Open Joint-Stock Company “NOMOS-BANK”

Consolidated Financial Statements
For the Year Ended 31 December 2013

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OPEN JOINT-STOCK COMPANY "NOMOS-BANK"

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

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

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorized for issue by the Supervisory Board of the Bank on 3 April 2014.

On behalf of the Supervisory Board

President	**Chief Accountant**
3 April 2014	3 April 2014
Moscow	Moscow

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint-Stock Company "NOMOS-BANK"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "NOMOS-BANK" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche

3 April 2014
Moscow, Russian Federation

Ploutalova Svetlana Evgenyevna, Partner
(certificate no 01-000596 dated 19 March 2012)

ZAO "Deloitte and Touche CIS"

The Entity: OPEN JOINT-STOCK COMPANY "NOMOS-BANK"

Certificate of state registration № 2209 dated 15.12.1992.

Certificate of registration in the Unified State Register for legal entities registered before 1 July 2002 № 1027739019208, of 26.07.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: Russia, 109240, Moscow, Verkhnyaya Radishevskaya 3, bld. 1

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013
(in million of Russian Roubles)

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	6	87,832	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation		8,869	6,932
Precious metals	7	5,746	6,402
Financial assets at fair value through profit or loss	8,9,37	181,986	104,254
Loans and advances to banks and other financial institutions	10,37	133,661	111,586
Loans to customers	11,37	879,274	590,564
Investments available-for-sale	12,37	39,532	4,919
Investments held to maturity		-	201
Investment property	13	8,571	4,761
Property, plant and equipment	14	16,205	11,117
Intangible assets	15	3,509	2,481
Goodwill		1,999	809
Other assets	16,37	11,867	4,729
TOTAL ASSETS		**1,379,051**	**899,903**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	9,37	2,866	3,191
Due to banks and the Central Bank of the Russian Federation	17,37	257,187	213,510
Customer accounts	18,37	781,471	471,727
Bonds and Eurobonds	19	63,959	42,618
Promissory notes issued	20	61,652	21,145
Deferred income tax liabilities	30	3,378	1,690
Other liabilities	21,37	5,722	4,788
Subordinated debt	22,37	63,459	50,873
TOTAL LIABILITIES		**1,239,694**	**809,542**
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital		7,934	6,504
Treasury shares		(932)	(605)
Share premium		38,883	20,898
Available-for-sale reserve / (deficit)		(34)	(230)
Property, plant and equipment revaluation reserve		1,617	1,302
Retained earnings		58,806	46,811
Total equity attributable to equity holders of the parent		106,274	74,680
Non-controlling interest	24	33,083	15,681
TOTAL EQUITY		139,357	90,361
TOTAL LIABILITIES AND EQUITY		**1,379,051**	**899,903**

On behalf of the Supervisory Board

President

3 April 2014
Moscow

Chief Accountant

3 April 2014
Moscow

The notes on pages 10-108 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	25,37	97,849	66,650
Interest expense	25,37	(57,122)	(35,244)
NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOWS AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	25	**40,727**	**31,406**
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination	37	380	925
Provision for impairment losses on interest bearing assets	11,37	(9,390)	(5,886)
NET INTEREST INCOME		**31,717**	**26,445**
Trading income/(loss):	26,39	761	2,681
Securities		(988)	1,335
Foreign currency		1,582	1,013
Precious metals		151	365
Other derivatives		16	(32)
Net fee and commission income	27,37	8,988	7,941
Fee and commission income	27,37	12,155	10,895
Fee and commission expense	27,37	(3,167)	(2,954)
Net gain on investments available-for-sale	37	22	593
Net gain on disposal of loans	11	1,543	1,259
Provision for impairment losses on other transactions	16,21	(30)	(111)
Shares of profit in associates	5	188	-
Gain /(loss) from revaluation of investment property	13	178	(28)
Other income	28,37	827	754
NET NON-INTEREST INCOME		**12,477**	**13,089**
OPERATING INCOME		**44,194**	**39,534**
OPERATING EXPENSES	29,37	(21,993)	(21,381)
(Impairment) / recovery of impairment of buildings and constructions	14	(13)	101
OPERATING PROFIT BEFORE INCOME TAX		**22,188**	**18,254**
Income tax expense	30	(4,886)	(3,239)
NET PROFIT		**17,302**	**15,015**
Attributable to:			
Owners of the parent		14,904	12,574
Non-controlling interest		2,398	2,441
EARNINGS PER SHARE			
From continuing and discontinued operations			
Basic and diluted (RUR)	31	**154.13**	**136.05**

On behalf of the Supervisory Board

President

3 April 2014
Moscow

Chief Accountant

3 April 2014
Moscow

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Net profit for the year		**17,302**	**15,015**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net gain resulting from revaluation of property		459	368
Share in revaluation of property of associate, net of tax		62	-
Income tax	30	(92)	(73)
		429	295
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) resulting on revaluation of available-for-sale financial assets during the year		619	42
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year		(529)	(315)
Share in revaluation of available-for-sale financial assets of associate, net of tax		53	-
Income tax	30	(18)	55
		125	(218)
Other comprehensive income after income tax		**554**	**77**
Total comprehensive income		**17,856**	**15,092**
Attributable to:			
Owners of the parent		15,375	12,610
Non-controlling interests	24	2,481	2,482
Total comprehensive income		**17,856**	**15,092**

On behalf of the Supervisory Board

President

3 April 2014
Moscow

Chief Accountant

3 April 2014
Moscow

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

	Note	Share capital	Treasury preference shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation of investments available-for-sale	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
31 December 2011		**6,504**	**(605)**	**20,898**	**1,073**	**(35)**	**34,462**	**62,297**	**13,413**	**75,710**
Net profit for the year		-	-	-	-	-	12,574	12,574	2,441	15,015
Total other comprehensive income for the period, net of tax		-	-	-	233	(197)	-	36	41	77
Sale of subsidiaries		-	-	-	-	-	182	182	(112)	70
Effect of increase/ (decrease) of the Group's shareholding in subsidiaries		-	-	-	(4)	2	(407)	(409)	(63)	(472)
Dividends paid		-	-	-	-	-		-	(39)	(39)
31 December 2012		**6,504**	**(605)**	**20,898**	**1,302**	**(230)**	**46,811**	**74,680**	**15,681**	**90,361**
Net profit for the year		-	-	-	-	-	14,904	14,904	2,398	17,302
Total other comprehensive income for the period, net of tax		-	-	-	296	60	-	356	83	439
Share capital increase due to the merge with subsidiary banks	23	340	(340)	-	-	-	-	-	-	-
Share capital increase – issue of ordinary shares	23	1,090	-	17,985	-	-	-	19,075	-	19,075
Sale of treasury shares		-	16	-	-	-	235	251	-	251
Purchase of treasury shares		-	(3)	-	-	-	(53)	(56)	-	(56)
Sale of property, plant and equipment		-	-	-	(44)	-	44	-	-	-
Acquisition of subsidiaries	5	-	-	-	-	-	(3,203)	(3,203)	15,095	11,892
Effect of increase/ (decrease) of the Group's shareholding in subsidiaries	5	-	-	-	1	83	68	152	(174)	(22)
Other comprehensive income from associate		-	-	-	62	53	-	115	-	115
31 December 2013		**7,934**	**(932)**	**38,883**	**1,617**	**(34)**	**58,806**	**106,274**	**33,083**	**139,357**

On behalf of the Supervisory Board

President

3 April 2014
Moscow

Chief Accountant

3 April 2014
Moscow

The notes on pages 10-108 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities:			
Interest received		94,264	65,909
Interest paid		(54,937)	(31,621)
Cash received from prepayment of loans acquired in business combination in excess of carrying value		61	467
Cash received on dealing with securities		384	1,419
Cash received on dealing with precious metals		173	358
Cash received on dealing with foreign currencies		1,180	385
Cash received /(paid) on dealing with other derivatives		71	(116)
Fees and commissions received		11,892	10,718
Fees and commissions paid		(3,005)	(3,068)
Other operating income received		838	690
Operating expenses paid		(19,432)	(18,995)
Cash flows from operating activities before changes in operating assets and liabilities		**31,489**	**26,146**
Cash increase/(decrease) from operating assets and liabilities			
Minimum reserve deposits with the Central Bank of the Russian Federation		(255)	(821)
Precious metals		(626)	2,974
Financial assets and liabilities at fair value through profit or loss		(78,402)	(26,256)
Loans and advances to banks and other financial institutions		72,701	(62,357)
Loans to customers		(186,874)	(153,631)
Other assets		(4,480)	(360)
Due to banks and the Central Bank of the Russian Federation		22,373	109,632
Customer accounts		161,744	92,094
Bonds and Eurobonds, net		20,800	3,375
Promissory notes issued/(redeemed), net		34,845	2,002
Other liabilities		(1,390)	246
Net cash from/(used in) operating activities before income tax		**71,925**	**(6,956)**
Income taxes paid		(4,018)	(3,536)
Net cash from/(used in) operating activities		**67,907**	**(10,492)**
Cash flows from investing activities:			
Proceeds from investments held to maturity repayment		174	325
Acquisition of subsidiaries net of cash acquired	5	35,037	-
Purchase of property, plant and equipment	14	(1,049)	(771)
Proceeds from sale of property, plant and equipment		403	85
Purchase of intangible assets		(745)	(769)
Purchase of available-for-sale financial assets		(1,423)	(418)
Proceeds from sale of available-for-sale financial assets		5,455	4,747
Purchase of investment property	13	(991)	(1,072)
Proceeds from sale of investment property	13	1,403	250
Dividends received		2	6
Disposal of subsidiaries		-	462
Net cash from investing activities		**38,266**	**2,845**
Cash flows from financing activities:			
Issuance of shares		1,090	-
Share premium		17,985	-
Purchase of treasury preference shares		(56)	-
Proceeds from sale of ordinary shares		263	-
Redemption of bonds and Eurobonds		(4,263)	(334)
Subordinated debt received		7,609	24,318
Subordinated debt repaid		(3,198)	(35)
Effect of change in ownership interest in subsidiaries		(20)	-
Purchase of shares from non-controlling shareholders		-	(447)
Net cash from financing activities		**19,410**	**23,502**
Effect of exchange rate changes on cash and cash equivalents		680	(300)
Net increase in cash and cash equivalents		**126,263**	**15,555**
Cash and cash equivalents, beginning of the period	6	70,861	55,306
Cash and cash equivalents, ending of the period	6	**197,124**	**70,861**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

From the third quarter 2013 the Group's treasury department changed the way it manages and monitors its liquidity. As a result as at 31 December 2013 the Group added to cash and cash equivalents loans to banks and loans under reverse repurchase agreements with original contractual maturity of less than 90 days.

Had the Group applied this approach in 2012 the following changes would have been made to statement of cash flows for the year ended 31 December 2012:

	As reported	**Effect**	**As if prepared under new approach**
Operating activities:			
Loans ans advances to banks and other financial institutions	(62,357)	85,253	22,896
Total cash (used in)/from operating activities	(10,492)	85,253	74,761
Net effect	-	85,253	-

Line item presentations in cash flow as at 31 December 2012:

	As reported	**Effect**	**As if prepared under new approach**
Cash and cash equivalents, opening balance	55,306	25,274	80,580
Cash and cash equivalents, ending balance	70,861	110,527	181,388

During the years ended 31 December 2013 and 2012 the Group obtained non-cash settlements for uncollectible loans to customers, previously originated and net assets acquired through purchase of subsidiary bank. These non-cash settlements were excluded from the consolidated statement of cash flows and presented separately below:

	Notes	**Year ended 31 December 2013**	**Year ended 31 December 2012**
NON-CASH TRANSACTION:			
Loans to customers settled by means of collateral repossession:			
Investment property		(261)	(343)
Other assets (obtained through repossession of collateral on uncollectible loans to customers):			
Property received as a collateral repossession		261	343
Net assets of subsidiary acquired		25,659	-

On behalf of the Supervisory Board

President

3 April 2014
Moscow

Chief Accountant

3 April 2014
Moscow

The notes on pages 10-108 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013
(in million of Russian Roubles)

1. ORGANISATION

OJSC "NOMOS-BANK" (the "Bank") is a joint-stock bank incorporated in the Russian Federation in 1992. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2209. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, providing loans and guarantees.

The registered office of the Bank is located at 3, Verhnaya Radishevskaya st., Moscow, 109240, Russia.

As at 31 December 2013 the Bank had 23 branches operating in the Russian Federation and 1 representative office abroad.

The accompanying consolidated financial statements comprise the accounts of Open Joint Stock Company "NOMOS-BANK" and its subsidiaries (together the "Group"). The consolidated financial statements include the following incorporated subsidiaries:

		The Bank's ownership interest/control (*)		
Name	**Country of incorporation**	**31 December 2013 %**	**31 December 2012 %**	**Type of activity**
OJSC "NOMOS-BANK"	Russian Federation	Parent company	Parent company	Banking activity
OJSC "Khanty-Mansiysk Bank"	Russian Federation	51.29/51.29	51.29/51.29	Banking activity
OJSC Bank "Otkritie"	Russian Federation	41.17/85.69**	-	Banking activity
OJSC "Novosibirsk Municipal Bank"	Russian Federation	99.99/99.99	86.98/86.98	Banking activity
BKM Finance Limited	Ireland	(contractual agreement)	(contractual agreement)	Issue of securities
LLC "Yugra-Leasing"	Russian Federation	51.29/100	51.29/100	Finance lease of equipment
LLC "Group of Project Finance"	Russian Federation	51.29/100	51.29/100	Construction
LLC "NM-Expert"	Russian Federation	19.90/100	19.90/100	Consulting
LLC "Promgazcomplekt"	Russian Federation	100/100	100/100	Office building ownership
OJSC "Promestate"	Russian Federation	100/100	100/100	Office building ownership
CJSC "Sovfintrast"	Russian Federation	100/100	100/100	Investment management
CJSC "Upravlyaushaya compania aktivami"	Russian Federation	99.9/99.9	99.9/99.9	Asset management
Nomos Capital Plc.	Ireland	(contractual agreement)	(contractual agreement)	Issue of Eurobonds
CJSC "Erada"	Russian Federation	100/100	100/100	Office building ownership
LLC "NM-Garant"	Russian Federation	100/100	100/100	Investment management
LLC "Leasing-Project"	Russian Federation	100/100	100/100	Finance lease of equipment
LLC "BFK-Invest"	Russian Federation	100/100	100/100	Office building ownership
LLC "Attenium"	Russian Federation	100/100	100/100	Investment management
LLC NKO "Payment System "Rapida"	Russian Federation	100/100	100/100	Payment system
LLC "Processing centre "Rapida"	Russian Federation	100/100	100/100	Processing centre
LLC "Gikor"	Russian Federation	100/100	100/100	Asset management
LLC "Upravlyaushaya compania NOMOS BANK"	Russian Federation	100/100	100/100	Asset management
LLC "KN-Estate"	Russian Federation	100/100	100/100	Office building ownership
LLC "Nedvizhimost Primorya"	Russian Federation	100/100	100/100	Real estate rent activity
LLC "Invest-Trading"	Russian Federation	100/100	100/100	Investment management
LLC "Vostok-Capital"	Russian Federation	100/100	100/100	Investment management
LLC "NM-Activ"	Russian Federation	100/100	-	Investment management
CJSC "Mortgage Agent KhMB-1"	Russian Federation	(contractual agreement)	-	Issue of mortgage-backed bonds
CJSC "Mortgage Agent Nomos"	Russian Federation	(contractual agreement)	(contractual agreement)	Issue of mortgage-backed bonds
CJSC "Mortgage Agent Otkritie 1"	Russian Federation	(contractual agreement)	-	Issue of mortgage-backed bonds
LLC "NM-Kapital"	Russian Federation	100/100	-	Investment management

(*) The Ownership and control represent the following:

- Ownership represents the effective ownership interest in the subsidiary by the ultimate parent company – OJSC Nomos Bank;
- Control represents the total % of the voting shares controlled, either directly or indirectly, by the entities of the Group;

(**) Control is gained due to the terms of the agreement concluded as at 27 December 2013 stating that LLC "Otkritie N" transferes voting rights, belonging to LLC "Otkritie N" over OJSC Bank "Otkritie" to the Group, which amounted to 44.52% interest share (Note 5).

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

Additionally, the Group consolidates the following investment funds, as the Group exercises control over them as contractually stipulated:

Name	**31 December 2013 %**	**31 December 2012 %**
ZPIF "Universal fund of mixed investments"	100	100
ZPIF "KhMB-Capital"	100	100
ZPIF "Centr (Olma)"	100	-
ZPIF "Strategiya Razvitiya"	-	100
ZPIFRE "Universal – Real estate fund"	100	100

As at 31 December 2013 the Group also had holdings (50%) in ZAO PK HESCARD, an entity that does not conduct active operations and is insignificant in terms of the Group's financial statements.

As at 31 December 2013 and 2012 the Group had 17,890 employees and 10,999 employees, respectively.

The Group also operates a number of network supplementary offices and currency exchange offices within the Russian Federation. As at 31 December 2013 and 2012 the Group had respectively 809 and 297 points of sale including branches, supplementary offices and currency exchange offices.

The information about acquisitions and disposals of subsidiaries during the years ended 31 December 2013 and 2012 is presented in Note 5.

As at 31 December 2013 and 2012 the following shareholders owned the issued shares of the Bank:

	31 December 2013, %	**31 December 2012, %**
Shareholders of the Bank (Shareholders of the first level):		
Group OJSC "Financial corporation "OTKRITIE"	75.00	19.90
Non-Government pension funds	16.89	-
Other	8.11	80.10***
Total	**100.00**	**100.00**

(***) As at 31 December 2012 other shareholders were as follows:

	31 December 2012, %
Shareholders of the Bank (Shareholders of the first level):	
Custodian for Global Depository Receipts on London Stock Exchange*	20.46
"Vitalpeake Cyprus Limited"	17.70
"Lordline Cyprus Limited"	15.99
"Arrowzone Cyprus Limited"	7.95
"Viewrock Cyprus Limited"	7.11
"Belfanto Investments Ltd"	4.99
"Oviresto Investments Ltd"	4.91
Other	0.99
Total	**80.10**

(*) Other shareholders include minority shareholders and undisclosed holders of the Global Depository Receipts traded on London Stock Exchange. Holders of GDRs have the option to disclose their information at any time. On disclosure of their information the holders of GDRs have the right to participate in voting.

As at December 2013 OJSC "Financial corporation "OTKRITIE" (hereinafter – the"Parent Company") is a company that controls the Group.

During 2013 the Bank has completed the merge of two of its subsidiaries OJSC "NOMOS-REGIOBANK" and OJSC "NOMOS Siberia", the shares of subsidiary banks were converted into the shares of OJSC "NOMOS-BANK". As at 31 December 5.34% of the shares belongs to the subsidiaries of the Group and recognized as treasury shares. The deal was performed in terms of the Group's organization structure optimization.

As at 31 December 2013 and 2012 the following subsidiary companies owned treasury shares of the Bank (their shares in ordinary shares are indicated in the table below):

Shareholders of treasury ordinary shares	**31 December 2013, %**	**31 December 2012, %**
CJSC "Erada" (subsidiary company)	2.67	-
LLC "Promgazcomplekt" (subsidiary company)	1.71	-
CJSC "Sovfintrast" (subsidiary company)	0.96	-
Total	**5.34**	**-**

As at 31 December 2013 and 2012 the following company owned the outstanding preference shares of the Bank:

Shareholder of treasury preference shares	**31 December 2013, %**	**31 December 2012, %**
Shareholder of treasury preference shares of the Bank (Shareholder of the first level):		
LLC "KN-Estate" (subsidiary company)	100.00	100.00
Total	**100.00**	**100.00**

2. SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These consolidated financial statements are presented in million of Russian roubles ("RUB million"), unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain properties, non-current assets held for sale and financial instruments that are measured at revalued amounts or at the lower of carrying amount and fair values less costs to sell or at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the end of reporting period.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The presentational currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million Roubles, except when otherwise indicated.

Offsetting**.** Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation.

