed to the effects of fluctuations in different exchange rates on its financial position and cash flows.

The Bank's Assets and Liabilities Management Committee sets limits to assumed risk categorized by currency both at the end of each day and within a day, and controls compliance with such limits on a daily basis. An analysis of the Bank's currency risk as at 31 December 2013 is presented in the table below. The Bank's assets and liabilities are disclosed at carrying value, categorized by currency. Currency derivatives are usually used to minimize the Bank's risk in case of exchange rate fluctuations.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

As at 31 December 2013, the Bank's foreign currency position was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	425 580	1 058 539	276 605	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	-	143 569
Financial assets at fair value through profit or loss and spot transactions	1 889 660	-	-	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	718 609
Due from banks	3 191 176	490 943	224 851	3 906 970
Loans to customers	947 362	9 004 993	1 392 701	11 345 056
Other financial assets	58 773	114 177	-	172 950
Total financial assets	**7 374 729**	**10 668 652**	**1 894 157**	**19 937 538**
Property, equipment and intangible assets	3 411	-	-	3 411
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**15 288**	**-**	**-**	**15 288**
Total assets	**7 390 017**	**10 668 652**	**1 894 157**	**19 952 826**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	419 782	-	-	419 782
Due to banks	3 857 607	8 816 915	674 867	13 349 389
Customer accounts	372 289	2 266 434	21 771	2 660 494
Subordinated loan	-	-	1 204 252	1 204 252
Other financial liabilities	35 875	4 715	17 006	57 596
Total financial liabilities	**4 685 553**	**11 088 064**	**1 917 896**	**17 691 513**
Deferred tax liabilities	8 736	-	-	8 736
Other non-financial liabilities	4 582	1 113	6	5 701
Total non-financial liabilities	**13 318**	**1 113**	**6**	**14 437**
Total liabilities	**4 698 871**	**11 089 177**	**1 917 902**	**17 705 950**
Net balance sheet position	**2 691 146**	**(420 525)**	**(23 745)**	**2 246 876**
Net spot, forward and swap position	**(291 373)**	**429 014**	**-**	**137 641**
Total open position	**2 399 773**	**8 489**	**(23 745)**	**2 384 517**
Credit-related commitments	**858 885**	**1 310 300**	**-**	**2 169 185**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

As at 31 December 2012, the Bank's foreign currency foreign currency position was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	843 551	838 622	2 809 947	4 492 120
Minimum reserve deposits with the Central Bank of the Russian Federation	321 491	-	-	321 491
Financial assets at fair value through profit or loss and spot transactions	635 459	-	-	635 459
Financial assets at fair value through profit or loss, transferred without derecognition	2 468 057	-	-	2 468 057
Due from banks	5 179 220	-	-	5 179 220
Loans to customers	192 655	10 005 507	1 529 415	11 727 577
Other financial assets	104 177	83 464	-	187 641
Total financial assets	**9 744 610**	**10 927 593**	**4 339 362**	**25 011 565**
Property, equipment and intangible assets	4 573	-	-	4 573
Other non-financial assets	128 787	-	-	128 787
Total non-financial assets	**133 360**	**-**	**-**	**133 360**
Total assets	**9 877 970**	**10 927 593**	**4 339 362**	**25 144 925**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	300 946	-	-	300 946
Due to banks	6 818 206	7 414 019	6 039 002	20 271 227
Customer accounts	998 740	417 843	27 411	1 443 994
Subordinated loan	-	607 454	-	607 454
Other financial liabilities	29 814	6 452	13 123	49 389
Total financial liabilities	**8 147 706**	**8 445 768**	**6 079 536**	**22 673 010**
Deferred tax liabilities	13 476	-	-	13 476
Other non-financial liabilities	3 640	1 434	16	5 090
Total non-financial liabilities	**17 116**	**1 434**	**16**	**18 566**
Total liabilities	**8 164 822**	**8 447 202**	**6 079 552**	**22 691 576**
Net balance sheet position	**1 713 148**	**2 480 391**	**(1 740 190)**	**2 453 349**
Net spot, forward and swap position	**801 098**	**(2 449 189)**	**1 810 287**	**162 196**
Total open position	**2 514 246**	**31 202**	**70 097**	**2 615 545**
Credit-related commitments	**2 500 053**	**1 049 553**	**-**	**3 549 606**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The Bank extended loans denominated in foreign currencies. Depending on the borrower's cash inflows, the growth of foreign currency exchange rates against the Russian Ruble may adversely affect the borrower's repayment ability, which, in its turn, increases the likelihood of future loan losses.

