Commercial Bank Garant-Invest

(Close Joint-Stock Company)

Financial Statements

for the year ended

31 December 2013

Contents

Auditor's report

Financial Statements

Statement of Financial Position at 31 December 2013 5
Income Statement for the year ended 31 December 2013 6
Statement of Comprehensive Income for the year ended 31 December 2013 7
Statement of Changes in Equity for the year ended 31 December 2013 8
Statement of Cash Flows for the year ended 31 December 2013 9

Notes to the Financial Statements

1 Introduction 10
2 Business Environment 11
3 Basis of preparation 11
4 Significant accounting policies 14
5 Cash and cash equivalents 23
6 Mandatory cash balances with the Bank of Russia 24
7 Financial assets at fair value through profit or loss 24
8 Available-for-sale financial assets 24
9 Due from other banks and financial institutions 25
10 Assets held for trading 25
11 Loans and receivables 25
12 Property and equipment 28
13 Other assets 28
14 Due to other banks and financial institutions 28
15 Current accounts and deposits from customers 29
16 Debt securities issued 29
17 Payables under repo transactions 30
18 Subordinated borrowing 30
19 Other liabilities 30
20 Share capital 31
21 Interest income and expense 31
22 Fee and commission income and expense 31
23 General and administrative expenses 32
24 Income tax 32
25 Risk management 33
26 Capital management 37
27 Off-balance sheet commitments 37
28 Operating leases 38
29 Commitments and Contingencies 38
30 Fair value of financial instruments 39
31 Maturity analysis 40
32 Currency analysis 42
33 Related party transactions 43
34 Events subsequent to the balance sheet date 44

Международная ассоциация независимых аудиторских и бухгалтерских компаний

ФИНЭКСПЕРТИЗА
АУДИТОРСКО КОНСАЛТИНГОВАЯ ГРУППА

129110, г. Москва, Проспект Мира, д. 69, стр. 1, тел: (495) 775 22 00, 775 22 01
почтовый адрес: 129110, г. Москва, а/я 179
info@finexpertiza.ru
www.finexpertiza.ru

ИСХ. № 589-04/14 ОТ 22.04.14

INDEPENDENT AUDITOR'S REPORT

To the SHAREHOLDERS of Commercial Bank Garant-Invest (Close Joint Stock Company)

AUDITEE

Name: Commercial Bank Garant-Invest (Close Joint Stock Company)

State registration number: 1037739429320

Location: 127051, Moscow, 1-y Kolobovskiy pereulok, 23

AUDITOR

Name: Limited Liability Company FinExpertiza (OOO FinExpertiza);

State registration number: 1027739127734

Location: Russian Federation, 129110, Moscow, Prospekt Mira, 69 bldg 1

Self-regulating organization of auditors: Self-regulating Auditors Organization Non-Profit Partnership Russian Audit Chamber (certificate No 4209 of 21 December 2009)

Registration number in the audit firms register (ORNZ): 10201028038

We have audited the accompanying financial statements of Commercial Bank Garant-Invest (Close Joint Stock Company) which comprise the statement of financial position at 31 December 2013, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity for 2013 and a summary of significant accounting policies and other explanatory notes.

Management Responsibility for the Financial Report

Management of Commercial bank Garant-Invest (Close Joint Stock Company) is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, and for such internal control as it determines is necessary to enable the preparation of the financial statements that free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit is based on the Russian National Standards on Auditing and International Standards on Auditing. Those standards require that we comply with relevant 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by the management of the audited person, as well as evaluating the overall financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on reliability of the financial statements.

Auditor's Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commercial Bank Garant-Invest (Close Joint Stock Company) as at 31 December 2013, its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Deputy General Director OOO FinExpertiza
Acting on the basis of the Power of Attorney No 094-07/13 dd 01 July 2013; valid through 30 June 2014.

Ms. Natalia Borzova

22 April 2014

Statement of Financial Position for the year ended 31 December 2013

(in thousands of Russian Roubles, if not otherwise specified)

	Notes	2013 RUR'000	2012 RUR'000
Assets			
Cash and cash equivalents	5	931 337	1 379 421
Due from the Central Bank of the Russian Federation	6	82 029	93 713
Financial assets at fair value through profit or loss	7	692 701	139 132
Available-for-sale financial assets	8	-	72 976
Due from other banks and financial institutions	9	160 679	840 935
Loans and receivables	11	6 829 685	5 737 351
Assets held for trading	10	-	25 197
Property and equipment	12	7 448	8 290
Other assets	13	666 010	8 047
Total assets		**9 369 889**	**8 305 062**
Liabilities			
Due to other banks and financial institutions	14	4 296	78 168
Current accounts and deposits from customers	15	7 061 932	7 141 435
Promissory notes issued	16	45 204	113 677
Payables under repo transactions	17	488 546	-
Subordinated borrowing	18	262 323	243 441
Deferred tax liability		2 402	18 679
Other liabilities	19	667 886	10 864
Total liabilities		**8 532 589**	**7 606 264**
Equity			
Share capital	20	687 040	537 040
Share premium	20	40 295	40 295
Revaluation fund of property and equipment		-	17 592
Revaluation fund of available-for-sale financial assets	20	-	-
Retained earnings		109 965	103 871
Total equity		**837 300**	**698 798**
Total liabilities and shareholders' equity		**9 369 889**	**8 305 062**

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

КБ "Гарант-Инвест" (ЗАО)

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (CJSC)
Income Statement for the year ended 31 December 2013
(in thousands of Russian Roubles, if not otherwise specified)

	Notes	2013 RUR'000	2012 RUR'000
Interest income	21	942 996	779 500
Interest expense	21	(448 624)	(387 925)
Net interest income		**494 372**	**391 575**
Asset impairment provision		(471 866)	(325 596)
Net interest income after provision for loan portfolio impairment		**22 506**	**65 979**
Gains less losses from trading securities		9 836	11 559
Gains less expenses on foreign currency transactions		16 346	25 302
Fee and commission income	22	112 063	76 763
Fee and commission expense	22	(27 063)	(22 197)
Other operating income		23 842	12 318
Operating income		**157 530**	**169 724**
Administrative and Other Operating Expenses	23	(136 012)	(158 755)
Profit before income tax		**21 518**	**10 969**
Income tax	24	(1 321)	9 881
Profit for the year		**20 197**	**20 850**

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

КБ "Гарант-Инвест" (ЗАО)

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (CJSC)
Statement of Comprehensive Income for the year ended 31 December 2013
(in thousands of Russian roubles, unless otherwise specified)

	2013 RUR'00	2012 RUR'000
Profit (loss) for the year	**20 197**	**20 850**
Effect of property revaluation	(21 990)	(101 995)
Effect of revaluation reserve of financial assets available-for-sale	-	(36 374)
Income tax attributable to components of comprehensive income	4 398	27 674
Other comprehensive income/(expense) after tax	**2 605**	**(89 845)**

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (CJSC)
Statement of Changes in Equity for the year ended 31 December 2013
(in thousands of Russian roubles, unless otherwise specified)

	Share capital	Share premium	Revaluation fund of property and equipment	Revaluation fund of available-for-sale financial assets	Retained earnings	Total equity
Balance at 31 December 2011	**537 040**	**40 295**	**99 188**	**29 099**	**97 123**	**802 745**
Dividends for 2011	-	-	-	-	(10 577)	(10 577)
Dividends for first six months of 2012	-	-	-	-	(3 525)	(3 525)
Comprehensive income (expense) for 2012	-	-	(81 596)	(29 099)	20 850	(89 845)
Balance at 31 December 2012	**537 040**	**40 295**	**17 592**	**-**	**103 871**	**698 798**
Increase of the share capital	150 000	-	-	-	-	150 000
Dividends	-	-	-	-	(14 103)	(14 103)
Comprehensive income (expense) for 2013	-	-	(17 592)	-	20 197	2 605
Balance at 31 December 2013	**687 040**	**40 295**	**-**	**-**	**109 965**	**837 300**

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (CJSC)
Statement of Cash Flows for the year ended 31 December 2013
(in thousands of Russian Roubles, if not otherwise specified)

	2013 RUR'000	2012 RUR'000
Cash flows from operating activities		
Interest and fee and commission receipts	1 050 186	855 620
Interest and fee and commission payments	(475 322)	(413 244)
Gains less losses from trading securities	35 720	25 446
Gains less expenses on foreign currency transactions	(54 402)	52 616
Other operating income	23 842	23 273
Administrative and other operating expenses paid	(151 144)	(161 412)
Income tax paid	(13 166)	(16 971)
Cash flows from operating activities before changes in operating assets and liabilities	**415 714**	**365 328**
Changes in operating assets and liabilities		
Net (increase)/decrease in assets:		
Due from the Central Bank of the Russian Federation	11 684	13 261
Financial instruments at fair value through profit or loss	(568 934)	26 855
Due from other banks and financial institutions	734 906	101 932
Loans and receivables	(1 417 679)	(1 390 611)
Other assets	(660 486)	(26 120)
Net increase/(decrease) in liabilities:		
Due to other banks and financial institutions	(74 599)	(23 952)
Payables under repo transactions	488 546	-
Current accounts and deposits from customers	(313 673)	590 332
Promissory notes issued	(66 488)	10 217
Other liabilities	663 243	41 922
Net cash provided (used in) from operating activities	**(787 766)**	**(290 836)**
Cash flows from investing activities		
Available-for-sale financial assets	75 851	232 530
Additions and disposals of property and equipment	19 587	10 563
Net cash provided from / (used in) investing activities	**95 438**	**243 093**
Cash flows from financing activities		
Shareholders' (members') contribution to the share capital	150 000	-
Dividends paid	(14 042)	(14 103)
Net cash provided from / (used in) financing activities	**135 958**	**(14 103)**
Effect of exchange rate changes on cash and cash equivalents	**108 306**	**(72 438)**
Net increase in cash and cash equivalents	**(448 064)**	**(134 284)**
Cash and cash equivalents at the beginning of the year	1 379 383	1 513 667
Cash and cash equivalents at the end of the year	**931 319**	**1 379 383**

For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 18 thousand as at 31 December 2013. For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 38 thousand as at 31 December 2012.

