

Open Joint Stock Company “BANK URALSIB”
Consolidated Financial Statements

Year ended December 31, 2013

Together with Auditors' Report

CONTENTS

AUDITORS' REPORT

Consolidated statement of financial position.....	5
Consolidated income statement.....	6
Consolidated statement of comprehensive income.....	7
Consolidated statement of changes in equity.....	8
Consolidated statement of cash flows.....	10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities.....	11
2. Basis of preparation.....	13
3. Summary of accounting policies.....	14
4. Segment analysis.....	24
5. Cash and cash equivalents.....	31
6. Amounts due from credit institutions.....	31
7. Trading securities.....	32
8. Available-for-sale securities.....	32
9. Derivative financial instruments.....	33
10. Loans to customers.....	34
11. Net investments in finance leases.....	36
12. Investment property.....	37
13. Property and equipment.....	39
14. Goodwill.....	40
15. Taxation.....	41
16. Other assets and liabilities.....	43
17. Investments in associate.....	44
18. Amounts due to credit institutions.....	45
19. Amounts due to customers.....	45
20. Promissory notes.....	46
21. Other borrowed funds.....	46
22. Equity.....	47
23. Commitments and contingencies.....	47
24. Net fee and commission income.....	49
25. Net gains from operations with securities.....	49
26. Net gains from foreign currencies.....	49
27. Other income.....	49
28. Personnel expenses, administrative and operating expenses.....	50
29. Risk management, corporate governance and internal control.....	50
30. Fair values of financial instruments.....	72
31. Related party transactions.....	75
32. Trust activities.....	78
33. Capital adequacy.....	78
34. Events after the reporting date.....	80



Auditors' Report

To the Shareholders and the Supervisory Board

Open Joint Stock Company "BANK URALSIB"

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Open Joint Stock Company "BANK URALSIB".

Registered by the Central Bank of the Russian Federation on 8 April 1999, Registration No. 2275.

Entered in the Unified State Register of Legal Entities on 8 August 2002 by the Authority of the Ministry of Taxes and Duties of the Russian Federation in the Republic of Bashkortostan, Registration No. 1020280000190, Certificate series 02 No. 004606023.

Address of the audited entity: 8, Efremova Street, Moscow, Russian Federation, 119048.

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

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

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

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

Opinion

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

Kolosov A.E.
Director
power of attorney dated October 3, 2011 No. 37/11
ZAO KPMG
Moscow, Russian Federation
April 29, 2014

Consolidated statement of financial position**as of December 31, 2013***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2013</i>	<i>2012</i>
Assets			
Cash and cash equivalents	5	56,080,385	77,070,294
Obligatory reserves with the Central Bank		2,920,152	4,965,150
Amounts due from credit institutions	6	1,472,422	7,730,987
Trading securities	7	-	5,628,889
Available-for-sale securities	8	37,775,261	33,849,080
Held-to-maturity securities		44,715	122,336
Derivative financial assets	9	45,175	63,093
Loans to customers	10	226,217,616	251,163,406
Net investments in finance leases	11	16,454,323	17,048,336
Investment property	12	19,580,724	22,070,373
Property and equipment	13	13,077,166	12,100,542
Goodwill	14	4,527,406	4,527,406
Other assets	16	15,153,650	14,846,851
Total assets		<u>393,348,995</u>	<u>451,186,743</u>
Liabilities			
Derivative financial liabilities	9	41,031	76,522
Amounts due to credit institutions	18	49,328,128	55,319,995
Amounts due to customers	19	263,332,299	304,917,413
Promissory notes issued	20	4,986,423	9,660,077
Other borrowed funds	21	29,593,054	32,639,631
Other liabilities	16	3,663,257	3,039,607
Total liabilities		<u>350,944,192</u>	<u>405,653,245</u>
Equity			
Share capital	22	41,445,862	41,445,862
Revaluation reserve for available-for-sale securities		403,971	556,197
Revaluation surplus for buildings		3,464,555	3,379,386
Accumulated losses		(2,304,071)	(17,682)
Total equity attributable to shareholders of the Parent		<u>43,010,317</u>	<u>45,364,063</u>
Non-controlling interests		(605,514)	169,435
Total equity		<u>42,404,803</u>	<u>45,533,498</u>
Total equity and liabilities		<u>393,348,995</u>	<u>451,186,743</u>

Signed and authorised for release on behalf of the Management Board of the Bank

Ilkka S. Salonen



Chairman of the Management Board

Renat S. Koneev

Chief Accountant

April 29, 2014

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement**For the year ended December 31, 2013***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2013</i>	<i>2012</i>
Interest income			
Loans to customers		31,160,408	27,897,499
Net investment in finance leases		2,599,810	2,527,674
Securities		1,819,094	2,058,999
Amounts due from credit institutions		738,287	717,093
		<u>36,317,599</u>	<u>33,201,265</u>
Interest expense			
Amounts due to customers		(14,161,279)	(12,184,057)
Other borrowed funds		(3,418,095)	(2,774,568)
Amounts due to credit institutions		(2,454,403)	(2,866,819)
Promissory notes issued		(638,053)	(765,198)
		<u>(20,671,830)</u>	<u>(18,590,642)</u>
Net interest income		<u>15,645,769</u>	<u>14,610,623</u>
Charge for impairment of interest earning assets	6, 8, 10, 11	(4,073,676)	(4,245,761)
Net interest income after impairment of interest earning assets		<u>11,572,093</u>	<u>10,364,862</u>
Other non interest income			
Fee and commission income		10,809,267	9,587,565
Fee and commission expense		(4,571,328)	(3,894,487)
Net fee and commission income	24	<u>6,237,939</u>	<u>5,693,078</u>
Net gains (losses) from trading securities	25	4,356	(9,125)
Net realised gains from available-for-sale securities	25	117,907	1,036,993
Charge for impairment of equity investments	8	(3,002)	(88,938)
Net gains from foreign currencies	26	1,600,210	811,437
Net losses from transactions with precious metals		(97,355)	(12,658)
Net gains from revaluation and disposal of investment property	12	881,227	625,057
Net losses from impairment and disposal of inventory		(476,897)	(685,844)
Other income	27	2,158,603	1,856,806
Other non interest income		<u>4,185,049</u>	<u>3,533,728</u>
Other non interest expense			
Personnel expenses	28	(12,567,255)	(11,984,289)
Administrative and operating expenses	28	(9,170,322)	(9,432,650)
Depreciation and amortisation	13, 16	(1,084,230)	(1,213,373)
Impairment of other assets	16	(229,090)	(1,319,060)
Other non interest expense		<u>(23,050,897)</u>	<u>(23,949,372)</u>
Loss before income tax expense		<u>(1,055,816)</u>	<u>(4,357,704)</u>
Income tax expense	15	(535,778)	(16,933)
Loss for the year*	4	<u>(1,591,594)</u>	<u>(4,374,637)</u>
Attributable to:			
- shareholders of the Parent		(1,469,335)	(4,008,843)
- non-controlling interests		(122,259)	(365,794)
		<u>(1,591,594)</u>	<u>(4,374,637)</u>
Loss per share attributable to shareholders of the Parent (in Rubles):			
Basic and diluted		<u>(0.0054)</u>	<u>(0.0137)</u>

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant



April 29, 2014

The accompanying notes are an integral part of these consolidated financial statements.

* Profit of the Bank before intra-group elimination of interest on subordinated loan and dividends received from URALSIB Leasing Group, net of consolidated loss of URALSIB Leasing Group for the year ended December 31, 2013 comprises RUB 122,245 (2012 – loss of RUB 980,603). Refer to Note 4.