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The ownership interest of the Bank and/or the proportion of voting power of the Bank in the significant subsidiaries as at 31 December 2013 and 2012 are presented in Note 1.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition related costs are expensed as incurred. The excess of the cost of acquisition, as well as the fair value of any interest previously held, over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary, associate or business at the date of acquisition is recorded as goodwill.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group outside the scope of IFRS 3R – "Business Combinations", and there is no other guidance for such situations under IFRS. The Group elects to account for such transactions prospectively as of the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements at the date of acquisition. The difference between the consideration paid and the net assets acquired is accounted for directly in equity. The consolidated statement of financial position, consolidated income statement, consolidated statement of other comprehensive income and cash flows for periods prior to the acquisition date are not restated.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group looses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are incremental and directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset or interest paid on the financial liability, which are included in the interest income or interest expense in the consolidated income statement.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Investments held to maturity

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has positive intent and ability to hold to maturity are classified as held to maturity investments. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Investments available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and bonds held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares and units of investment funds that are not traded in an active market but that are also classified as AFS financial assets and stated at cost (because the Group’s management considers that the fair value can not be reliably measured). Fair value is determined in the manner described (see Note 34). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

Dividends on available-for-sale equity instruments are recognized in profit or loss in other income when the Group’s right to receive the dividends is established.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions are initially recognized at fair value, plus incremental direct transactions costs. Loans and advances to banks and other financial institutions are subsequently measured at amortized cost using the effective interest method. Amounts of loans and advances to banks and other financial institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related incremental transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and repurchase agreements ("repos") and financial asset purchase and sellback agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

Financial assets subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by the Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Financialassets purchased under reverse repos under which the Group is not exposed to substantially all the risks and rewards of ownership are not recognized on the balance sheet and the consideration paid is recorded as cash placed on deposit collateralized by securities and other assets and are classified within loans and advances to banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

The Group enters into securities repurchase agreements and securities reverse repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation and other Commonwealth of Independent States ("CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Impairment of financial assets

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

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

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

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

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

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

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

The change in the impairment is included into consolidated income statement using the provision account (financial assets measured at amortized cost) or by a direct write-off (financial assets measured at cost). Assets recognized in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

Renegotiated loans

Where possible, the Group seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. There are different risk characteristics associated with renegotiated loans that were impaired before the renegotiation compared to loans that were not renegotiated. The impairment loss allowances on renegotiated loans which are homogeneous and of small balaces are calculated in the same manner as on any other loan in that portfolio using the Group's collective assessment methodology. In making a collective assessment for impairment, loans that are subject to forbearance are grouped together according to their credit risk characteristics. For renegotiated loans which are not of a small balance and homogeneous the Group continually reviews them for impairment using an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and time deposits with the Central Bank of the Russian Federation with original maturity of less or equal to 90 days and amounts on correspondents accounts and due from credit institutions with original maturity of less or equal to 90 days.

As at 31 December 2013, cash equivalents also include loans to banks and loans under reverse repurchase agreements with contractual maturity of less than 90 days.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation ("CBR") represent the amount of obligatory reserves deposited with the CBR in accordance with requirements established by the CBR which are subject to restrictions on its availability. Therefore the minimum reserve deposit required by the CBR is not included as a cash equivalent.

Precious metals

Assets and liabilities denominated in precious metals are translated into Roubles at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals.

Loans and advances to banks and customer accounts denominated in precious metals are recognized at fair value, impact resulting from revaluation is included in consolidated income statement.

Financial liabilities and equity instruments issued

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

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated income statement.

Other financial liabilities

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value**,** net of transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Derecognition of financial liabilities

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

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

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

Derivative financial instruments.

The Group enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forwards, swaps and options on foreign currency, precious metals and securities. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments or other host contracts are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid financial instrument that includes both the embedded derivative and the underlying host.

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;

- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to finance lease is recognized in the consolidated financial statements as property, plant and equipment purchased to transfer to finance lease at cost.

The Group as a lessee

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present values of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment and intangible assets

Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss. Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets (less their residual value) over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2%-4%
Furniture and equipment	7-20%
Other property, plant and equipment	14.3%-25%
Intangible assets	25%

Leasehold improvements are amortized over the life of the related leased asset or the lease period whichever is shorter.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land, buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land, buildings and constructions is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method, which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The amortization period for intangible assets vary from 5 to 6 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Taxation

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

The Russian Federation and Ireland also have various other taxes not based on income, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Investment property

Investment property, comprising office and commercial buildings, is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transactions costs. Subsequent to initial recognition, investment property is measured at the fair value amount, determined from market-based evidence by appraisal undertaken by professional independent appraisers. Gains and losses arising from changes in the fair value of investment property are included in income statement in the period in which they arise.

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

Provisions

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

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

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

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

In order to determine the value of provisions for guarantees and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information on collective basis. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

Contingencies

Contingent liabilities, which include certain guarantees, letters of credit and commitments loans and unused credit lines, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the probability of settlement is remote.

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital and share premium

Share capital and share premium amounts received before 1 January 2003 are recognized at the amount received restated for inflation and after 1 January 2003 are recognized at the amount received. Share premium represents the excess of the amount received over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Holders of preference shares with non-fixed rate dividend income are entitled to participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- Revaluation of investments available-for-sale reserve which comprises changes in fair value of available-for-sale financial assets;
- Property, plant and equipment revaluation reserve, which comprises revaluation reserve of land and buildings.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill on acquisitions of subsidiaries is disclosed on face of the consolidated statement of financial position.

Investments in associates. An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Retirement and other benefit obligations

In accordance with the requirements of the Russian Federation legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation, which transfers them to pension funds selected by employees. The Group does not have obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The contributions to the defined contribution plan are included in staff costs on accrual basis. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency translation.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

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

	31 December 2013	**31 December 2012**
RUB/1 US Dollar	32.7292	30.3727
RUB/1 Euro	44.9699	40.2286
RUB/Gold bullion(1 troy ounce)	39,324.13	50,540.17

Fiduciary activities

The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about operating segments in accordance with IFRS.

Recognition of income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

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

Recognition of income on repurchase and reverse repurchase agreements. Interest income/expense on repurchase and reverse repurchase agreements is recognized in the connsolidated income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct and incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income. Dividend income from investments is recognized when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income. The Group’s policy for recognition of income as a lessor is set out in the “Leases” section of this footnote.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Consolidation of Bank Otkritie. The strategy of the Parent Company of the Group with respect to the business combination of NOMOS and OJSC Bank “Otkritie”, implies that NOMOS will hold a controlling interest in OJSC Bank “Otkritie”.

In accordance with the strategy, the Group purchased from the Parent Company the total of 41.17% shares in OJSC Bank “Otkritie”: 17.0% shares on 23 August 2013 for RUB 5,549 million and another 24.17% shares originally held by the Deposit Insurance Agency on 4 December 2013 for RUB 7,915 million.

As described in Note 5, the Group consolidated OJSC Bank “Otkritie” from 27 December 2013 although its voting rights represent 41.17% of the voting rights. This decision was based on the execution of an agreement with LLC “Otkritie N” stating that LLC “Otkritie N” irrevocably transfers its voting rights representing 44.52% of the total voting rights over OJSC Bank “Otkritie” to the Group. As a result of this agreement, the Group has 85.69% of the outstanding voting rights.

The Group and OJSC Bank “Otkritie” are controlled by the Parent company before and after the acquisition of OJSC Bank “Otkritie” shares by the Group. Therefore, the Group considers the acquisition a common control transaction scoped out of IFRS 3R, Business Combinations.

The Group considers it a critical accounting policy because a combination of entities under common control are not addressed in IFRS and therefore, the Group elected to account for this transaction prospectively as of the date it acquired control. The assets and liabilities of OJSC Bank “Otkritie” were recognised at the carryover basis based on its annual IFRS financial statements. The difference between the consideration paid and the net assets acquired is accounted for directly in equity. The income statement of OJSC Bank “Otkritie” for the year 2013 was not recognized as the Group gained control on 27 December 2013.

The Group elects to account for such transactions prospectively as of the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder’s consolidated financial statements at the date of acquisition. The consolidated statement of financial position, consolidated income statement, consolidated statement of other comprehensive income and cash flows for periods prior to the acquisition date are not restated (Note 5).

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

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

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

For loans to legal entities the Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

The Group estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans. The significant assumptions used in determining the impairment allowance for loans to individuals are as follows:

- Management assumes that loss migration rates can be estimated based on historic loss migration pattern using historical data;
- Management adjusts its past historical loss experience taking into account the current economic situation and the impact of the economic crisis on the quality of the loan portfolio.

As at 31 December 2013 and 2012 the gross loans and receivables totaled RUB 912,113 million and RUB 612,466 million, respectively, and allowance for impairment losses amounted to RUB 32,839 million and RUB 21,902 million, respectively.

Valuation of financial instruments. *T*he Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 34 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Since 30 September 2013 the Group has applied Debit/Credit value adjustment to determine fair value of financial instruments.

In order to measure fair value, credit value adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. CVA is determined for each counter-party, considering all exposures to that counterparty and is dependent on expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA methodology. DVA represents the theoretical cost to counterparties of hedging, or the credit risk reserve that a counterparty could reasonably be expected to hold, against their credit risk exposure to the Group. DVA estimate is defined by deal’s maturity as well as credit rating assigned to the members of the Group as of reporting date.

Impairment of goodwill. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill as at 31 December 2013 and 2012 was RUB 1,999 million and RUB 809 million, respectively.

Testing goodwill revealed no evidence of impairment. The recoverable amount of the CGUs have been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management covering a five-year period. Projected growth rates used to extrapolate cash flows beyond the budget period assumed to be zero. Testing is carried out by discounting the future cash flows. The discount rates reflect management's, assessment of return on capital employed (ROCE), this is the benchmark used by management to evaluate the performance and future investment proposals. The discount rate applied is calculated by the method of cumulative build up and amounted to 19.19%.

Property carried at revalued amounts. Certain property (land and buildings) is measured at revalued amounts. The date of the latest appraisal was 31 December 2013. The next revaluation is preliminary scheduled as at 31 December 2014. The carrying value of revalued property and land amounted to RUB 13,363 million and RUB 8,975 million as at 31 December 2013 and 2012, respectively. Details of the valuation techniques used are set out in Note 14.

Investment property carried at revalued amounts. Investment property is measured at revalued amounts. The date of the latest appraisal was 31 December 2013. The next revaluation is preliminary scheduled as at 31 December 2014. The carrying value of revalued property amounted to RUB 8,571 million and RUB 4,761 million as at 31 December 2013 and 2012, respectively. Details of the valuation techniques used are set out in Note 13.

Allowance for impairment losses for other assets. The impairment for other assets is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding other assets being material individually and on the basis of an individual or joint evaluation of other assets not being material individually.

As at 31 December 2013 and 2012 allowance for impairment losses on financial assets amounted to RUB 646 million and RUB 182 million, respectively.

Provision for guarantees and other off-balance sheet commitments. The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Group's results of operations.

As at 31 December 2013 and 2012 provisions for guarantees and other off-balance sheet commitments amounted to RUB 369 million and RUB 362 million, respectively.

4. ADOPTION OF NEW AND REVISED STANDARDS

Amendments to IFRSs affecting amounts reported in the financial statements

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

Standards affecting the financial statements

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

In the current year, the Group has applied for the first time IFRS 10 and IFRS 12 together with the amendments to IFRS 10 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10. IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

Impact of the application of IFRS 12. IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The relevant disclosures were included in Note 1, 24.

Application of the package of five standards did not lead to any additional consolidations or deconsolidations.

Amendments to IAS 1 *Presentation of financial statements (amended June 2011).* The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (effective from annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.

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

IAS 19 *Employee Benefits (revised June 2011)* In the current year, the Group has applied IAS 19 (as revised in June 2011) *Employee Benefits* and the related consequential amendments in advance of their effective dates. The Group has applied IAS 19 (as revised in June 2011) retrospectively and in accordance with the transitional provisions as set out in IAS 19.173. These transitional provisions do not have an impact on future periods. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of scheme assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated balance sheet to reflect the full value of the scheme deficit or surplus. Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

Application of the Amendments to IAS 19 *Employee Benefits* did not result in significant changes to the Group's consolidated financial statements.The Group doesn't provide benefit plans and long-term compensations.

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

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

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Notes 7,8, 9,12,13,14,16 and 34 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements. There is no material impact of CVA and DVA application.

Amendments to IAS 1 *Presentation of Financial Statements* (as part of the Annual Improvements to IFRSs 2009–2011 Cycle issued in May 2012).

The Annual Improvements to IFRSs 2009–2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied a number of new and revised IFRSs (see the discussion above), which has resulted in material effects on the information in the consolidated statement of financial position as at 1 January 2012.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The Group adopted it, but there is no material effect on the Group financial statements and no additional notes required.

New and revised IFRSs in issue but not yet effective

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

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

Key requirements of IFRS 9:

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

The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

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

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

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

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014)

The improvements consist of changes to four standards.

- The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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

5. ACQUISITIONS AND DISPOSALS

Acquisitions and disposal during the year ended 31 December 2013

The strategy of the Parent Company of the Group with respect to the business combination of NOMOS and OJSC Bank “Otkritie” implies that NOMOS will hold a controlling interest in OJSC Bank “Otkritie”.

In accordance with the strategy, the Group purchased from the Parent Company the total of 41.17% shares in OJSC Bank “Otkritie”: 17.0% shares on 23 August 2013 for RUB 5,549 million and another 24.17% shares originally held by the Deposit Insurance Agency on 4 December 2013 for RUB 7,915 million.

As at 27 December 2013 the Group concluded an agreement with LLC “Otkritie N” stating that LLC “Otkritie N” transfers its voting rights over OJSC Bank “Otkritie” to the Group without compensation, the terms of the agreement can not be revised and reversed without consent of the Group. Thereby, the Group obtained voting rights equal to 44.52% interest share in addition to 41.17% already owned and achived the power to govern the financial and operating policies of OJSC Bank “Otkritie” so as to obtain benefits from its activities.

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Thereby, OJSC Bank “Otkritie” is consolidated from the 27 December 2013 on which control was transferred to the Group. As both the Group and OJSC Bank “Otkritie” were under common control of OJSC “Financial corporation “OTKRITIE” as of the date of acquisition the transaction was accounted as under common control transaction for the purposes of IFRS reporting. The assets and liabilities of OJSC Bank “Otkritie” were recognised at the carryover basis based on its annual IFRS financial statements. The difference between the consideration paid and the net assets acquired is accounted for directly in equity. The income statement of OJSC Bank “Otkritie” for the year 2013 was not recognized as the Group gained control on 27 December 2013.

The Group elects to account for such transactions prospectively as of the date that control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder’s consolidated financial statements at the date of acquisition. The consolidated statement of financial position, consolidated income statement, consolidated statement of other comprehensive income and cash flows for periods prior to the acquisition date are not restated.

The following table presents information on net assets of OJSC Bank “Otkritie”as of the acquisition date on the carryover basis based on its IFRS financial statements:

	OJSC Bank “Otkritie”
Assets	
Cash and balances with the Central Bank of the Russian Federation	28,162
Minimum reserve deposits with the Central Bank of the Russian Federation	1,682
Precious metals	65
Financial assets at fair value through profit or loss	483
Loans and advances to banks	22,184
Loans to customers	98,569
Investments available-for-sale	37,451
Property, plant and equipment	5,031
Goodwill	1,190
Intangible assets	1,050
Investment property	4,175
Other assets	2,617
Total assets	**202,659**
Financial liabilities at fair value through profit or loss	242
Deposits from banks	18,802
Customer accounts	141,817
Bonds and Eurobonds	3,249
Promissory notes	5,189
Deferred income tax liabilities	688
Other liabilities	1,739
Subordinated debt	5,274
Total liabilities	**177,000**
Net assets	**25,659**
Parent company’s ownership interest (%)	41.17%
Consideration paid	13,464
Income from associate*	188
Other comprehensive income from associate*	115
Plus: non-controlling interest	15,095
Less: Net assets	(25,659)
Result from the acquisition	**(3,203)**

* The Group assessed the amount of the revaluation of the equity interest previously held as an investments in associate before the acquisition date, which amounted to RUB 188 million (recognized in consolidated income statement as gain from associate) and RUB 115 million (recognized in consolidated stament of other comprehensive income).

Non-controlling interest was measured at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.The Group assessed the amount of comprehensive income of acquiree’s from date of getting control till reporting date and considers this amount to be immaterial.

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Net cash outflow on acquisition of subsidiaries

Consideration paid	(13,464)
plus: cash and cash equivalents acquired	48,501
Total	**35,037**

Had this acquisition been effected at 1 January, 2013, the operating income of the Group from continuing operations would have been RUB 57,655 million, and the profit for the year from continuing operations would have been RUB 18,809 million. The Group management considers these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

The following table represents the uncollectable amount of acquired receivables as well as the gross contractual amount of receivables:

	Gross contractual amounts receivable	Amount not expected to be received
ASSETS:		
Correspondent accounts with the Central Bank of the Russian Federation	2,864	-
Loans and advances to banks and other financial institutions	22,186	2
Loans to customers	105,934	7,365
Other assets	3,280	664
	134,264	**8,031**

Before being acquired by the Group OJSC Bank Otkrytie had the following subsidiaries: CJSC “Mortgage Agent Otkritie 1” and ZPIF “Centr (Olma)”. As a result of acquisition the Group also acquired these subsidiaries.

In July 2013 the Bank has completed the reorganization of two of its subsidiaries NOMOS-REGIOBANK and OJSC “NOMOS Siberia” by merging them with the Bank.

In July 2013 the Group founded LLC “NM-Aktiv”, which provides asset management services.

In January, February and August 2013 the Group acquired in total additional 13.01% share in OJSC “Novosibirsk Municipal Bank” and increased its share from 86.98% as at 31 December 2012 to 99.99% as at 31 December 2013.

In December 2013 the Group founded LLC “NM-Kapital”, which provides asset management services.

In December 2013 the Group extinguished shares of ZPIF “Strategiya Razvitiya”.

Acquisitions and disposal during the year ended 31 December 2012

In March 2012 Group has founded a new investment fund ZPIF “Strategiya Razvitiya”, which is wholly-owned and was consolidated by the Group as at 31 December 2012. The amount of investments in this investment fund is RUB 25 million.

In September 2012 the Group has sold 11% shares of OJSC “Novosibirsk Municipal Bank” to minority shareholders and decreased its control from 97.98% as at 31 December 2011 to 86.98% as at 31 December 2012.

In October 2012 the Group acquired 49% share in LLC “Attenium” and increased its share from 51.00% as at 31 December 2011 to 100.00% as at 31 December 2012, as a result share in LLC NKO “Payment System “Rapida”, LLC “Processing centre “Rapida”, LLC “Gikor”increased from 51% to 100%.

In November 2012 the Group has sold for RUB 500 million its share in LLC “Baltaktiv” and LLC “Inbank” to ICT Group.

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6. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central Bank of the Russian Federation are presented as follows:

	31 December 2013	31 December 2012
Cash on hand	35,120	13,707
Balances with the Central Bank of the Russian Federation	52,712	37,441
Total cash and balances with the Central Bank of the Russian Federation	**87,832**	**51,148**

For the purpose of consolidated statement of cash flows preparation cash and cash equivalents comprise of the following components:

	31 December 2013	31 December 2012
Cash and cash equivalents:		
Cash and balances with the Central Bank of the Russian Federation	87,832	51,148
Correspondent accounts with banks	47,246	19,713
Loans to banks with original maturity up to 90 days	51,556	-
Loans under reverse repurchase agreements with original maturity up to 90 days	10,177	-
Cash in trust operations and on broker accounts (Note 16)	313	-
Total cash and cash equivalents	**197,124**	**70,861**

7. PRECIOUS METALS

Precious metals are presented as follows:

	31 December 2013	31 December 2012
Gold in vault	4,867	5,804
Silver in transit	524	323
Silver in vault	130	168
Precious metals in coins	58	-
Gold in transit	45	1
Other precious metals in vault	122	106
Total precious metals	**5,746**	**6,402**

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Details of the Group's information about the fair value hierarchy of precious metals and liabilities denominated in precious metals as at 31 December 2013 and 2012 are as follows:

	31 December 2013			
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Precious metals	5,746	-	-	5,746
Total precious metals	**5,746**	**-**	**-**	**5,746**
Deposits from banks	-	6,641	-	6,641
Customer accounts	-	4,438	-	4,438
Liabilities denominated in precious metals	**-**	**11,079**	**-**	**11,079**

	31 December 2012			
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Precious metals	6,402	-	-	6,402
Total precious metals	**6,402**	**-**	**-**	**6,402**
Deposits from banks	-	13,846	-	13,846
Customer accounts	-	6,366	-	6,366
Liabilities denominated in precious metals	**-**	**20,212**	**-**	**20,212**

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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2013 financial assets at fair value through profit or loss comprise:

	31 December 2013	Interest rate to nominal	Maturity date
Financial assets at fair value through profit or loss:			
Debt securities:			
Corporate bonds and Eurobonds	75,657	3.15-19.0%	February 2014-February 2045
Bonds and Eurobonds issued by banks	61,715	14.0%	February 2014-June 2035
OFZ bonds	29,778	6.2-12.0%	March 2014-February 2036
Municipal bonds	10,664	7.85%-10.0%	April 2014-October 2020
Russian Federation (“RF”) Government Eurobonds	1,110	7.5%	March 2030
Total debt securities	**178,924**		
Equity securities			
Corporate shares	27	-	-
Total equity securities	**27**		
Derivative financial instruments (Note 9)	**3,035**		
Total financial assets at fair value through profit or loss	**181,986**		

	31 December 2013	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Corporate bonds and Eurobonds	75,657	6,820	29,149	-	35,969
Bonds and Eurobonds issued by banks	61,715	10,682	29,931	1,141	41,754
OFZ bonds	29,778	-	22,405	2,634	25,039
Municipal bonds	10,664	2,654	3,858	-	6,512
RF Government Eurobonds	1,110	-	1,110	-	1,110
Corporate shares	27	-	-	-	-
Total financial assets at fair value through profit or loss[1]	**178,951**	**20,156**	**86,453**	**3,775**	**110,384**

[1] Excluding derivative financial instruments

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As at 31 December 2012 financial assets at fair value through profit or loss comprise:

	31 December 2012	Interest rate to nominal	Maturity date
Financial assets at fair value through profit or loss:			
Debt securities:			
Bonds and Eurobonds issued by banks	34,302	0.0-13.9%	February 2013-June 2035
Corporate bonds and Eurobonds	34,023	6.5-19.0%	March 2013- January 2044
OFZ bonds	19,191	6.0-12.0%	February 2013-February 2036
Promissory notes of credit institutions	6,833	-	September 2013-March 2014
Municipal bonds	3,667	8.0%-13%	April 2014-November 2017
RF Government Eurobonds	2,231	7.5%	March 2030
Total debt securities :	**100,247**		
Equity securities:			
Corporate shares	30	-	-
Total equity securities :	**30**		
Derivative financial instruments (Note 9)	**3,977**		
Total financial assets at fair value through profit or loss	**104,254**		

As at 31 December 2013 the Group changed the presentation of information disclosure on financial assets at fair value through profit or loss pledged uder repurchase agreements. Securities received under reverse repurchase agreement and subsequently pledged under repurchase agreements are now separately disclosed in Notes 17 and 18.