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

КБ "Гарант-Инвест" (ЗАО)

N.M. Poletaeva
Chief Accountant

1. Introduction

Principal activities

Commercial bank Garant-Invest (Close Joint Stock Company) (hereinafter referred to as "the Bank") is a credit organization established by reorganization of Commercial bank Garant-Invest (Limited Liability Company) based on decision of the general shareholders meeting (minutes No 19 of 9 June 1999).

The Bank operates on the basis of the license issued by the Bank of Russia on 26 June 2012 No 2567 to perform bank transactions with funds of corporations and individuals in Roubles and foreign currencies. The Bank is a holder of the licenses to perform transactions with securities: broker activities, dealer activities and security management issued by the Federal Commission for the Securities Market.

CB Garant-Invest (CJSC) was registered in the system of obligatory deposit insurance on 15 July 2005 with registration number 838.

The Bank is member of Association of Russian Banks, Moscow Interbank Currency Exchange, Moscow International Business Association, International Payment Systems VISA, MasterCard Worldwide, Diners Club, Russian National Association SWIFT (ROSSWIFT), as well as the founder of Non-profit partnership Russian Trade Centres Council.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations of legal persons, including correspondent banks, and individuals as well as operations with securities and foreign exchange.

The Bank's principal business activity is commercial banking operations within the Russian Federation.

Registered address and location is 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

The average number of the Bank's personnel for 2013 amounted to 103 persons (2012: 110 persons).

Name	2013 Share	2012 Share
A.Yu. Panfilov	43,18	20,47
ZAO Formulainvest	16,52	19,71
G.I. Kozovoy	11,00	10,00
OOO Imex-Finance	5,17	7,37
A.V. Eremeev	3,92	5,58
I.P. Biryukova	2,46	3,51
E.V. Biryukova	2,46	3,51
V.V. Smirnova	1,96	2,79
Yu.V. Panfilov	1,95	2,78
A.M. Sayglov	1,61	2,29
N.A. Gorbunova	1,57	2,24
T.G. Panfilova	1,48	2,11
V.F. Smirnov	1,46	2,08
O.P. Panfilova	1,31	1,42
A.A. Semenov	0,80	1,15
T.V. Bulavintseva	0,79	1,12
OOO Monitor-Time	0,00	4,39
S.V. Zavedetskiy	0,00	3,65
Others with less than 1% of the share capital	2,36	3,83
Total	**100,00**	**100,00**

As at 31 December 2013, the ultimate beneficiary of ZAO Formulainvest is Oleg Nikolaevich Semenyutin; the ultimate beneficiary of ZAO Imex-Finance is Alexandr Vladimirovich Ermeev.

Presentation currency. These financial statements are presented in thousands of Russian Roubles ("RUR").

2. Business Environment

Russian business and economic environment

During the reporting year, the Bank operated under conditions of stabilization in the Russian economy including the financial sector, a tendency to overcome its raw material orientation under a certain effect of instability in the world economy primarily in the Euro-zone generated by the financial crisis consequences.

This situation has impacted and may have an adverse impact on the performance of companies and organizations. Due to this fact, financial and economic business in the Russian Federation is exposed to a number of risks that substantially affect the banking sector. The Government of the Russian Federation continues economic reforms and improving the legal, tax and regulatory laws. The current actions of the Government concentrated on improving the Russian economy are aimed at rise in labour productivity and quality of products as well as growth in share of science-intensive field and services.

The accompanying financial statements reflect the effect of the current financial and economic conditions on the Bank's performance and financial position as the management see it.

Economic progress in the Russian Federation rely heavily on the efficiency of actions taken by the Russian Government and other factors including legal aspects and political event beyond the Bank's control. The Bank management can't foresee the effect of the aforementioned factors on the Bank's financial position.

Inflation

The Russian economy is characterized by a relatively high inflation. The following table provides for inflation rates applicable during the previous five years.

Year ended on	Inflation for the period
31 December 2013	6,45%
31 December 2012	6,58%
31 December 2011	6,10%
31 December 2010	8,78%
31 December 2009	8,80%

Foreign currency transactions

Foreign currencies especially US dollars and EUR have a significant effect on identifying economic parameters of many economic events in the Russian Federation. The table below presents RUR-USD and RUR -EUR rates established by the Bank of Russia:

Date	USD	EUR
31 December 2013	32,7292	44,9699
31 December 2012	30,3727	40,2286
31 December 2011	32,1961	41,6714
31 December 2010	30,4769	40,3331
31 December 2009	30,2442	43,3883
31 December 2008	29,3804	41,4411

3. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Bank maintains its records in accordance with the applicable legislation in the Russian Federation. These financial statements are based on the Bank's statutory books and records, adjusted and reclassified to comply with IFRSs.

Functional and presentation currency

Functional currency of the Bank is the national currency of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Estimates and judgements

The financial statements are prepared under the estimates and assumptions that have effect on the amounts of assets and liabilities, contingent assets and liabilities at the balance sheet date and the amounts of income and expenses during the reporting period. Items to be better estimated and of high significance for the financial statements are disclosed in Notes.

Going concern

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. Economic progress in the Russian Federation rely heavily on the efficiency of actions taken by the Russian Government and other factors including legal and political events beyond the Bank's control. The Bank management can't foresee the effect of the aforementioned factors on the Bank's financial position in the future. These financial statements do not include adjustments related to this risk.

The financial statements have been prepared on the going concern assumption.

The Bank monitors external factors on a regular basis that may have an effect on the Bank's liquidity and forecasts payment flows for efficient liquidity risk management. The Bank analyses gaps between settlement of assets and liabilities for medium- and long-term liquidity risk management. The Bank sets limits for liquidity gaps in order to restrict the risk. The Bank regularly reviews the maximums set with regard to the changing external and internal environmental factors.

The Bank can attract additional funds from the Bank of Russia and in the interbank credit market in order to maintain liquidity. The Bank minimizes its reliance on a certain liquidity resource and ensures settling own liabilities in full due to diversified liquidity resources. The Bank's accumulated surplus of current liquidity and available resources to attract additional funds help provide the Bank's going concern on a long-term basis.

Changes in the accounting policies

The applied accounting policy is consistent with that used for prior financial year in general. A number of new Standards become effective as at 1 January 2013. The following new Standards and interpretations effective as well as their impact on the Bank's operations are presented below. The Bank has not adopt new and revised IFRSs.

- IAS 19 *Employee Benefits* (hereinafter IAS 19) (issued in June 2011; effective for annual periods beginning on or after 1 January 2013). IAS 19 prescribes the accounting and disclosure by employers for employee benefits. IAS 19 amended accounting for post-employment benefits by eliminating the corridor approach, amended presentation of changes in assets and liabilities and enhanced disclosures of defined benefit plans. IAS 19 has not had a significant impact on the Bank's financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* (hereinafter IFRS 12) (issued in May 2011; effective for annual periods beginning on or after 1 January 2013; early adoption is permitted).
- IFRS 12 is a new standard on disclosures of interest in other entities such as a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 has not had a significant impact on the Bank's financial statements.
- Clarified definitions "related party" and "related party transaction" for better understanding and avoiding contradictions.
- IFRS 13 *Fair Value Measurement* (hereinafter IFRS 13) (issued in May 2011; effective for annual periods beginning on or after 1 January 2013; early adoption is 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 is applied when another standard within IAS/IFRS requires and permits

fair value measurement. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices. IFRS 13 has not had a significant impact on the Bank's financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (issued in June 2011; effective for annual periods beginning on or after 1 July 2012; early application is permitted). The amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. (These amendments have not had an effect on the Bank's financial position and profit or loss items).
- IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* issued in December 2011; effective for annual period beginning on or after 1 January 2013; to be adopted retrospectively. This disclosure 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, analysis and comparison of financial statements prepared under IFRS and US GAAP. (These amendments have not had a significant impact on the Bank's financial statements.)
- Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012; effective for annual periods beginning on 1 January 2013. International Accounting Standards Board issued a set of amendments to IFRSs that result in accounting and editorial changes:
    - - amendments to IAS 1 *Presentation of Financial Statements* give a clarification of the requirements for comparative information. (These amendments have not had a significant impact on the Bank's financial statements.)
    - - amendments to IAS 32 *Financial Instruments:* Presentation clarify tax effect of distribution to holders of equity instruments. (These amendments have not had a significant impact on the Bank's financial statements.)
    - amendments to IAS 34 *Interim Financial Reporting* relate to interim financial reporting and segment information. (These amendments have not had a significant impact on the Bank's financial statements.)
    - - amendments to IFRS 1 *First-time Adoption of IFRS* clarify repeated application of IFRS 1 and borrowing cost that was recognised before the transition date to IFRS. (These amendments have not had a significant impact on the Bank's financial statements.)