Consolidated statement of comprehensive income**For the year ended December 31, 2013***(Thousands of Russian Rubles)*

	<u>2013</u>	<u>2012</u>
Loss for the year	(1,591,594)	(4,374,637)
Other comprehensive (loss) income		
<i>Items that are or may be reclassified to profit or loss</i>		
Revaluation reserve for available-for-sale securities:		
- Net change in fair value of available-for-sale securities, net of tax	(58,201)	549,295
- Net change in fair value of available-for-sale securities transferred to profit or loss, net of tax	(94,325)	352,933
Total items that are or may be reclassified to profit or loss	(152,526)	902,228
<i>Items that will not be reclassified to profit or loss</i>		
Revaluation of buildings, net of tax	89,211	243,593
Total items that will not be reclassified to profit or loss	89,211	243,593
Total other comprehensive (loss) income, net of tax	(63,315)	1,145,821
Total comprehensive loss	(1,654,909)	(3,228,816)
Attributable to:		
- shareholders of the Parent	(1,532,650)	(2,863,022)
- non-controlling interests	(122,259)	(365,794)
Total comprehensive loss	(1,654,909)	(3,228,816)

Ilkka S. Salonen

Renat S. Koneev

April 29, 2014



Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended December 31, 2013

(Thousands of Russian Rubles)

	Attributable to equity holders of the Parent				Total equity attributable to shareholders of the Parent	Non-controlling interests	Total equity
	Share capital	Revaluation reserve for available-for-sale securities	Revaluation surplus for buildings	Accumulated losses			
Balance as of January 1, 2013	41,445,862	556,497	3,379,386	(17,682)	45,364,063	169,435	45,533,498
Total comprehensive loss							
Loss for the year	-	-	-	(1,469,335)	(1,469,335)	(122,259)	(1,591,594)
Other comprehensive loss							
Items that are or may be reclassified to profit or loss							
Net change in fair value of available-for-sale securities, net of deferred tax of RUB 14,550	-	(58,201)	-	-	(58,201)	-	(58,201)
Net change in fair value of available-for-sale securities transferred to profit or loss, net of deferred tax of RUB 23,582	-	(94,325)	-	-	(94,325)	-	(94,325)
Total items that are or may be reclassified to profit or loss	-	(152,526)	-	-	(152,526)	-	(152,526)
Items that will not be reclassified to profit or loss							
Transfer of revaluation surplus on disposal of buildings previously revalued, net of deferred tax of RUB 1,011	-	-	(4,042)	4,042	-	-	-
Revaluation of buildings, net of deferred tax of RUB 22,303	-	-	89,211	-	89,211	-	89,211
Total items that will not be reclassified to profit or loss	-	-	85,169	4,042	89,211	-	89,211
Total other comprehensive loss	-	(152,526)	85,169	4,042	(63,315)	-	(63,315)
Total comprehensive loss	-	(152,526)	85,169	(1,465,293)	(1,532,650)	(122,259)	(1,654,909)
Charitable contributions made of behalf of the shareholder	-	-	-	(478,546)	(478,546)	-	(478,546)
Purchase of the additional stake in the subsidiary	-	-	-	195,497	195,497	(607,690)	(412,193)
Dividends declared and partially paid	-	-	-	(538,047)	(538,047)	(45,000)	(583,047)
Balance as of December 31, 2013	41,445,862	403,971	3,464,555	(2,304,071)	43,010,317	(605,514)	42,404,803

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant

April 29, 2014



The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended December 31, 2012***(Thousands of Russian Rubles)*

	Attributable to equity holders of the Parent					Total equity attributable to shareholders of the Parent	Non-controlling interests	Total equity
	Share capital, net of treasury shares	Additional paid-in capital	Revaluation reserve for available-for-sale securities	Revaluation surplus for buildings	Retained earnings (accumulated losses)			
Balance as of January 1, 2012	41,445,862	1,231,816	(345,731)	3,150,801	4,071,582	49,554,330	546,747	50,101,077
Total comprehensive loss								
Loss for the year	-	-	-	-	(4,008,843)	(4,008,843)	(365,794)	(4,374,637)
Other comprehensive income								
Items that are or may be reclassified to profit or loss								
Net change in fair value of available-for-sale securities, net of deferred tax of RUB 137,324	-	-	549,295	-	-	549,295	-	549,295
Net change in fair value of available-for-sale securities transferred to profit or loss, net of deferred tax of RUB 88,233	-	-	352,933	-	-	352,933	-	352,933
Total items that are or may be reclassified to profit or loss	-	-	902,228	-	-	902,228	-	902,228
Items that will not be reclassified to profit or loss								
Transfer of revaluation surplus on disposal of buildings previously revalued, net of deferred tax of RUB 3,752	-	-	-	(15,008)	15,008	-	-	-
Revaluation of buildings, net of deferred tax of RUB 60,898	-	-	-	243,593	-	243,593	-	243,593
Total items that will not be reclassified to profit or loss	-	-	-	228,585	15,008	243,593	-	243,593
Total other comprehensive income	-	-	902,228	228,585	15,008	1,145,821	-	1,145,821
Total comprehensive loss	-	-	902,228	228,585	(3,993,835)	(2,863,022)	(365,794)	(3,228,816)
Charitable contributions made on behalf of the shareholder	-	(946,004)	-	-	(95,429)	(1,041,433)	-	(1,041,433)
Other contributions from the shareholder, net of deferred tax of RUB 198,756	-	795,024	-	-	-	795,024	-	795,024
Other distributions to the shareholder, net of deferred tax of RUB 270,209	-	(1,080,836)	-	-	-	(1,080,836)	-	(1,080,836)
Purchase of the additional stakes in the subsidiaries	-	-	-	-	-	-	(11,518)	(11,518)
Balance as of December 31, 2012	41,445,862	-	556,497	3,379,386	(17,682)	45,364,063	169,435	45,533,498

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant

April 29, 2014

*The accompanying notes are an integral part of these consolidated financial statements.*

Consolidated statement of cash flows

For the year ended December 31, 2013

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>2013</i>	<i>2012</i>
Cash flows from operating activities			
Interest received		37,297,666	33,558,774
Interest paid		(21,462,412)	(17,764,817)
Fees and commissions received		10,821,586	9,548,882
Fees and commissions paid		(4,431,587)	(3,807,732)
Net receipts from trading and available-for-sale securities		131,790	1,033,610
Net receipts from dealing in foreign currencies		831,442	2,706,922
Net (payments) receipts from dealing in precious metals		(484,159)	11,470
Dividends received		1,087	191,469
Other income received		2,010,118	1,541,490
Personnel expenses paid		(12,467,015)	(12,661,832)
Administrative and operating expenses paid		(9,024,610)	(8,140,693)
Cash flows from operating activities before changes in operating assets and liabilities		3,223,906	6,217,543
<i>Net (increase) decrease in operating assets</i>			
Amounts due from credit institutions and obligatory reserves with the Central Bank		9,738,280	(3,824,186)
Trading securities		5,768,708	(3,380,684)
Available-for-sale securities		(3,951,835)	3,733,702
Loans to customers		22,787,698	(26,047,624)
Net investments in finance leases		606,548	(414,709)
Other assets		375,985	108,625
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions, other than subordinated and syndicated loans		(7,077,215)	7,345,075
Amounts due to customers		(44,211,940)	17,134,311
Promissory notes issued		(4,672,417)	(3,377,536)
Other liabilities		30,776	5,914
Net cash flows used in operating activities before income tax		(17,381,506)	(2,499,569)
Income tax paid		(372,076)	(231,074)
Net cash used in operating activities		(17,753,582)	(2,730,643)
Cash flows from investing activities			
Proceeds from repayment of securities held to maturity		83,807	155,844
Purchase of property and equipment and intangible assets		(1,220,307)	(1,686,571)
Proceeds from sale of property and equipment and intangible assets		184,754	762,327
Purchase of investment property		-	(788,146)
Proceeds from sale of investment property		1,456,909	923,719
Purchase of additional shares in associate		(6,639)	(10,680)
Net cash flows from (used in) investing activities		498,524	(643,507)
Cash flows from financing activities			
Proceeds from issue of bonds		8,000,000	24,900,000
Proceeds from sale of bonds issued previously repurchased		-	158,487
Repayment of bonds issued		(10,634,778)	(5,750,161)
Repurchase of bonds issued		(289,069)	-
Syndicated loans repaid		(357,606)	(8,640,812)
Charitable contributions made on behalf of shareholder		(478,546)	(1,041,433)
Dividends paid to shareholders of the Bank		(582,659)	(4,480)
Purchase of non-controlling interests in subsidiaries		(412,193)	(11,518)
Proceeds from disposal of subsidiaries, less cash in disposed subsidiaries		(898)	4
Net cash (used in) from financing activities		(4,755,749)	9,610,087
Effect of exchange rates changes on cash and cash equivalents		1,020,898	(249,439)
Net (decrease) increase in cash and cash equivalents		(20,989,909)	5,986,498
Cash and cash equivalents, beginning		77,070,294	71,083,796
Cash and cash equivalents, ending	5	56,080,385	77,070,294

Ilkka S. Salonen

Renat S. Koneev

April 29, 2014



Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

1. Principal activities

These consolidated financial statements include the financial statements of Open Joint Stock Company “BANK URALSIB” (the “Parent”, also – OJSC “URALSIB”) and its subsidiaries (together referred to as the “Bank”).

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement transactions, transactions with securities, asset management, investment banking and foreign exchange. The Bank’s leasing subsidiary provides finance leases to companies in Russia.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (“CBR”). The Bank has a general banking license and is a member of the state deposit insurance system in the Russian Federation.