The table below presents changes in the financial performance and equity resulting from potential changes in the exchange rates prevailing on the reporting date, provided that all other variables remain unchanged as at 31 December 2013:

	2013 Effect on net profit and equity
Appreciation of USD by 20%	1 358
Depreciation of USD by 20%	(1 358)
Appreciation of EUR by 20%	(3 799)
Depreciation of EUR by 20%	3 799

Changes in the financial performance and equity resulting from potential changes in the exchange rates prevailing on the reporting date, provided that all other variables remain unchanged as at 31 December 2012:

	2012 Effect on net profit and equity
Appreciation of USD by 20%	5 002
Depreciation of USD by 20%	(5 002)
Appreciation of EUR by 20%	11 216
Depreciation of EUR by 20%	(11 216)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk Liquidity risk arises when maturities of assets and liabilities do not match. The Bank is exposed to the risk as it has to use the cash resources on a daily basis in order to execute clients' transactions, redeem deposits, issue loans, redeem guarantees and derivatives that involve movement of cash resources. The Bank does not accumulate funds to provide for a necessity to meet all the above liabilities simultaneously, as the accumulated operational experience allows for forecasting the level of cash required to meet such liabilities with a reasonable degree of certainty.

The Bank uses the opportunity of raising additional funds and other resources from the sole founder Natixis (France). Liquidity risk is therefore not material for the Bank.

The Assets and Liabilities Management Committee develops and implements the liquidity management policy and ensures that liquidity is managed efficiently.

The Treasury Department and its Transaction Documentation Division control the daily liquidity position and perform regular stress-tests to assess liquidity at different scenarios covering standard and less favorable market conditions.

The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- Instant liquidity ratio (N2). As at 31 December 2013 this ratio was 366.77% (2012: 243.16%).
- Current liquidity ratio (N3). As at 31 December 2013 this ratio was 78.37% (2012: 71.86%).
- Long-term liquidity ratio (N4). As at 31 December 2013 this ratio was 47.15% (2012: 37.93%).

The table below shows the distribution of liabilities as at 31 December 2013 by remaining contractual maturities. The amounts in the table represent contractual undiscounted cash flows of all financial liabilities. These undiscounted cash flows differ from the amounts recognized in the statement of financial position as the balance sheet amounts are based on discounted cash flows. Derivative financial instruments which are estimated on a net basis are recognized in the net amount payable. Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the reporting date. Currency payments are recalculated using the spot exchange rate as at the reporting date.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below presents maturity analysis of the Bank's financial liabilities as at 31 December 2013:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	7 491 542	799 962	906 852	4 236 491	-	13 434 847
Customer accounts	2 661 436	-	-	-	-	2 661 436
Subordinated loan	140	12 584	38 452	204 284	1 408 570	1 664 030
Deliverable forward contracts	12 169 058	4 415 597	2 000 265	20 297 401	-	38 882 321
Credit-related commitments	2 169 185	-	-	-	-	2 169 185

The table below presents maturity analysis of the Bank's financial liabilities as at 31 December 2012:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	13 270 506	3 652 857	1 063 094	2 362 937	-	20 349 394
Customer accounts	1 443 656	1 771	-	-	-	1 445 427
Subordinated loan	-	612 030	-	-	-	612 030
Deliverable forward contracts	2 023 616	3 719 104	8 412 817	18 751 815	-	32 907 352
Credit-related commitments	3 549 606	-	-	-	-	3 549 606

Interest rate risk The Bank is exposed to the effects of fluctuations in the market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses.

The Bank is exposed to interest rate risk mainly as a result of lending at fixed interest rates in the amounts and for the periods which differ from those of borrowings at fixed interest rates. In practice, interest rates are usually set for a short period of time. In addition, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement in accordance with the current market environment.

To manage the interest rate, the Bank's Assets and Liabilities Management Committee performs periodic assessments of the impact the market environment has on the Bank's financial performance. The Bank's policy with regard to interest rates is subject to the analysis and approval by the Bank's Assets and Liabilities Management Committee.