	31 December 2012	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Bonds and Eurobonds issued by banks	34,302	10,987	8,493	-	19,480
Corporate bonds and Eurobonds	34,023	625	12,824	-	13,449
OFZ bonds	19,191	306	17,172	-	17,478
Promissory notes of credit institutions	6,833	-	6,541	-	6,541
Municipal bonds	3,667	-	455	-	455
RF Government Eurobonds	2,231	-	-	-	-
Corporate shares	30	-	-	-	-
Total financial assets at fair value through profit or loss[2]	**100,277**	**11,918**	**45,485**	**-**	**57,403**

As at 31 December 2013 and 2012 bonds and Eurobonds issued by banks are represented by bonds issued mainly by Russian banks.

Corporate bonds and Eurobonds are represented by bonds of Russian companies.

Promissory notes are represented by promissory notes issued by Russian banks.

Russian State Bonds (OFZ bonds) are Rouble-denominated government securities guaranteed by the Ministry of Finance of the Russian Federation.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally.

Municipal bonds are bonds issued by local authorities of the Russian Federation.

Corporate shares are actively traded shares in the open market issued by Russian companies.

[2] Excluding derivative financial instruments

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Details of the Group's information about the fair value hierarchy as at 31 December 2013 and 2012 are as follows:

	31 December 2013			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Corporate bonds and Eurobonds	74,653	1,004	-	75,687
Bonds and Eurobonds issued by banks	61,715	-	-	61,685
OFZ bonds	29,778	-	-	29,778
Municipal bonds	10,664	-	-	10,664
RF Government Eurobonds	1,110	-	-	1,110
Shares	27	-	-	27
Financial assets at fair value through profit or loss[3]	**177,947**	**1,004**	**-**	**178,951**

	31 December 2012			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Bonds and Eurobonds issued by banks	34,302	-	-	34,302
Corporate bonds and Eurobonds	34,023	-	-	34,023
OFZ bonds	19,191	-	-	19,191
Promissory notes of credit institutions	-	6,833	-	6,833
Municipal bonds	3,667	-	-	3,667
RF Government Eurobonds	2,231	-	-	2,231
Shares	30	-	-	30
Financial assets at fair value through profit or loss[3]	**93,444**	**6,833**	**-**	**100,277**

[3] Excluding derivative financial instruments

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9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented as follows:

The following table provides information on derivative financial instruments as at 31 December 2013 and 2012:

	31 December 2013			31 December 2012		
	Nominal amount	Fair value Asset	Fair value Liability	Nominal amount	Fair value Asset	Fair value Liability
Derivative financial instruments:						
Foreign currency						
Forwards	(201,952)	1,117	(957)	(189,764)	3,786	(1,829)
Options		1,052	(806)	-	32	(32)
Currency-interest swaps	(28,263)	822	(506)		-	-
Precious metals						
Settlement forwards		16	(16)		-	-
Forwards	(10,184)	12	(516)	(8,481)	92	(19)
Dealing security						
Forwards		11	(5)		-	-
Futures		-	-	-	3	(7)
Other derivative						
Forwards		3	(2)	-	2	-
Interest rate swaps		2	(58)	-	62	(168)
Total derivative financial instruments		**3,035**	**(2,866)**		**3,977**	**(2,055)**

As at 31 December 2012 financial liabilities at fair value through profit or loss comprise derivative financial instruments in the amount of RUB 2,055 million and other financial liabilities at fair value through profit or loss in the amount of RUB 1,136 million.

The primary purpose of the derivatives used by the Group is to reduce currency risk and interest rate risks. Such derivatives have the same term to maturity as the underlying assets.

Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indices.

Forwards and futures

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts also result in market risk exposure.

Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

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Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in RUB, EUR and USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

Interest rate swaps are subject to price risk associated with a change in the price of an underlying asset and credit risk, related to the possibility of violating the terms of the transaction by the counterparty of the deal.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Details of the Group's information about the fair value hierarchy as at 31 December 2013 and 2012 are as follows:

	31 December 2013			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Foreign currency forwards	-	1,117	-	1,117
Foreign currency option	-	1,052	-	1,052
Currency-interest swaps	-	822	-	822
Precious metals settlement forwards	-	16	-	16
Precious metals forwards	-	12	-	12
Dealing security forwards	-	11	-	11
Other forwards	-	3	-	3
Interest-rate swaps	-	2	-	2
Derivative financial instruments	**-**	**3,035**	**-**	**3,035**
Foreign currency forwards		(957)	-	(957)
Foreign currency option	-	(806)	-	(806)
Precious metals forwards	-	(516)	-	(516)
Currency-interest swaps	-	(506)	-	(506)
Interest-rate swaps	-	(58)	-	(58)
Precious metals settlement forwards	-	(16)	-	(16)
Dealing security forwards	-	(5)	-	(5)
Other forwards	-	(2)	-	(2)
Financial liabilities at fair value through profit or loss	**-**	**(2,866)**	**-**	**(2,866)**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	31 December 2012			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Foreign currency forwards	-	3,786	-	3,786
Foreign currency option	-	32	-	32
Precious metals forwards	-	92	-	92
Dealing security forwards	-	3	-	3
Other forwards	-	2	-	2
Interest rate swaps	-	62	-	62
Derivative financial instruments	**-**	**3,977**	**-**	**3,977**
Foreign currency forwards	-	(1,829)	-	(1,829)
Foreign currency option	-	(32)	-	(32)
Precious metals forwards	-	(19)	-	(19)
Dealing security futures contracts	-	(7)	-	(7)
Interest rate swaps	-	(168)	-	(168)
Other financial liabilities at fair value through profit and loss	-	(1,136)	-	(1,136)
Financial liabilities at fair value through profit or loss	**-**	**(3,191)**	**-**	**(3,191)**

10. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions comprise:

	31 December 2013	**31 December 2012**
Loans to banks	76,240	86,566
Correspondent accounts with banks	47,246	19,713
Loans under reverse repurchase agreements	10,177	5,307
Less: allowance for impairment losses	(2)	-
Total loans and advances to banks and other financial institutions	**133,661**	**111,586**

Carrying value of loans under reverse repurchase agreements as at 31 December 2013 and 2012 and fair value of collateral held are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Shares	5,786	6,670	-	-
OFZ bonds	1,695	1,791	2,438	2,891
Corporate bonds and Eurobonds	1,243	1,501	1,098	1,367
Municipal bonds	916	1,144	1,371	1,707
Bonds and Eurobonds issued by banks	537	663	400	443
Total	**10,177**	**11,768**	**5,307**	**6,408**

As at 31 December 2013 and 2012 the loans under reverse repurchase agreements to banks have contractual maturities from January 2014 to March 2014 and January 2013, respectively.

As at 31 December 2013 and 2012 included in loans and advances to banks and other financial institutions are guarantee deposits placed by the Group for its operations with plastic cards in the amount of RUB 1,156 million and RUB 702 million, respectively.

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11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2013	31 December 2012
Loans to corporate and small business clients		
Corporate loans	563,599	425,468
Small business loans to corporates	51,040	40,609
Net investments in finance lease	8,558	5,025
Lease contracts to individual entrepreneurs	-	381
Total loans to corporate and small business clients	**623,197**	**471,483**
Loans under reverse repurchase agreements		
Loans under reverse repurchase agreements to legal entities	106,637	49,290
Loans under reverse repurchase agreements to individuals	78	-
Total loans under reverse repurchase agreements	**106,715**	**49,290**
Loans to retail business clients		
Consumer loans	111,260	47,083
Mortgage loans	54,728	38,247
Car loans	8,742	3,875
Credit cards	7,471	2,488
Total loans to retail business clients	**182,201**	**91,693**
Gross loans to customers	**912,113**	**612,466**
Less – Allowance for impairment losses	(32,839)	(21,902)
Total loans to customers	**879,274**	**590,564**

The credit quality of loans to customers can be defined based on the Group internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group.

As at 31 December 2013 and 2012 interest income on impaired loans to customers, including loans impaired collectively, amounted to RUB 81,440 million and RUB 49,875 million, respectively.

As at 31 December 2013 and 2012 interest income on collectively impaired loans to customers amounted to RUB 77,440 million and RUB 44,826 million, respectively.

The internal credit quality classification includes four categories:

- **Standard loans,** representing loans without any indications of impairment and thus representing the best level of credit quality;
- **Watch list loans,** representing loans with some **minor indicators of deterioration** in credit quality **not yet resulting in the impairment** of the loan. Such indicators may include minor breaches of loan covenants, some factors of deterioration of financial position of the borrower etc., not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools.
- **Substandard loans,** representing loans with **certain minor indicators of impairment**, which potentially can affect the ability of the borrower to repay the amounts in due course. Such indicators may include deterioration of financial position of the borrower, minor breaches of payment discipline; numerous loan renegotiating. Substandard loans are subject to stricter monitoring of dynamics in financial position, sufficiency of collateral and other instruments of credit risk reduction and other enhanced credit risk management tools.
- **Doubtful loans,** representing loans with **significant indicators of impairment**. Such loans are treated on a case by case basis so as to minimize potential losses for the Group.

Otkritie Bank loans consolidated by the Group are presented in each of the categories above in line with the Group's credit quality criteria at their original costs in Otkritie Bank accounting records.

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Loan loss provision for substandard and doubtful loans is assessed based on the expected level of recovery.

When one or more contractual payments are overdue the entire loan is accounted as overdue.

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities and loans under reverse repurchase agreements by the Group's internal credit quality categories, as at 31 December 2013:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Standard loans	620,781	5,043	615,739	0.81%
Watch list loans	10,640	144	10,496	1.35%
Substandard loans	19,121	3,083	16,038	16.12%
Doubtful loans, including	28,330	12,693	15,637	44.80%
- not overdue	6,117	2,384	3,733	38.97%
- overdue less than 90 days	9,230	2,869	6,361	31.08%
- overdue more than 90 days and less than 1 year	7,520	4,491	3,029	59.72%
- overdue more than 1 year	5,463	2,949	2,514	53.98%
Total corporate loans	**678,872**	**20,963**	**657,910**	**3.09%**
Small business loans to corporates				
Standard loans	46,175	259	45,916	0.56%
Watch list loans	50	2	48	4.00%
Substandard loans	60	6	54	10.00%
Doubtful loans, including	4,755	2,464	2,291	51.82%
- not overdue	183	23	160	12.57%
- overdue less than 90 days	1,302	427	875	32.80%
- overdue more than 90 days and less than 1 year	1,958	1,192	766	60.88%
- overdue more than 1 year	1,312	822	490	62.65%
Total small business loans	**51,040**	**2,731**	**48,309**	**5.35%**
Total loans to corporate and small business clients	**729,912**	**23,694**	**706,219**	**3.25%**

As at 31 December 2013 the Group has changed presentation of credit quality of loans for the comparative period, In order to enhance presentation on loans to customers components information, the Group disclosed small business loans to individuals together with small business loans to corporates, the changes were made retrospectively.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

The following tables provide an analysis of the credit quality and distribution of loans granted to corporate and small business clients and loans under reverse repurchase agreements by the Group's internal credit quality categories, as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Standard loans	436,029	4,167	431,862	0.96%
Watch list loans	6,546	181	6,365	2.77%
Substandard loans	22,262	4,526	17,736	20.33%
Doubtful loans, including	14,946	9,403	5,543	62.91%
- not overdue	4,888	2,275	2,613	46.54%
- overdue less than 90 days	1,384	803	581	58.02%
- overdue more than 90 days and less than 1 year	5,002	3,730	1,272	74.57%
- overdue more than 1 year	3,672	2,595	1,077	70.67%
Total corporate loans	**479,783**	**18,277**	**461,506**	**3.81%**
Small business loans to corporates				
Standard loans	38,425	241	38,184	0.63%
Watch list loans	51	1	50	1.96%
Substandard loans	58	2	56	3.45%
Doubtful loans, including	2,456	1,800	656	73.29%
- not overdue	188	141	47	75.00%
- overdue less than 90 days	592	275	317	46.45%
- overdue more than 90 days and less than 1 year	777	582	195	74.90%
- overdue more than 1 year	899	802	97	89.21%
Total small business loans	**40,990**	**2,044**	**38,946**	**4.99%**
Total loans to corporate and small business clients	**520,773**	**20,321**	**500,452**	**3.90%**

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The following table provides information on loans to individuals as at 31 December 2013:

	Gross Loans	Impairment allowance	Net Loans	Impairment allowance to gross loans, %
Consumer Loans				
- Not past due	98,422	467	97,955	0.47%
- Overdue less than 30 days	3,382	579	2,803	17.12%
- Overdue 30-90 days	2,454	1,148	1,306	46.78%
- Overdue 91-180 days	2,391	1,473	918	61.61%
- Overdue 181-365 days	3,576	2,232	1,344	62.42%
- Overdue more than 365 days	1,035	1,028	7	99.32%
Total consumer loans	**111,260**	**6,927**	**104,333**	**6.23%**
Mortgage Loans				
- Not past due	51,357	13	51,344	0.03%
- Overdue less than 30 days	1,766	34	1,732	1.93%
- Overdue 30-90 days	207	35	172	16.91%
- Overdue 91-180 days	209	61	148	29.19%
- Overdue 181-365 days	307	126	181	41.04%
- Overdue more than 365 days	882	515	367	58.39%
Total mortgage loans	**54,728**	**784**	**53,944**	**1.43%**
Car Loans				
- Not past due	7,558	4	7,554	0.05%
- Overdue less than 30 days	193	6	187	3.11%
- Overdue 30-90 days	101	15	86	14.85%
- Overdue 91-180 days	71	29	42	40.85%
- Overdue 181-365 days	186	97	89	52.15%
- Overdue more than 365 days	633	435	198	68.72%
Total car loans	**8,742**	**586**	**8,156**	**6.70%**
Credit card loans				
- Not past due	6,035	56	5,979	0.93%
- Overdue less than 30 days	382	56	326	14.66%
- Overdue 30-90 days	271	143	128	52.77%
- Overdue 91-180 days	251	176	75	70.12%
- Overdue 181-365 days	413	300	113	72.64%
- Overdue more than 365 days	119	117	2	98.32%
Total credit cards	**7,471**	**848**	**6,623**	**11.35%**
Total loans to retail business clients	**182,201**	**9,145**	**173,056**	**5.02%**

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The following table provides information on loans to retail business clients as at 31 December 2012:

	Gross Loans	Impairment allowance	Net Loans	Impairment allowance to gross loans, %
Consumer Loans				
- Not past due	45,502	69	45,433	0.15%
- Overdue less than 30 days	451	46	405	10.20%
- Overdue 30-90 days	268	113	155	42.16%
- Overdue 91-180 days	269	206	63	76.58%
- Overdue 181-365 days	366	308	58	84.15%
- Overdue more than 365 days	227	222	5	97.80%
Total consumer loans	**47,083**	**964**	**46,119**	**2.05%**
Mortgage Loans				
- Not past due	37,243	3	37,240	0.01%
- Overdue less than 30 days	317	3	314	0.95%
- Overdue 30-90 days	58	20	38	34.48%
- Overdue 91-180 days	29	13	16	44.83%
- Overdue 181-365 days	71	44	27	61.97%
- Overdue more than 365 days	529	418	111	79.02%
Total mortgage loans	**38,247**	**501**	**37,746**	**1.31%**
Car Loans				
- Not past due	3,754	1	3,753	0.03%
- Overdue less than 30 days	37	1	36	2.70%
- Overdue 30-90 days	31	2	29	6.45%
- Overdue 91-180 days	17	4	13	23.53%
- Overdue 181-365 days	17	14	3	82.35%
- Overdue more than 365 days	19	18	1	94.74%
Total car loans	**3,875**	**40**	**3,835**	**1.03%**
Credit card loans				
- Not past due	2,287	4	2,283	0.17%
- Overdue less than 30 days	98	2	96	2.04%
- Overdue 30-90 days	28	8	20	28.57%
- Overdue 91-180 days	19	12	7	63.16%
- Overdue 181-365 days	29	23	6	79.31%
- Overdue more than 365 days	27	27	-	100.00%
Total credit card loans	**2,488**	**76**	**2,412**	**3.05%**
Total loans to retail business clients	**91,693**	**1,581**	**90,112**	**1.72%**

As at 31 December 2013 and 31 December 2012 the Group has entered into transaction to securitize mortgage loans in the amount of RUB 13,547 million and RUB 4,732 million that the Group has origanated. Securitisation is a process whereby finance can be raised from external investors by enabling them to invest in parcels of specified financial assets. The Group accounted for the transaction as a collateralised borrowing and recorded the cash received as a financial liability. Although the Group sold the rights to 100% of the cash flows arising on a portfolio of mortgage loans, it provided guarantees of the performance of the loans. In accordance with the terms of the securitization agreement, if the asset becomes overdue more than 90 days, the Group is obliged to replace it.

The Group has determined that substantially all the risks and rewards of the portfolio were retained and, consequently, the loans were not derecognised.

The following table summarises the Group’s holdings of asset-backed securities, showing the carrying value of the transferred assets, associated liabilities and net position as at:

	31 December 2013	31 December 2012
Carrying value of transferred assets	13,547	4,732
Carrying value of associated liabilities	10,708	3,758
Net position	2,839	974

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Movements in allowances for impairment losses for the years ended 31 December 2013 and 2012 were as follows:

	Corporate banking	Consumer loans	Mortgage loans	Car loans	Credit card loans	Total
31 December 2011	**19,325**	**261**	**736**	**19**	**42**	**20,383**
Provision charge	5,539	758	(435)	(7)	31	5,886
Recovery of bad debt written-off	74	64	204	28	3	373
Foreign currency revaluation effect	(191)	(1)	(4)	-	-	(196)
Disposal of loans	(2,894)	(118)	-	-	-	(3,012)
Bad debt written-off	(1,532)	-	-	-	-	(1,532)
31 December 2012	**20,321**	**964**	**501**	**40**	**76**	**21,902**
Individually impaired	14,673	-	-	-	-	14,673
Collectively impaired	5,648	964	501	40	76	7,229
Gross loans to customers, individually assessed for impairment	38,409	-	-	-	-	38,409
31 December 2012	**20,321**	**964**	**501**	**40**	**76**	**21,902**
Provision charge	7,409	1,797	46	84	54	9,390
Recovery of bad debt written-off	345	49	137	10	7	548
Foreign currency revaluation effect	311	2	2	-	-	315
Disposal of loans	(2,728)	(15)	-	-	-	(2,743)
Bad debt written-off	(3,206)	(636)	(30)	(23)	(43)	(3,938)
Aquision of OJSC Bank "Otkritie"	1,242	4,766	128	475	754	7,365
31 December 2013	**23,694**	**6,927**	**784**	**586**	**848**	**32,839**
Individually impaired	15,927					15,927
Collectively impaired	7,767	6,927	784	586	848	16,912
Gross loans to customers, individually assessed for impairment	45,903					45,903

Loans are issued principally within Russia in the following industry sectors:

	31 December 2013	31 December 2012
Individuals*	183,877	92,905
Brokerage and dealing in securities	106,715	49,290
Services	95,651	52,869
Wholesale trade	81,847	66,086
Industrial manufacturing	80,754	72,370
Operations with real estate	59,114	49,094
Construction of industrial real estate	51,570	38,865
Housing construction	38,439	28,799
Leasing	36,242	25,997
Other	36,198	30,966
Construction of commercial real estate	33,872	14,111
Mining	33,622	32,603
Retail trade	32,151	23,755
Transport and communication	27,853	22,400
Government finance	4,900	3,152
Energy	4,500	3,814
Agriculture	3,353	3,388
Precious metals extraction	1,455	2,002
Gross loans to customers	**912,113**	**612,466**
Less – Allowance for impairment losses	(32,839)	(21,902)
Total loans to customers	**879,274**	**590,564**

(*) As at 31 December 2013 loans to individuals include loans to retail business totaling RUB 182,201 million and small business loans to individuals RUB 1,676 million.