New standards and interpretations not adopted yet

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2014 and which the Bank has not early adopted:

Amendments to IAS 12 *Income Taxes* (hereinafter IAS 12) - *Deferred Tax: Recovery of Underlying Assets* (issued in December 2010; effective for annual periods beginning on or after 1 January 2012; early application is permitted).

IFRS 9 *Financial Instruments* (hereinafter IFRS 9) (first issued in November 2009 and subsequently reissued in October 2010 with amendments made in December 2011; effective for annual periods beginning on or after 1 January 2015; early adoption is permitted). IFRS 9 is intended to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 specifies how an entity should classify and measure financial assets. Namely, all financial assets shall be subsequently measured at amortised cost or fair value through profit or loss; an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Most of the requirements in IAS 9 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9 from IAS 39 Financial Instruments: Recognition and Measurement. The new requirement is recognition and disclosure of the effect of changes in own credit risk of financial liabilities

through profit or loss in other comprehensive income. Currently the Bank is assessing the impact of the IFRS 9 on its financial statements.

Amendments to IAS 32 *Financial Instruments: Presentation* (hereinafter IAS 32) - *Offsetting Financial Assets and Financial Liabilities* issued in December 2011; effective for annual period beginning on or after 1 January 2014; to be adopted retrospectively. These amendments clarify a criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" and an offset criterion used by IAS 32 for gross settlement mechanisms (such as clearing mechanism settlement). Currently the Bank is assessing the impact of the amendments on its financial statements.

The Bank believes that these standards and interpretations will have no significant impact on the financial statements of the Bank at their first-time adoption.

The comparative information has been reclassified to conform the changes in presentation in the current year.

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are assets which can be converted into cash within one date and which include cash balances, accounts balances in correspondent and current accounts of the banks. All other short-term inter-bank placements are presented in due from other banks. Funds restricted for a period of more than three months are excluded from cash and cash equivalents.

Due from the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are the CBRF deposits which are not available to finance the Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

The Bank classifies financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables (which includes due from other banks and loans to customers);
- Available-for-sale financial assets.

The Bank classifies financial assets at their initial recognition. Classification of financial assets at initial recognition depends on the purpose such financial assets were acquired with and on their nature.

Initial recognition of financial instruments

Financial assets and financial liabilities are recorded in the statement of financial position of the Bank when the Bank is a contractual party to a relevant financial instrument. The Bank records regular transactions of acquisition and sale of financial assets and liabilities at the settlement date.

Initially financial assets are measured at fair value. The initial cost is added with costs directly attributable to acquisition or issuance safe for financial assets at fair value through profit or loss.

Fair value of financial instruments

The fair value of financial instruments is based on their quoted market price without any deduction for transaction costs.

For financial assets and financial liabilities recognised in the statement of financial position which fair value cannot be measured based on quoted market prices, valuation techniques including mathematic models are applied. Information for such models is taken from the observed market or a judgement.

Judgement is based on such facts as time value of money, credit risk, volatility, market risk and others.

Amortised cost of financial instruments

Amortised cost of a financial asset or a financial liability is the amount of the financial asset or the financial liability measured at initial recognition less any principle repayments, plus or minus accumulated

amortization using the effective yield method, difference between the historical cost and the cost at settlement date, minus any write-down for incurred impairment loss.

The effective interest method is a method of calculating the amortised cost of financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period to the net carrying amount of the financial asset or the financial liability.

When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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 rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition of financial assets

A financial asset is derecognised (or, if applicable, a part of a financial asset or a part of group of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire;
- or it transfers or retains the rights to receive the contractual cash flows on the financial asset with a liability to pay them in full to third part without considerable delays; and
- when the Bank transferred substantially all of the risks and rewards of ownership of the financial asset or did not transfer but did not retain any risks and rewards from them but transferred the control over the asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. Bank's involvement in the asset which is then represented by a guarantee for the transferred asset is measured at the lower of initial carrying amount of the asset or its maximum recovery that the Bank might be claimed.

If the Bank's continuing involvement acquires the form of sold and/or acquired option (including options at net amounts or similar contracts) to the transferred asset that the Bank can buy out. This policy is not applicable when option put (including options at net amounts or similar contracts) to the asset is measured at fair value. In this case the Bank's continuing involvement is measured at the lower of the fair value of the transferred asset or the strike price.

Reclassification of financial assets

The Bank is not entitled to reclassify derivative financial instruments when holding or issuing derivates and financial instruments initially recognised as at fair value through profit or loss, out of financial assets at fair value through profit or loss.

Non-derivative trading financial assets at fair value through profit or loss can, in extraordinary circumstances due to an event that is of rare and unusual nature, be reclassified out of financial assets at fair value through profit or loss if these assets are no more held for trading or repurchase in the nearest future.

Non-derivative financial instruments at fair value through profit or loss can be reclassified into loans and receivables or investments held to maturity depending on the purpose these financial instruments are held for if the Bank has the intention and ability to hold the financial assets for the foreseeable future of until maturity.

Financial assets available-for-sale can be reclassified into loans and receivables if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

In case of reclassification of financial assets into loans and receivables or investments held-to-maturity, the fair value at the reclassification date shall be the new value of the financial assets; subsequent measurement shall be made at amortised cost using the effective interest rate.

If, due to the changes in the Bank's intentions or abilities, classification of investments as held to maturity is not suitable anymore it must be reclassified into financial assets available-for-sale and revaluated at fair value. Unrealized income and expenses resulting from change in fair value of available-for-sale financial assets are recognized in the statement of comprehensive income among other comprehensive income.

The Bank is not entitled to classify any financial assets as investments held-to-maturity if during the current financial year or during two prior financial years, the amount of financial assets held-to-maturity that the Bank has sold or reclassified before maturity is insignificant to the all the financial assets held-to-maturity except for certain trading and reclassifications that:

- made so close to the maturity or recall of financial asset (e.g. three months before maturity) that the change in the market interest rate will not have a significant effect on the fair value of the financial asset;
- made after the Bank had received almost entire principle amount of the financial asset through regular payments or prepayments;
- took place as a result of an event beyond the Bank's control, force majeure and could not be foreseen by the credit organization.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments does not meet any of the criteria, all remaining investments held-to-maturity shall be reclassified into financial assets available-for-sale.

Financial assets at fair value through profit or loss

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are not reclassified into another category except for rare cased arisen from an unusual non-recurring event that is not probable in the future.

Trading securities are carried at fair value. Interest earned on trading securities is presented in the statement of comprehensive income among interest income. Dividends are carried as operating income of the statement of comprehensive income when the Bank receives the right to obtain the payment and on condition that dividends are probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the statement of comprehensive income as gains less losses from transactions with financial assets at fair value through profit or loss in the period in which they arise.

Due from other banks

In the course of its normal operation the Bank places cash in other banks for various maturity periods. Due from other banks are not intended for immediate sale or a sale in the nearest future and are measured at amortized cost on the basis of the effective interest rate method in case fixed maturity is provided. Due from other banks are carried less provision for their impairment.

Loans to customers

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

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans are initially recognized at historical cost that is the fair value of the provided cash. Subsequently loans to customers are measured at amortized cost using the effective interest method less provision for impairment.

Loans to customers are recorded when cash is provided to borrowers.

Interest-bearing loans other than market interest rates are measured at payment date at fair value that is the principle and future interest payments discounted by interest market rates for similar loans. The difference between the fair and par values of the loan is recorded in the statement of comprehensive income as income/expense from loans to customers at rates other than the market. Subsequently, the carrying amount of these loans will be adjusted by amortization of income/expense from the loan and the correspondent income/expense is recorded in the statement of comprehensive income using the effective interest method.

The Bank does not acquire loans from third parties.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at fair value based on the quoted market price.

Certain available for sale financial assets that do not have a quoted market price are measured at fair value of recent sale of similar equity securities by independent third parties, based on analysis of other information such as indicative quoted price for each type of securities, published by information agencies or provided by professional security market members. If active market is not available and fair value of an equity financial market cannot be reliably measured acquisition cost is possible to use.

Unrealized income and expenses resulting from change in fair value of available-for-sale financial assets are recognized in the statement of comprehensive income. At disposing of available-for-sale financial assets, the appropriate accumulated unrealized income and expenses earlier recongnised in other comprehensive income shall be reclassified into profit or loss in item "Income less expenses form transactions with available-for-sale financial assets". Disposal of available-for-sale financial assets is recognised at FIFO method.

Interest income from debt securities available for sale is based on effective interest method and recorded as interest income in the statement of comprehensive income. Dividends received from equity investments available-for-sale are carried in the statement of comprehensive income when the Bank receives the right to obtain the payment and on condition that dividends are probable.

Promissory notes purchased

Promissory notes purchased are classified according to purpose and condition of their acquisition as financial assets at fair value through profit or loss, financial assets available-for-sale, due from other banks or loans to customers and subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

The Bank tests financial assets or groups of financial assets for impairment at every balance sheet date. Impairment losses are recognised in the statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Impairment of amounts due from other banks and loans to customers

With regard to due from other banks and loans to customers measured at amortized cost, the Bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for loans and receivables that are not individually significant.

Objective evidence that a financial asset is impaired or not is as follows:

- any payment has been delayed;
- the borrower faces significant financial difficulty that is evidenced by the financial information available for the Bank;
- it is becoming probable that the borrower will enter bankruptcy or otherwise financially reorganized;
- adverse changes in national or local economic conditions that have an impact on the borrower;
- breaches of contracts, e.g. refusal or evasion from interest or principal payment.
- the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider.