The Bank operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

Subsidiaries and branches

OJSC “URALSIB” was established in 1993 in the Russian Federation, where it currently has 19 branches from which it conducts business. The registered address of the head office is 8, Efremova Street, Moscow, 119048. The majority of the assets and liabilities are located in the Russian Federation. The average number of people employed during the year was 13,714 (2012: 13,800). The consolidated financial statements include the following main incorporated subsidiaries at December 31:

<i>Subsidiary</i>	<i>Control, %</i>		<i>Country</i>	<i>Date of establishment</i>	<i>Industry</i>
	<i>2013</i>	<i>2012</i>			
LLC “Ufa-City”	100.00%	100.00%	Russia	April 29, 2002	Construction
LLC “Amador”	100.00%	100.00%	Russia	April 4, 2009	Investments in land
CJSC “Krasnogorskstroykomplekt”	100.00%	100.00%	Russia	July 19, 2007	Investments in land
LLC “Sportventure Moskva”	100.00%	87.50%	Russia	July 19, 1993	Investments in land
CJSC “Rivas”	100.00%	100.00%	Russia	July 23, 2007	Investments in land
CJSC “Zemelny Trust”	99.90%	100.00%	Russia	January 21, 2002	Investments in land
CJSC “Astretsovo”	91.22%	91.22%	Russia	April 1, 1991	Investments in land
LLC “Rogachevskie Gorki”	-	99.90%	Russia	October 2, 2009	Construction
CJSC “Miranda”	100.00%	99.99%	Russia	November 29, 2007	Investments in land
LLC “Oberon”	100.00%	99.99%	Russia	November 29, 2007	Investments in land
CJSC “Mortgage Agent Uralsib 01”	100.00%	100.00%	Russia	October 26, 2011	Finance services
LLC “RGO Voronezh”	99.90%	-	Russia	May 12, 2012	Investments in real estate
LLC “ORTO-KHAUZ”	100.00%	-	Russia	January 26, 2005	Investments in real estate
LLC “Tolstoy-M”	100.00%	-	Russia	September 5, 2013	Investments in real estate
<i>Members of Leasing Group Uralsib</i>					
LLC “URALSIB Leasing Company”	87.61%	87.61%	Russia	October 1, 2000	Leasing
Hambridge Investments Ltd	100.00%	100.00%	Cyprus	July 20, 2004	Leasing
LLC “Business Leasing”	-	100.00%	Russia	June 22, 2009	Leasing

In January 2013 the Bank acquired 99.9% shares of LLC “RGO Voronezh” for a purchase price of RUB 10, which was paid in cash.

In March 2013 LLC “Rogachevskie Gorki” was merged with CJSC “Zemelny Trust”.

In July 2013 the Bank acquired an additional 12.5% stake in LLC “Sportventure Moskva” from a third party for USD 12,500 thousand. The excess of the fair value over the purchase price of RUB 195,497 was recognised directly in equity.

During 2013 the Bank obtained control over LLC “ORTO-KHAUZ” and LLC “Tolstoy-M” by taking possession of 100% of their shares as foreclosed collateral from delinquent borrowers.

LLC “URALSIB Leasing Company” was registered in 2000 in Russia. Its main office is in Moscow and it has 45 branches (2012: 46).

On December 24, 2013 LLC “Business Leasing” was sold to a third party. Total assets, total liabilities and negative net assets of the company at the date of disposal comprised RUB 1,230, RUB 9,153 and RUB 7,923, respectively. The total sales price was RUB 10, which was received in cash.

(Thousands of Russian Rubles)

The consolidated financial statements include also the following unincorporated subsidiaries at December 31:

<i>Subsidiary</i>	<i>Control, %</i>		<i>Country</i>	<i>Date of establishment</i>	<i>Industry</i>
	<i>2013</i>	<i>2012</i>			
Closed Unit Investment Fund of Property "URALSIB - REGION"	-	100.00%	Russia	November 1, 2007	Investment
Closed Unit Investment Fund of Property "URALSIB - ARENDA"	100.00%	100.00%	Russia	November 1, 2007	Investment
Closed Unit Investment Fund of Real Estate "URALSIB real estate"	-	100.00%	Russia	February 26, 2008	Investment
Closed Unit Investment Fund of Real Estate "URALSIB –Investment in real estate"	100.00%	100.00%	Russia	August 5, 2008	Investment
Closed Unit Investment Fund of Real Estate "Construction Investments"	99.55%	99.37%	Russia	October 13, 2004	Investment
Closed Unit Investment Fund of Real Estate "URALSIB –Land investments"	99.54%	99.52%	Russia	February 18, 2008	Investment
Closed Unit Investment Fund of Real Estate "URALSIB – Development of Regions"	100.00%	100.00%	Russia	December 9, 2008	Investment
Closed Unit Investment Fund of Stock "Strategic"	100.00%	100.00%	Russia	August 19, 2009	Investment
Closed Unit Investment Fund of Stock "Active-City"	100.00%	100.00%	Russia	November 12, 2009	Investment

During 2013 the Bank liquidated its unincorporated subsidiaries Closed Unit Investment Fund of Property "URALSIB - REGION" and Closed Unit Investment Fund of Real Estate "URALSIB real estate".

The effects of the transactions on the consolidated financial statements from disposals, acquisitions and liquidation during 2013 are not significant.

Non-controlling interests in subsidiaries

The following table summarizes the information relating to the Bank's subsidiaries that have material non-controlling interests ("NCI"), before any intra-group eliminations, as of December 31, 2013 and for the year then ended:

Leasing Group Uralsib

	2013	2012
Cash and cash equivalents	2,390,884	2,056,583
Loans to customers	2,273,001	1,426,703
Net investments in finance leases	16,454,323	17,048,336
Goodwill	137,919	137,919
Current tax assets	105,510	235,825
Deferred tax assets	370,824	710,824
Prepaid operating taxes	251,053	854,476
Inventories	636,583	1,307,137
Investment property	430,175	944,665
Property and equipment	147,349	176,765
Other assets	1,596,029	1,331,874
Borrowed funds	(10,361,806)	(11,684,945)
Debt securities issued	(12,958,115)	(11,129,651)
Derivative financial liabilities	-	(188,579)
Other liabilities	(1,045,001)	(1,041,734)
Equity	428,728	2,186,198
Equity attributable to NCI	(667,558)	(501,959)
Net interest income	650,648	563,086
(Charge for) reversal of impairment of interest earning assets	(217,355)	1,873
Net fee and commission expense	(82,666)	(73,527)
Non interest income	760,469	36,327
Operating expense	(1,732,125)	(3,500,585)
Income tax expense	(352,018)	(10,925)
Loss	(973,047)	(2,983,751)
Total comprehensive loss	(973,046)	(2,983,750)
Loss allocated to NCI	(122,599)	(369,806)
Total comprehensive loss allocated to NCI	(122,599)	(369,806)
Cash flows from (used in) operating activities	1,106,293	(1,586,458)
Cash flows from investment activities	23,653	496,013
Cash flows (used in) from financing activities	(709,767)	2,450,509
Dividends paid to NCI	(45,000)	-

(Thousands of Russian Rubles)

The following table summarizes the reconciliation of net assets of Leasing Group Uralsib with the Bank's NCI in it as of December 31:

Leasing Group Uralsib

	<u>2013</u>	<u>2012</u>
Equity	428,728	2,186,198
Less other contribution from OJSC "URALSIB"	(5,676,947)	(6,098,295)
Less goodwill	(137,919)	(137,919)
	<u>(5,386,138)</u>	<u>(4,050,016)</u>
Carrying amount of NCI (12.39%)	<u>(667,558)</u>	<u>(501,959)</u>

Leasing Group Uralsib has its principal place of business in Russia.

Structured entity

CJSC "Mortgage Agent Uralsib 01" (MA-1) is a structured entity established to facilitate the Bank's issue of mortgage backed securities (refer to note 21). This entity is not owned by the Bank. Control arises from practical ability to direct the relevant activities of MA-1 and the size of its exposure to the variability of returns of MA-1.

Shareholders

The major shareholder of the Bank is OJSC "Financial Corporation URALSIB". Related party transactions are detailed in note 31.

As of December 31, the following shareholders held the issued shares of Open Joint Stock Company "BANK URALSIB":

Shareholder	<u>2013</u>	<u>2012</u>
	<u>%</u>	<u>%</u>
OJSC "Financial Corporation URALSIB"	97.14	97.14
Other	2.86	2.86
Total	<u>100.00</u>	<u>100.00</u>

The Bank is ultimately controlled by Mr. Nikolay A. Tsvetkov.

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale financial assets, and investment property are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Parent and the majority of its subsidiaries is the Russian Ruble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements. All financial information presented in RUB is rounded to the nearest thousand, except where indicated.

(Thousands of Russian Rubles)

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- available-for-sale securities carrying value estimates - note 8 and note 30
- determination of control over investees and classification of available-for-sale securities – note 8
- loan impairment estimates - note 10
- net investments in finance leases impairment estimates - note 11
- investment property revaluation estimates - note 12
- buildings revaluation estimates - note 13
- goodwill impairment estimates – note 14

3. Summary of accounting policies

The following significant accounting policies are consistently applied in the preparation of the consolidated financial statements, except for changes in accounting policies, which are described at the end of this note.