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's liquidity risk as at 31 December 2013. The Bank's financial assets and liabilities are recorded at carrying amounts by dates of revision of interest rates under contracts or by maturities, depending on which is earlier.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/non-interest	Total
Assets							
Cash and cash equivalents	1 334 502	-	-	-	-	426 222	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	143 569	143 569
Financial assets at fair value through profit or loss and spot transactions	1 336 924	-	-	-	-	552 736	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	-	-	-	718 609
Due from banks	2 999 813	907 157	-	-	-	-	3 906 970
Loans to customers	5 259 421	6 085 635	-	-	-	-	11 345 056
Other financial assets	-	-	-	-	-	172 950	172 950
Total financial assets	**11 649 269**	**6 992 792**	**-**	**-**	**-**	**1 295 477**	**19 937 538**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	419 782	419 782
Due to banks	8 668 181	4 681 208	-	-	-	-	13 349 389
Customer accounts	2 660 494	-	-	-	-	-	2 660 494
Subordinated loan	-	1 204 252	-	-	-	-	1 204 252
Other financial liabilities	-	-	-	-	-	57 596	57 596
Total financial liabilities	**11 328 675**	**5 885 460**	**-**	**-**	**-**	**477 378**	**17 691 513**
Liquidity gap	**320 594**	**1 107 332**	**-**	**-**	**-**	**818 099**	**2 246 025**
Cumulative liquidity gap	**320 594**	**1 427 926**	**1 427 926**	**1 427 926**	**1 427 926**	**2 246 025**	**-**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's interest rate risk as at 31 December 2012.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/non-interest	Total
Assets							
Cash and cash equivalents	3 647 703	-	-	-	-	844 417	4 492 120
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	321 491	321 491
Financial assets at fair value through profit or loss and spot transactions	204 010	-	-	-	-	431 449	635 459
Financial assets at fair value through profit or loss, transferred without derecognition	2 468 057	-	-	-	-	-	2 468 057
Due from banks	3 363 893	1 815 327	-	-	-	-	5 179 220
Loans to customers	9 873 404	1 854 173	-	-	-	-	11 727 577
Other financial assets	-	-	-	-	-	187 641	187 641
Total financial assets	**19 557 067**	**3 669 500**	**-**	**-**	**-**	**1 784 998**	**25 011 565**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	300 946	300 946
Due to banks	15 996 902	4 274 325	-	-	-	-	20 271 227
Customer accounts	1 442 223	1 771	-	-	-	-	1 443 994
Subordinated loan	-	607 454	-	-	-	-	607 454
Other financial liabilities	-	-	-	-	-	49 389	49 389
Total financial liabilities	**17 439 125**	**4 883 550**	**-**	**-**	**-**	**350 335**	**22 673 010**
Liquidity gap	**2 117 942**	**(1 214 050)**	**-**	**-**	**-**	**1 434 663**	**2 338 555**
Cumulative liquidity gap	**2 117 942**	**903 892**	**903 892**	**903 892**	**903 892**	**2 338 555**	**-**

(in thousands of Russian Rubles)

21 Financial risk management (continued)

The table below presents changes in net profit and equity as a result of potential changes in the effective interest rates applied on the reporting date provided that all other variables remain unchanged:

	31 December 2013		31 December 2012	
	Interest rate increase by 200 basis points	Interest rate decrease by 200 basis points	Interest rate increase by 200 basis points	Interest rate decrease by 200 basis points
Cash and cash equivalents	21 352	(21 352)	58 363	(58 363)
Financial assets at fair value through profit or loss	41 732	(41 732)	33 876	(33 876)
Due from banks	62 244	(62 244)	82 240	(82 240)
Loans to customers	181 249	(181 249)	187 024	(187 024)
Customer accounts	(34 325)	34 325	(14 642)	14 642
Due to banks	(213 539)	213 539	(305 474)	305 474
Subordinated loan	(19 067)	19 067	(9 719)	9 719
Total impact on net profit and equity	**39 646**	**(39 646)**	**31 668**	**(31 668)**

The table below provides an analysis of the effective average interest rates by main currencies for principal monetary financial instruments. The analysis was prepared based on the effective interest rates at period end used for interest income and expense accruals for appropriate categories of assets/liabilities.