Assets that are tested from impairment individually and impairment losses from which are recognised shall not be tested for impairment collectively.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as type of asset, industry, type of security, timely payments and other factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The basic criteria to identify objective evidence that due from other banks and loans to customers collectively assessed are impaired is available information on certain decrease in estimated future cash flows for group of assets from their initial recognition; and this decrease cannot be associated with individual financial assets of this group.

Such information may include adverse changes in the payment status of borrows of the group (e.g. the higher number of past due payments or cardholders with credit limit achieved and who make minimal monthly payments), national or local economic conditions attributable to failure to settle obligations with regard to the assets among the group (e.g. higher unemployment rate in the geographic region of the borrower, lower prices on real estate with regard to hypothec conditions in relevant regions, lower oil prices with regard to attracting credit assets by oil producers or adverse changes in the industry environment with adverse effects on the borrowers within the group).

If there is objective evidence of impairment losses, the loss amount is the difference between the carrying amount of the asset and the present value of the estimated future cash. The carrying amount of an asset is decreased due to the use of impairment provision and the loss is recognised in the statement of comprehensive income.

Present value of estimated future cash flows are determined by discounting cash flows by initial effective interest rate for the asset. If the loan is based on flexible interest rate, the discount rate for assessing impairment shall be based on current effective interest rate. Present value of estimated future cash flows for secured financial assets shall consider cash that may be received in case of collateral enforcement less costs to receive and realise the collateral.

Future cash flows within a group of financial assets to be collectively assessed for impairment are estimated on the base of historical information on previous losses with similar nature of composition of the group and on success to collect past due debts. Historical information on losses is adjusted on the basis of current available information to record existent conditions that were not effective during the past periods of losses and excluding those conditions that are not active at the current moment.

Estimating changes in future cash flows shall record and correlate to relevant information by periods (such as, for example, unemployment rate, real estate prices, stock exchange goods, payment status and other factors that indicate losses incurred in the group and their amount). Policies and assumptions that are used to estimate future cash flows are reviewed on a regular basis in order to mitigate gaps between estimated losses and actual losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through statement of comprehensive income.

Uncollectable assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The carrying amounts of impaired financial assets are not directly decreased.

Under the Russian laws, a bad loan and interest to it is written of when the Bank takes required and sufficient measures to collect the stated amount which measures are based on the law, business practice or a contract.

Impairment of financial assets available for sale

As at the end of the reporting period, the Bank assesses existence of objective evidence of impairment of financial investments of group of investments available-for-sale.

With regard to investments in equity instruments designated as available for sale, a considerable or prolonged decrease in fair value below its acquisition cost indicates its impairment.

Judgement is requirement in order to determine which decrease in value is considerable and/or prolonged. A considerable decrease in fair value for the Bank is over 20% compared to the acquisition price; prolonged is a decrease in fair value of over six months. The Bank also assesses other factors such as volatility in share prices. The cumulative loss defined as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss is reclassified out of other comprehensive income.

Impairment losses of equity instruments are not reversed through profit or loss; an increase in fair value after impairment is recognised directly in other comprehensive income.

Unquoted debt instruments carried not at fair value classified as available-for-sale assets are assessed for impairment on the same basis as for financial assets carried at amortized cost. Interest earned is based on the amortized costs using the interest rate applied for discounting future cash flows for purposes of impairment loss assessment.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed, with the amount of the reversal recognized in the statement of comprehensive income.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as financial liabilities at amortised cost.

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

A financial liability is derecognised when a correspondent liability is settled, cancelled or expired.

When one existent financial liability is exchanged for another liability to the same creditor under significantly different conditions or if significant changes are made to the conditions of the existent liability, the initial liability is derecognised and a new one is recognised with a difference in the carrying amount of the liability in the statement of comprehensive income.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include due to other banks, customer accounts, debt securities issued and other borrowings.

Due to other banks. Amounts due to other banks are recorded when money is advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers on settlement accounts and deposits.

Debt securities issued. Debt securities issued include promissory notes and savings certificate issued by the Bank. In the event the Bank repurchases own debt securities, these securities are removed from the statement of financial position and the difference between the carrying amount of the liability and the amount paid is included in other operating income as gains arising from retirement of debt.

Other borrowings. Other borrowings include subordinated loans that are recognised when the Bank receives cash.

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 recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Property and equipment

Items of property and equipment are measured at cost or at restated value as said below less accumulated depreciation and provision for impairment. Property and equipment are restated to the equivalent purchasing power of the Russian Rouble at 31 December 2003 for assets acquired prior to 1 January 2003.

The Bank assesses any indication of impairment of property and equipment at the reporting date.

In the event such indication exists, the Bank measures recoverable cost as the higher of fair value less selling costs and value of its usage. In the event the net book value of the property and equipment exceeds its estimated recoverable cost, the carrying amount of the property and equipment is reduced to its recoverable cost, and the difference is recorded in the statement of comprehensive income as an expense from impairment of property and equipment.

The buildings are regularly revalued. Frequency depends on changes in the fair value of the items of property and equipment to be revalued. After initial recognition at cost buildings are recognised at restated value which is the fair value at the revaluation date less subsequent accumulated depreciation and subsequent impairment losses. Revaluation is performed on a regular basis in order to avoid significant differences between the fair value of the asset and its net book value.

When buildings are revalued, accumulated depreciation shall be eliminated against the gross amount and the net amount is surplused to the revalued value of the asset.

Revaluation surplus is recognised within other comprehensive income of the statement of comprehensive income except for reversals from prior impairment of the asset earlier recognised in the profit or loss. Revaluation decrease is recorded in the profit or loss of the statement of comprehensive income except for direct offset of such a decrease against the prior surplus for the same asset recognised directly in other comprehensive income as an effect of revaluation of property and equipment.

Revaluation fund of property and equipment is directly attributed to retained earnings after the revaluation amount is realised when the asset is written off or disposed.

Gains and losses arising form disposal of property and equipments are measured at residual amount and are recognised as operating expenses of the statement of comprehensive income.

Costs of repairs and maintenance are recognised statement of comprehensive income when incurred.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Property and equipment are depreciated when put into operation. Depreciation is based on straight-line method.

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

Operating leases - Bank as a lessee

Leases in terms of which the Bank retains substantially all the risks and rewards of ownership are classified as operating leases. Payments under operating lease agreements are expensed on a straight-line basis over the lease term and are recognised in the statement of comprehensive income within operating expenses.

Share capital

Share capital contributed before 1 January 2003 is carried at cost adjusted to inflation. Share capital contributed after that date is carried at cost. Contributions to the share capital in the form of non-monetary assets are carried at fair value of such assets at contribution date. Expenses on service fees to third parties directly related to issue of new shares except for business combinations shall be recognized as equity as decrease in the amount received from this issuance.

Share premium

The excess of the contributions in the share capital over the par of the outstanding shares is the share premium.

Dividends

Dividends are recognized as liabilities and are deductible from the capital at the reporting date in the event they were recognized prior to the reporting date inclusively. Information on dividends declared subsequent to the reporting date is disclosed in the notes related to the subsequent events. Russian legislation identifies the basis of distribution as the current year net profit.

Dividends are disclosed in financial statements as profit distribution after the general shareholders meeting approves them.

Contingencies

An entity should not recognise a contingent asset. A contingent asset should be disclosed where an inflow of economic benefits is probable.

An entity should not recognise a contingent liability. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Credit related commitments

The Bank enters into credit related commitments, including guarantees letters of credit and obligations to grant loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Letters of credit that are the Bank's written obligations on behalf of the customers to pay the agreed amount under certain circumstances. The letters of credit are secured by relevant goods delivery and cash placements and thus are less exposed to risk than direct loans.

Obligations to grant loans is an unused part of authorized for issuance loans and guarantees or letters of credit. With regard to obligations to grant loans, the Bank is potentially exposed to loss risk in the amount of the obligations unused. However the likely amount of losses is less than the total amount of unused obligations since the most part of obligations to grant loans is caused by meeting certain creditworthiness criteria by clients.

Credit related commitments are initially measured at fair value. Subsequently they are reviewed at the reporting date and adjusted to reflect current best estimate. Best estimate of expenditure required to fulfil an existent obligation is an amount that the Bank would pay to fulfil the obligation at the reporting date or would transfer to a third party at that date.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of reliably measurable resources will be required to settle the obligation.

Taxation

Income tax expenses include current tax payments and deferred taxes and are recorded in the statement of comprehensive income. The taxation charge is calculated in accordance with the laws and regulations of the Russian Federation. Current taxes are based on the estimated taxable income for the year at the current income tax rate.

Current tax is an amount of income tax payable (recoverable) in respect of the taxable profit or taxable loss for current or prior period. If financial statements are authorised for issuance before correspondent tax returns are submitted, the taxes in the financial statements are based on estimated amounts.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all tax losses to be forwarded and temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements.

Deferred taxes are measured at tax rates effective at the reporting date or expected to be effective when recovering temporary differences or use of tax losses carried forward. The Bank shall offset deferred taxes and deferred liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets with regard to deductible temporary differences and tax loss are presented to the extent sufficient taxable income against which such deductions can be used is probable. Judgement is required to determine deferred tax assets that can be recognised in the financial statements based on probable period and amount of future taxable income as well as future strategies for tax planning.

Besides, different taxes that concern the Bank's activity exist in the Russian Federation. These taxes are recorded in the statement of comprehensive income as part of the operating expenses.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument to the cost of the financial instrument. When the Bank calculates the effective interest rate, it assesses cash flows accounting all contractual conditions in relation to the financial instrument but does not account future credit losses.