BASIS OF CONSOLIDATION

Business combinations

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

The Bank measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Bank elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Structured entities

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

(Thousands of Russian Rubles)

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank's equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is debited to equity.

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. 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 the owners of the parent.

Associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Non-controlling interests

Non-controlling interests are that part of profit or loss, other comprehensive income and net assets, of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Parent. Non-controlling interests in profit or loss and other comprehensive income are separately disclosed in the consolidated statement of comprehensive income.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

(Thousands of Russian Rubles)

FINANCIAL INSTRUMENTS

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, and unrestricted balances (nostro accounts) held with the CBR and other banks, and highly liquid financial assets with original maturities of less than 90 days, which are subject to insignificant risk of changes in their fair value, and are used in the management of short-term commitments. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawal. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. Trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(Thousands of Russian Rubles)

Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

Financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

Amortised cost

Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(Thousands of Russian Rubles)

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt. The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements ("repurchase agreements") are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the Bank's liability included in amounts due to credit institutions or amounts due to customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as loans granted under reverse repurchase agreements within amounts due from credit institutions or loans to customers, as appropriate, except for reverse repurchase agreements with credit and other financial institutions with original maturities of less than 90 days which are treated as cash equivalents. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Bank considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity.

When the Bank, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Bank transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Bank neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Bank has not retained control over the assets.

Offsetting

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

Leases

i. Finance – the Bank as lessor

The Bank recognises lease receivables at an amount equal to the net investment in the lease, starting from the date of commencement of the lease term.

(Thousands of Russian Rubles)

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

ii. Operating – the Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating leases are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

iii. Operating – the Bank as lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

PROPERTY AND EQUIPMENT

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

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

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

	<u>Years</u>
Buildings	35-50
Railway wagons	20-30
Boiler equipment	20
Furniture and fixtures	3-10
Computers and office equipment	1-10
Motor vehicles	1-5

INTANGIBLE ASSETS

Intangible assets with a finite useful life that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 10 years.

Intangible assets with an indefinite useful life are not amortised. The useful life of such assets is reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for such assets.

The Bank tests intangible assets with an indefinite useful life for impairment by comparing their recoverable amounts with the corresponding carrying amounts annually, and whenever there is an indication that an intangible asset may be impaired.

(Thousands of Russian Rubles)

INVENTORY IN TRANSIT

Inventory in transit is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

INVESTMENT PROPERTY

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes.

Investment property is measured at fair value with any change recognised in profit or loss.

Property acquired exclusively with a view to subsequent disposal in the near future or for development and resale is not considered to be investment property and is accounted for as inventory.

Management defines near future as within one year starting from the date when a decision to sell the property is made. The subsequent reclassification of an investment property to inventory is made when there is a change in use, evidenced by the commencement of development/ redevelopment with a view to sale. A decision to sell an investment property without development/ redevelopment does not result in a reclassification to inventory.

Property under construction and/ or land held for future development with a view to sell within one year either upon completion of development or upon the decision to sell during the development period by the Bank's Closed Unit Funds is classified as inventory.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

IMPAIRMENT

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables. The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank 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 Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable 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 related to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

(Thousands of Russian Rubles)

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

CREDIT RELATED COMMITMENTS

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included in other liabilities.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(Thousands of Russian Rubles)

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Nature and purpose of other reserves

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

This reserve records fair value changes in available-for-sale investments.

TAXATION

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

INCOME AND EXPENSE RECOGNITION

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

CHARITABLE CONTRIBUTIONS MADE BY THE BANK

Charitable contributions made in the normal course of business by the Bank are usually approved by management within budgeted limits and are accounted for as expenses of the Bank. However, in limited cases when charitable contributions meet all the criteria listed below, they are accounted for directly within equity as distributions to the shareholder:

- the decision about charitable contribution is made personally by the Bank's ultimate beneficiary or by the Supervisory Board of the Bank (in the latter case, it must be initiated by the Bank's ultimate beneficiary), and
- the contribution to a particular recipient and/ or cause was either not envisioned in the Bank's managerial annual budget, or the amount actually contributed to that recipient/ cause was significantly higher than budgeted.

(Thousands of Russian Rubles)

INFLATION ACCOUNTING

The Russian Federation ceased to be hyperinflationary with effect from January 1, 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the assets, liabilities and equity items as of December 31, 2002, became their carrying amounts as of January 1, 2003, for the purpose of subsequent accounting.

SEGMENT REPORTING

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

(i) Subsidiaries, including structured entities

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

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

(ii) Disclosure of Interests in Other Entities

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

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

(iii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS. In particular, it unifies the definition of fair value as 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. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS, including IFRS 7 *Financial Instruments: Disclosures* (see note 30).

As a result, the Bank adopted a new definition of fair value, as set out in note 3 "Fair value measurement". The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the consolidated financial statements that are required under IFRS 13.

(Thousands of Russian Rubles)

(iv) Presentation of items of other comprehensive income

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

(v) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Bank included new disclosures in the consolidated financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective as at December 31, 2013, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's consolidated financial statements. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these pronouncements on its financial statements.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The final standard is expected to be issued in 2014. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project, as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Investment Entities – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments become effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Recoverable amount disclosures for non financial assets – Amendments to IAS 36 *Impairment of Assets* (issued in May 2013). The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. These amendments are effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period.
- Various improvements to IFRS have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than January 1, 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4. Segment analysis

Management has ascertained and designated the operating segments of the Bank based on the reports regularly reviewed by the Management Board in making strategic decisions. All operating segments of the Bank derive their revenue - as various types of financial income - primarily from sources in the Russian Federation. Because of relatively similar business environment throughout the country, management emphasizes the "product line" analysis approach rather than geographical segmentation. All of the Bank's business activities and operating segments are reported within the reportable segments. The Management Board considers the business based on the following operating segments:

(Thousands of Russian Rubles)

- 1 **Corporate banking:** full range of banking services to large and medium corporate entities including commercial lending and deposit taking, settlements and cash transactions, as well as trade finance and transactions with precious metals.
- 2 **Retail banking:** full range of banking services to individuals, such as deposit taking and lending to individuals, money transfer and foreign exchange services and a range of banking card products.
- 3 **Small business:** full range of banking services to individual entrepreneurs and small business entities, such as lending, settlements and cash transactions, deposit taking.
- 4 **Leasing:** leasing transactions performed by LG.
- 5 **Investment banking:** primary and secondary equity and debt capital markets activities, brokerage services and securities trading, including repurchase agreements transactions and derivative transactions.
- 6 **Private banking and asset management:** full range of banking services to high net worth individuals, including their savings management and financial consulting; trust management, services to corporate and private clients through fiduciary and collective investment schemes including open-end mutual funds which are distributed through the Bank's regional network.
- 7 **Treasury and asset-liability management ("ALM") unit:** treasury, which lends and borrows funds on the market, undertakes the Bank's funding through issue of debt securities and attraction of syndicated facilities and conducts foreign exchange transactions. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.
- 8 **Corporate investments and other transactions:** corporate transactions that are not conducted by and attributed to any business segment. This segment is responsible for transactions with related parties of the Bank and certain securities transactions. This segment is responsible for managing the Bank's capital.
- 9 **Corporate center:** expenses incurred by the central administrative divisions of the Bank, Head Office expenditures and indirect overhead expenses such as the marketing of the brand, which is common to all reportable segments. It also carries out service transactions that are not related to the main business activity of the Bank, such as management of real estate.

The segment reporting is submitted to the Management Board on a regular basis as part of the management reporting. It is used to assess the effectiveness of the segments and to assist in taking decisions on the allocation of resources. In accordance with internal methodology, equity is allocated to the corporate investments and other transactions segment.

Changes in accounting policies for segment reporting

In 2013 the Bank revised its approach to presentation of assets and liabilities, income and expenses related to transactions with small corporate entities and reclassified these amounts from the "Retail banking" operating segment to the "Small business" operating segment. The presentation of comparative information as of December 31, 2012 and for the year then ended is amended for these changes.

Information about major customers

Substantially all revenues from external customers are from residents of the Russian Federation. Substantially all non-current assets are located in the Russian Federation.

Information on losses related to operations of URALSIB Leasing Group included in the consolidated financial statements prepared in accordance with IFRS

The table below provides information on results of operations and intra-group equity transactions related to URALSIB Leasing Group ("LG") which are included in loss for the year presented in the consolidated income statement for the year ended December 31:

	<u>2013</u>	<u>2012</u>
Profit (loss) of the Bank before elimination of interest on subordinated loan and dividends received from LG, net of loss of LG	122,245	(980,603)
Loss of LG	(973,047)	(2,983,751)
Elimination of interest on subordinated loan and dividends received from LG	(740,792)	(410,283)
Loss for the year as presented in the consolidated income statement	<u>(1,591,594)</u>	<u>(4,374,637)</u>

(Thousands of Russian Rubles)

A reconciliation of total segment loss before income tax expense as measured in the management accounting to the total loss before income tax expense as presented in these consolidated financial statements for the year ended December 31 is provided below.