	2013			2012		
	USD	RUB	EUR	USD	RUB	EUR
Assets						
Cash and cash equivalents	0.1%	-	0.4%	0.1%	-	0.1%
Financial assets at fair value through profit or loss	-	9.1%	-	-	8.3%	-
Due from banks	0.4%	6.6%	0.3%	-	7.0%	-
Loans to customers	3.8%	8.7%	1.6%	3.9%	8.6%	2.6%
Liabilities						
Due to banks	0.7%	6.1%	0.2%	1.0%	5.7%	0.3%
Customer accounts						
- Current/settlement accounts	0.0%	0.0%	0.0%	0%	0%	0%
- Term deposits	0.2%	6.0%	-	-	5.9%	0.1%
Subordinated loan	-	-	4.3%	2.0%	-	-

Operational Risk Operational risk is the risk of loss arising from the absence or inadequate efficiency of internal controls, human error, or software failures. The Bank has an Operational Risk Management Committee. The Bank's authorized personnel monitors, analyzes and forecasts operational risk events on a daily basis and develops and implements measures to minimize operational risk exposure.

Legal risk Legal risk may arise from both external and internal factors. External factors include, inter alia, imperfection of the legal system and violations by the Bank's clients and counterparties of the law and contractual terms and conditions. Internal factors include failure by the Bank to comply with the legislation of the Russian Federation, non-compliance of the Bank's internal documents with the RF legislation, and inadequate consideration by the Bank of legal aspects when developing and implementing new technologies and terms of conducting banking operations and other transactions.

The Bank pays increased attention to legal risk management:

- All provisions of the Bank's internal documents and requirements of the RF legislation are strictly observed when conducting banking operations and transactions;
- Changes in the RF legislation are monitored on an ongoing basis and prompt measures are taken to prevent the Bank from violating the effective legislation, including through amending the Bank's internal regulations;
- Legal risk is assessed for the Bank's main lines of business.

The Bank's Legal Department and Internal Control Service control compliance of documentation for the banking operations and other transactions with the RF legislation.

22 Contingent liabilities and derivative financial instruments

Litigation At the moment of preparing the financial statements, the Bank had no litigations, except the ones described below and related to tax claims. Also, the Bank's management is not aware of any customer's intention to file a lawsuit. Accordingly, the Bank's management did not create any provision for losses on potential legal proceedings in the financial statements.

Tax legislation Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments and determination of market prices of transactions. It could also lead to temporary taxable differences occurring due to creation and recovery of provisions for losses on loans and loan equivalents being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to clarifications of the judicial bodies, the statute of limitation for tax liabilities may be extended if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Russia's transfer pricing legislation was amended effective 1 January 2012 . The amendments introduce additional requirements with respect to the accounting for and documenting transactions. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Bank's transfer pricing positions by the tax authorities cannot be reliably estimated.

In 2011 the Bank underwent a tax audit. Based on the audit a report and a claim for payment of income tax and value-added tax, along with the related penalties and interest in the total amount of RUB 19 976 thousand were prepared. In 2012, the Bank applied for judicial defense to dispute the decision of the tax authorities. As a result, the Bank won the lawsuit in two instances (first-instance court and court of appeal). In 2013 the Bank won the case in the court of cassation, after that Tax Authorities have returned the Bank overpaid tax, fines and penalties, and paid interests accrued on overpaid amounts of tax, fines and penalties. In March 2014 the decision of the Supreme Arbitration Court of the Russian Federation was received, which made the decision of Tax Authorities about bringing the Bank liable for tax offenses, the claim for payment of taxes, penalties and fines invalid. The decision forced Tax Authorities to return to the Bank from the budget RUB 19 993 thousand of overpaid taxes, fines and penalties, as well as RUB 1 017 thousand of interests accrued on overpaid taxes, fines and penalties.

Accordingly, the Bank did not recognize any provisions for the respective taxes in the financial statements for the year ended 31 December 2013 and 2012.

Operating Environment Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in RF and the Russian economy in general.

The global financial system continues to exhibit signs of deep stress and many countries witnessed slowed economic growth. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

(in thousands of Russian Rubles)

22 Contingent liabilities and derivative financial instruments (continued)

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of RF is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Since Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2013 and 2012.