This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupon income from financial assets with fixed income, discount or premium on promissory notes and other discount instruments. When loans become doubtful of collection, they are written

down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Fee and commission income and other income and expenses are recorded on accrual basis over the period of rendering services. Fee and commission income from loans not granted but possible are recorded as other assets and subsequently accounted when the loan effective interest rate is calculated. Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities are recorded in the statement of comprehensive income upon completion of the transaction. Fee and commission income from investing portfolio management and other consulting services are recorded under provisions of relevant services contracts.

Employee benefits and charges to social insurance funds

The Bank makes charges insurance in the territory of the Russian Federation. These charges are recorded on accrued basis. Insurance charges include charges into the Pension Fund, Fund of Social Insurance and Fund of Obligatory Medical Insurance with regard to the Bank's staff. The Bank has no own pension schemes. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Foreign currency

Transactions in foreign currencies and precious metals are translated to the functional currency at the exchange rate of the Bank of Russia at that date. Monetary assets and liabilities denominated in foreign currencies are translated in the functional currency at the rate of the Bank of Russian at the balance sheet date.

Gains and losses from conversion of transactions in foreign currencies and precious metals are recognised in the profit and loss line Gains less expenses on foreign currency revaluation. Non-monetary items carried at cost in a foreign currency are translated at the rate of the Bank of Russia at the transaction date. Non-monetary items carried at fair value in a foreign currency are translated at the rate at the date when the fair value was measured.

Gains and losses from purchase and sale of foreign currency are the difference between the sale price and the carrying amount at the transaction date.

5. Cash and cash equivalents

	2013 RUR'000	2012 RUR'000
Cash balances with the CBRF (other than mandatory reserve deposits)	241 813	233 415
Cash on hand	155 184	124 968
Correspondent accounts and overnight placements with other banks:		
- Russian Federation	89 372	152 107
- other countries	444 968	868 931
Total cash and cash equivalents	**931 337**	**1 379 421**

For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 18 thousand as at 31 December 2013.

For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 38 thousand as at 31 December 2012.

6. Mandatory cash balances with the Bank of Russia

The amounts due from the Bank of Russia are reserves placed in the Bank of Russia. Loan institutions are obliged to deposit cash in the Bank of Russia as a non-interest bearing cash deposit (mandatory cash balances fund) the amount of which depends on the amount of the raised funds the loan institution. Withdrawal of this deposit is restricted by the legislation of the Russian Federation.

Due from the Bank of Russia as at 31 December 2013 amounted to RUR 82,029 thousand.

Due from the Bank of Russia as at 31 December 2012 amounted to RUR 937,13 thousand.

7. Financial assets at fair value through profit or loss

	2013 RUR'000	2012 RUR'000
Debt and other fixed-income instruments		
Federal loan bonds	-	49 681
Bonds issued by Russian banks	31 103	-
Corporate equity securities		
Corporate shares	144 157	112 812
Total financial assets at fair value through profit or loss (less revaluation)	**175 260**	**162 493**
Debt liabilities under repo transactions	554 477	-
Revaluation of debt liabilities and other instruments at fair value through profit or loss	(37 036)	(23 361)
Total	**692 701**	**139 132**

At 31 December 2013

Bonds issued by Russian banks represent bonds of OAO Rosselkhozbank.

Corporate shares represent shares of Russian organizations and banks.

Debt liabilities under repo agreements represent bonds of Russian banks and bonds issued by the Russian Finance Ministry denominated in the currency of the Russian Federation. The debt liabilities under repo agreements mature on 09 January 2014.

At 31 December 2012

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds in the Bank's portfolio mature in August 2016 with coupon rate of 6.5% p.a.

Corporate shares represent shares of Russian organizations and banks.

8. Available-for-sale financial assets

	2013 RUR'000	2012 RUR'000
Corporate debt securities		
- Corporate eurobonds	-	72 976
Total available-for-sale non-current assets	**-**	**72 976**

At 31 December 2012

Corporate eurobonds represent interest-bearing securities denominated in USD issued by NOMOS CAPITAL PLC and ALFA BOND ISSUANCE PLC and are freely convertible worldwide. Corporate eurobonds in the Bank's portfolio mature from February 2017 to April 2019 with coupon income from 6.30% to 10% depending on the issue.

9. Due from other banks and financial institutions

	2013 RUR'000	2012 RUR'000
Nostro accounts	1 114	78 881
Term inter-bank loans and deposits	-	764 169
Banks promissory notes	151 973	-
Other accounts	8 706	2
Less provision for impairment	(1 114)	(2 117)
Total due from other banks	**160 679**	**840 935**

As at 31 December 2013, the Bank has no deposits exceeding 10% of the Bank's equity.

As at 31 December 2012, the Bank has deposits exceeding 10% of the Bank's equity with 2 banks-contractors. The total of the funds amounted to RUR 731,982 thousand or 87.4% of the total due from other banks.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25, 31-32.

10. Assets held for trading

The assets held for trading were disposed of on 20 June 2013. The assets were represented by a building located in Moscow, per. Kolobovskiy 1st, 19 bldg 1 with total square of 304.8 sq. meters.

11. Loans and receivables

	2013 RUR'000	2012 RUR'000
Current loans	8 426 200	6 917 337
Past due loans	62 726	6 503
Less provision for loans and receivables impairment	(1 659 241)	(1 186 489)
Total loans and receivables	**6 829 685**	**5 737 351**

Credit quality of commercial loan portfolio of the Bank

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2013:

Categories:	Corporations	Loans to small and medium entities	Loans to individuals	Total
Quality category 1	-	-	232	**232**
Quality category 2	400 000	5 333 476	4 959	**5 738 435**
Quality category 3	-	1 805 855	10 677	**1 816 532**
Quality category 4	-	885 668	-	**885 668**
Quality category 5	-	43 977	4 082	**48 059**
Total	**400 000**	**8 068 976**	**19 950**	**8 488 926**

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2012:

Categories:	Corporations	Loans to small and medium entities	Loans to individuals	Total
Quality category 1	-	-	8 333	**8333**
Quality category 2	200 000	4 020 455	20 352	**4240807**
Quality category 3	-	2 476 416	2 298	**2478714**
Quality category 4	-	143 934	1 519	**145453**
Quality category 5	-	47 306	3 227	**50533**
Total	**200 000**	**6 688 111**	**35 729**	**6 923 840**

The Bank estimates the amount of the provision for impairment of commercial loans on the basis of future discounted cash flows of impaired loans analysis and of past practice of losses incurred from loan portfolios impairment signs of which have not been revealed.

Collateral analysis

The following table provides collateral analysis for loans as at 31 December 2013:

Categories:	Corporations	Loans to small and medium entities	Loans to individuals	Total
Securities	-	-	-	-
Guarantee	-	4 950 050	52 454	**5 002 504**
Legal claims	-	111 968	-	**111 968**
Real estate	-	45 145	-	**45 145**
Goods in circulation	-	238 496	-	**238 496**
Other	-	41 505	-	**41 505**
Other	-	12 423	-	**12 423**
Total	**-**	**5 399 587**	**52 454**	**5 452 041**

The following table provides collateral analysis for loans as at 31 December 2012:

Categories:	Corporations	Loans to small and medium entities	Loans to individuals	Total
Securities	-	-	110	**110**
Guarantee	-	4 146 444	123 779	**4 270 223**
Legal claims	-	83 085	-	**83 085**
Real estate	-	77 056	11 151	**88 207**
Goods in circulation	-	265 530	-	**265 530**
Other	-	121 935	1 400	**123 335**
Total	-	**4 694 050**	**136 440**	**4 830 490**

The amounts stated above in the tables are not represented by the fair value in all cases.

Analysis of movements in the provision for impairment

Movements in the provision for loan impairment are as follows:

	2013 RUR'000	2012 RUR'000
Provision as at the beginning of the year	**(1186489)**	**(861878)**
Provisions made during the year, net	(472752)	(324611)
Provision as at the end of the year	**(1659241)**	**(1186489)**

Concentration analysis

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

	2013 RUR'000		2012 RUR'000	
	Amount	**%**	**Amount**	**%**
Trade	7 261 369	85,54%	5 045 552	72,87%
Individuals	19 950	0,24%	35 729	0,52%
Construction	678 920	8,00%	656 735	9,49%
Transactions with real estate	-	-	218 694	3,16%
Vehicles	-	-	304 867	4,40%
Other services	528 687	6,22%	662 263	9,56%
Total loans and receivables (before provision for impairment of loan portfolio)	**8 488 926**	**100%**	**6 923 840**	**100%**

Significant loan concentrations

As at 31 December 2013 the Bank provided no loans with 10% share of the comprehensive loans to customers.

Loan maturities

The Bank's portfolio maturities are presented in Note 31. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25, 31-32. The information on related party balances is disclosed in Note 33.

12. Property and equipment

	Buildings	Office equipment and furniture	Vehicles	Intangible assets	Total
Net book value at 31 December 2012	2 120	1 938	4 232	-	**8 290**
Cost					
At beginning of year	2 494	5 795	17 315	15	**25 619**
Additions	-	271	1 890	-	**2 161**
Disposals	(331)	(1 068)	(2 963)	-	**(4 362)**
At end of year	**2 163**	**4 998**	**16 242**	**15**	**23 418**
		4 998			
Accumulated depreciation					
At beginning of year	(374)	(5 002)	(11 938)	(15)	**(17 329)**
Depreciation charges	(70)	(673)	(2 137)	-	**(2 880)**
Disposals	299	977	2 963	-	**4 239**
At end of year	**(145)**	**(4 698)**	**(11 112)**	**(15)**	**(15 970)**
Net book value at 31 December 2013	**2 018**	**300**	**5 130**	-	**7 448**

13. Other assets

	2013 RUR'000	2012 RUR'000
Settlements on conversion operations	656 837	-
Receivables and prepayments	4 854	3 336
Taxes prepaid	3 020	3 077
Plastic cards settlements	-	498
Cash in stock exchange	-	89
Other	1 300	1 047
Less provision	(1)	-
Total other assets	**666 010**	**8 047**

Currency and maturity analyses of other assets are disclosed in Note 31-32.