	<u>2013</u>	<u>2012</u>
Loss before income tax expense per management accounting (unaudited)	(723,134)	(3,478,938)
Fair value and other adjustments to securities and other investments	120,559	(415,234)
Consolidation adjustments	1,447,993	779,436
Revaluation of inventory	(411,785)	(901,500)
Conversion to finance lease accounting	(1,792,802)	(1,384,074)
Interest and commission accruals	(456,306)	(706,613)
Adjustment of impairment allowance	271,783	127,898
Personnel, administrative and operating expense accruals	133,415	443,845
Fair value adjustment to derivative financial instruments	21,163	(64,371)
Rent expense not recognised in management accounting	15,575	15,311
Other adjustments	317,723	1,226,536
Loss before income tax expense per IFRS consolidated financial statements	(1,055,816)	(4,357,704)

A reconciliation of total segmental assets/ liabilities as measured in the management accounting to the total assets/ liabilities as presented in these consolidated financial statements as of December 31 is provided below.

	<u>2013</u>		<u>2012</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Total assets/ liabilities per management accounting (unaudited)	412,239,885	364,673,913	469,231,179	419,037,584
Elimination of intragroup balances	(11,803,913)	(11,803,913)	(14,184,663)	(14,184,663)
Consolidation adjustments	9,778,271	2,009,892	8,836,077	2,893,639
Conversion to finance lease accounting	(6,461,954)	1,708,156	(6,484,858)	1,196,220
Accrual of interest and commissions	(3,004,563)	(357,284)	(2,275,582)	(42,201)
Fair value adjustment to securities and other investments	(2,164,888)	-	(1,781,711)	-
Revaluation and other adjustments to property and equipment	1,796,658	-	1,557,708	-
Netting of accounts receivable and payable on securities transactions in management accounting	(2,085,739)	(1,032,130)	(671,345)	419,667
Revaluation of inventory	(769,649)	-	(660,596)	-
Adjustment of current and deferred tax assets and liabilities	149,447	(40,903)	601,255	(187,061)
Revaluation and other adjustments to accumulated depreciation on property and equipment	(583,640)	-	(584,380)	-
Accrual of administrative and operating expenses	730,383	315,234	526,077	149,663
Adjustments to impairment allowances	98,017	(38,954)	381,123	(16,345)
Fair value adjustment to derivative financial instruments	45,175	41,031	63,093	79,500
Accrual of employee compensation payable	-	(37,186)	-	(937,316)
Other adjustments	(4,614,495)	(4,493,664)	(3,366,634)	(2,755,442)
Total assets/ liabilities per IFRS consolidated financial statements	393,348,995	350,944,192	451,186,743	405,653,245

(Thousands of Russian Rubles)

Segment breakdown of assets and liabilities as of December 31, 2013 is set out below:

	Corporate banking	Retail banking	Small business	Leasing	Investment banking	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Inter-segmental transactions	Total
Assets											
Cash and cash equivalents	-	978,727	-	237,050	28,856	-	50,601,697	2,220	-	(207,517)	51,641,033
Obligatory reserves with the Central Bank	-	-	-	-	-	-	2,920,152	-	-	-	2,920,152
Amounts due from credit institutions	-	223	-	2,150,135	-	-	3,254,150	-	-	(1,477,334)	3,927,174
<i>Trading securities</i>	-	-	-	-	23,113,723	-	-	-	-	-	23,113,723
<i>Available-for-sale securities</i>	-	-	-	-	-	-	-	2,715,016	-	-	2,715,016
<i>Held-to-maturity securities</i>	-	-	-	-	49,191	-	-	-	-	-	49,191
Total securities	-	-	-	-	23,162,914	-	-	2,715,016	-	-	25,877,930
<i>Loans to corporate entities (gross)</i>	97,824,329	-	13,057,760	1,450,123	639,240	-	327,578	4,283,617	-	(327,578)	117,255,069
<i>Less impairment allowance</i>	(15,362,995)	-	(1,094,420)	(295,390)	-	-	-	(1,048,442)	-	-	(17,801,247)
Total loans to corporate entities	82,461,334	-	11,963,340	1,154,733	639,240	-	327,578	3,235,175	-	(327,578)	99,453,822
<i>Loans to individuals (gross)</i>	-	129,739,776	-	-	-	73,276	-	-	-	-	129,813,052
<i>Less impairment allowance</i>	-	(6,560,709)	-	-	-	(83)	-	-	-	-	(6,560,792)
Total loans to individuals (net)	-	123,179,067	-	-	-	73,193	-	-	-	-	123,252,260
Total loans to customers (net)	82,461,334	123,179,067	11,963,340	1,154,733	639,240	73,193	327,578	3,235,175	-	(327,578)	222,706,082
Net investment in finance leases	-	-	-	23,667,395	-	-	-	-	-	-	23,667,395
Property and equipment	-	-	-	9,212	-	-	-	4,261,839	8,937,714	-	13,208,765
Other assets	7,117,097	3,407,441	171,529	4,217,929	1,757,699	97,342	1,072,473	50,483,037	5,687	(38,880)	68,291,354
Total assets	89,578,431	127,565,458	12,134,869	31,436,454	25,588,709	170,535	58,176,050	60,697,287	8,943,401	(2,051,309)	412,239,885
Liabilities											
Amounts due to credit institutions	-	8,405,426	-	-	9,332,640	686,113	14,447,110	14,182,300	-	-	47,053,589
<i>Current accounts of corporate clients</i>	20,351,457	-	36,815,240	-	1,766	422,842	360,459	5,728,743	-	(207,517)	63,472,990
<i>Time deposits of corporate clients</i>	38,330,985	-	7,405,643	-	-	15,500	1,577,334	2,525,964	-	(1,477,334)	48,378,092
Total amounts due to corporate clients	58,682,442	-	44,220,883	-	1,766	438,342	1,937,793	8,254,707	-	(1,684,851)	111,851,082
<i>Current accounts of individuals</i>	-	38,425,498	-	-	-	646,227	-	-	-	-	39,071,725
<i>Time deposits of individuals</i>	-	99,708,511	-	-	-	14,475,430	-	-	-	-	114,183,941
Total amounts due to individual clients	-	138,134,009	-	-	-	15,121,657	-	-	-	-	153,255,666
Total amounts due to customers	58,682,442	138,134,009	44,220,883	-	1,766	15,559,999	1,937,793	8,254,707	-	(1,684,851)	265,106,748
Promissory notes issued	1,190,119	98,637	196,779	-	-	-	3,462,729	209,297	-	-	5,157,561
Other borrowed funds	-	2,761,675	-	29,473,954	-	-	-	8,145,296	-	(354,414)	40,026,511
Other liabilities	627,443	1,071,527	185,333	1,807,141	1,495,621	31,603	949,859	727,095	445,926	(12,044)	7,329,504
Total liabilities	60,500,004	150,471,274	44,602,995	31,281,095	10,830,027	16,277,715	20,797,491	31,518,695	445,926	(2,051,309)	364,673,913

(Thousands of Russian Rubles)

Segment breakdown of assets and liabilities as of December 31, 2012 is set out below:

	Corporate banking	Retail banking	Small business	Leasing	Investment banking	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Inter- segmental transactions	Total
Assets											
Cash and cash equivalents	-	917,536	-	290,707	188,229	-	40,973,605	5,440	-	(275,950)	42,099,567
Obligatory reserves with the Central Bank	-	-	-	-	-	-	4,965,150	-	-	-	4,965,150
Amounts due from credit institutions	-	-	-	1,872,687	-	-	36,606,951	-	-	(1,385,000)	37,094,638
<i>Trading securities</i>	-	-	-	-	14,776,892	-	10,946,278	51,727	-	-	25,774,897
<i>Available-for-sale securities</i>	-	-	-	-	-	-	-	89	-	-	89
<i>Held-to-maturity securities</i>	-	-	-	-	131,970	-	-	-	-	-	131,970
Total securities	-	-	-	-	14,908,862	-	10,946,278	51,816	-	-	25,906,956
<i>Loans to corporate entities (gross)</i>	143,688,792	-	13,359,282	1,318,124	3,236,122	-	341,764	10,701,230	-	(341,764)	172,303,550
<i>Less impairment allowance</i>	(16,162,121)	-	(1,564,263)	(289,130)	-	-	-	(946,222)	-	-	(18,961,736)
Total loans to corporate entities	127,526,671	-	11,795,019	1,028,994	3,236,122	-	341,764	9,755,008	-	(341,764)	153,341,814
<i>Loans to individuals (gross)</i>	-	103,825,436	-	-	-	276,340	-	-	-	-	104,101,776
<i>Less impairment allowance</i>	-	(5,740,073)	-	-	-	(153,245)	-	-	-	-	(5,893,318)
Total loans to individuals (net)	-	98,085,363	-	-	-	123,095	-	-	-	-	98,208,458
Total loans to customers (net)	127,526,671	98,085,363	11,795,019	1,028,994	3,236,122	123,095	341,764	9,755,008	-	(341,764)	251,550,272
Net investment in finance leases	-	-	-	23,582,963	-	-	-	-	-	-	23,582,963
Property and equipment	-	-	-	8,801	-	-	-	4,855,555	8,912,602	-	13,776,958
Other assets	6,084,746	3,478,857	175,780	5,044,121	499,257	97,130	3,233,110	51,723,090	-	(81,416)	70,254,675
Total assets	133,611,417	102,481,756	11,970,799	31,828,273	18,832,470	220,225	97,066,858	66,390,909	8,912,602	(2,084,130)	469,231,179
Liabilities											
Amounts due to credit institutions	907,624	8,143,029	-	-	1,213,068	1,388,807	30,966,662	13,593,175	-	-	56,212,365
<i>Current accounts of corporate clients</i>	33,887,661	-	30,860,440	-	-	414,692	376,307	2,170,061	-	(275,950)	67,433,211
<i>Time deposits of corporate clients</i>	68,109,223	-	3,546,907	-	-	37,482	2,790,963	6,518,500	-	(1,385,000)	79,618,075
Total amounts due to corporate clients	101,996,884	-	34,407,347	-	-	452,174	3,167,270	8,688,561	-	(1,660,950)	147,051,286
<i>Current accounts of individuals</i>	-	38,743,388	-	-	-	533,954	-	-	-	-	39,277,342
<i>Time deposits of individuals</i>	-	99,311,688	-	-	-	16,158,947	-	-	-	-	115,470,635
Total amounts due to individual clients	-	138,055,076	-	-	-	16,692,901	-	-	-	-	154,747,977
Total amounts due to customers	101,996,884	138,055,076	34,407,347	-	-	17,145,075	3,167,270	8,688,561	-	(1,660,950)	301,799,263
Promissory notes issued	2,138,951	53,714	110,182	-	-	-	6,575,000	209,296	-	-	9,087,143
Other borrowed funds	-	3,876,149	-	29,049,400	118,701	-	-	12,000,000	-	(423,180)	44,621,070
Other liabilities	1,810,355	1,425,675	313,820	1,630,203	2,574	133,063	869,715	606,403	525,935	-	7,317,743
Total liabilities	106,853,814	151,553,643	34,831,349	30,679,603	1,334,343	18,666,945	41,578,647	35,097,435	525,935	(2,084,130)	419,037,584

(Thousands of Russian Rubles)

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

	Corporate banking	Retail banking	Small business	Leasing	Investment banking	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Interest income											
Loans to customers	11,565,036	17,987,265	2,192,813	30,780	149,313	16,930	4,134	633,931	-	-	32,580,202
Net investment in finance leases	-	-	-	3,620,791	-	-	-	-	-	-	3,620,791
Amounts due from credit institutions	-	29,925	-	27,687	-	-	616,048	-	-	-	673,660
Transfer income	6,821,171	11,037,382	2,903,485	220,368	-	1,370,592	30,591,954	4,519,877	-	(57,464,829)	-
	18,386,207	29,054,572	5,096,298	3,899,626	149,313	1,387,522	31,212,136	5,153,808	-	(57,464,829)	36,874,653
Interest expense											
Amounts due to customers	(4,117,987)	(7,902,123)	(268,424)	-	-	(1,148,834)	(1,189)	(251,181)	-	-	(13,689,738)
Amounts due to credit institutions	(323,622)	(13,067)	-	-	(194,457)	(573)	(1,048,211)	(1,469,564)	-	-	(3,049,494)
Promissory notes issued	(69,634)	(2,508)	(3,652)	-	-	-	(454,171)	-	-	-	(529,965)
Other borrowed funds	(75)	(279,629)	(53)	(2,851,144)	-	-	-	(1,018,369)	-	-	(4,149,270)
Transfer expense	(10,048,535)	(11,934,250)	(1,347,508)	(275,110)	(906,920)	(19,785)	(29,359,700)	(2,648,895)	(924,126)	57,464,829	-
	(14,559,853)	(20,131,577)	(1,619,637)	(3,126,254)	(1,101,377)	(1,169,192)	(30,863,271)	(5,388,009)	(924,126)	57,464,829	(21,418,467)
Net interest income (expense)	3,826,354	8,922,995	3,476,661	773,372	(952,064)	218,330	348,865	(234,201)	(924,126)	-	15,456,186
Recovery of (charge for) impairment of interest earning assets and equity investments	407,470	(822,655)	419,526	(217,354)	-	(16,818)	118,045	(120,643)	-	-	(232,429)
Net interest income (expense) after (charge for) recovery of impairment of interest earning assets and equity investments	4,233,824	8,100,340	3,896,187	556,018	(952,064)	201,512	466,910	(354,844)	(924,126)	-	15,223,757
Fee and commission income	1,565,160	8,424,142	2,459,816	-	8,589	12,056	73,215	105,015	-	-	12,647,993
Fee and commission expense	(100,362)	(3,895,529)	(159,404)	(68,836)	(1,651)	(2,034)	(96,312)	(229,299)	-	-	(4,553,427)
Intersegment fee income	330,184	622,449	1,655	13,769	-	16,192	6,404	87,710	-	(1,078,363)	-
Intersegment fee expense	(98,307)	(640,044)	(62,534)	(4,994)	-	(3,964)	(245,043)	(23,477)	-	1,078,363	-
Net fee and commission income (expense)	1,696,675	4,511,018	2,239,533	(60,061)	6,938	22,250	(261,736)	(60,051)	-	-	8,094,566
Net gains (losses) from securities	-	-	-	49,428	1,975,386	-	370,235	(43,549)	-	-	2,351,500
Net gains (losses) from foreign currencies	138,705	314,417	102,876	(124,344)	-	297	886,488	-	-	-	1,318,439
Net gains from transactions with precious metals	322,910	303	-	-	-	-	-	-	-	-	323,213
Other (expense) income	(1,364,818)	(2,109,149)	(1,065,562)	(685,034)	(5,202)	2,387	(12,009)	(703,512)	1,535,556	(1,318,769)	(5,726,112)
	(903,203)	(1,794,429)	(962,686)	(759,950)	1,970,184	2,684	1,244,714	(747,061)	1,535,556	(1,318,769)	(1,732,960)
Personnel expenses	(1,126,613)	(2,784,503)	(789,706)	(658,047)	(48,298)	(155,494)	(119,728)	(93,422)	(6,998,409)	-	(12,774,220)
Administrative and operating expenses	(187,695)	(2,109,184)	(212,083)	(223,935)	(24,195)	(122,955)	(45,654)	(58,613)	(6,532,693)	1,318,769	(8,198,238)
Depreciation and amortisation	(46,636)	(180,865)	(46,785)	(4,562)	(1,550)	(7,168)	(5,090)	(2,651)	(813,269)	-	(1,108,576)
(Charge for) recovery of impairment of other assets	(176,591)	43,781	(78,113)	(25,956)	-	(1)	(72,581)	81,998	-	-	(227,463)
	(1,537,535)	(5,030,771)	(1,126,687)	(912,500)	(74,043)	(285,618)	(243,053)	(72,688)	(14,344,371)	1,318,769	(22,308,497)
Profit (loss) before income tax expense	3,489,761	5,786,158	4,046,347	(1,176,493)	951,015	(59,172)	1,206,835	(1,234,644)	(13,732,941)	-	(723,134)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	3,489,761	5,786,158	4,046,347	(1,176,493)	951,015	(59,172)	1,206,835	(1,234,644)	(13,732,941)	-	(723,134)
External revenue	13,130,196	26,441,332	4,652,629	3,728,686	2,133,288	28,986	1,063,632	695,397	-	-	51,874,146

(Thousands of Russian Rubles)