Management is unable to reliably estimate the effects of any further deterioration in the liquidity of the financial markets and increased volatility in the currency and equity markets on the Bank’s financial position. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

Operating lease commitments The Bank has no lease payment commitments under non-cancellable operating leases of premises.

Credit-related commitments Commitments to extend credit may arise for the Bank at any moment. These commitments take the form of approved loans and overdraft facilities. The Bank also opens letters of credit to ensure that its customers fulfill their obligations to third parties. Said agreements set out the limits of the Bank’s commitments.

	2013	**2012**
Overdraft limit	790 884	2 436 053
Letters of credit	1 287 386	1 049 553
Guarantees issued	90 915	64 000
Total credit commitments	**2 169 185**	**3 549 606**

Contractual amounts of off-balance sheet commitments are shown in the table by types of transactions. The amounts disclosed in the table with regard to credit commitments suggest that the specified liabilities will be fully realized. The amounts shown in the table with regard to letters of credit represent the maximum amount of the Bank’s loss for financial accounting purposes which may be recognized in financial statements if the Bank’s counterparties fail to fulfill their contractual obligations.

Many of these commitments may expire without being fully or partially fulfilled. Therefore, the above commitments do not always represent an expected cash outflow.

As at 31 December 2013, the Bank had received guarantees of RUB 589 126 thousand from the Parent Bank (2012: RUB 1 013 135 thousand) in order to mitigate the risk associated with credit-related commitments (Note 25).

The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving deals, using limits which mitigate the risk, and monitoring.

The Bank’s management did not create any provisions for credit-related commitments.

Derivative financial instruments: forward deals and cross currency and interest rate swaps The table below presents an analysis of contractual or agreed amounts and fair values of forward deals and cross currency and interest rate swaps. The table shows the Bank’s position before each counterparty position was offset by categories of financial instruments, including contracts with value date after 31 December 2013. These transactions were entered into in the period from February 2011 to December 2013 and have maturities from January 2014 to November 2018.

(in thousands of Russian Rubles)

22 Contingent liabilities and derivative financial instruments (continued)

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currencies						
- purchase of foreign currency	16 115 778	(12 811)	278 471	158 910	-	5 266
- sale of foreign currency	9 971 075	(174 253)	505	5 523 675	(6 136)	1 319
Cross currency and interest rate swaps						
- purchase of foreign currency	1 398 335	-	64 462	1 000 000	-	196 235
- sale of foreign currency	2 886 900	(226 582)	6 478	-	-	-
Total	**30 372 088**	**(413 646)**	**349 916**	**6 682 585**	**(6 136)**	**202 820**

In connection with forward deals the Bank recorded net gain of RUB 92 361 thousand in the "Net gain / (loss) on foreign exchange operations" line, and expenses of RUB 40 593 thousand in the "Net gain/ (loss) on financial assets and liabilities at fair value through profit or loss" line.

The position as at 31 December 2012 is shown in the table below:

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currencies						
- purchase of foreign currency	3 000 320	(6 198)	53 218	12 236 598	(62 856)	13 217
- sale of foreign currency	12 361 307	(3 598)	159 402	1 252 360	(52)	6 291
Cross currency and interest rate swaps						
- purchase of foreign currency	1 692 115	(105 424)	-	1 000 000	-	129 734
- sale of foreign currency	2 565 400	(122 819)	69 588	-	-	-
Total	**19 619 142**	**(238 039)**	**282 208**	**14 488 958**	**(62 908)**	**149 242**

In connection with forward deals the Bank recorded net gain of RUB 159 424 thousand in the "Net gain / (loss) on foreign exchange operations" line, and expenses of RUB 28 921 thousand in the "Net gain/ (loss) on financial assets and liabilities at fair value through profit or loss" line.

23 Fair value of financial instruments

The Bank estimated the fair value of financial instruments using available market information (if any) and proper valuation techniques taking into account unobservable inputs. However, professional judgment is required for interpreting market data in order to estimate the fair value. The economy of the Russian Federation still displays certain features characteristic of emerging markets, while the economic environment continues to restrict the volume of activities in the financial markets. Market quotations may be outdated or reflect the value of selling at low prices and, therefore, not represent fair values of financial instruments. When determining the fair value of financial instruments, the Bank uses all available market information.

Financial instruments at fair value

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are included in the statement of financial position at fair value. Fair value is estimated based on quoted market prices.