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As at 31 December 2012 loans to individuals include loans to retail business totaling RUB 91,693 million and small business loans to individuals RUB 1,212 million.

The table below summarizes the amount of loans to corporate customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Loans collateralized by guarantees of enterprises and banks	205,426	142,672
Loans collateralized by pledge of securities	173,109	101,385
Loans collateralized by pledge of real estate	118,454	82,398
Loans collateralized by pledge of contract proceeds	51,912	45,708
Loans collateralized by pledge of property	45,090	38,240
Loans collateralized by pledge of the Bank's own securities	105	699
Unsecured loans	135,816	109,671
Gross loans to corporate customers	**729,912**	**520,773**
Less – Allowance for impairment losses	(23,694)	(20,321)
Total loans to corporate customers	**706,219**	**500,452**

The table below summarizes the amount of loans to individuals secured by collateral, rather than the fair value of the collateral itself:

	31 December 2013	31 December 2012
Loans collateralized by pledge of real estate	41,565	29,345
Loans collateralized by guarantees of enterprises	8,311	9,339
Loans collateralized by pledge of contract proceeds	6,449	4,387
Loans collateralized by pledge of vehicles and other property	5,924	4,526
Loans collateralized by pledge of securities	684	3
Loans collateralized by pledge of the Bank's own securities	1	2
Unsecured loans	119,267	44,091
Gross loans to individuals	**182,201**	**91,693**
Less – Allowance for impairment losses	(9,145)	(1,581)
Total loans to individuals	**173,056**	**90,112**

As at 31 December 2013 and 2012 the Group granted loans to five and five corporate borrowers totalling RUB 47,348 million and RUB 58,409 million, respectively, which individually exceeded 10% of the Group's equity. Borrowers individually exceeding 10% of the Group equity have good credit history and the loans provided to them are performing within standard loans.

As at 31 December 2013 and 2012 renegotiated loans amounted to RUB 5,590 million and RUB 5,572 million respectively, which would be past due or impaired if not renegotiated. Renegotiated loans mainly involve extending of the payment arrangements of the loan agreements, rather than interest rate modification or other enhancements in favour of the borrower.

As at 31 December 2013 and 2012 the loans under reverse repurchase agreements to customers have contractual maturities from January 2014 to May 2014 and January 2013 to November 2013, respectively.

Carrying value of loans under reverse repurchase agreements and fair value of collateral held as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Shares	66,276	82,896	27,883	37,853
Bonds and Eurobonds issued by banks	18,975	19,799	1,209	1,238
Corporate bonds and Eurobonds	11,731	13,226	6,360	7,042
OFZ	589	620	1,712	1,854
Units of investment funds	9,144	10,710	12,065	19,328
Municipal bonds	-	-	61	77
Total	**106,715**	**127,251**	**49,290**	**67,392**

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As at 31 December 2013 loans under reverse repurchase agreements include Group's own subordinated Eurobonds pledged with carrying amount of RUB 2,620 million.

The components of net investment in finance lease as at 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Less than one year	3,890	2,667
From one year to five years	6,593	3,736
More than five years	1,526	1,082
Minimum lease payments	12,009	7,485
Less: unearned finance income	(3,451)	(2,079)
Net investment in finance lease	**8,558**	**5,406**
Current portion	2,713	1,874
Long-term portion	5,845	3,532
Net investment in finance lease	**8,558**	**5,406**

As at 31 December 2012 the Group provided loans to customers in the amount of RUB 7,598 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,160 million. (see Note 18).

During the years ended 31 December 2013 and 2012 the Bank sold certain loans to third parties at a discount to nominal value with no recourse and without any service obligations associated with the loans.

Net gain on disposal of loans is represented by:

	Year ended 31 December 2013	Year ended 31 December 2012
Fair value of the consideration received	24,820	5,724
Carrying amount net of provisions	(23,277)	(4,465)
Net gain on disposal of loans	**1,543**	**1,259**

12. INVESTMENTS AVAILABLE-FOR-SALE

As at 31 December 2013 investments available-for-sale comprise:

	31 December 2013	Interest rate to nominal	Maturity date
Debt securities:			
Corporate bonds and Eurobonds	19,052	3.42-12.0%	January 2014-January 2044
Bonds and Eurobonds issued by banks	9,565	4.22-12.4%	February 2014 – April 2022
RF Government Eurobonds	8,262	5.0-12.75%	April 2020-March 2030
Municipal bonds	1,408	7.95-9.5%	November 2014-August2020
OFZ bonds	1	7.35%	Juanuary 2016
Total debt securities	**38,288**		
Equity securities			
Shares	928	-	-
Units of investment funds	315	-	-
Share participation in limited liability companies	1	-	-
Total equity securities	**1,244**		
Total investments available-for-sale	**39,532**		

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	31 December 2013	Pledged under repurchase agreements with banks
Debt securities:		
Corporate bonds and Eurobonds	19,052	749
Bonds and Eurobonds issued by banks	9,565	1,228
RF Government Eurobonds	8,262	-
Municipal bonds	1,408	-
OFZ bonds	1	-
Total debt securities:	**38,288**	**1,977**
Equity securities:		
Shares	928	-
Units of investment funds	315	-
Share participation in limited liability companies	1	-
Total equity securities:	**1,244**	
Total investments available-for-sale	**39,532**	

As at 31 December 2012 investments available-for-sale comprise:

	31 December 2012	Interest rate to nominal	Maturity date
Debt securities:			
Corporate bonds and Eurobonds	3,888	7.1-15.0%	March 2014- March 2020
Bonds and Eurobonds issued by banks	542	0.0-9.3%	February 2013-November 2018
Total debt securities:	**4,430**		
Equity securities:			
Shares	469	-	-
Units of investment funds	19	-	-
Share participation in limited liability companies	1	-	-
Total equity securities:	**489**		
Total investments available-for-sale	**4,919**		

Units of investment funds included in financial assets available-for-sale as at 31 December 2013 and 2012 are presented below:

	31 December 2013	31 December 2012
OPIF “OTKRITIE – obligatzii”	283	-
OPIF “OTKRITIE- Energetika”	12	-
OPIF “NOMOS- Fond obligatziy”	11	10
OPIF “NOMOS- Fond aktziy”	9	9
Total units of investment funds	**315**	**19**

As at 31 December 2013 and 31 December 2012 financial assets available-for-sale are mainly presented by investments issued by Ministry of Finance, local authorities, banks and companies of the Russian Federation.

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Details of the Group's information about the fair value hierarchy as at 31 December 2013 and 2012 are as follows:

	31 December 2013			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Corporate bonds and Eurobonds	17,808	12	1,232	19,052
Bonds and Eurobonds issued by banks	8,690	875	-	9,565
RF Government Eurobonds	8,262	-	-	8,262
Municipal bonds	1,408	-	-	1,408
Corporate shares	494	-	20	514
Units of investment funds	-	315	-	315
OFZ bonds	1	-	-	1
Investments available-for-sale	**36,663**	**1,202**	**1,252**	**39,117**

	31 December 2012			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Corporate bonds and Eurobonds	3,778	110	-	3,888
Bonds and Eurobonds issued by banks	542	-	-	542
Corporate shares	55	-	-	55
Units of investment funds		19	-	19
Investments available-for-sale	**4,375**	**129**	**-**	**4,504**

Excluded from the table above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at 31 December 2013 and 2012 the value of such investments amounted RUB 415 million and RUB 415 million, respectively.

The Group invests in certain investment funds where as a result of general market conditions and illiquidity of the bond markets the valuation is based upon inputs other than those readily observable in the market place (Level 3). The following table provides details of the activity with respect to the fair value measurement during the period ending 31 December 2013 and 31 December 2012.

	31 December 2013	**31 December 2012**
As at January	**-**	**5,651**
Aqusition of OJSC Bank “Otkritie”	1,252	-
Purchase of shares	-	16
Disposal of shares	-	(5,655)
(Loss)/gains recognized in other comprehensive income	-	(12)
As at 31 December	**1,252**	**-**

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13. INVESTMENT PROPERTY

Investment property comprises:

	31 December 2013	31 December 2012
As at January 1	**4,761**	**3,759**
Acquisition of OJSC Bank "Otkritie"	4,175	-
Acquisitions	991	1,072
Disposals	(1,403)	(250)
Transferred from property and equipment	232	208
Property transferred to finance lease	(193)	-
Property classified as held for sale	(170)	-
Gain/ (loss) on property revaluation	178	(28)
As at December 31	**8,571**	**4,761**

Investment property owned by the Group were revalued by independent appraisers as at 31 December 2013 and 2012. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

The fair value of the buildings was determined based on the market comparable approach that reflects recent transaction prices and rental rates for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Included into operating income is investment property rental income for the years ended 31 December 2013 and 2012 totaling RUB 278 million and RUB 135 million, respectively.

Operating expenses arising from the investment property during the years ended 31 December 2013 and 2012 totaling RUB 185 million and RUB 32 million, respectively.

As at 31 December 2013 and 2012 the Group made an assessment of carrying value of investment property. This assessment resulted in recognition of revaluation profit in the consolidated income statement amounting to RUB 178 million and of impairment loss to RUB 28 million for the years ended 31 December 2013 and 2012, respectively. Decrease of the carrying value of buildings and other real estate is recognized in the consolidated income statement.

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

	Level 1	Level 2	Level 3	Fair value as at 31 December 2013
Investment property	-	8,571	-	8,571
Total	**-**	**8,571**	**-**	**8,571**

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2012 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2012
Investment property	-	4,761	-	4,761
Total	**-**	**4,761**	**-**	**4,761**

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14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Land	Buildings and construc-tions	Furniture and equipment	Other	Total
At initial/indexed/revalued cost					
31 December 2011	**462**	**8,419**	**2,704**	**1,181**	**12,766**
Reclasses	-	(157)	205	(256)	(208)
Revaluation recorded in equity	6	362	-	-	368
Recovery of impairment	15	86	-	-	101
Movement in cost related to revaluation	-	(206)	-	-	(206)
Additions	-	5	110	656	771
Disposals	-	(14)	(142)	(117)	(273)
Disposals of subsidaries	-	-	(28)	-	(28)
31 December 2012	**483**	**8,495**	**2,849**	**1,464**	**13,291**
Acquisition of OJSC Bank "Otkritie"	89	4,135	865	681	5,770
Reclasses	(2)	(71)	240	(399)	(232)
Revaluation recorded in equity	24	435	-	-	459
(Impairment)/recovery of impairment	(26)	13	-	-	(13)
Movement in cost related to revaluation	-	(206)	-	-	(206)
Additions	-	8	241	800	1,049
Disposals	(2)	(7)	(243)	(428)	(680)
31 December 2013	**566**	**12,802**	**3,952**	**2,118**	**19,438**
Accumulated depreciation					
31 December 2011	**-**	**4**	**1,326**	**446**	**1,776**
Movement in cost related to revaluation	-	(204)	-	-	(204)
Charge for the period	-	203	466	127	796
Write-off on disposal	-	-	(123)	(57)	(180)
Write-off on disposal of subsidaries	-	-	(14)	-	(14)
31 December 2012	**-**	**3**	**1,655**	**516**	**2,174**
Acquisition of OJSC Bank "Otkritie"	-	-	459	280	739
Movement in cost related to revaluation	-	(206)	-	-	(206)
Charge for the period	-	211	452	143	806
Write-off on disposal	-	(3)	(188)	(89)	(280)
31 December 2013	**-**	**5**	**2,378**	**850**	**3,233**
Net book value					
31 December 2012	**483**	**8,492**	**1,194**	**948**	**11,117**
31 December 2013	**566**	**12,797**	**1,574**	**1,268**	**16,205**

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As at 31 December 2013 and 2012 land, buildings and constructions owned by the Group were revalued to market prices according to the report of an independent appraiser as described below. As a result, carrying value of these land, buildings and constructions amounted to RUB 13,363 million and RUB 8,975 million, respectively. If land, buildings and constructions were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would have been RUB 10,045 million and RUB 7,485 million, respectively.

Land, buildings and constructions owned by the Group were revalued by independent appraisers as at 31 December 2013 and 2012. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

The fair value of the buildings was determined based on the market comparable approach that reflects recent transaction prices and rental rates for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

During the years ended 31 December 2013 and 2012 the Group carried out a review of the recoverable amount of its land, buildings and constructions. The review led to the recognition of a impairment loss of RUB 13 million for the year ended 31 December 2013 and recovery of impairment RUB 101 million for the year ended 31 December 2012, which has been recognised in consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their fair value. The recovery of impairment losses and impairment losses have been presented in the separate line in the consolidated income statement.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2013 and 2012 are as follows:

	Level 1	**Level 2**	**Level 3**	**31 December 2013**
- Land	-	566	-	566
- Buildings	-	12,797	-	12,797
Total	**-**	**13,363**	**-**	**13,363**

	Level 1	**Level 2**	**Level 3**	**31 December 2012**
- Land	-	483	-	483
- Buildings	-	8,492	-	8,492
Total	**-**	**8,975**	**-**	**8,975**

As at 31 December 2013 and 2012 included in property, plant and equipment were fully depreciated assets amounted to RUB 1,304 million and RUB 897 million, respectively.

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15. INTANGIBLE ASSETS

Intangible assets are presented as follows:

	Software	Customer-related intangible assets	Trademark	Licences	Other	Total
At initial cost						
31 December 2011	**1,199**	**1,373**	**350**	**672**	54	**3,648**
Additions	623	-	-	136	9	768
31 December 2012	**1,822**	**1,373**	**350**	**808**	**63**	**4,416**
Acquisition of OJSC Bank "Otkritie"	334	1,710	1	165	-	2,210
Additions	705	-	1	37	2	745
Disposals	(8)	-	-	-	-	(8)
31 December 2013	**2,920**	**3,083**	**352**	**1,022**	**65**	**7,442**
Accumulated depreciation						
31 December 2011	345	449	1	186	40	1,021
Charge for the period	446	331	1	121	15	914
31 December 2012	**791**	**780**	**2**	**307**	**55**	**1,935**
Acquisition of OJSC Bank "Otkritie"	104	1,009	-	46	-	1,159
Charge for the period	450	243	1	66	2	762
Write-off on disposal	(2)	-	-	-	-	(2)
31 December 2013	**1,410**	**2,032**	**3**	**431**	**57**	**3,933**
Net book value						
31 December 2012	**1,031**	**593**	**348**	**501**	8	**2,481**
31 December 2013	**1,510**	**1,051**	**349**	**591**	8	**3,509**

As at 31 December 2013 customer related intangible assets include core deposit intangible in the amount of RUB 111 million and client relationship in the amount of RUB 163 million.

As at 31 December 2012 customer related intangible assets include core deposit intangible in the amount of RUB 184 million and client relationship in the amount of RUB 409 million.

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16. OTHER ASSETS

Other assets are presented as follows:

	31 December 2013	31 December 2012
Other financial assets:		
Claims to Deposit Insurance Agency on customer accounts repayment	2,685	-
Accounts receivable	2,020	869
Debtors on operations with currency	1,209	-
Assignment of claims	415	5
Insuarance broker commission	320	-
Cash in trust operations and on broker accounts (Note 6)	313	-
Debtors on spot deals with currency and precious metals	276	34
Receivables on operations with coins	115	40
Debtors on operations with securities	77	104
Settlements on letters of credit	31	-
Prepayments on operations with precious metals	1	-
Total other financial assets before allowance for impairment losses	**7,462**	**1,052**
Less – Allowance for impairment losses	(646)	(182)
	6,816	**870**
Other non-financial assets:		
Non-current assets held for sale	972	666
Current income tax assets	766	565
Prepayments of capital investments	637	877
Rights on claims against property	617	498
Taxes other than income tax recoverable	456	477
Penalties	442	352
Stationery and inventory	260	215
Deferred tax assets (Note 30)	114	44
Other	1,398	453
Total other non-financial assets before allowance for impairment losses	**5,662**	**4,147**
Less – Allowance for impairment losses	(611)	(288)
	5,051	**3,859**
Total other assets	**11,867**	**4,729**

Movements in allowances for impairment losses of other assets for the years ended 31 December 2013 and 2012 were as follows.

	For the years ended 31 December	
	2013	**2012**
As of 1 January	**470**	**588**
Acquisition of OJSC Bank “Otkritie”	664	-
Provision charge	246	84
Recovery of bad debt written-off	4	3
Disposal	(2)	(11)
Bad debt written-off	(125)	(194)
As of 31 December	**1,257**	**470**

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Details of the Group's information about the fair value hierarchy as at 31 December 2013 and 2012 are as follows:

	31 December 2013			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Non-current assets held for sale	-	972	-	972
Non-current assets held for sale	**-**	**972**	**-**	**972**

	31 December 2012			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Non-current assets held for sale	-	666	-	666
Non-current assets held for sale	**-**	**666**	**-**	**666**

17. DUE TO BANKS AND THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to banks and the Central Bank of the Russian Federation comprises:

	31 December 2013	31 December 2012
Deposits from banks	88,403	104,528
Loans under repurchase agreements from the CBR	81,603	47,591
Loans under repurchase agreements from banks	45,233	20,243
Deposits from the CBR	24,890	23,638
Correspondent accounts of other banks	9,263	17,510
Syndicated loans	7,795	-
Total due to banks and the Central Bank of the Russian Federation	**257,187**	**213,510**

As at 31 December 2013 and 2012 the Group had deposits from three and five banks amounting to RUB 142,181 million and RUB 131,259 million, respectively, which individually and in aggregate exceeded 10% of the Group's equity.

As at 31 December 2013 carrying value of syndicated loan received by the Group comprised RUB 7,795 million from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loan is November 2014, and the interest rate is tied to three-month LIBOR plus 1.75% margin.

As at 31 December 2013 and 2012 the Group had deposits from two and two banks amounting to RUB 4,361 million and RUB 4,208 million, respectively, which were collaterized with the rights of claim with respect to loans to customers totaling RUB 7,022 million and RUB 6,722 million, respectively.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

As at 31 December 2013 and 2012 the loans under reverse repurchase agreements to banks have contractual maturities from January 2014 to September 2014 and January 2013 to March 2013, respectively.

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Financial assets at fair value through profit or loss:				
Corporate bonds and Eurobonds	25,373	29,149	10,986	12,824
Bonds and Eurobonds issued by banks	24,704	29,931	7,025	8,493
OFZ bonds	21,781	22,405	16,817	17,172
Promissory notes of credit institutions			6,545	6,541
Municipal bonds	3,462	3,858	413	455
RF Government Eurobonds	1,053	1,110	-	-
Investments available-for-sale:				
Corporate bonds and Eurobonds	1,496	1,977	-	-
Securities received under reverse repurchase agreements:				
Shares	39,251	63,698	20,798	31,860
Bonds and Eurobonds issued by banks	3,773	4,422	-	-
Corporate bonds and Eurobonds	2,844	3,198	1,102	1,242
OFZ bonds	2,069	2,145	2,553	2,632
Municipal bonds	1,030	1,140	1,595	1,675
Total	**126,836**	**163,033**	**67,834**	**82,894**

18. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2013	31 December 2012
Term deposits	586,102	358,748
Current accounts	187,151	105,790
Loans under repurchase agreements	6,810	1,029
Term deposits from Deposit Insurance Agency	1,408	6,160
Total customer accounts	**781,471**	**471,727**

As at 31 December 2013 and 2012 the Group received funds from five and four customers amounting to RUB 200,329 million and RUB 115,862 million, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2013 and 2012 demand deposits denominated in units of precious metal which have the alternative to be settled in cash or in precious metals were included in customer accounts. The breakdown is presented below:

	31 December 2013	31 December 2012
Gold	4,438	6,366
Silver	1,026	613
Palladium	47	68
Platinum	44	46
Total customer accounts denominated in precious metals	**5,555**	**7,093**

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As at 31 December 2012 the Group provided loans to customers in the amount of RUB 7,598 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,160 million (see Note 11).

As at 31 December 2013 and 31 December 2012 customer accounts amounting to RUB 2,902 million and RUB 1,896 million, respectively, were held as security against contingent liabilities issued by the Group (see Note 32).