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

	Corporate banking	Retail banking	Small business	Leasing	Investment banking	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Interest income											
Loans to customers	13,053,450	13,119,161	1,567,706	22,621	119,376	27,789	3,011	990,958	-	-	28,904,072
Net investments in finance leases	-	-	-	4,639,228	-	-	-	-	-	-	4,639,228
Amounts due from credit institutions	-	15,761	-	7,682	-	-	639,142	-	-	-	662,585
Transfer income	7,115,444	9,700,866	2,173,872	74,990	-	1,205,629	31,109,513	5,034,782	-	(56,415,096)	-
	20,168,894	22,835,788	3,741,578	4,744,521	119,376	1,233,418	31,751,666	6,025,740	-	(56,415,096)	34,205,885
Interest expense											
Amounts due to customers	(4,088,760)	(6,836,040)	(93,215)	-	-	(952,336)	(46,695)	(50,849)	-	-	(12,067,895)
Amounts due to credit institutions	(34,621)	(11,905)	-	-	(48,196)	-	(1,707,461)	(1,376,258)	-	-	(3,178,441)
Promissory notes issued	(119,170)	(3,565)	(3,408)	-	-	-	(567,153)	(4,047)	-	-	(697,343)
Other borrowed funds	-	(164,361)	(337)	(2,233,389)	-	-	-	(574,540)	-	-	(2,972,627)
Transfer expense	(11,706,336)	(8,944,782)	(1,241,432)	(303,578)	(587,845)	(41,037)	(29,211,231)	(3,533,775)	(845,080)	56,415,096	-
	(15,948,887)	(15,960,653)	(1,338,392)	(2,536,967)	(636,041)	(993,373)	(31,532,540)	(5,539,469)	(845,080)	56,415,096	(18,916,306)
Net interest income (expense)	4,220,007	6,875,135	2,403,186	2,207,554	(516,665)	240,045	219,126	486,271	(845,080)	-	15,289,579
(Charge for) recovery of impairment of interest earning assets and equity investments	(2,668,121)	736,415	126,502	1,874	-	26,514	(144,190)	16,326	-	-	(1,904,680)
Net interest income (expense) after impairment of interest earning assets and equity investments	1,551,886	7,611,550	2,529,688	2,209,428	(516,665)	266,559	74,936	502,597	(845,080)	-	13,384,899
Fee and commission income	1,919,166	6,515,942	2,193,892	-	41,495	25,786	102,412	69,558	-	-	10,868,251
Fee and commission expense	(201,374)	(2,948,539)	(171,097)	(105,740)	(18,017)	(23,511)	(190,154)	(186,871)	-	-	(3,845,303)
Intersegment fee income	716,295	632,243	1,467	48,872	-	28,496	63,942	105,526	-	(1,596,841)	-
Intersegment fee expense	(474,229)	(584,151)	(99,138)	(19,812)	-	(4,375)	(366,240)	(48,896)	-	1,596,841	-
Net fee and commission income (expense)	1,959,858	3,615,495	1,925,124	(76,680)	23,478	26,396	(390,040)	(60,683)	-	-	7,022,948
Net gains from securities	-	-	-	56,015	1,743,549	-	1,263,913	286,990	-	-	3,350,467
Net gains from foreign currencies	211,530	398,852	71,199	138,820	-	477	104,043	78	-	-	924,999
Net gains from transactions with precious metals	254,647	6,883	-	-	-	-	-	-	-	-	261,530
Other (expense) income	(2,110,218)	(1,445,082)	(157,981)	(1,520,093)	(6,808)	(19,382)	(5,395)	308,278	1,610,606	(1,342,794)	(4,688,869)
	(1,644,041)	(1,039,347)	(86,782)	(1,325,258)	1,736,741	(18,905)	1,362,561	595,346	1,610,606	(1,342,794)	(151,873)
Personnel expenses	(1,205,089)	(2,905,581)	(904,045)	(724,122)	(59,222)	(162,497)	(211,955)	(132,097)	(6,930,086)	-	(13,234,694)
Administrative and operating expenses	(213,346)	(1,849,681)	(181,112)	(237,153)	(20,869)	(111,743)	(41,655)	(153,478)	(6,978,575)	1,342,794	(8,444,818)
Depreciation and amortisation	(52,551)	(149,203)	(46,415)	(5,453)	(1,619)	(6,415)	(4,926)	(3,167)	(569,961)	-	(839,710)
Recovery of (charge for) impairment of other assets	109,315	-	(1,000)	(1,332,153)	-	-	6	8,142	-	-	(1,215,690)
	(1,361,671)	(4,904,465)	(1,132,572)	(2,298,881)	(81,710)	(280,655)	(258,530)	(280,600)	(14,478,622)	1,342,794	(23,734,912)
Profit (loss) before income tax expense	506,032	5,283,233	3,235,458	(1,491,391)	1,161,844	(6,605)	788,927	756,660	(13,713,096)	-	(3,478,938)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	506,032	5,283,233	3,235,458	(1,491,391)	1,161,844	(6,605)	788,927	756,660	(13,713,096)	-	(3,478,938)
External revenue	14,972,616	19,650,864	3,761,598	4,725,546	1,904,420	53,575	2,008,478	1,347,506	-	-	48,424,603

*(Thousands of Russian Rubles)***5. Cash and cash equivalents**

Cash and cash equivalents as of December 31 comprise:

	<i>2013</i>	<i>2012</i>
Cash on hand	21,508,523	20,004,844
Current accounts with the CBR	12,150,918	14,006,602
Current accounts with credit institutions		
-OECD banks	14,547,167	5,210,951
-Other Russian banks	1,717,930	1,005,585
-Largest 30 Russian banks	676,885	1,254,344
-Other foreign banks	12,561	22,378
Time deposits with credit institutions up to 90 days		
-Other Russian banks	3,128,305	9,075,399
-OECD banks	1,282,862	12,321,262
-Other foreign banks	178,892	399,108
-Largest 30 Russian banks	801	6,047,004
Accounts with stock exchanges	237,387	188,228
Reverse repurchase agreements with credit and other finance institutions up to 90 days		
-Other Russian finance institutions	638,154	1,671,317
-Largest 30 Russian banks	-	1,492,085
-Other Russian banks	-	70,131
Time deposits with the CBR up to 90 days	-	4,301,056
Cash and cash equivalents	56,080,385	77,070,294

Corporate bonds and corporate shares (2012 - corporate bonds, corporate shares and OFZ) totalling RUB 701,694 (2012 – RUB 3,652,868) were pledged under reverse repurchase agreements.

As of December 31, 2013, the Bank has one client except CBR whose balances exceed 10% of the consolidated equity of the Bank (2012: no clients with balances exceeding 10% of the consolidated equity of the Bank). The gross value of the balances of this client as of December 31, 2013, equals to RUB 6,292,462 or 11.2% of cash and cash equivalents.

No cash and cash equivalents are past due or impaired.

6. Amounts due from credit institutions

Amounts due from credit institutions as of December 31 comprise:

	<i>2013</i>	<i>2012</i>
Time deposits with original maturity of more than 90 days or past due		
-Other Russian banks	953,018	2,635,951
-Largest 30 Russian banks	336,083	2,117,658
-Other foreign banks	239,178	1,211,908
-OECD banks	-	1,823,888
	1,528,279	7,789,405
Less allowance for impairment	(55,857)	(58,418)
Amounts due from credit institutions	1,472,422	7,730,987

As of December 31, 2013, the gross amount of past due amounts due from credit institutions is RUB 55,857 (2012 – RUB 58,418).

The movements in allowance for impairment of amounts due from credit institutions for the year ended December 31 are as follows:

	<i>2013</i>	<i>2012</i>
January 1	58,418	50,693
(Recovery) charge	(2,561)	7,725
December 31	55,857	58,418

*(Thousands of Russian Rubles)***7. Trading securities**

Trading securities as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Corporate promissory notes		
<i>Rated from BBB- to BBB+</i>	-	2,912,346
<i>Rated from BB- to BB+</i>	-	2,716,543
Trading securities	-	<u>5,628,889</u>

No trading securities were past due or impaired.

Ratings are based on the ratings from Standard and Poor's if they exist, otherwise, Fitch or Moody's equivalents are used.

8. Available-for-sale securities

Available-for-sale securities as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Corporate shares	20,174,478	20,260,258
Corporate Ruble bonds	7,259,119	9,652,659
<i>Rated from BBB- to BBB+</i>	5,097,133	6,892,821
<i>Rated from BB- to BB+</i>	96,951	1,890,464
<i>Rated below B+</i>	226,550	742,378
<i>Not rated</i>	1,838,485	126,996
Corporate Eurobonds	5,230,746	765,167
<i>Rated from BBB- to BBB+</i>	4,212,589	551,849
<i>Rated from BB- to BB+</i>	9,075	188,007
<i>Rated below B+</i>	1,009,082	25,311
Russian Government bonds	4,653,346	2,158,915
Units in closed unit investment funds	560,942	1,158,592
Government bonds of foreign countries	481,039	-
<i>Rated from AAA- to AAA+</i>	481,039	-
Share participation in limited liability companies and other equity investments	124,519	236,503
Municipal and government bonds	74,947	848,349
	<u>38,559,136</u>	<u>35,080,443</u>
Less allowance for impairment	(783,875)	(1,231,363)
Available-for-sale securities	<u>37,775,261</u>	<u>33,849,080</u>

Ratings are based on the ratings from Standard and Poor's if they exist, otherwise, Fitch or Moody's equivalents are used.