Cash and cash equivalents are stated at amortized cost which approximates their current fair value.

(in thousands of Russian Rubles)

23 Fair value of financial instruments (continued)

Due from banks and loans to customers

The Bank believes that the fair value of due from banks and loans to customers as at 31 December 2013 and 2012 differs from their carrying amount only insignificantly. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

Financial liabilities at amortized cost

The Bank believes that the fair value of due to banks, customer accounts and the subordinated loan as at 31 December 2013 and 2012 differs from their carrying amount only insignificantly. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at 31 December 2013:

	Quoted prices in an active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	2 055 533	552 736	-
Financial liabilities at fair value through profit or loss	-	419 782	-

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at 31 December 2012:

	Quoted prices in an active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	2 672 067	431 449	-
Financial liabilities at fair value through profit or loss	-	300 946	-

24 Offsetting of financial assets and financial liabilities

Financial instruments that should be offset falling under general agreement conditions, or other relevant agreement, include funds granted to banks under reverse sale and repurchase agreements (“reverse REPO”) in the amount of RUB 774 643 thousand (2012: nil) secured by the reverse REPO agreements with the fair value of pledged assets RUB 887 327 thousand (2012: nil). Obligation to transfer securities is not recognised in the statement of financial position as at 31 December 2013.

Also financial instruments that should be offset include funds received from other banks under sale and repurchase agreements in the amount of RUB 607 158 thousand (RUB 2 129 020 thousand), secured by the REPO agreements with the fair value of pledged assets RUB 718 609 thousand (2012: RUB 2 468 057 thousand), recognised as financial assets through profit or loss.

(in thousands of Russian Rubles)

24 Offsetting of financial assets and liabilities (continued)

As at 31 December 2013 financial instruments that should be offset include:

	Gross amounts before offset recognised in the statement of financial position	**Offset amounts recognised in the statement of financial position**	**Net amount after offset**	**Amounts as stated in general agreement or other relevant agreement to be offset**		**Net risk amount**
				Financial instruments	Monetary collateral received	
Assets						
Due from banks						
- Reverse sale and repurchase agreements (REPO)	774 643	-	774 643	774 643	-	-
Total	**774 643**	**-**	**774 643**	**774 643**	**-**	**-**
Liabilities						
Due to banks						
- Due to the CBR under repurchase agreements	607 158	-	607 158	607 158	-	-
Total	**607 158**	**-**	**607 158**	**607 158**	**-**	**-**

As at 31 December 2012 financial instruments that should be offset include:

	Gross amounts before offset recognised in the statement of financial position	**Offset amounts recognised in the statement of financial position**	**Net amount after offset**	**Amounts as stated in general agreement or other relevant agreement to be offset**		**Net risk amount**
				Financial instruments	Monetary collateral received	
Liabilities						
Due to banks						
- Due to the CBR under repurchase agreements	2 129 020	-	2 129 020	2 129 020	-	-
Total	**2 129 020**	**-**	**2 129 020**	**2 129 020**	**-**	**-**

(in thousands of Russian Rubles)

25 Transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering related party relationships, attention is directed to the economic substance of such relationships and not merely their legal form.

In the normal course of business, the Bank carries out transactions with the Parent Bank and management. These transactions included settlements, issue of loans, raising of deposits, issue of guarantees and foreign currency operations. These transactions were priced predominantly at the market rates. The balances at the year end and income and expense items, as well as other related party transactions for the years ended 31 December 2013 and 2012 are as follows:

	31 December 2013		31 December 2012	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Correspondent accounts of banks and overnight deposits	1 064 819	1 760 724	3 419 221	4 492 120
Due from banks	-	3 906 970	640 328	5 179 220
Due to banks				
- Correspondent accounts	-	-	1 167 218	1 167 218
- Term deposits of banks	8 640 820	12 742 231	11 326 788	16 974 989
Assets on forward contracts and swaps	349 916	552 736	282 207	431 449
Liabilities on forward contracts and swaps	413 646	419 782	238 038	300 946
Other assets	5 863	184 827	8 061	316 428
Other liabilities	21 721	63 297	19 575	54 479
Subordinated loan	1 204 252	1 204 252	607 454	607 454
Overdraft limit issued	-	790 884	2 000 000	2 436 053

As at 31 December 2013 and 2012, the Bank had received guarantees from the Parent Bank totaling RUB 8 006 653 thousand and RUB 10 569 700 thousand, respectively, in relation to its loan operations.