Analysis of customer accounts by economic sector is presented below:

	31 December 2013	31 December 2012
Individuals	266,780	157,082
Investment and asset management companies	262,679	121,241
Industrial manufacturing	39,031	27,686
Services	33,349	21,660
Wholesale trade	29,989	27,807
Insurance	21,326	17,094
Transport and communication	18,770	4,541
Construction of industrial real estate	17,510	15,429
Regional and local budgets funds	13,415	21,034
Operations with real estate	13,007	21,367
Science	12,004	6,960
Construction of commercial real estate	8,564	4,801
Brokerage and dealing in securities	6,810	1,029
Retail trade	5,097	4,295
Precious metals extraction	4,482	7,493
Housing construction	4,342	374
Energy	4,241	3,074
Leasing	1,439	1,346
Agriculture	618	625
Other	18,018	6,789
Total customer accounts	**781,471**	**471,727**

As at 31 December 2013 and 2012 the loans under reverse repurchase agreements to customers have contractual maturities from January 2014 and January 2013 to March 2013, respectively.

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013		31 December 2012	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Financial assets at fair value through profit or loss:				
OFZ bonds	2,630	2,634	-	-
Bonds and Eurobonds issued by banks	1,026	1,141	-	-
Securities received under reverse repurchase agreements:				
Shares	3,011	5,099	1,029	2,296
Bonds and Eurobonds issued by banks	143	154	-	-
Total	**6,810**	**9,028**	**1,029**	**2,296**

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19. BONDS AND EUROBONDS

Bonds and Eurobonds comprise:

	31 December 2013	31 December 2012
Bonds issued in local market	47,703	30,851
Eurobonds due in 2018	16,256	-
Eurobonds due in 2013	-	11,767
Total Bonds and Eurobonds issued	**63,959**	**42,618**

Bonds and Eurobonds as at 31 December 2013 comprise:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2013
Bonds issued					
NOMOS, BO-06	Roubles	2013	2016	8.60%	7,138
NOMOS, BO-05	Roubles	2013	2016	9.00%	6,288
NOMOS, BO-03	Roubles	2012	2015	8.60%	5,170
NOMOS, BO-02	Roubles	2011	2014	9.20%	5,058
NOMOS, 11th issue	Roubles	2009	2014	9.50%	4,936
KHMB,Mortgage-Backed bonds	Roubles	2013	2045	9.20%	4,804
NOMOS, 12th issue	Roubles	2010	2017	8.70%	4,289
NOMOS, BO-01	Roubles	2011	2014	9.10%	4,002
OTKRITIE,Mortgage-Backed bonds	Roubles	2013	2045	9.00%	3,125
OTKRITIE,1	Roubles	2012	2017	9.50%	87
NOMOS,Mortgage-Backed bonds	Roubles	2012	2045	8.75%	2,806
Total bonds issued					**47,703**
Eurobonds					
NOMOS Eurobonds due in 2018	US Dollars	2013	2018	7.25%	16,256
Total Eurobonds issued					**16,256**
Total bonds and Eurobonds issued					**63,959**

Bonds and Eurobonds as at 31 December 2012 comprise:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2012
Bonds issued					
NOMOS, BO-03	Roubles	2012	2015	9.15%	5,180
NOMOS, 12th issue	Roubles	2010	2017	8.50%	5,150
NOMOS, BO-02	Roubles	2011	2014	8.00%	5,078
NOMOS, 9th issue	Roubles	2008	2013	8.75%	4,280
NOMOS, 11th issue	Roubles	2009	2014	9.50%	3,858
NOMOS,Mortgage-Backed bonds	Roubles	2012	2045	8.75%	3,758
NOMOS, BO-01	Roubles	2011	2014	9.10%	3,337
2nd issue	Roubles	2010	2013	9.25%	210
Total bonds issued					**30,851**
Eurobonds					
NOMOS Eurobonds due in 2013	US Dollars	2010	2013	6.50%	11,767
Total Eurobonds issued					**11,767**
Total bonds and Eurobonds issued					**42,618**

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The Group is obliged to comply with financial covenants in relation to Eurobonds due in 2013 and 2018.

In accordance with the terms of the covenants the Group should not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices (as at the date hereof) to fall below 10%. These recommendations were provided in Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and together with any further amendments, guidelines or clarifications up to the date hereof. This calculation should be made by reference to the latest annual consolidated audited accounts of the Group prepared in accordance with IFRS. The Group should also comply with the minimum capital adequacy ratio established by the Central Bank of Russian Federation. The Group has not breached any of these covenants at the end of each quarter in the years ended 31 December 2013 and 2012.

20. PROMISSORY NOTES ISSUED

Promissory notes issued comprise:

	Interest rate to nominal	31 December 2013	Interest rate to nominal	31 December 2012
Discount bearing promissory notes	-	59,165	-	18,154
Interest bearing promissory notes	1.5-10.5%	1,424	0.8-10,5%	2,006
Certificates of deposit	8.2-11.6%	750	8.2-11.6%	644
Settlement promissory notes	-	313	-	341
Total promissory notes issued		**61,652**		**21,145**
Including: promissory notes held as security against loans to customers		435		719
Including: promissory notes held as security against guarantees and letters of credit (Note 32)		2,599		69

Settlement promissory notes are promissory notes sold at face value.

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2013	31 December 2012
Other financial liabilities:		
Payable to employees and accrued bonuses	2,259	1,837
Accrued expenses	782	556
Provisions for guarantees and other off-balance sheet commitments (Note 32)	369	362
Creditors on operations with foreign currency	250	-
Payables on settlement operations	237	620
Creditors on operations with securities	180	17
Paybles under lease contracts	88	-
Renumeration to the management company	59	-
Creditors on sale of precious metals	24	261
Payables on spot operations with currency, precious metals and securities	2	17
Total other financial liabilities	**4,250**	**3,670**
Other non-financial liabilities:		
Taxes payable, other than income tax	923	515
Current income tax liabilities	96	361
Other liabilities	453	242
Total other non-financial liabilities	**1,472**	**1,118**
Total other liabilities	**5,722**	**4,788**

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Movements in financial guarantees and provisions for other off-balance sheet commitments for the years ended 31 December 2013 and 2012 were as follows:

	For the years ended 31 December	
	2013	**2012**
As of 1 January	**362**	**381**
Acquisition of OJSC Bank "Otkritie"	202	-
Amortisation of accrued commissions on guarantees	21	(46)
Provision (release) / charge	(216)	27
As of 31 December	**369**	**362**

22. SUBORDINATED DEBT

Subordinated debt is presented as follows:

The following table provides information on subordinated debt as at 31 December 2013:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2013
Subordinated bonds	US Dollars	2012	2019	10.00%	16,528
Subordinated bonds	US Dollars	2010	2015	8.75%	11,605
Subordinated bonds	US Dollars	2012	2019	10.00%	9,783
Subordinated bonds	US Dollars	2013	2023	9.15%	6,545
Subordinated loan	Roubles	2011	2021	12.00%	6,000
Subordinated loan	Roubles	2009	2019	6.50%	4,900
Subordinated loan	US Dollars	2013	2020	10.00%	3,416
Subordinated loan	Roubles	2009	2019	6.50%	1,660
Subordinated loan	Roubles	2009	2025	12.50%	1,203
Subordinated loan	Roubles	2013	2023	8.50%	1,064
Subordinated loan	Roubles	2007	2024	10.00%	200
Subordinated loan	Roubles	2008	2025	10.00%	190
Subordinated loan	Roubles	2008	2024	12.00%	170
Subordinated loan	Roubles	2007	2024	8.80%	95
Subordinated loan	Roubles	2010	2016	6.00%	60
Subordinated loan	Roubles	2010	2016	8.00%	40
					63,459

The following table provides information on subordinated debt as at 31 December 2012:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2012
Subordinated bonds	US Dollars	2012	2019	10.00%	15,321
Subordinated bonds	US Dollars	2010	2015	8.75%	10,751
Subordinated bonds	US Dollars	2012	2019	10.00%	8,997
Subordinated loan	Roubles	2011	2021	12.00%	6,000
Subordinated loan	Roubles	2009	2019	6.50%	4,902
Subordinated bonds	US Dollars	2007	2018	11.00%	3,198
Subordinated loan	Roubles	2009	2019	6.50%	1,605
Subordinated loan	Roubles	2010	2016	6.00%	60
Subordinated loan	Roubles	2010	2016	8.00%	39
					50,873

Subordinated Eurobonds issue in the amount of RUB 3,198 million with contractual maturity in 2018 were repaid in full during 2013.

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

23. SHARE CAPITAL AND SHARE PREMIUM

The table below provides a breakdown of the Bank's issued and fully paid ordinary and preference shares:

Issued and fully paid	**Ordinary shares (Number)**	**Nominal amount (RUB million)**	**Preference shares (Number)**	**Nominal amount (RUB million)**
31 December 2011	**92,422,370**	**4,621**	**-**	**-**
31 December 2012	**92,422,370**	**4,621**	**-**	**-**
Reacquired	(67,080)	(3)	-	-
Reacquired by subsidiaries	(6,478,916)	(324)		
Issued	28,591,916	1,430	-	-
31 December 2013	**114,468,290**	**5,724**	**-**	**-**

In accordance with the requirement of IAS 29 "Financial reporting in hyperinflationary economies" the effect of inflation adjustment applied to the share capital amounts to RUB 1,278 million.

In October 2013 the Bank has completed public offering on the Moscow Stock Exchange. The increase of share capital amounted to 21,800,000 shares with a par value of RUB 50 each.

In July 2013 the Bank has increased its share capita, as part of the conversion of shares of two subsidiaries – OJSC "NOMOS Siberia" and NOMOS-REGIOBANK – into NOMOS-BANK.

In terms of the conversion procedure 4,400,207 shares and 2,391,709 shares were issued with a par value of RUB 50 each. Two issues of shares and reports on the total issue of the Bank's shares of RUB 220 million and RUB 120 million were registered by the CBR as at 8 July 2013.

There are no issued ordinary and preference shares that have not been fully paid. Par value per ordinary and preference share is RUB 50 each.

Each ordinary share entitles the holder to cast one vote on all matters within its competence stipulated by the Charter of the Group, to receive non-fixed rate dividend income and to receive property belonging to the Group in the event of liquidation. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares.

In the event of the dissolution and liquidation of the Bank, the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

The table below provides a breakdown of the Bank's authorized ordinary and preference shares:

Authorized	**Ordinary shares (Number)**	**Nominal amount (RUB million)**	**Preference shares (Number)**	**Nominal amount (RUB million)**
31 December 2011	**167,377,630**	**8,369**	**48,100,000**	**2,405**
31 December 2012	**167,377,630**	**8,369**	**48,100,000**	**2,405**
Issued	(28,591,916)	(1,430)	-	-
31 December 2013	**138,785,714**	**6,939**	**48,100,000**	**2,405**

Holders of preference shares with non-fixed rate dividend income are entitled to: participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

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Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

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

The Group’s reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

24. NON-CONTROLLING INTEREST

Non-controlling interest comprises:

	OJSC “Novosibirsk Municipal Bank”	CJSC “Mortgage Agent Nomos”	LLC “Inbank”	OJSC “KHANTY-MANSIYSK BANK” and it’s subsidiaries	LLC “Attenium”	LLC “NM-Expert”	OJSC “Otkritie-BANK” and it’s subsidiaries	Total
31 December 2011	**72**	**-**	**107**	**13,050**	**184**	**-**	**-**	**13,413**
Effect of (increase)/decrease in share of subsidiaries (purchased from)/ sold to non-controlling interest	95	-	-		(158)	-	-	(63)
Property, plant and equipment revaluation reserve to non-controlling interest	1	-	-	61	-	-	-	62
Revaluation of investments available-for-sale attributable to non-controlling interest	(2)	-	-	(19)	-	-	-	(21)
Disposal of non-controlling share in connection with the sale of the subsidary	-	-	(112)	-	-	-	-	(112)
Dividends paid	-	-	-	-	(39)	-	-	(39)
Profit attributable to non-controlling interest	10	26	5	2,387	13	-	-	2,441
31 December 2012	**176**	**26**	**-**	**15,479**	**-**	**-**	**-**	**15,681**
Effect of (increase)/decrease in share of subsidiaries (purchased from)/ sold to non-controlling interest	(176)	-	-	-	-	2	-	(174)
Property, plant and equipment revaluation reserve to non-controlling interest	-	-	-	71	-	-	-	71
Revaluation of investments available-for-sale attributable to non-controlling interest	-	-	-	12	-	-	-	12
Acquisition of the new subsidary	-	-	-	-	-	-	15,095	15,095
Profit attributable to non-controlling interest	-	198	-	2,198	-	2	-	2,398
31 December 2013	**-**	**224**	**-**	**17,760**	**-**	**4**	**15,095**	**33,083**

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The summarised financial information below represents amounts before intragroup eliminations.

OJSC "KHANTY-MANSIYSK BANK" and its subsidiaries	**31 December 2013**	**31 December 2012**
Total assets	361,523	299,676
Total liabilities	325,144	267,861
Interest income	30,411	22,020
Interest expense	17,921	12,023
Provision for impairment losses on interest bearing assets	3,566	2,615
Net profit	4,393	4,910

OJSC "OTKRITIE Bank" and its subsidiaries	**31 December 2013**	**31 December 2012**
Total assets	202,658	189,674
Total liabilities	177,000	165,006

25. NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOWS AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

Net interest income comprises:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Interest income comprises:		
Interest income on assets recorded at amortized cost	88,575	60,962
Interest income on assets at fair value through profit or loss	9,153	5,414
Interest income on investments available-for-sale	121	274
Total interest income	**97,849**	**66,650**
Interest income on assets recorded at amortized cost:		
Interest income on loans to customers	80,163	56,201
Interest income on reverse repurchase transactions	5,931	3,881
Interest income on loans and advances to banks and other financial institutions	2,473	850
Interest on investments held to maturity	8	30
Total interest income on assets recorded at amortized cost	88,575	60,962
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	57,050	35,154
Interest expense on liabilities at fair value through profit or loss	72	90
Total interest expense	**57,122**	**35,244**
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expense on customer accounts	36,383	20,785
Interest expense on due to banks and the Central Bank of the Russian Federation	5,272	4,093
Interest expense on subordinated debt	5,229	3,647
Interest expense on Bonds and Eurobonds issued	4,586	3,280
Interest expense on repurchase transactions	3,241	1,623
Interest expense on promissory notes issued	2,339	1,726
Total interest expense on financial liabilities recorded at amortized cost	57,050	35,154
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	**40,727**	**31,406**

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26. TRADING INCOME/(LOSS)

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

	Year ended 31 December 2013	Year ended 31 December 2012
First to default credit-linked notes recognized at fair value through profit or loss	-	15
Financial assets at fair value through profit or loss	(988)	1,320
Securities	**(988)**	**1,335**
Derivatives on foreign currency contracts	491	635
Net gain on foreign currency operations	1,091	378
Foreign currency	**1,582**	**1,013**
Derivatives on precious metals contracts	(223)	325
Net gain on precious metals	374	40
Precious metals	**151**	**365**
Other derivatives contracts	16	(32)
Other derivatives	**16**	**(32)**
Total trading income	**761**	**2,681**

The analysis of trading income is based on how the business is organised and the underlying risks managed. Trading income comprises gains and losses on financial instruments at fair value through profit and loss, both realized and unrealized.

The types of instruments include:

- Securities: operations with trading securities, trading security forward contracts and futures contracts;
- Foreign currency: foreign currency operations, foreign exchange forward contracts and currency options, impacts of the foreign exchange gains and losses on the allowance on loan losses on foreign currency denominated loans;
- Precious metals: precious metals operations and precious metals forward contracts;
- Other derivatives: interest rate swap contracts.

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27. NET FEE AND COMMISSION INCOME

Net fee and commission income comprise:

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income:		
Settlements	6,305	5,613
Documentary operations	2,826	2,398
Insuarance broker commission	1,180	475
Cash operations	1,133	1,351
Foreign currency conversion operations	206	232
Brokerage operations	192	543
Operations with precious metals	89	107
Operations related to underwriting	69	27
Depositary services	6	5
Other	149	144
Total fee and commission income	**12,155**	**10,895**
Fee and commission expense:		
Settlements	2,618	2,464
Cash operations	248	214
Documentary operations	142	102
Securities operations	35	34
Depositary services	32	17
Other	92	123
Total fee and commission expense	**3,167**	**2,954**
Net fee and commission income	**8,988**	**7,941**

28. OTHER INCOME

Other income comprises:

	Year ended 31 December 2013	Year ended 31 December 2012
Penalties received	380	241
Rental income	295	192
Income on early deposits withdrawal	48	32
Gain on disposal of property, plant and equipment	25	75
Dividends received	2	6
Gain from trust operations	-	41
Gain on construction operations	-	21
Gain from sale of transport cards on leashold equipment	-	13
Gain from remeasurement of other assets	-	8
Other	77	125
Total other income	**827**	**754**

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29. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2013	Year ended 31 December 2012
Payroll and bonuses	12,145	11,658
Unified social tax	2,338	2,296
Rent expenses	929	699
Taxes other than income tax	882	786
Depreciation of property plant and equipment	806	796
Amortization of intangible assets	762	914
Stationery and other office expenses	708	839
Property, plant and equipment maintenance	685	548
Payments to the Deposit Insurance Fund	664	541
Professional services	492	521
Telecommunications	378	359
Advertising expenses	271	451
Security expenses	257	278
Representation expenses	164	170
Charity expense	151	149
Insurance expenses	47	89
Other expenses	314	287
Total operating expenses	**21,993**	**21,381**

The majority of employees have fixed and variable compensation components, which, together with other benefits, represent their total compensation. The goal is to achieve a sound balance between the variable and the fixed components. Variable compensation is tied to the employee's performance and the Group's total result. This is a way to harmonise the interests of employees and shareholders and motivate long-term value creation in the Group.

30. INCOME TAX

The Group pays current taxes based on the statutory tax accounts maintained and prepared in accordance with the statutory tax regulations, which may differ from International Financial Reporting Standards.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits (as defined) under tax law in that jurisdiction.

Deferred taxes on temporary differences as at 31 December 2013 and 2012 comprise:

	Allowances	Revaluation of financial assets and liabilities	Amor-tisation of commis-sions	Revaluation of fixed assets, investment property and assets available-for-sale	Revaluation of accounts in precious metals and foreign currencies	Other	Tax losses carried forward	Total
As at 31 December 2011	**(1,893)**	**320**	**(163)**	**(497)**	**(447)**	**(200)**	**12**	**(2,868)**
(Charge)/credit to profit or loss	1,050	(645)	(142)	24	485	419	18	1,209
(Charge)/credit to other comprehensive income	-	55	-	(73)	-	-	-	(18)
Disposal of subsidiary	5	-	-	9	-	(1)	-	13
Change in deferred tax asset not recognized	(8)	16	9	1	-	-	-	18
As at 31 December 2012	**(846)**	**(254)**	**(296)**	**(536)**	**38**	**218**	**30**	**(1,646)**
(Charge)/credit to profit or loss	(1,482)	425	269	24	(65)	(60)	42	(847)
(Charge)/credit to other comprehensive income	-	(18)	-	(92)	-	-	-	(110)
Acquisition of subsidiary	(44)	(215)	(26)	(576)	3	170	-	(688)
Change in deferred tax asset not recognized	7	(2)	(8)	30	-	-	-	27
As at 31 December 2013	**(2,365)**	**(64)**	**(61)**	**(1,150)**	**(24)**	**328**	**72**	**(3,264)**

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The effective tax rate reconciliation for the years ended 31 December 2013 and 2012 is explained as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Profit before income tax	22,188	18,254
Statutory tax rate	20%	20%
Tax at the statutory tax rate	4,438	3,651
Tax effect due to different tax rates	(116)	(79)
Change in unrecognized deferred tax assets	(27)	(18)
Tax paid in foreign countries and compensated in RF in future	5	(67)
Additional tax charge/(reimbursement) related to prior year	186	(600)
Permanent tax differences	400	352
Income tax expense	**4,886**	**3,239**

The permanent tax differences for the years ended 31 December 2013 and 2012 comprises:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Non-deductable expenses		
Interest expense on deposits	249	159
Investment funds loss	58	-
Employee payments	48	16
Administrative expenses	30	8
Charity expenses	25	36
Property expenses	21	18
Sale of property plant and equipment	15	-
Effect of intergroup sale of subsidiary	-	98
Other	21	33
Total non-deductable expenses	**467**	**368**
Non-taxable income		
Income on mortgage agent	(51)	(6)
Other	(16)	(10)
Total non-taxable income	**(67)**	**(16)**
Total permanent differences	**400**	**352**

The corporate income tax expense for the years ended 31 December 2013 and 2012 comprises:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Current income tax expense	3,942	5,066
Deferred tax expense/(benefit)	820	(1,227)
Additional tax charge/(reimbursement) related to prior years	186	(600)
Income tax expense	**4,886**	**3,239**

Movement in deferred tax assets for the years ended 31 December 2013 and 2012 comprises:

Deferred income tax assets	**Year ended 31 December 2013**	**Year ended 31 December 2012**
At the beginning of the period	44	17
Change in deferred income tax asset recorded in other comprehensive income	-	47
Change in deferred income tax asset recorded in income statement	70	(20)
At the end of the period	**114**	**44**

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Movement in the tax loss carried-forward for the years ended 31 December 2013 and 2012 comprises:

Tax loss carried-forward	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Tax loss at the beginning of the period	154	63
Increase of tax loss for the period	211	152
Tax loss used in the current period	(1)	(61)
Tax loss at the end of the period	**364**	**154**

There were no losses expiring in the current year. The tax loss expires in 2023.