14. Due to other banks and financial institutions

	2013 RUR'000	2012 RUR'000
Correspondent accounts and demand deposits of other banks	4 296	3 135
Other loans attracted	-	75 033
Total due to other banks	**4 296**	**78 168**

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25, 31-32.

15. Current accounts and deposits from customers

	2013 RUR'000	2012 RUR'000
Legal entities		
Current/settlement accounts of commercial organizations	1 260 544	1 494 852
	-	-
Term deposits	1 154 729	1 512 228
Individuals		
Current/demand accounts	379 304	333 640
Term deposits	4 267 355	3 800 715
Total concentrations of current accounts and customer deposits	**7 061 932**	**7 141 435**

Economic sector concentrations within customer accounts are as follows:

	2013 RUR'000		2012 RUR'000	
	Amount	**%**	**Amount**	**%**
Individuals	4 646 659	65,80%	4 134 355	57,90%
Construction	823 556	11,60%	853 187	12,00%
Financial services	408 698	5,80%	146 012	2,00%
Trade	363 669	5,20%	1 124 598	15,80%
Computers and technologies	278 324	3,90%	559 831	7,80%
Education	148 121	1,90%	-	-
Real estate	117 019	1,60%	-	-
Other services	56 452	1,10%	-	-
Other	219 434	3,10%	323 452	4,50%
Total concentrations of current accounts and customer deposits	**7 061 932**	**100,00%**	**7 141 435**	**100,00%**

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25, 31-32. The information on related party balances is disclosed in Note 33.

16. Debt securities issued

	2013 RUR'000	2012 RUR'000
Promissory notes	34 977	29 570
Savings certificates	10 227	84 107
Total promissory notes issued	**45 204**	**113 677**

As at 31 December 2013, debt securities issued by the Bank include promissory notes of RUR 32,372 thousand denominated in Russian Roubles and EUR. The promissory notes mature from December 2013 to December 2014, interest rates are from 4.5% (for EUR-denominated promissory notes) to 9.0% (for RUR-denominated promissory notes).

As at 31 December 2012, debt securities issued by the Bank include promissory notes of RUR 29,570 thousand denominated in Russian Roubles and EUR. The promissory notes mature from December 2013 to

November 2014, interest rates are from 5.0% (for EUR-denominated promissory notes) to 9.0% (for RUR-denominated promissory notes).

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 25, 31-32. The information on related party balances is disclosed in Note 33.

17. Payables under repo transactions

	2013 RUR'000	2012 RUR'000
Trade and other payables	488 546	-
Total	**488 546**	**-**

Refer to Note 7 for more details on repo transactions.

18. Subordinated borrowing

As at 31 December 2013, the Bank attracted borrowings in USD in the form of a subordinated borrowing of USD 8.000 thousand (equivalent to RUR 261,834 thousand). As at 31 December 2012: USD 8,000 thousand (equivalent to RUR 242,982 thousand).

	2013 RUR'000	2012 RUR'000
Carrying amount at 01 January	243 441	258 143
Borrowings attracted in 2013	-	-
Effect of changes in foreign exchange rates	18 393	(15 161)
Accrued interest expense less repaid interest expense	489	459
Total	**262 323**	**243 441**

19. Other liabilities

Other liabilities include:

	2013 RUR'000	2012 RUR'000
Conversions and term transactions	657 082	2 391
Compensation for unused leave	5 687	5 754
Trade and other payables	1 040	1 664
Tax payable	977	932
Dividends payable	61	-
Plastic cards settlements	-	2
Other liabilities	3 039	121
Total	**667 886**	**10 864**

Currency and maturity analyses of other liabilities are disclosed in Note 31-32.

20. Share capital

The authorised, issued and fully paid share capital include the elements as follows:

	2013			2012		
	Number of shares	Par value	Inflation adjusted amount	Number of shares	Par value	Inflation adjusted amount
Ordinary shares	502 563 280	502 563	687 040	352 563 280	352 563	537 040
Total share capital	502 563 280	502 563	687 040	352 563 280	352 563	537 040

Retained earnings at 31 December 2013 amounted to RUR 109,965 thousand.
Retained earnings at 31 December 2012 amounted to RUR 103,871 thousand.

21. Interest income and expense

	2013 RUR'000	2012 RUR'000
Interest income		
Loans and receivables	865 595	736 909
Financial assets at fair value through profit or loss	36 830	1 859
Due from other banks	33 641	34 019
Available-for-sale financial assets	5 314	6 050
Other interest income	1 616	663
Total interest income	**942 996**	**779 500**

	2013 RUR'000	2012 RUR'000
Interest expense		
Current accounts and deposits from customers	(423 407)	(364 936)
Term deposits of banks and other financial institutions	(23 256)	(7 721)
Promissory notes issued	(4 352)	(12 877)
Other interest expenses	2 391	(2 391)
Total interest expense	**(448 624)**	**(387 925)**
Net interest income	**494 372**	**391 575**

As at 31 December 2013, other interest expense are represented by a reverse entry of 2012.

22. Fee and commission income and expense

	2013 RUR'000	2012 RUR'000
Fee and commission income		
Commission on settlement transactions	55 636	52 050
Commission on conversion transactions	24 936	-
On transactions with plastic cards	23 275	17 790

Commission on currency control	6 773	5 095
Commission on guarantees issued	928	887
Commission on other transactions	515	941
Commission on other transactions	**112 063**	**76 763**
Fee and commission expense		
Commission on cash transactions	(23 060)	(18 576)
Commission on settlement transactions	(2 810)	(2 917)
Commission on other transactions	(1 193)	(704)
Total fee and commission expense	**(27 063)**	**(22 197)**
Net fee and commission income	**85 000**	**54 566**

23. General and administrative expenses

	2013 RUR'000	2012 RUR'000
Staff costs	(79 942)	(81 443)
Property insurance	(21 005)	(19 312)
Rent	(5 641)	(5 482)
Professional services	(3 263)	(3 942)
Taxes other than on income	(4 586)	(6 726)
Communication services	(3 260)	(3 463)
Depreciation of Property and equipment	(2 880)	(2 705)
Maintenance of premises; security	(2 976)	(3 000)
Expenses from service of P&E	(2 285)	(3 326)
Other	(10 174)	(29 356)
Total administrative and other operating expenses	**(136 012)**	**(158 755)**

The headcount in 2013 amounted to 109 persons.

The headcount in 2012 amounted to 115 persons.

24. Income tax

Income tax expense comprises the following:

	2013 RUR'000	2012 RUR'000
Current income tax (expenses)/recovery	(13 200)	(16 394)
Deferred income tax expense	(2 402)	(14 281)
Plus deferred tax liability/asset of prior period	14 281	17 361
Plus deferred tax liabilities of prior years written off during the reporting period	-	23 195
Income tax (expense) / recovery for the year	**(1 321)**	**9 881**

The income tax rate applicable to the majority of the Bank's income is 20% (2012: 20%).

Differences between IFRS and the Russian legislation give rise to temporal differences between the current cost of some assets and liabilities for purposes of preparation of the financial statements and taxation. The tax effect of the movement in these temporary differences is recorded at the rate of 20%. Due to this the income tax rate was adjusted as at 31 December 2013 and at 31 December 2012.

25. Risk management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operating risks and legal risks. The primary objectives of the financial risk management function are to set risk limits, and then ensure that exposure to risks retains within these limits. The assessment of the risk is the basis for optimal allocation of capital including risks, transaction pricing and performance assessment. The operating and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to mitigate operating and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The bank monitors such risks on a regular basis; the limits are reviewed annually as a minimum. Limits of credit risks by products, borrowers and groups of borrowers are approved by the Management Board and Board of Directors.

Risk of one borrower including banks and broker companies are subject to additional limits that cover balance and off-balance risks. Limits on the level of the accepted risk are actually monitored on a daily basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Beside that, exposure to credit risk is also mitigated by obtaining collateral of property and securities, corporate and personal guarantees.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Bank analyses loans by maturity and further aging.

The Bank is exposed to repayment risk at the expense of loans with a fixed or flexible interest rate. The Bank's financial performance and equity for the current year and as at the current balance sheet date would not have significantly depend on changes in the rates at early repayment as such loans are carried at amortized cost and the repayment amount corresponds or almost corresponds to the amortized cost of loans to customers.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Management Board of the Bank sets limits on the level of exposure and Department for Financial Planning and Risk Control monitors their compliance on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Market risk management is aimed at managing and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Market risk assessment is performed in accordance with the requirements of Resolution of the Central Bank of Russian of 28 September 2012 No 387-P Order of Assessing Market Risk by Credit Institutions.

Geographical risk. Geographical risk analysis enables to consider the concentration of the Bank's assets and liabilities by country characteristics. Namely, most of them are referred to funds placed in the Russian Federation.