(in thousands of Russian Rubles)

25 Transactions with related parties (continued)

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

	Year ended 31 December 2013		Year ended 31 December 2012	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Interest income	26 663	835 665	44 401	977 383
Interest expense	123 964	427 585	117 439	365 312
Operating expenses	3 882	291 563	19 552	266 984
Commissions on guarantees paid	56 503	56 503	74 470	74 470
Net gain/ (loss) on foreign exchange operations	26 450	24 983	869 656	(159 030)

In 2013, the amount of remuneration to the members of the Bank's Management Board, including UST charges and one-time payments, was RUB 49 403 thousand (2012: RUB 45 008 thousand).

26 Capital management

The Bank manages its capital to: (i) comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) ensure that the Bank continues as a going concern.

As at 31 December 2013 the amount of capital the Bank managed was RUB 3 492 337 thousand (2012: RUB 2 504 513 thousand). Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by means of monthly reports containing the relevant calculations checked and signed by the Deputy Chairman of the Management Board and the Deputy Chief Accountant of the Bank. Other objectives of capital management are assessed annually.

In accordance with effective requirements to capital established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital not lower than10%.

The regulatory capital on the basis of the Bank's reports prepared under Russian legislation as at 31 December 2013 and 2012 is presented in the following table:

	2013	**2012**
Capital	2 163 976	2 140 929
Additional capital	1 328 361	363 584
Amounts excluded from capital and additional capital	-	-
Total regulatory capital	**3 492 337**	**2 504 513**

During 2013 and 2012 the Bank's capital adequacy ratio was line with regulations.

The Bank's overall capital risk management policy has remained unchanged from 2012.

27 Effect of estimates and assumptions on recognized assets and liabilities

The Bank makes estimates and assumptions influencing the recognized amounts of assets and liabilities for the next financial year. Estimates and judgments are assumed and based on historical experience and other factors, including expectations of future events, occurrence of which is possible under certain circumstances.

Impairment losses on loans and accounts receivable. The Bank analyzes the state of the loan portfolio in terms of impairment on continuing basis. Determining the necessity of recognizing an impairment loss in the statement of comprehensive income, the Bank uses judgments concerning the existence of data evidencing decrease of estimated future cash flows of the loan portfolio before the decrease can be determined for an individual loan in this portfolio. Such an evidence may include data about changes in the creditworthiness of the Bank's borrower, national or local economic conditions influencing decrease of the values of the Bank's assets. The Bank uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment for similar assets in the portfolio when planning future cash flows. The methodology and assumptions used for estimation of amounts and terms of cash flows are regularly analyzed for reduction of differences between loss estimates and the actual impairment loss.

Fair values of derivative financial instruments. Fair values of derivative financial instruments not quoted in active markets are determined with usage of valuation techniques. Valuation techniques are periodically tested by qualified staff and checked for reflection of fair values of derivative financial instruments with usage of comparable market prices. For the purposes of practical application of the model only actual data were used but such risks as credit risk (own and the counterparty's), changeability in dynamics and correlation, require the Bank's valuation. Changes in assumptions concerning these factors may influence the recognized fair values of derivative financial instruments.

Initial recognition of transactions with related parties. In the course of business the Bank carries out transactions with related parties. Pursuant to IAS 39, financial instruments are initially stated at fair value. If there is no active market for such transactions to determine whether transactions were carried out at market or non-market interest rates, professional judgments are used. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern principle. These financial statements have been prepared on the basis of the going concern principle. Using this judgment, the Bank considered the existing intentions, the profitability of the transactions, the available financial resources and the effect of the current economic situation on the Bank's activities.

28 Events after the reporting period

In March 2014 the decision of the Supreme Arbitration Court of the Russian Federation was received, which made the decision of Tax Authorities about bringing the Bank liable for tax offenses, the claim for payment of taxes, penalties and fines invalid. The decision forced Tax Authorities to return to the Bank from the budget RUB 19 993 thousand of overpaid taxes, fines and penalties, as well as RUB 1 017 thousand of interests accrued on overpaid taxes, fines and penalties. (Note 22)