Movement in deferred tax asset not recognized for the years ended 31 December 2013 and 2012 comprises:

Deferred tax asset not recognized	**Year ended 31 December 2013**	**Year ended 31 December 2012**
At the beginning of the period	171	189
Decrease in deferred tax asset not recognized for the period	(27)	(18)
At the end of the period	**144**	**171**

31. EARNINGS PER SHARE AND EARNINGS PER GDR

Earnings per share are presented as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Earnings per share related to continuing operations:		
Profit:		
Net profit for the year	17,302	15,015
Less:		
Loss on repurchase of ordinary shares	(53)	-
Non-controlling interest	(2,398)	(2,441)
Net earnings attributable to ordinary equity holders	14,851	12,574
Weighted average number of ordinary shares for basic and diluted earnings per share	96,354,411	92,422,370
Earnings per share from continuing operations – basic and diluted	**154.13**	**136.05**
GDR equivalent of weighted average number of shares [4]	192,708,822	184,844,740
Earnings per GDR from continuing operations – basic and diluted	**77.06**	**68.02**

[4] The number of GDRs was calculated assuming that two GDRs represent an interest in one ordinary share.

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32. COMMITMENTS AND CONTINGENCIES

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

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

As at 31 December 2013 and 2012 provision for guarantees and other off-balance sheet commitments were RUB 369 million and RUB 362 million, respectively. The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision (Basel I).

As at 31 December 2013 and 2012 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2013		31 December 2012	
	Nominal amount	**Risk-weighted amount**	**Nominal amount**	**Risk-weighted amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	226,064	174,081	154,645	154,310
Commitments on loans and unused credit lines	166,024	4,291	116,582	3,140
Letters of credit and other contingent commitments related to settlement operations	11,296	5,167	6,848	2,181
Less: provisions (Note 21)	(369)		(362)	
Total contingent liabilities and credit commitments (before deducting collateral)				
Less: promissory notes held as security against contingent liabilities (Note 20)	(2,599)		(69)	
Less: deposits held as security against contingent liabilities (Note 18)	(2,902)		(1,896)	
Total contingent liabilities and credit commitments	**397,514**		**275,748**	

Operating leases – The Group's future minimum rental payments under non-cancellable operating leases of office premises in effect as at 31 December 2013 and 2012 are presented in the table below.

	31 December 2013	31 December 2012
Not later than 1 year	1,729	574
Later than 1 year and not later than 5 years	3,239	1,076
Later than 5 years	617	42
Total operating lease	**5,585**	**1,692**

Fiduciary activities – The Group provides depositary services to its customers. As at 31 December 2013 and 2012 the Group had customers' securities of 16,421,516,167.47480 items, and 13,631,420,928 items, respectively, in its nominal holder's accounts.

As at 31 December 2013 and 2012 the Group kept in its vault 3,849 kg of gold bullion, 62 kg of silver bullion, 87 kg of palladium bullion, 40 kg of platinum bullion, and 3,587 kg of gold bullion, 5,661 kg of silver bullion, 88 kg of palladium bullion, 31 kg of platinum bullion respectively, owned by the Group's customers.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the RF and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no provision has been made in the consolidated financial statements.

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

Pensions and retirement plans – Employees receive pension benefits according to the laws and regulations of the Russian Federation. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The Group makes monthly payments to a non-government pension fund for its employees, who in turn will receive a future benefit from the fund. The contributions to the defined contribution plan are included in staff costs on an accrual basis. In 2013 there were no payments made to the non-government pension funds. As at 31 December 2012 payments to the non-government pension fund of RUB 5 million. (in 2013 – nill). Once the payments to the pension fund are made the Group has no further obligations.

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

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

33. SEGMENT REPORTING

The reportable segments comprise of:

- Corporate banking – full range of banking services provided to large and medium-sized corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- Small business – banking services provided to small businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- Investment banking – representing trading of fixed income and equity products, foreign exchange, precious metals and derivatives on such products, money market operations, repo, brokerage services and asset management and other investment banking services.
- Retail banking (including private banking) – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Treasury and asset-liability unit – treasury, which lends and borrows funds of money market, undertakes the Group's funding through issue of debt securities and attraction of subordinated facilities and conducts foreign exchange operations for internal hedging purposes. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.
- Unallocated – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities

The President of the Bank is the chief operating decision maker. Operating results are reviewed regularly by the entity's chief operating decision maker to consider the way resources to be allocated to the segment and assess its performance.
Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below:

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2013 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	4,501	3,379	32,905	24,263	22,784	-	**87,832**
Minimum reserve deposits with the Central Bank of the Russian Federation	1,321	336	1,513	419	5,280	-	**8,869**
Precious metals	5,671	-	10	65	-	-	**5,746**
Financial assets at fair value through profit or loss	11	-	-	170,133	11,842	-	**181,986**
Loans and advances to banks and other financial institutions	55	-	4,762	82,206	46,638	-	**133,661**
Loans to customers	551,169	48,309	173,055	104,174	2,492	75	**879,274**
Investments available-for-sale	512	-	85	38,911	20	4	**39,532**
Investment property	2,780	-	-	4,823	-	968	**8,571**
Property, plant and equipment	2,929	2,045	8,638	561	610	1,422	**16,205**
Intangible assets	190	164	1,543	28	8	1,576	**3,509**
Goodwill	24	59	1,107	-	-	809	**1,999**
Other assets	1,936	66	3,092	1,472	25	5,276	**11,867**
TOTAL ASSETS	**571,099**	**54,358**	**226,710**	**427,055**	**89,699**	**10,130**	**1,379,051**
LIABILITIES							
Financial liabilities at fair value through profit or loss	48	-	-	2,761	57	-	**2,866**
Due to banks and the Central Bank of the Russian Federation	12,506	3,607	5,365	219,644	16,065	-	**257,187**
Customer accounts	428,689	49,358	274,264	25,891	3,269	-	**781,471**
Bonds and Eurobonds	-	-	10,736	36,967	16,256	-	**63,959**
Promissory notes issued	46,026	1,287	330	13,719	290	-	**61,652**
Deferred income tax liabilities	-	-	-	-	-	3,378	**3,378**
Other liabilities	1,214	203	1,011	726	32	2,536	**5,722**
Subordinated debt	-	-	-	-	58,185	5,274	**63,459**
TOTAL LIABILITIES	**488,483**	**54,455**	**291,706**	**299,708**	**94,154**	**11,188**	**1,239,694**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2013
External interest income	58,390	6,552	15,398	16,121	1,388	-	**97,849**
External interest expense	(25,825)	(718)	(11,195)	(11,887)	(7,497)	-	**(57,122)**
Internal funding costs/revenues from Central treasury	(13,689)	(1,611)	5,782	703	8,815	-	-
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	**18,876**	**4,223**	**9,985**	**4,937**	**2,706**	-	**40,727**
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(6,159)	(808)	(2,023)	-	-	(20)	**(9,010)**
Net interest income	**12,717**	**3,415**	**7,962**	**4,937**	**2,706**	**(20)**	**31,717**
Fee and commission income	3,881	1,372	6,465	422	13	2	**12,155**
Fee and commission expense	(168)	(60)	(2,696)	(175)	(68)	-	**(3,167)**
Trading and foreign exchange results	400	27	246	1,156	(1,043)	185	**971**
Other operating income	1,795	108	304	115	6	42	**2,370**
Net result from other segments*	**136**	**(43)**	**116**	**295**	**(504)**	-	-
Total operating income before impairment losses and provisions	**18,761**	**4,819**	**12,397**	**6,750**	**1,110**	**209**	**44,046**
Impairment losses of investments available-for-sale and investment property and provisions on other transactions	255	(52)	(76)	(5)	23	3	**148**
Operating expenses and impairment of buildings and constructions	**(5,827)**	**(2,999)**	**(9,340)**	**(1,192)**	**(486)**	**(2,162)**	**(22,006)**
Profit before income tax	**13,189**	**1,768**	**2,981**	**5,553**	**647**	**(1,950)**	**22,188**
Income tax	-	-	-	-	-	(4,886)	**(4,886)**
Profit for the period	**13,189**	**1,768**	**2,981**	**5,553**	**647**	**(6,836)**	**17,302**
Depreciation and amortization expense	(361)	(219)	(751)	(61)	(25)	(151)	**(1,568)**
Capital expenditures	505	271	812	87	38	196	**1,909**

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	-	-	15,482	9,502	26,164	-	**51,148**
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	6,932	-	**6,932**
Precious metals	6,390	-	12	-	-	-	**6,402**
Financial assets at fair value through profit or loss	92	-	-	104,162	-	-	**104,254**
Loans and advances to banks and other financial institutions	98	1	3,390	88,899	19,198	-	**111,586**
Loans to customers	422,035	38,947	90,112	39,420	-	50	**590,564**
Investments available-for-sale	-	-	-	4,895	24	-	**4,919**
Investments held to maturity	-	-	-	201	-	-	**201**
Investment property	2,279	-	-	1,445	-	1,037	**4,761**
Property, plant and equipment	2,567	1,434	4,715	641	610	1,150	**11,117**
Intangible assets	365	172	1,412	43	-	489	**2,481**
Goodwill	-	-	-	-	-	809	**809**
Other assets	1,062	466	218	302	25	2,656	**4,729**
TOTAL ASSETS	**434,888**	**41,020**	**115,341**	**249,510**	**52,953**	**6,191**	**899,903**
LIABILITIES							
Financial liabilities at fair value through profit or loss	19	-	-	3,172	-	-	**3,191**
Due to banks and the Central Bank of the Russian Federation	6,365	4,091	8,548	190,904	3,602	-	**213,510**
Customer accounts	267,557	28,009	157,275	4,559	14,327	-	**471,727**
Bonds and Eurobonds	-	-	3,765	27,085	11,768	-	**42,618**
Promissory notes issued	7,496	644	21	12,694	290	-	**21,145**
Deferred income tax liabilities	-	-	-	-	-	1,690	**1,690**
Other liabilities	842	45	749	125	156	2,871	**4,788**
Subordinated debt	-	-	-	-	50,873	-	**50,873**
TOTAL LIABILITIES	**282,279**	**32,789**	**170,358**	**238,539**	**81,016**	**4,561**	**809,542**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2012
External interest income	41,118	5,187	10,664	9,562	119	-	**66,650**
External interest expense	(13,035)	(525)	(8,019)	(7,903)	(5,762)	-	**(35,244)**
Internal funding costs/revenues from Central treasury	(11,848)	(1,212)	4,902	1,057	7,101	-	-
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	**16,235**	**3,450**	**7,547**	**2,716**	**1,458**	**-**	**31,406**
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(4,889)	253	(325)	-	-	-	**(4,961)**
Net interest income	**11,346**	**3,703**	**7,222**	**2,716**	**1,458**	**-**	**26,445**
Fee and commission income	3,436	1,372	5,636	449	-	2	**10,895**
Fee and commission expense	(163)	(45)	(2,474)	(177)	(93)	(2)	**(2,954)**
Trading and foreign exchange results	1,026	35	305	3,004	(1,098)	2	**3,274**
Other operating income	1,283	82	210	227	37	174	**2,013**
Net result from other segments*	**(109)**	**(30)**	**83**	**188**	**(132)**	**-**	**-**
Total operating income before impairment losses and provisions	**16,819**	**5,117**	**10,982**	**6,407**	**172**	**176**	**39,673**
Impairment losses of investments available-for-sale and investment property and provisions on other transactions	(189)	5	(31)	84	-	(8)	**(139)**
Operating expenses and recovery of impairment of buildings and constructions	**(5,432)**	**(2,860)**	**(8,184)**	**(1,497)**	**(329)**	**(2,978)**	**(21,280)**
Profit before income tax	**11,198**	**2,262**	**2,767**	**4,994**	**(157)**	**(2,810)**	**18,254**
Income tax	-	-	-	-	-	(3,239)	**(3,239)**
Profit for the period	**11,198**	**2,262**	**2,767**	**4,994**	**(157)**	**(6,049)**	**15,015**
Depreciation and amortization expense	(415)	(217)	(773)	(92)	(17)	(196)	**(1,710)**
Capital expenditures	394	210	635	100	22	179	**1,540**

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Bond prices – quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Interest rates – these are principally benchmark interest rates or internal Bank rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates – there are observable markets both for spot and forward contracts and futures in the world’s major currencies.

Equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world’s major stock exchanges and for major indices on such shares.

Commodity prices – many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumptions have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBR and minimum reserve deposits with the CBR, due to the shot-term environment of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date.
- The estimated fair value of loans to banks and to customers for provided during the last quarter to the reporting date is assumed to be reasonable estimate of fair value amount for them. The fair value of loans originated earlier is estimated by application of market interest rates effective on the reporting date using discounted cash flows method with the deduction of the allowances for credit losses from the calculated fair value amounts.
- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities whose market rates are quoted.

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- The fair value of units of investment funds, which have quoted prices on the active market, is determined based on the quoted market prices. For shares in investment funds, which have no quoted prices on the active market the Group uses an independent appraiser's valuation for determining the fair value of such shares in the investment funds. The fair value of the assets of the investment funds is determined by the use of different approaches (income approach, comparative approach and cost approach) and methods (income capitalization method, company-analogue method, discounted cash flows method, liquidation value method).
- The fair value of investments held to maturity is determined based on quoted active market prices at the reporting date.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of term deposits (included in customer accounts and deposits from banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated based on expected cash flows discounted using market interest rates for similar funds. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of issued bonds, Eurobonds, promissory notes and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.

The valuation techniques have been consistently applied by the Group across the years.

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values as at 31 December 2013 and 2012:

	31 December 2013		31 December 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and balances with the Central Bank of the Russian Federation	87,832	87,832	51,148	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	8,869	8,869	6,932	6,932
Financial assets at fair value through profit or loss	181,986	181,986	104,254	104,254
Loans and advances to banks and other financial institutions	133,661	133,896	111,586	111,586
Loans to customers	879,274	890,420	590,564	657,455
Investments available-for-sale	39,532	39,117	4,919	4,504
Investments held to maturity	-	-	201	201
Financial liabilities				
Financial liabilities at fair value through profit or loss	2,866	2,866	3,191	3,191
Due to banks and the Central Bank of the Russian Federation	257,187	257,671	213,510	228,530
Customer accounts	781,471	789,313	471,727	476,493
Bonds and Eurobonds	63,959	66,275	42,618	43,480
Promissory notes issued	61,652	61,528	21,145	21,298
Subordinated debt	63,459	65,982	50,873	51,996

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For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as at 31 December 2013.

	Level 1	Level 2	Level 3	31 December 2013 Total
Financial assets				
Cash and balances with the Central Bank of the Russian Federation	87,832	-	-	87,832
Minimum reserve deposits with the Central Bank of the Russian Federation	8,869	-	-	8,869
Financial assets at fair value through profit or loss	177,947	4,039	-	181,986
Loans and advances to banks and other financial institutions	-	133,896	-	133,896
Loans to customers	-	890,420	-	890,420
Investments available-for-sale	36,663	1,202	1,252	39,117
Investments held to maturity	-	-	-	-
Financial liabilities				
Financial liabilities at fair value through profit or loss		2,866	-	2,866
Due to banks and the Central Bank of the Russian Federation	-	257,671	-	257,671
Customer accounts	-	789,313	-	789,313
Bonds and Eurobonds	66,275	-	-	66,275
Promissory notes issued	5,953	55,575	-	61,528
Subordinated debt	46,102	19,880	-	65,982

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. There were no transfers between the levels during the year.

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

	Available-for-sale Unquoted equities	Total
31 December 2012	-	-
Aqusition of OJSC Bank "Otkritie"	1,252	1,252
31 December 2013	**1,252**	**1,252**

The following table shows the impact of possible alternative assumptions to estimate the fair value of Level 3 instruments.

	Carrying value	Impact of possible alternative assumptions	Level 3
Corporate bonds	1,232	(16)	1,216
Shares	20	-	20
Investments available-for-sale:	**1,252**	**(16)**	**1,236**

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The following table provides quantitative information about significant unobservable inputs used to measure financial instruments Level 3 fair value hierarchy:

	Carrying value	assessment methodology	Unobservable inputs	Range (weighted average value)
Corporate bonds	1,232	Discounted cash flows	Credit risk rate	10.57-12.57%
Shares	20	Net assets value	Value of underlying assets	Not applicable
Investments available-for-sale:	**1,252**			

35. CAPITAL MANAGEMENT

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The table below presents the composition of capital complying with Basel and discloses the capital - adequacy ratio for the reporting periods ended 31 December 2013 and 2012:

	31 December 2013	31 December 2012
Tier 1 capital	135,775	88,481
Tier 2 capital	56,421	45,310
Total regulatory capital	192,196	133,791
Risk-weighted assets:		
Credit risks	1,129,120	733,989
Market risks	208,274	87,033
Total risk-weighted assets	**1,337,394**	**821,022**
Basel ratio	14.37%	16.30%
Tier 1	10.15%	10.78%

As at 31 December 2013 and 2012 the Group included the subordinated debt received in the computation of total capital, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group’s liabilities to all other creditors.

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the 1988 Basel Capital Accord 1988. As at 31 December 2013 and 2012, the Group complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders’ vision and strategy of long-term Bank development.

36. RISK MANAGEMENT POLICY

Risk management system

Management of risks is fundamental to the Group's business. The risk management functions include:

- Organizational structure of risk management – a structure of the Group's bodies and departments involved in risk management activities;
- Structure of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure.

In the Group the Supervisory Board, Management Board, Financial Committee, credit committee, Risk management department, Treasury department and Operating risk department of the Group are responsible for managing the risks.

The Supervisory Board is responsible for general control over the risk management system and determines the strategy of its development. The Management Board is responsible for development of risk management policy including tactical issues. The Financial Committee performs current monitoring of liquidity and market risks. Operating monitoring of credit risk level is performed by a system of credit committees. Direct risk management including assessment and reporting, is performed by:

- Risk management department – in relation to credit risks;
- Treasury department – in relation to the liquidity, interest rate, currency and price risks;
- Operating risk department – in relation to operational risks.

The Group's priority is to reduce the exposure to risks by collegial decision making. Strict segregation of duties between departments and officials of the Group, accurately specified instructions and procedures, and determination of competences and authorities of the bodies and their leaders are also essential areas for risk limitation. Appropriate methodologies are used to assess the risk level. Instructions, procedures and methodologies are revised by the Group on a regular basis and updated reflecting the changed market conditions, influence of new products and services proposed by the Group, and improvement of risk managements methods used in banking practice.

Risk monitoring structure includes:

- Setting the limits for risk acceptance on the basis of assessment of acceptance of the respective risk level;
- Control over the Group's exposure to the risks by:
  - Following the limits;
  - Assessment of the Group's exposure to risks on a regular basis;
  - Compliance control;
  - Meeting the requirements of the Central Bank of the Russian Federation in regard of covering the risks with sufficient equity;
  - Internal audit of risk management systems.

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

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;

There have been no significant changes to the Group's risk management policies from those disclosed in the consolidated financial statements for the year ended 31 December 2012. The Group presents the following information in relation to its risk management policies as at 31 December 2013.

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Credit risk

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

The Credit Committee approves new loans and changes and amendments to loan agreements. The Credit Department performs current monitoring.

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

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

The contractual collateral structure as at 31 December 2013 and 2012 is set out below. The fair value of collateral may differ from the contractual value.

	31 December 2013			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	52,712	-	52,712	-
Minimum reserve deposits with the Central Bank of the Russian Federation	8,869	-	8,869	-
Financial assets at fair value through profit or loss, excluding equity securities	181,959	-	181,959	-
Loans and advances to banks and other financial institutions	133,661	-	133,661	10,177
Loans to customers	879,274	-	879,274	656, 924
Investments available-for-sale, excluding equity securities and units in investment funds	38,288	-	38,288	-
Other financial assets	6,816	-	6,816	-
Commitments on loans and unused credit lines	166,024	-	166,024	-
Guarantees issued and similar commitments	225,899	-	225,899	4,948
Letters of credit and other contingent commitments related to settlement operations	11,092	-	11,092	553

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	31 December 2012			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	37,441	-	37,441	-
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	6,932	-
Financial assets at fair value through profit or loss, excluding equity securities	104,224	-	104,224	-
Loans and advances to banks and other financial institutions	111,586	-	111,586	5,307
Loans to customers	590,564	-	590,564	458,003
Investments available-for-sale, excluding equity securities and units of investment funds	4,430	-	4,430	-
Investments held to maturity	201	-	201	-
Other financial assets	870	-	870	-
Commitments on loans and unused credit lines	116,582	-	116,582	-
Guarantees issued and similar commitments	154,283	-	154,283	1,950
Letters of credit and other contingent commitments related to settlement operations	6,848	-	6,848	15

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets(*), excluding loans to customers, held by the Group. Credit ratings for loans to customers are presented in Note 11.