The geographical concentration of the Bank's assets and liabilities at 31 December 2013 is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	486 370	444 967	-	**931 337**
Due from the Bank of Russia	82 029	-	-	**82 029**
Due from banks and other financial institutions	160 679	-	-	**160 679**

Financial assets at fair value through profit or loss	692 701	-	-	**692 701**
Loans and receivables	6 829 685	-	-	**6 829 685**
Property and equipment	7 448	-	-	**7 448**
Other assets	666 010	-	-	**666 010**
Total assets	**8 924 922**	**444 967**	**-**	**9 369 889**
Liabilities				
Placements from banks and other financial institutions	2 831	-	1 465	**4 296**
Current accounts and deposits from customers	6 999 531	53 592	8 809	**7 061 932**
Debt securities issued	45 204	-	-	**45 204**
Subordinated borrowing	-	-	262 323	**262 323**
Other liabilities	667 886	-	-	**667 886**
Payables under repo transactions	488 546	-	-	**488 546**
Deferred tax liability	2 402	-	-	**2 402**
Total liabilities	**8 206 400**	**53 592**	**272 597**	**8 532 589**
Net gap	**718 522**	**391 375**	**(272 597)**	**837 300**

The geographical concentration of the Bank's assets and liabilities at 31 December 2012 is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	510 454	868 797	170	**1 379 421**
Due from the Bank of Russia	93 713	-	-	**93 713**
Due from banks and other financial institutions	101 774	739 161	-	**840 935**
Financial assets at fair value through profit or loss	139 132	-	-	**139 132**
Loans and receivables	5 737 351	-	-	**5 737 351**
Property and equipment	8 290	-	-	**8 290**
Assets held for trading	25 197	-	-	**25 197**
Available-for-sale financial assets	-	72 976	-	**72 976**
Other assets	8 047	-	-	**8 047**
Total assets	**6 623 958**	**1 680 934**	**170**	**8 305 062**
Liabilities				
Placements from banks and other financial institutions	75 198	-	2 970	**78 168**
Current accounts and deposits from customers	7 100 364	22 768	18 303	**7 141 435**
Promissory notes issued	113 677	-	-	**113 677**
Subordinated borrowing	-	-	243 441	**243 441**
Other liabilities	10 857	-	7	**10 864**
Deferred tax liability	18 679	-	-	**18 679**
Total liabilities	**7 318 775**	**22 768**	**264 721**	**7 606 264**
Net gap	**(694 817)**	**1 658 166**	**(264 551)**	**698 798**

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

The Bank is exposed to interest rate primarily as a result of granting loans at fixed interest rates and for periods other than periods of receiving loans at fixed rates.

In practice, interest rates are set for a short period of time. Besides interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors of the Bank sets limits on the level of mismatch of interest rate reprising that may be undertaken. Department for Financial Planning and Risk Control monitors compliance with the limits on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

Interest rate risk	**2013**	**2012**
	Net income/ Equity	Net income/ Equity
100 basic points upward parallel shift	(7 414)	(6 161)
100 basic points downward parallel shift	7 414	6 161

The Bank monitors interest rates for financial instruments. The table below presents interest rates based on reports analysed by the key management of the Bank as at 31 December 2013:

	RUR	**USD**	**EUR**
Assets			
Due from other banks	8,00%	-	0,13%
Loans to customers	13,00%	9,40%	9,30%
Available-for-sale financial assets	-	-	-
Financial assets at fair value through profit or loss	-	7,70%	-
Liabilities			
Deposits of other legal entities	6,59%	6,00%	4,00%
Deposits of individuals	9,90%	4,75%	4,25%
Debt securities issued	9,00%	-	4,50%
Subordinated borrowing	-	5,24%	-

The table below presents interest rates as at 31 December 2012:

	RUR	**USD**	**EUR**
Assets			
Due from other banks	3,80%	1,20%	0,25%
Loans to customers	13,00%	10,17%	9,93%
Available-for-sale financial assets	-	8,15%	-
Financial assets at fair value through profit or loss	-	6,50%	-
Liabilities			
Due to other banks	5,34%	-	-
Deposits of other legal entities	7,84%	5,50%	-
Deposits of individuals	9,60%	4,47%	4,33%
Debt securities issued	8,10%	-	-
Subordinated borrowing	-	5,32%	-

Currency risk

The Bank provides loans denominated in foreign currencies. Depending on cash flows received by borrower, increase in foreign currency rates to the currency of the Russian Federation may adversely affect the borrowers' repayment ability and incurrence of loan losses.

The following table provides movement of the financial performance and equity resulted from likely changes in exchange rates applied at the reporting date with other variables unchanged. Likely changes in exchange rates for each currency based on historical maximum fluctuations during December 2013:

	2013	2012
	Effect on profit or loss	**Effect on profit or loss**
5% appreciation of USD	38 596	6 106
5% depreciation of USD	(38 596)	(6 106)
5% appreciation of Euro	66	37 729
5% depreciation of Euro	(66)	(37 729)

Liquidity risk.

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk management is the responsibility of Department for Financial Planning and Risk Control of the Bank.

The Bank seeks to actively support stable funding base comprising due from other banks, corporate deposits of legal entities, placements from individuals and debt securities accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank regularly maintains liquidity management through liquidity analysis of assets with the objective of ensuring that funds will be available to honour obligations as they become due; that certain plans to recover unfavourable financial position exist; that control over balance liquidity ratios are adhered to the regulations. The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia.

Department for Dealing and Inter-bank crediting and Department for Securities ensure an adequate portfolio of short-term liquid assets mainly containing short-term liquid trading securities, deposits in banks and other inter-bank instruments in order to maintain a sufficient liquidity in the Bank in general.

The daily liquid position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by Department for Planning and Risk Control.

The table below shows liabilities as at 31 December 2013 by their remaining contractual maturity. The amounts represent contractual undiscounted cash flows. These undiscounted cash flows differ from the statement of financial position amounts as the amounts are based on the discounted cash flows.

When the amount payable is not fixed, the sum in the table is based on the conditions valid at the balance sheet date. Currency amounts are recalculated at the spot exchange rate at the reporting date.

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

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Total
Due to other banks	4 296	-	-	-	**4 296**
Current accounts and deposits from customers	1 904 615	2 115 832	3 301 336	967	**7 322 750**
Payables under repo transactions	488 546	-	-	-	**488 546**
Promissory notes issued	55 135	6 930	12 316	-	**74 381**
Other liabilities	667 329	209	326	22	**667 886**
Subordinated borrowing	-	-	-	378 023	**378 023**
Deferred tax liability	2 402	-	-	-	**2 402**
Total liabilities	**3 122 323**	**2 122 971**	**3 313 978**	**379 012**	**8 938 284**

The position of the Bank as at 31 December 2012 was as follows:

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Total
Due to other banks	78 270	-	-	-	**78 270**
Current accounts and deposits from customers	2 155 256	2 359 402	2 663 049	37 114	**7 214 821**
Promissory notes issued	54 645	25 412	188 739	27 879	**296 675**
Other liabilities	10 347	174	-	-	**10 553**
Subordinated borrowing	-	-	12 927	274 854	**287 781**
Deferred tax liability	18 679	-	-	-	**18 679**
Total liabilities	**2 317 197**	**2 384 988**	**2 864 747**	**339 847**	**7 906 779**

26. Capital management

The Central Bank of the Russian Federation sets and monitors the requirements to the capital level of the Bank.

The Bank designates the items as capital in accordance with the laws of the Russian Federation.

Currently, the Central Bank of the Russian Federation requires banks to keep the standard ratio of the capital to assets as risk weighted ("capital adequacy level") as higher of the minimum level. As at 31 December 2013 this minimum level amounts to 10 %. During 2013 and 2012, the adequacy level of the Bank was in accordance with the stated level.

27. Off-balance sheet commitments

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

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2013 RUR'000	2012 RUR'000
Contracted amount		
Loan and credit line commitments	40 925	12 446
Guarantees issued	32 456	122 744
Total	**73 381**	**135 190**

Many of these commitments may expire or terminate without being funded. Hence, the total outstanding contractual commitments indicated above do not necessarily represent future cash requirements.

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2013 RUR'000	2012 RUR'000
Less than 1 year	450	567
Between 1 and 5 years	8 387	11 634
Total	**8 837**	**12 201**

The Bank leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

	2013 RUR'000	2012 RUR'000
The Bank recognised as an expense from operating leases in the profit and loss:	5 641	5 482

29. Commitments and Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

The Bank's management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

30. Fair value of financial instruments

Fair value is the amount for which as asset could be exchanged, or a liability settled, between knowledgeable, willing partied in an arm's length transaction except for the case of forced sale or liquidation. Fair value of financial instruments is best represented by a quoted market price of the financial market. As there is absence of the market for the majority of the Bank's financial instruments, in order to define their fair value the valuation that takes into account economic conditions and specific risks connected with a particular instrument should be resorted to. The valuations below may not coincide with the amount the Bank is able to receive if a certain portfolio is sold in the market.

The Bank adopts the following methods and assumptions upon measuring the financial instruments:

Financial instruments at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss, financial assets held for trading and held-to-maturity are carried in the statement of financial position at their fair value. For some financial assets available-for-sale, independent market quotations are not available. Fair value of such assets is based on recent sales of shares in companies that have been invested in by third parties, on analysis of other information such as discounted cash flows and financial information on other companies being invested in and on other measurement methods.

Due from other banks. Fair value of cash with floating rate is equal to its carrying amount. Estimated fair value of cash with fixed interest rate is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. In the Bank's opinion, the fair value of due from other banks as at 31 December 2013 and at 31 December 2012 did not significantly differ from their carrying amount. This is due to their short-term nature.

Loans to customers. Loans to customers are measured less impairment provision. Estimated fair value of loans to customers is the discounted amount of expected estimated future cash flows. Expected cash flows are discounted at current market rated to measure fair value. In the Bank's opinion, the fair value of loans to customers as at 31 December 2013 and at 31 December 2012 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

Due to other banks. The fair value of due to other banks to mature within one month is nearly equal to their carrying amount due to a considerably short period of maturity. Due to other banks to mature within periods over one month have a fair value of a present value of future cash flows discounted with market interest rate implicit in similar financial instrument. In the Bank's opinion, the fair value of due to other banks as at 31 December 2013 and at 31 December 2012 was insignificantly different from their carrying amount. It is explained by their considerably short maturities.

Customer accounts. The estimated fair value of customer accounts for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. In the Bank's opinion, the fair value of customer accounts as at 31 December 2013 and at 31 December 2012 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate

is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

Debt securities issued. The estimated fair value of debt securities issued with a fixed interest is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. For quoted debt securities issued, the fair value is based on quoted markets.

Other borrowings. The fair value of other borrowings with fixed interest rate and other raised funds for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. The estimated fair value of the other borrowings of the Bank is approximately equal to the carrying amount since the instruments do not have quoted market prices, similar instruments and have been attracted with a flexible rate Libor+5%.

31. Maturity analysis

The contractual maturity of assets and liabilities analysis as at 31 December 2013 is set out below: Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Uncertain	Total
Assets						
Cash and cash equivalents	931 337	-	-	-	-	**931 337**
Due from the Bank of Russia	-	-	-	-	82 029	**82 029**
Due from banks and other financial institutions	8 706	151 973	-	-	-	**160 679**
Financial assets at fair value through profit or loss	661 598	-	-	31 103	-	**692 701**
Available-for-sale financial assets	-	-	-	-	-	-
Loans to customers	271 037	3 757 576	2 511 538	289 534	-	**6 829 685**
Assets held for trading	-	-	-	-	-	-
Property and equipment	-	-	-	-	7 448	**7 448**
Other assets	661 259	1 442	1 446	1 863	-	**666 010**
Total assets	**2 533 937**	**3 910 991**	**2 512 984**	**322 500**	**89 477**	**9 369 889**
Liabilities						
Due to other banks	4 296	-	-	-	-	**4 296**
Current accounts and deposits from customers	1 903 736	2 077 647	3 079 646	903	-	**7 061 932**
Payables under repo transactions	488 546	-	-	-	-	**488 546**
Promissory notes issued	31 368	7 633	6 203	-	-	**45 204**
Other liabilities	667 329	209	326	22	-	**667 886**
Subordinated borrowing	-	-	-	262 323	-	**262 323**
Deferred tax liability	2 402	-	-	-	-	**2 402**
Total liabilities	**3 097 677**	**2 085 489**	**3 086 175**	**263 248**	**-**	**8 532 589**
Net gap	**(563 740)**	**1 825 502**	**(573 191)**	**59 252**	**89 477**	**837 300**
Total gap for 31.12.13	**(563 740)**	**1 261 762**	**688 571**	**747 823**	**837 300**	

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

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Uncertain	Total
Assets						
Cash and cash equivalents	1 379 421	-	-	-	-	**1 379 421**
Due from the Bank of Russia	-	-	-	-	93 713	**93 713**
Due from banks and other financial institutions	445 175	395 760	-	-	-	**840 935**
Financial assets at fair value through profit or loss	88 848	-	-	50 284	-	**139 132**
Available-for-sale financial assets	-	-	-	72 976	-	**72 976**
Loans to customers	213 422	3 184 246	2 001 242	338 441	-	**5 737 351**
Assets held for trading	25 197	-	-	-	-	**25 197**
Property and equipment	-	-	-	-	8 290	**8 290**
Other assets	8 047	-	-	-	-	**8 047**
Total assets	**2 160 110**	**3 580 006**	**2 001 242**	**461 701**	**102 003**	**8 305 062**
Liabilities						
Due to other banks	78 168	-	-	-	-	**78 168**
Current accounts and deposits from customers	2 154 298	2 304 337	2 650 231	32 569	-	**7 141 435**
Promissory notes issued	54 457	24 980	8 699	25 541	-	**113 677**
Other liabilities	10 347	174	311	32	-	**10 864**
Subordinated borrowing	-	-	-	243 441	-	**243 441**
Deferred tax liability	18 679	-	-	-	-	**18 679**
Total liabilities	**2 315 949**	**2 329 491**	**2 659 241**	**301 583**	-	**7 606 264**
Net gap	**(155 839)**	**1 250 515**	**(657 999)**	**160 118**	**102 003**	**698 798**

The analysis is based on the estimated maturities.

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

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

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32. Currency analysis

The Bank takes on exposure to effects of fluctuations of exchange rates on its financial position and cash flows. The Management Board of the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and Department for Financial Planning and Risk Control monitor them daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2013:

	RUR '000 RUR	USD '000 RUR	EUR '000 RUR	Other currencies '000 RUR	Total
Assets					
Cash and cash equivalents	341 408	285 347	304 124	458	**931 337**
Due from the Bank of Russia	82 029	-	-	-	**82 029**
Due from banks and other financial institutions	158 061	2 618	-	-	**160 679**
Financial assets at fair value through profit or loss	692 701	-	-	-	**692 701**
Loans and receivables	4 936 496	1 551 609	341 580	-	**6 829 685**
Property and equipment	7 448	-	-	-	**7 448**
Assets held for trading	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-
Other assets	338 718	327 292	-	-	**666 010**
Total assets	**6 556 861**	**2 166 866**	**645 704**	**458**	**9 369 889**
Liabilities					
Placements from banks and other financial institutions	1 472	2 824	-	-	**4 296**
Current accounts and deposits from customers	4 075 192	2 346 352	638 622	1 766	**7 061 932**
Debt securities issued	39 435	-	5 769	-	**45 204**
Subordinated borrowing	-	262 323	-	-	**262 323**
Other liabilities	340 594	327 292	-	-	**667 886**
Payables under repo transactions	488 546	-	-	-	**488 546**
Deferred tax liability	2 402	-	-	-	**2 402**
Total liabilities	**4 947 641**	**2 938 791**	**644 391**	**1 766**	**8 532 589**
Net gap	**1 609 220**	**(771 925)**	**1 313**	**(1 308)**	**837 300**
Cumulative gap for 31 December 2013	**1 609 220**	**837 295**	**838 608**	**837 300**	

The following table shows the currency structure of assets and liabilities at 31 December 2012:

	RUR '000 RUR	USD '000 RUR	EUR '000 RUR	Other currencies '000 RUR	Total
Assets					
Cash and cash equivalents	335 730	167 483	875 888	320	**1 379 421**
Due from the Bank of Russia	93 713	-	-	-	**93 713**
Due from banks and other financial institutions	51 193	776 746	12 996	-	**840 935**
Financial assets at fair value through profit or loss	139 132	-	-	-	**139 132**
Available-for-sale financial assets	-	72 976	-	-	**72 976**
Loans and receivables	4 215 869	1 187 842	333 640		**5 737 351**
Property and equipment	8 290	-	-	-	**8 290**
Assets held for trading	25 197	-	-	-	**25 197**
Other assets	8 047	-	-	-	**8 047**
Total assets	**4 877 171**	**2 205 047**	**1 222 524**	**320**	**8 305 062**
Liabilities					
Placements from banks and other financial institutions	78 134	34	-	-	**78 168**
Current accounts and deposits from customers	4 593 700	2 083 697	463 904	134	**7 141 435**
Promissory notes issued	109 641	-	4 036	-	**113 677**
Subordinated borrowing	-	243 441	-	-	**243 441**
Other liabilities	10 864	-	-	-	**10 864**
Deferred tax liability	18 679	-	-	-	**18 679**
Total liabilities	**4 811 018**	**2 327 172**	**467 940**	**134**	**7 606 264**
Net gap	**66 153**	**(122 125)**	**754 584**	**186**	**698 798**
Cumulative gap for 31 December 2012	**66 153**	**(55 972)**	**698 612**	**698 798**	

33. Related party transactions

Transactions with members of the Board of Directors and the Management Board

The total remuneration to the key personnel for the year ended 31 December 2013 amounted to RUR 10,756 thousand.

The outstanding balances as at 31 December 2013 and as at 31 December 2012 with the related parties were as follows:

	2013 RUR'000	2012 RUR'000
Balance Sheet		
Assets		
Loans to customers	151 138	162 645
Liabilities		

Current accounts and deposits	605 464	680 217
Debt securities issued	-	3 451
Off balance sheet items		
Guarantees and warrants issued	-	32 717

Amounts are included in the income statement in relation to related party transactions as follows:

	2013 RUR'000	2012 RUR'000
Income Statement		
Interest income	25 735	28 625
Interest expense	35 457	27 506
Fee and commission income	18 759	15 707

34. Events subsequent to the balance sheet date

The Bank considered all the events subsequent to the balance sheet date and made adjustments to the financial statements relevant to such information.

Signed on behalf of the Board of the Bank on 15 April 2014

E.B. Galichev
Chairman of the Board

N.M. Poletaeva
Chief Accountant

Прошнуровано, пронумеровано и
скреплено печатью 44 листов
Начальник канцелярии
ООО «ФинЭкспертиза» Чиркова И.В.
Действует на основании доверенности
№ 031-01/12 от 31.01.12
"22" 04 2014 г.