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2013 Total
Balances with the Central Bank of the Russian Federation	-	-	-	52,712	-	-	52,712
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	8,869	-	-	8,869
Financial assets at fair value through profit or loss	-	49	2,156	130,656	44,860	4,265	181,986
Loans and advances to banks and other financial institutions	-	12,247	31,240	35,542	33,683	20,949	133,661
Investments available-for-sale	-	-	85	21,131	13,985	4,331	39,532
Other financial assets	-	-	6	117	1,232	5,461	6,816

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2012 Total
Balances with the Central Bank of the Russian Federation	-	-	-	37,441	-	-	37,441
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	6,932	-	-	6,932
Financial assets at fair value through profit or loss	-	80	1,660	57,311	36,786	8,417	104,254
Loans and advances to banks and other financial institutions	-	661	31,556	38,433	23,366	17,570	111,586
Investments available-for-sale	-	-	54	66	3,785	1,014	4,919
Investments held to maturity	-	-	-	-	201	-	201
Other financial assets	-	-	5	17	56	792	870

(*)The above financial assets are classified based on the information provided by the international credit rating agencies

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

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

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a rating model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the rating model provides for overall assessment of the borrower and the loan.

Currently the rating model is applied only for initial credit application assessment. For credit monitoring purposes the bank classifies performing loans into "standard" and "watch-list" categories, based on the range of financial and other quantitative and qualitative indicators of borrowers' performance.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-size businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

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

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The loan maximum limit is calculated with the use of the borrower's debt load ratio.

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

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

Geographical concentration

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

	Russia	Non-OECD countries	OECD countries	31 December 2013 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	87,832	-	-	87,832
Minimum reserve deposits with the Central Bank of the Russian Federation	8,869	-	-	8,869
Financial assets at fair value through profit or loss	179,208	1,836	942	181,986
Loans and advances to banks and other financial institutions	42,640	33,756	57,265	133,661
Loans to customers	790,011	85,496	3,767	879,274
Investments available-for-sale	37,611	-	1,921	39,532
Other financial assets	6,293	42	481	6,816
		-		
TOTAL FINANCIAL ASSETS	**1,152,464**	**121,130**	**64,376**	**1,337,970**
Precious metals	5,746	-	-	5,746
Investment property	8,571	-	-	8,571
Property, plant and equipment	16,205	-	-	16,205
Intangible assets	3,509	-	-	3,509
Goodwill	1,999	-	-	1,999
Other non-financial assets	5,044	4	3	5,051
TOTAL NON-FINANCIAL ASSETS	**41,074**	**4**	**3**	**41,081**
TOTAL ASSETS	**1,193,538**	**121,134**	**64,379**	**1,379,051**
LIABILITIES				
Financial liabilities at fair value through profit or loss	818	484	1,564	2,866
Due to banks and the Central Bank of the Russian Federation	201,903	18,879	36,405	257,187
Customer accounts	753,726	15,644	12,101	781,471
Bonds and Eurobonds	47,703	-	16,256	63,959
Promissory notes issued	61,652	-	-	61,652
Other financial liabilities	3,849	179	222	4,250
Subordinated debt	15,487	95	47,877	63,459
TOTAL FINANCIAL LIABILITIES	**1,085,138**	**35,281**	**114,425**	**1,234,844**
			-	
Deferred income tax liabilities	3,378	-	-	3,378
Other non-financial liabilities	1,470	-	2	1,472
TOTAL NON-FINANCIAL LIABILITIES	**4,848**	**-**	**2**	**4,850**
TOTAL LIABILITIES	**1,089,986**	**35,281**	**114,427**	**1,239,694**
OPEN POSITION	**103,552**	**85,853**	**(50,048)**	

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Russia	Non-OECD countries	OECD countries	31 December 2012 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	51,148	-	-	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	-	6,932
Financial assets at fair value through profit or loss	99,110	3,127	2,017	104,254
Loans and advances to banks and other financial institutions	50,629	12,208	48,749	111,586
Loans to customers	540,875	48,841	848	590,564
Investments available-for-sale	630	-	4,289	4,919
Investments held to maturity	201	-	-	201
Other financial assets	846	9	15	870
TOTAL FINANCIAL ASSETS	**750,371**	**64,185**	**55,918**	**870,474**
Precious metals	6,402	-	-	6,402
Investment property	4,761	-	-	4,761
Property, plant and equipment	11,117	-	-	11,117
Intangible assets	2,481	-	-	2,481
Goodwill	809	-	-	809
Other non-financial assets	3,854	5	-	3,859
TOTAL NON-FINANCIAL ASSETS	**29,424**	**5**	**-**	**29,429**
TOTAL ASSETS	**779,795**	**64,190**	**55,918**	**899,903**
LIABILITIES				
Financial liabilities at fair value through profit or loss	1,487	520	1,184	3,191
Due to banks and the Central Bank of the Russian Federation	142,595	20,878	50,037	213,510
Customer accounts	460,839	8,431	2,457	471,727
Bonds and Eurobonds	30,851	-	11,767	42,618
Promissory notes issued	21,145	-	-	21,145
Other financial liabilities	3,507	2	153	3,662
Subordinated debt	6,606	6,000	38,267	50,873
TOTAL FINANCIAL LIABILITIES	**667,030**	**35,831**	**103,865**	**806,726**
			-	
Deferred income tax liabilities	1,690	-	-	1,690
Other non-financial liabilities	1,126	-	-	1,126
TOTAL NON-FINANCIAL LIABILITIES	**2,816**	**-**	**-**	**2,816**
TOTAL LIABILITIES	**669,846**	**35,831**	**103,865**	**809,542**
OPEN POSITION	**109,949**	**28,359**	**(47,947)**	

Market risk

Market risk is the risk that the Group will incur losses due to the unfavorable fluctuations in the market value of financial instruments (including derivatives), foreign exchange rates, prices of precious metals and interest rates.

Market risk includes securities price risk, currency risk and interest rate risk. The Group is exposed to currency risk because of its open positions in currencies and precious metals. The source for interest rate and securities price risks are open positions in interest rate and equity instruments which are subject to general and specific market fluctuations.

Day-to-day market risk management is performed by the Financial Market Operations Department, the Precious Metals Operations Department and the Treasury Directorate. The Market and Operational Risk Department evaluates the Group's exposure to securities price risk and currency risk and estimates sensitivity of the Group's position to interest rates changes. The Treasury Directorate sets guidelines for the interest rate risks. Financial Market Operations Department manages the open positions within the set of limits on a daily basis to increase the Group's profit.

Methodology adopted by the Group for market risk measurement purposes

Market risk – the risk of adverse changes in the fair value of future cash flows of financial instruments due to unfavorable changes in market variables such as interest rates, exchange rates and equity prices. The Group estimates the market risk by analyzing the sensitivity of financial instruments to adverse changes in market parameters, as well as by estimating the Value-at-Risk (VaR methodology). The Group has established a system of trading operations limits on the risk characteristics both on the portfolio and individual item level

The Group applies VaR model to evaluate the existing positions exposed to the market risk, and to assess the potential economic losses based on a number of parameters and assumptions for various changes in market conditions. Value-at-Risk is an approach which is used to assess the financial risk by estimating the potential negative changes in the market value of the portfolio with a given confidence level (the Group uses confidence level of 99 %) during a certain time interval (the Group considers 10 working days time horizon).

Objectives and limitations of VaR calculation methodology

The Group uses models to determine possible changes in the market value of trading portfolio based on data for the previous historical periods. In some cases the historical horizon can reach 5 year period. VaR models are designed to measure market risk under normal market conditions. The use of VaR has limitations because it is based on historical changes in market prices and on the assumption that future price movements will follow a certain statistical distribution. The model applied by the Group to assess VaR also has this feature. Specifics of the model is that recent changes in market conditions have more weight in the estimate of the potential risk than older ones.

Thus, the model is particularly sensitive to any changes in market volatility. Due to the fact that the method of VaR calculation is mainly based on historical data and may not accurately predict future changes in the risk factors, the probability of significant changes in market conditions may be underestimated in cases of prolonged decay period of market volatility. VaR estimate may be underestimated or overestimated due to the assumptions made conserning risk factors and the correlation between such factors for specific instrument. Despite the fact that the positions may change throughout the day, the VaR reflects the risk at the end of each working day. VaR model does not reflect losses that may occur beyond the level of confidence of 99%.

Actual results on trading portfolio may differ from the VaR values. In particular, the VaR model does not give an adequate estimate of the amount of profit or loss while sharp fluctuations on the market caused by crises. In order to determine the reliability of the VaR models, the Group regularly monitors the actual results of the portfolio revaluation, including, the assumptions made for the model and in VaR parameters. Portfolios exposed to market risk are also subject to regular "stress testing". This procedure helps the Group to understand the amount of exceptional scale, but possible losses and to provide confidence in the Group's ability to withstand extreme market conditions.

VaR calculation assumptions

The VaR amount is an estimate, calculated with a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current position, exposed to market risk will not change within ten days period. Confidence level of 99% means that when considering the ten-hundred non-overlapping time periods, amount of loss that exceeds the value of VaR, in average occurs in one of such time periods.

When calculating VaR within securities portfolio it is assumed that the value of securities within is changing synchronously and unidirectionally in terms of VaR amount for each security. Thus, the total securities portfolio VaR equals the sum of VaR on its components. Currency VaR is estimated with respect to the position direction and currency rates correlation.

Risk management establishes maximum limits on investments in illiquid instruments, as well as the maximum retention period of these instruments and level of acceptable credit risk on the issuers of such securities. Within the limits and parameters established the Group's risk management monitors on an ongoing basis such securities. The assignment of a financial instrument to a category of illiquid instruments is performed by risk management and based on analysis of market liquidity and adequate availability of market quotations. The results of the analysis carried out are submitted to Financial committee. Wherever it is possible and in accordance with the policies of the Group, the instrument is revalued applying valuation models and based on market data.

Updated methodology for calculating the cost of risk (VaR) in 2013

In 2013, the Group performed a number of changes to the VaR methodology in order to update and unify methodology approaches applied by the Group' risk management.

Major improvements to the VaR assessment methodology of the portfolio of debt instruments. The following improvements were made:

1. Substitution of historical yield series of illiquid bonds to the data on similar liquid issues.
2. Exception of illiquid instruments out of VaR calculation, as sensitivity analysis will be made for them.

The key parameter used by the Group for illiquid Rouble denominated bonds portfolio sensitivity calculation is rate percentage change of Russian government bonds effective YTM index provided by Moscow Exchange. RPC is a parameter of yield change which is estimated on the base of annualized volatility of daily changes of corresponding index calculated for the historical period of 2-3 years. In case of Rouble denominated bonds sensitivity analysis the Group uses RPC equal 200 bp.

The key parameter used by the Group for illiquid USD denominated bonds portfolio sensitivity calculation is RPC of US generic 5 year government bonds YTM index provided by Bloomberg. RPC is a parameter of yield change which is estimated on the base of annualized volatility of daily changes of corresponding index calculated for the historical period of 2-3 years. In case of USD denominated bonds sensitivity analysis the Group uses RPC equal 150 bp.

The new methodology allows on the one hand to mitigate distortion of VaR due to the lack of statistics regarding illiquid bonds, and on the other hand to put more emphasis on the yield to maturity as a basic risk factor for debt instruments while assessing VaR (bond price derives from the yield), which in turn increases the adequacy of using the VaR model as the main market risk indicator of the Group's bond portfolios.

The total deviation of VaR results based on the new and the previous approach, does not exceed 1.2% for the whole securities portfolio.

As at 31 December 2013 and 31 December 2012 data on the VaR assessment in respect for currency and securities price risks calculated by the Group are as follows:

	Year ended 31 December 2013	
RUB million	**New aproach**	**Old approach**
Currency risk	321	532
Fixed income securities price risk	2,052	2,034
Equity securities price risk	54	48
Total	**2,427**	**2,614**
Sensitivity on illiquid securities	2,639	n\a

	Year ended 31 December 2012 Old approach			
RUB million	**Minimum**	**Average**	**Maximum**	**Year end**
Currency risk	31	113	268	85
Fixed income securities price risk	552	979	2 560	756
Equity securities price risk	5	43	390	6

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

Interest rate risk

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Cash flow interest rate risk arises from the possibility that future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group manages interest risk by balancing interest bearing assets and liabilities, balancing the structure of assets and liabilities, implementing controls over risks of fund withdrawals and loan prepayments prior to maturity and controls over interest rate changes. The tools used by Financial Committee include stress-testing and setting maximum and minimum rates.

The following table presents a breakdown of weighted average effective interest rates in force as at 31 December 2013 and 2012 and thus the potential of the Group for gain or loss. Effective average interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2013		
	RUB	**USD**	**Other currencies**
ASSETS:			
Financial assets at fair value through profit or loss	8.48%	6.24%	-
Loans and advances to banks and other financial institutions	7.77%	0.69%	1.48%
Loans to customers	13.41%	8.91%	7.93%
Investments available-for-sale	8.91%	4.00%	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	6.53%	1.92%	1.93%
Customer accounts	7.21%	3.94%	2.71%
Bonds and Eurobonds	9.19%	7.25%	-
Promissory notes issued	8.69%	2.93%	2.06%
Subordinated debt	8.99%	9.50%	-

	31 December 2012		
	RUB	**USD**	**Other currencies**
ASSETS:			
Financial assets at fair value through profit or loss	8.35%	5.58%	-
Loans and advances to banks and other financial institutions	5.99%	1.46%	0.68%
Loans to customers	12.03%	9.08%	9.48%
Investments available-for-sale	7.83%	-	-
Investments held to maturity	9.00%	-	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	6.97%	1.79%	1.61%
Customer accounts	8.36%	3.94%	4.22%
Bonds and Eurobonds	8.80%	6.50%	-
Promissory notes issued	8.69%	5.02%	3.27%
Subordinated debt	9.35%	9.76%	-

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

Interest rate risk is the risk that the interest income of the Group will decrease or it will incur losses in a result of adverse changes in market interest rates.

The following table presents financial and non-financial assets/liabilities maturity based on projected repricing dates for floating rate instruments and expected maturity for fixed rate instruments. These repricing dates are determined by management and are contained within the risk reports provided to key management personnel.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Assets and liabilities not sensitive to interest rate fluctuations	31 December 2013 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	79,301	-	-	-	-	8,531	87,832
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	8,869	8,869
Precious metals	5,746	-	-	-	-	-	5,746
Financial assets at fair value through profit or loss	1,218	9,991	29,911	116,292	22,945	1,628	181,986
Loans and advances to banks and other financial institutions	99,361	16,680	12,306	-	268	4,867	133,661
Loans to customers	123,856	113,205	244,877	281,155	116,181	-	879,274
Investments available-for-sale	26,065	-	9,715	2,229		1,523	39,532
Investments held to maturity	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	8,571	8,571
Property, plant and equipment	-	-	-	-	-	16,205	16,205
Intangible assets	-	-	-	-	-	3,509	3,509
Goodwill	-	-	-	-	-	1,999	1,999
Other assets	-	-	-	-	-	11,867	11,867
TOTAL ASSETS	**335,547**	**140,056**	**296,809**	**399,676**	**139,394**	**67,569**	**1,379,051**
LIABILITIES							
Financial liabilities at fair value through profit or loss	388	167	107	962	-	1,242	2,866
Due to banks and the Central Bank of the Russian Federation	154,694	47,396	40,722	10,070	1	4,304	257,187
Customer accounts	171,836	94,926	246,608	174,522	394	93,185	781,471
Bonds and Eurobonds	492	4,374	28,158	20,314	10,621	-	63,959
Promissory notes issued	2,762	14,426	42,125	2,038	-	301	61,652
Deferred income tax liabilities	-	-	-	-	-	3,378	3,378
Other liabilities	-	-	-	-	-	5,722	5,722
Subordinated debt	-	-	651	17,631	45,177		63,459
TOTAL LIABILITIES	**330,172**	**161,289**	**358,371**	**225,537**	**56,193**	**108,132**	**1,239,694**
Interest gap based on projected repricing dates	**(5,375)**	**(21,233)**	**(61,562)**	**174,139**	**83,021**		
Interest based derivative financial instruments based on projected repricing dates	**-**	**3,914**	**-**	**(3,914)**	**-**		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	**(5,375)**	**(17,319)**	**(61,562)**	**170,225**	**83,021**		

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Assets and liabilities not sensitive to interest rate fluctuations	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	37,873	-	-	-	-	13,275	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,932	6,932
Precious metals	6,402	-	-	-	-	-	6,402
Financial assets at fair value through profit or loss	165	9,254	32,271	49,620	9,000	3,944	104,254
Loans and advances to banks and other financial institutions	93,747	3,027	233	9,222	-	5,357	111,586
Loans to customers	56,635	64,241	195,131	211,404	63,153	-	590,564
Investments available-for-sale	250	-	-	3,788	437	444	4,919
Investments held to maturity	-	-	201	-	-	-	201
Investment property	-	-	-	-	-	4,761	4,761
Property, plant and equipment	-	-	-	-	-	11,117	11,117
Intangible assets	-	-	-	-	-	2,481	2,481
Goodwill	-	-	-	-	-	809	809
Other assets	-	-	-	-	-	4,729	4,729
TOTAL ASSETS	**195,072**	**76,522**	**227,836**	**274,034**	**72,590**	**53,849**	**899,903**
LIABILITIES							
Financial liabilities at fair value through profit or loss	-	1	109	58	-	3,023	3,191
Due to banks and the Central Bank of the Russian Federation	125,482	39,917	42,866	4,023	-	1,222	213,510
Customer accounts	144,347	67,013	173,747	32,778	55	53,787	471,727
Bonds and Eurobonds	174	650	15,312	22,732	3750	-	42,618
Promissory notes issued	5,504	8,244	5,426	1,624	-	347	21,145
Deferred income tax liabilities	-	-	-	-	-	1,690	1,690
Other liabilities	-	-	-	-	-	4,788	4,788
Subordinated debt	2	1	3,740	10,624	36,506	-	50,873
TOTAL LIABILITIES	**275,509**	**115,826**	**241,200**	**71,839**	**40,311**	**64,857**	**809,542**
Interest gap based on projected repricing dates	**(80,437)**	**(39,304)**	**(13,364)**	**202,195**	**32,279**		
Interest based derivative financial instruments based on projected repricing dates	**3,344**	**(152)**		**(3,192)**	**-**		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	**(77,093)**	**(39,456)**	**(13,364)**	**199,003**	**32,279**		

Sensitivity analysis

The first portion of this calculation is based on the assumption that market interest rates will rise (fall) by two percentage points. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates as described below is for twelve months ended 31 December 2013 and 2012.

The calculation refers to the immediate effect on consolidated income statement of each scenario for the Group's interest rate positions on floating rate instruments.

The second portion is entitled "changes in value" and calculates the equivalent effect for debt securities in the assets at fair value through profit or loss and available-for-sale category.

		31 December 2013		31 December 2012	
		Equity	Net profit	Equity	Net profit
Net interest income for the reporting period					
Increased interest rates	+ 2%	258	258	338	338
Decreased interest rates	- 2%	(258)	(258)	(338)	(338)
Change in value					
Market interest rate	+ 2%	(10,828)	(8,979)	(3,107)	(2,857)
Market interest rate	- 2%	10,828	8,979	24	22

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Foreign currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2013 and 2012 presented in the table below:

	RUB	USD 1 USD = RUB 32.7292	Euro 1 EUR = RUB 44.9699	Gold 1 ounce = RUB 39,324.13	Other	31 December 2013 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	81,232	2,914	3,398	261	27	87,832
Minimum reserve deposits with the Central Bank of the Russian Federation	8,869	-	-	-	-	8,869
Financial assets at fair value through profit or loss	140,445	41,376	62	4	99	181,986
Loans and advances to banks and other financial institutions	65,244	54,247	11,861	199	2,110	133,661
Loans to customers	758,102	107,817	13,293	-	62	879,274
Investments available-for-sale	9,522	30,004	6	-	-	39,532
Other financial assets	5,280	307	6	-	1,223	6,816
TOTAL FINANCIAL ASSETS	**1,068,694**	**236,665**	**28,626**	**464**	**3,521**	**1,337,970**
Precious metals	-	-	-	4,939	807	5,746
Investment property	8,571	-	-	-	-	8,571
Property, plant and equipment	16,205	-	-	-	-	16,205
Intangible assets	3,509	-	-	-	-	3,509
Goodwill	1,999	-	-	-	-	1,999
Other non-financial assets	4,928	5	6	27	85	5,051
TOTAL NON-FINANCIAL ASSETS	**35,212**	**5**	**6**	**4,966**	**892**	**41,081**
TOTAL ASSETS	**1,103,906**	**236,670**	**28,632**	**5,430**	**4,413**	**1,379,051**
LIABILITIES						
Financial liabilities at fair value through profit or loss	886	1,777	135	41	27	2,866
Due to banks and the Central Bank of the Russian Federation	197,078	41,390	11,899	6,641	179	257,187
Customer accounts	683,180	72,104	19,824	4,438	1,925	781,471
Bonds and Eurobonds	47,703	16,256	-	-	-	63,959
Promissory notes issued	20,312	39,047	2,282	-	11	61,652
Other financial liabilities	3,998	247	1	-	4	4,250
Subordinated debt	14,518	48,941	-	-	-	63,459
TOTAL FINANCIAL LIABILITIES	**967,675**	**219,762**	**34,141**	**11,120**	**2,146**	**1,234,844**
Deferred income tax liabilities	3,378	-	-	-	-	3,378
Other non-financial liabilities	1,465	5	2	-	-	1,472
TOTAL NON-FINANCIAL LIABILITIES	**4,843**	**5**	**2**	**-**	**-**	**4,850**
TOTAL LIABILITIES	**972,518**	**219,767**	**34,143**	**11,120**	**2,146**	**1,239,694**
OPEN BALANCE SHEET POSITION	**131,388**	**16,903**	**(5,511)**	**(5,690)**	**2,267**	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(78,214)	(97,076)	(21,819)	(1,364)	(13,663)	**(212,136)**
Receivables under forward deals	98,552	82,542	16,418	7,850	6,774	**212,136**
Payables under spot deals	(577)	(1,929)	(7)	(1,486)	(1,213)	**(5,212)**
Receivables under spot deals	2,134	1,679	1,399	-	-	**5,212**
Payables under currency-interest swaps	(16,067)	(12,196)	-	-	-	**(28,263)**
Receivables under currency-interest swaps	12,196	16,067	-	-	-	**28,263**
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	**18,024**	**(10,913)**	**(4,009)**	**5,000**	**(8,102)**	
TOTAL OPEN POSITION	**149,412**	**5,990**	**(9,520)**	**(690)**	**(5,835)**	
CREDIT CONTINGENT LIABILITIES	**345,352**	**49,518**	**8,445**	**-**	**68**	

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	RUB	USD 1 USD = RUB 30.3727	Euro 1 EUR = RUB 40.2286	Gold 1 ounce = RUB 50,540.17	Other	31 December 2012 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	49,882	624	632	-	10	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	6,932	-	-	-	-	6,932
Financial assets at fair value through profit or loss	85,948	18,242	38	5	21	104,254
Loans and advances to banks and other financial institutions	47,459	41,373	9,694	12,381	679	111,586
Loans to customers	473,730	102,253	14,542	-	39	590,564
Investments available-for-sale	4,397	520	2	-	-	4,919
Investments held to maturity	201	-	-	-	-	201
Other financial assets	817	49	4	-	-	870
TOTAL FINANCIAL ASSETS	**669,366**	**163,061**	**24,912**	**12,386**	**749**	**870,474**
Precious metals	-	-	-	5,806	596	6,402
Investment property	4,761	-	-	-	-	4,761
Property, plant and equipment	11,117	-	-	-	-	11,117
Intangible assets	2,481	-	-	-	-	2,481
Goodwill	809	-	-	-	-	809
Other non-financial assets	3,738	2	10	29	80	3,859
TOTAL NON-FINANCIAL ASSETS	22,906	2	10	5,835	676	29,429
TOTAL ASSETS	**692,272**	**163,063**	**24,922**	**18,221**	**1,425**	**899,903**
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,906	132	130	3	20	3,191
Due to banks and the Central Bank of the Russian Federation	133,505	48,326	17,066	13,846	767	213,510
Customer accounts	407,635	41,873	14,222	6,366	1,631	471,727
Bonds and Eurobonds	30,851	11,767	-	-	-	42,618
Promissory notes issued	20,856	209	65	-	15	21,145
Other financial liabilities	3,208	176	21	265	-	3,670
Subordinated debt	12,606	38,267	-	-	-	50,873
TOTAL FINANCIAL LIABILITIES	**611,567**	**140,750**	**31,504**	**20,480**	**2,433**	**806,734**
Deferred income tax liabilities	1,690	-	-	-	-	1,690
Other non-financial liabilities	1,118	-	-	-	-	1,118
TOTAL NON-FINANCIAL LIABILITIES	**2,808**	**-**	**-**	-	-	**2,808**
TOTAL LIABILITIES	**614,375**	**140,750**	**31,504**	**20,480**	**2,433**	**809,542**
OPEN BALANCE SHEET POSITION	**77,897**	**22,313**	**(6,582)**	**(2,259)**	**(1,008)**	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(69,534)	(109,263)	(15,776)	(2,788)	(884)	**(198,245)**
Receivables under forward deals	85,282	84,658	20,786	5,260	2,259	**198,245**
Payables under spot deals	(3,654)	(4,992)	(3,673)	-	-	(12,319)
Receivables under spot deals	2,191	6,442	3,685	-	1	12,319
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	**14,285**	**(23,155)**	**5,022**	**2,472**	**1,376**	
TOTAL OPEN POSITION	**92,182**	**(842)**	**(1,560)**	**213**	**368**	
CREDIT CONTINGENT LIABILITIES	**256,762**	**13,236**	**7,999**	**-**	**78**	

The Group's principal cash flows (revenues, operating expenses) are largely generated in Russian Roubles. As a result, future movements in the exchange rate between the Russian Rouble and US dollar/Euro will affect the carrying value of the Group's monetary assets and liabilities. Such changes may also affect the Group's ability to invest in non-monetary assets as measured in US dollars in these consolidated financial statements.

Operational risk

Operational risk is defined as the risk of losses resulting from inappropriate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

The Management Board also generally oversees the implementation of risk management processes, including relevant internal policies, adopts internal regulations on risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

The Operational Risk Department monitors and controls operational risks and reports to the Supervisory Board. Regular monitoring activities allow to detect in time and to correct deficiencies in the policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. In order to minimise operational risk, the Group strives to continuous improvement of its business processes and organisation structure as well as incentivise the staff.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The liquidity and cash flow risks arise in the case of maturity gap.

The liquidity risk is defined as a mismatch of asset and liability maturity periods. The liquidity risk is managed by the Financial Committee of the Group.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched due to the variety of Group's lending and funding operations. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that these deposits are a relatively stable and long-term source of finance for the Group.

The data presented below on term deposits of individuals are based on the terms of contracts. However, individuals may withdraw deposits at any time.

Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

While financial assets at fair value through profit or loss are shown as less than one month, realizing such assets upon demand is dependent upon financial market conditions.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Finance Committee of the Bank sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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The following table presents an analysis of liquidity risk as managed by the Group based on contractual maturities and carrying value of assets and liabilities.

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	87,832	-	-	-	-	-	87,832
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	8,869	8,869
Precious metals	5,746	-	-	-	-	-	5,746
Financial assets at fair value through profit or loss	179,319	311	254	2,016	77	9	181,986
Loans and advances to banks and other financial institutions	104,228	16,860	12,305	-	268	-	133,661
Loans to customers	110,919	114,185	248,715	288,267	117,188	-	879,274
Investments available-for-sale	102	170	4,905	19,384	13,960	1,011	39,532
Investments held to maturity	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	8,571	8,571
Property, plant and equipment	-	-	-	-	-	16,205	16,205
Intangible assets	-	-	-	3,509	-	-	3,509
Goodwill	-	-	-	-	-	1,999	1,999
Other assets	4,110	1,719	5,463	117	294	164	11,867
TOTAL ASSETS	**492,256**	**133,245**	**271,642**	**313,293**	**131,787**	**36,828**	**1,379,051**
LIABILITIES							
Financial liabilities at fair value through profit or loss	431	748	138	1,549	-	-	2,866
Due to banks and the Central Bank of the Russian Federation	156,108	38,539	49,849	11,894	797	-	257,187
Customer accounts	291,689	94,950	229,966	164,472	394	-	781,471
Bonds and Eurobonds	492	4,374	10,140	38,332	10,621	-	63,959
Promissory notes issued	2,761	14,427	42,127	2,337	-	-	61,652
Deferred income tax liabilities	-	-	-	-	-	3,378	3,378
Other liabilities	3,062	1,194	1,367	29	70	-	5,722
Subordinated debt	140	-	651	11,440	51,228	-	63,459
TOTAL LIABILITIES	**454,683**	**154,232**	**334,238**	**230,053**	**63,110**	**3,378**	**1,239,694**
Liquidity gap	37,573	(20,987)	(62,596)	83,240	68,677		
Stable sources of funding (1)	131,196	21,284	47,890	(200,370)	-		
Adjusted liquidity gap (1)	168,769	297	(14,706)	(117,130)	68,677		

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	51,148	-	-	-	-	-	51,148
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,932	6,932
Precious metals	6,402	-	-	-	-	-	6,402
Financial assets at fair value through profit or loss	100,756	155	3,174	169	-	-	104,254
Loans and advances to banks and other financial institutions	99,104	3,027	233	9,222	-	-	111,586
Loans to customers	40,809	67,400	198,821	218,741	64,793	-	590,564
Investments available-for-sale	250	-	-	4,232	437	-	4,919
Investments held to maturity	-	-	201	-	-	-	201
Investment property	10	-	-	4,751	-	-	4,761
Property, plant and equipment	-	-	-	-	-	11,117	11,117
Intangible assets	-	-	-	-	-	2,481	2,481
Goodwill	-	-	-	-	-	809	809
Other assets	1,315	461	2,890	17	16	30	4,729
TOTAL ASSETS	**299,794**	**71,043**	**205,319**	**237,132**	**65,246**	**21,369**	**899,903**
LIABILITIES							
Financial liabilities at fair value through profit or loss	1,961	91	876	263	-	-	3,191
Due to banks and the Central Bank of the Russian Federation	122,139	30,540	43,110	17,709	12	-	213,510
Customer accounts	198,134	67,012	173,747	32,779	55	-	471,727
Bonds and Eurobonds	173	443	16,346	21,906	3,750	-	42,618
Promissory notes issued	5,851	8,244	5,426	1,624	-	-	21,145
Deferred income tax liabilities	-	-	-	-	-	1,690	1,690
Other liabilities	1,867	1,406	1,327	188	-	-	4,788
Subordinated debt	2	1	552	10,624	39,694	-	50,873
TOTAL LIABILITIES	**330,127**	**107,737**	**241,384**	**85,093**	**43,511**	**1,690**	**809,542**
Liquidity gap	(30,333)	(36,694)	(36,065)	152,039	21,735		
Stable sources of funding (1)	99,938	18,153	56,301	(174,392)	-		
Adjusted liquidity gap (1)	69,605	(18,541)	20,236	(22,353)	21,735		

(1) For liability risk management purposes, the Group monitors the mismatch between asset and liability contractual maturities. In addition, the Group identifies certain financial instruments which represent a relatively stable source of funds, despite its contractually short maturities. These instruments are correspondent accounts of banks included within Due to banks and the Central Bank of the Russian Federation and customer accounts.

These financial instruments are split into homogeneous groups with similar statistical characteristics so that management can estimate the portion of these balances which are not subject to significant risk of reduction in outstanding balances. Large customers with the highest volatility are separated from the groups and pooled together so that management can use a stochastic model that better describes these large customers behaviour on a pool basis. The stable portion is estimated with a preset level of reliability and revised regularly, at least once a quarter.

Although management believes that these components of the correspondent and customer accounts are a stable source of funding, the Group considers that customer accounts related to small, homogeneous deposits will mature in three years while all other stable sources of funding will mature in one year from the balance sheet dates.

The following tables show undiscounted cash flows (the gross outflow) of the Group’s financial liabilities and off-balance sheet commitments on the basis of their earliest possible contractual maturity. The Group’s expected cash flows on these financial liabilities and off-balance sheet commitments may vary significantly from this analysis.

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The gross undiscounted cash flows of the Group as at 31 December 2013 and 2012 were as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	28	104	500	2,162	-	-	2,794
Due to banks and the Central Bank of the Russian Federation	146,643	37,769	38,650	6,500	165	-	229,727
Customer accounts	106,112	96,868	245,460	188,641	450		637,531
Bonds and Eurobonds	492	4,860	31,280	50,681	45,198		132,511
Promissory notes issued	2,762	14,487	42,674	2,259	-	-	62,182
Subordinated debt	54	138	4,800	28,500	66,134	-	99,626
Total interest bearing liabilities at fixed rates	**256,091**	**154,226**	**363,364**	**278,743**	**111,947**	-	**1,164,371**
Due to banks and the Central Bank of the Russian Federation	508	1,399	12,884	6,374	659	-	21,824
Total interest bearing liabilities at variable rates	508	1,399	12,884	6,374	659	-	21,824
Total interest bearing liabilities	**256,599**	**155,625**	**376,248**	**285,117**	**112,606**	-	**1,186,195**
Financial liabilities at fair value through profit or loss	432	748	137	778	-	-	2,095
Due to banks and the Central Bank of the Russian Federation	9,263	-	-	-	-	-	9,263
Customer accounts	187,151	-	-	-	-	-	187,151
Promissory notes issued	13	4	6	291	-	-	314
Other liabilities	2,237	733	1,182	29	70	-	4,251
TOTAL FINANCIAL LIABILITIES	**455,695**	**157,110**	**377,573**	**286,215**	**112,676**	-	**1,389,269**
Contingent liabilities and other commitments	**403,384**	-	-	-	-	-	**403,384**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2012 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	25	14	110	139	-	-	288
Due to banks and the Central Bank of the Russian Federation	105,248	28,839	44,466	12,455	-	-	191,008
Customer accounts	92,876	68,042	181,566	37,111	536	-	380,131
Bonds and Eurobonds	237	559	18,662	27,034	12,869	-	59,361
Promissory notes issued	5,840	8,469	5,949	1,447	12	-	21,717
Subordinated debt	2	148	6,159	18,599	60,200	-	85,108
Total interest bearing liabilities at fixed rates	**204,228**	**106,071**	**256,912**	**96,785**	**73,617**	-	**737,613**
Due to banks and the Central Bank of the Russian Federation	66	2,961	4,850	14,550	12	-	22,439
Total interest bearing liabilities at variable rates	66	2,961	4,850	14,550	12	-	22,439
Total interest bearing liabilities	**204,294**	**109,032**	**261,762**	**111,335**	**73,629**	-	**760,052**
Financial liabilities at fair value through profit or loss	1,961	91	876	263	-	-	3,191
Due to banks and the Central Bank of the Russian Federation	17,510	-	-	-	-	-	17,510
Customer accounts	105,790	-	-	-	-	-	105,790
Promissory notes issued	39	6	8	290	-	-	343
Other liabilities	1,399	930	1,153	188	-	-	3,670
TOTAL FINANCIAL LIABILITIES	**330,993**	**110,059**	**263,799**	**112,076**	**73,629**	-	**890,556**
Contingent liabilities and other commitments	**278,075**	-	-	-	-	-	**278,075**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

37. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Group and other related parties are disclosed below:

The Group had the following transactions outstanding as at 31 December 2013 and 2012 with related parties:

	31 December 2013			31 December 2012		
	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption
Financial assets at fair value through profit or loss	**24**		**181,986**	**24**		**104,254**
Debt securities						
- shareholders of the Group	24	7.72%				
Equity securities and derivative financial instruments						
- companies controlled by shareholders	-			24		
Loans and advances to banks and other financial institutions, net	**14**		**133,661**	**-**		**111,586**
Correspondent accounts with banks						
- companies controlled by shareholders	14			-		
Loans to customers, gross	**17,933**		**912,113**	**32,425**		**612,466**
- shareholders of the Group	14,753	7.37%		-		
- key management personnel	244	8.26%		189	7.68%	
- companies controlled by shareholders	2,936	7.30%		32,236	9.28%	
Allowance for impairment of loans to customers	**(6)**		**(32,839)**	**(43)**		**(21,902)**
- shareholders of the Group	(6)			-		
- companies controlled by shareholders	-			(43)		
Investments available-for-sale	**297**		**39,532**	**3,766**		**4,919**
Debt securities						
- shareholders of the Group	2	10.11%		-		
- companies controlled by shareholders	-			3,766	9.00%	
Equity securities						
- companies controlled by shareholders	295			-		
Other assets	**956**		**11,867**	**17**		**4,729**
- shareholders of the Group	2			-		
- companies controlled by shareholders	954			17		
Financial liabilities at fair value through profit or loss	**162**		**2,866**	**17**		**3,191**
- companies controlled by shareholders	162			17		
Due to banks and the Central Bank of the Russian Federation:			**257,187**	**36**		**213,510**
Correspondent accounts of other banks						
- companies controlled by shareholders	-			36		
Customer accounts	**15,659**		**781,471**	**4,280**		**471,727**
Term deposits						
- shareholders of the Group	65	8.81%		1,029	4.16%	
- key management personnel	1,202	6.32%		1,363	5.68%	
- companies controlled by shareholders	6,487	5.53%		1,492	7.87%	
Current accounts						
- shareholders of the Group	663			1		
- key management personnel	120			40		
- entities under common control	-			2		
- companies controlled by shareholders	7,122			353		

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	31 December 2013			31 December 2012		
	Related party transactions	**Average effective interest %**	**Total category as per consolidated financial statements caption**	**Related party transactions**	**Average effective interest %**	**Total category as per consolidated financial statements caption**
Other liabilities	**704**		**5,722**	**101**		**4,788**
- shareholders of the Group	10			-		
- key management personnel	453			100		
- companies controlled by shareholders	241			1		
Subordinated debt	**11,179**		**63,459**	**-**		**50,873**
- shareholders of the Group	7,763	7.84%		-		
- companies controlled by shareholders	3,416	7.87%		-		
Commitments on loans and unused credit lines	**21,529**		**166,024**	**5,700**		**116,582**
- shareholders of the Group	21,500			7		
- key management personnel	22			28		
- companies controlled by shareholders	7			5,665		
Letters of credit and other contingent commitments	**-**		**11,296**	**13**		**6,848**
- companies controlled by shareholders	-			13		
Guarantees issued and similar commitments	**3,813**		**226,064**	**1,381**		**154,645**
- shareholders of the Group	3,652			-		
- companies controlled by shareholders	161			1,381		

	Year ended 31 December 2013		Year ended 31 December 2012	
	Key management personnel	**Total for the Group**	**Key management personnel**	**Total for the Group**
Key management personnel compensation:				
- salary	313		262	
- bonuses	745		413	
- representation expenses	3		5	
- contribution to non-government pension fund	-		4	
	1,061		**684**	
		12,145		**11,658**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2013

	Year ended 31 December 2013		**Year ended 31 December 2012**	
	Related party transactions	**Total for the Group**	**Related party transactions**	**Total for the Group**
Interest income		**97,849**		**66,650**
- shareholders of the Group	1,845		-	
- key management personnel	26		19	
- entities under common control	32		-	
- companies controlled by shareholders	2,018		3,401	
Interest expense		**(57,122)**		**(35,244)**
- shareholders of the Group	(875)		(436)	
- key management personnel	(53)		(72)	
- entities under common control	(6)		-	
- companies controlled by shareholders	(546)		(688)	
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination		**380**		**925**
- companies controlled by shareholders	-		3	
Provision for impairment losses on interest bearing assets		**(9,390)**		**(5,886)**
- shareholders of the Group	1		-	
- companies controlled by shareholders	43		(387)	
Trading income/(loss)		**761**		**2,681**
- shareholders of the Group	28		7	
- key management personnel	(13)		(6)	
- entities under common control	21		-	
- companies controlled by shareholders	111		291	
Net gain on investments available-for-sale;		**22**		**593**
- companies controlled by shareholders	11		58	
Fees and commission income		**12,155**		**10,895**
- shareholders of the Group	1		1	
- key management personnel	1		1	
- entities under common control	1		-	
- companies controlled by shareholders	349		408	
Fees and commission expense		**(3,167)**		**(2,954)**
- entities under common control	(4)		-	
- companies controlled by shareholders	(7)		-	
Other income		**827**		**754**
- entities under common control	4		-	
- companies controlled by shareholders	9		7	
Operating expenses		**(21,993)**		**(21,381)**
- shareholders of the Group	(1)		-	
- key management personnel	(1,093)		(721)	
- entities under common control	(1)		(1)	
- companies controlled by shareholders	(34)		(49)	

38. SUBSEQUENT EVENTS

In January 2014 the Board of Directors of OJSC "Khanty-Mansiysk Bank" decided to sell 100% share of LLC "Yugra-Leasing" for consideration of RUB 353 million. The Group does not expect considerable changes in its further activity related to loss of control over LLC "Yugra-Leasing".

In February 2014 the Parent Company has purchased from the International Finance Corporation (IFC) 14.3% stake of OJSC Bank "Otkritie" and sold it to the Bank. The consideration paid by the Bank amounted to RUB 4,235 million.