The 92.7% investment in OJSC "Holding Insurance Group Uralsib" ("IG") is accounted at cost of RUB 19,468,556 (2012 – 19,468,556) and is included in corporate shares above. The purpose of holding this investment is to facilitate a subsequent sale to a third party, which is expected to occur in one single transaction. The Bank entered into a series of agreements with a related party that effectively gives the related party the power to direct the relevant activities of IG, including the power to appoint and remove the majority of the Board of Directors. Accordingly, the Bank continues to account for this investment as "Available-for-sale securities".

To assess whether the Bank's investment in IG was impaired, management prepared a discounted cash flow analysis using the following assumptions:

- discount rate of 15.03% (2012 – 15.03%) - for discounting future cash flows of privately held investees
- net income growth rate – 3.5% (2012 – 3.5%)
- combined loss ratio – from 102.5% to 91.05% (2012 – from 103.4% to 90.96%).

As the result of the impairment testing, no impairment losses are recognised. The impairment analysis is most sensitive to the following factors:

- increase in discount rate by 100 b.p. would result in impairment of RUB 3,053,791
- decrease in net growth rate by 100 b.p. would result in impairment of RUB 1,178,991
- increase in combined loss by 100 b.p. would result in impairment of RUB 2,770,911.

The impact on the impairment amount of the investment in IG for each variables described above assumes that the other variables remain constant.

(Thousands of Russian Rubles)

The gross amount of impaired available-for-sale securities as of December 31, 2013 is RUB 908,210, for which a RUB 783,875 impairment allowance is created (2012 - RUB 1,496,781 and RUB 1,231,363, respectively).

The movements in allowance for impairment of available-for-sale securities for the year ended December 31 are as follows:

	<u>2013</u>	<u>2012</u>
January 1	1,231,363	1,903,183
Charge	85,543	118,421
Amounts written off	(533,031)	(790,241)
December 31	783,875	1,231,363

For the year ended December 31, 2013 the charge for impairment includes impairment on equity investments of RUB 3,002 and impairment on interest earning assets of RUB 82,541 (2012 - RUB 88,938 and RUB 29,483, respectively).

Transferred financial assets that are not derecognised in their entirety

The Bank has transactions to sell securities under repurchase agreements.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Bank recognises a financial liability for cash received as collateral included in amounts due to credit institutions (note 18). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

Transferred available-for-sale securities that are not derecognised in their entirety as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Carrying amount of available-for-sale securities	9,810,132	5,051,672
<i>Russian Government bonds</i>	4,149,760	315,959
<i>Corporate Ruble bonds</i>	3,901,858	4,663,539
<i>Corporate Eurobonds</i>	1,758,514	-
<i>Municipal bonds</i>	-	72,174
Carrying amount of associated financial liabilities (note 18)	9,312,495	4,260,534

9. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are not indicative of the credit risk.

The outstanding deals with derivative financial instruments as of December 31 are as follows:

	<u>2013</u>			<u>2012</u>		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair values</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Precious metals contracts						
Forwards and Swaps – foreign counterparties	2,099,521	3,514	41,031	4,339,587	56,243	65,624
Foreign exchange contracts						
Forwards and Swaps – domestic counterparties	2,303,336	18,823	-	5,755,044	6,850	9,791
Forwards and Swaps – foreign counterparties	-	-	-	230,889	-	1,107
Equity contracts						
Forwards – domestic counterparties	1,477,065	22,838	-	-	-	-
Total derivative assets/ liabilities	5,879,922	45,175	41,031	10,325,520	63,093	76,522

(Thousands of Russian Rubles)

10. Loans to customers

Loans to customers as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Loans to individuals, gross	131,107,534	106,344,066
Less allowance for loan impairment	(6,570,812)	(5,901,360)
Loans to individuals, net	<u>124,536,722</u>	<u>100,442,706</u>
Loans to corporate entities, gross	106,896,695	156,733,217
Less allowance for loan impairment	(16,894,954)	(17,111,487)
Loans to corporate entities, net	<u>90,001,741</u>	<u>139,621,730</u>
Loans to small entities, gross	12,765,086	12,612,148
Less allowance for loan impairment	(1,085,933)	(1,513,178)
Loans to small entities, net	<u>11,679,153</u>	<u>11,098,970</u>
Total loans to customers	<u>226,217,616</u>	<u>251,163,406</u>

Loans to customers by classes as of December 31 are presented below:

	<u>2013</u>	<u>2012</u>
Loans to individuals:		
Residential mortgages	45,101,797	42,174,376
Consumer lending	42,666,486	28,612,049
Auto loans	28,876,690	22,961,403
Credit cards	10,586,404	6,788,826
Other loans to individuals	3,876,157	5,807,412
Loans to corporate entities	106,896,695	156,733,217
Loans to small entities	12,765,086	12,612,148
Gross loans to customers	<u>250,769,315</u>	<u>275,689,431</u>
Less allowance for loan impairment	(24,551,699)	(24,526,025)
Loans to customers	<u>226,217,616</u>	<u>251,163,406</u>

A reconciliation of the allowance for impairment of loans to customers by classes for the years ended December 31 is as follows:

	<i>Residential mortgages</i>	<i>Consumer lending</i>	<i>Auto loans</i>	<i>Credit cards</i>	<i>Other loans to individuals</i>	<i>Corporate lending</i>	<i>Loans to small entities</i>	<i>Total</i>
At January 1, 2013	2,164,730	1,532,021	586,293	326,549	1,291,767	17,111,487	1,513,178	24,526,025
(Recovery) charge	(157,212)	1,004,343	317,050	642,375	109,176	1,822,739	44,130	3,782,601
Amounts written off	(166,078)	(541,555)	(156,659)	(102,862)	(279,126)	(2,039,272)	(471,375)	(3,756,927)
At December 31, 2013	<u>1,841,440</u>	<u>1,994,809</u>	<u>746,684</u>	<u>866,062</u>	<u>1,121,817</u>	<u>16,894,954</u>	<u>1,085,933</u>	<u>24,551,699</u>
	<i>Residential mortgages</i>	<i>Consumer lending</i>	<i>Auto loans</i>	<i>Credit cards</i>	<i>Other loans to individuals</i>	<i>Corporate lending</i>	<i>Loans to small entities</i>	<i>Total</i>
At January 1, 2012	2,626,906	1,808,209	853,369	285,473	1,140,000	16,800,331	1,531,620	25,045,908
(Recovery) charge	(462,176)	168,970	59,384	164,622	228,761	4,036,820	104,868	4,301,249
Amounts written off	-	(445,158)	(326,460)	(123,546)	(76,994)	(3,725,664)	(123,310)	(4,821,132)
At December 31, 2012	<u>2,164,730</u>	<u>1,532,021</u>	<u>586,293</u>	<u>326,549</u>	<u>1,291,767</u>	<u>17,111,487</u>	<u>1,513,178</u>	<u>24,526,025</u>

(Thousands of Russian Rubles)

Key assumptions and judgements for estimating the loan impairment

The Bank estimates loan impairment for loans to individuals based on its internal model which takes into account historical loss experience on probability of default and loss given default. Management does not take into account the value of collateral when estimating the loan impairment allowance.

In determining the impairment allowance for loans to individuals, management makes the following key assumptions:

- loss given default rates vary from 30.69% to 71.69% depending on the risk profile of the portfolio
- probability of default varies from 0.1% to 100.0%.

Changes in these estimates could affect the loan impairment allowance on loans to individuals. For example, to the extent that the net present value of the estimated cash flows differs by plus/ minus one percent, the allowance for impairment on loans to individuals as of December 31, 2013 would be RUB 1,245,367 (2012 – RUB 1,004,427) lower/ higher.

The Bank estimates loan impairment for impaired loans to corporate entities with gross loan amount RUB 30,000 and more based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay of from 12 to 24 months in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset.

The Bank estimates loan impairment for impaired loans to corporate entities with gross loan amount less than RUB 30,000 and loans to corporate entities for which no evidence of impairment has been identified based on its internal model which takes into account historical loss experience of probability of default and loss given default.

In determining the impairment allowance for loans to corporate entities, management makes the following key assumptions which are updated annually based on an analysis of the most recent internal statistics:

- loss given default rate equals 59.25%
- probability of default varies from 0.16% to 100.0%.

The Bank estimates loan impairment for loans to small entities ("SE") based on its internal model which takes into account historical loss experience of probability of default and loss given default.

In determining the impairment allowance for loans to SE, management makes the following key assumptions:

- loss given default rate equals 48.55 %
- probability of default varies from 0.17% to 100.0%
- probability of default for overdue loans varies from 56.60% to 83.62%.

Changes in these estimates could effect the loan impairment allowance on loans to corporate entities and loans to SE. For example, to the extent that the net present value of the estimated cash flows differs by plus/ minus one percent, the allowance for impairment on loans to corporate customers as of December 31, 2013 would be RUB 900,017 (2012 – RUB 1,396,217) lower/ higher and the allowance for impairment on loans to SE as of December 31, 2013 would be RUB 116,792 (2012 - RUB 110,990) lower/ higher.

Concentration of loans to customers

As of December 31, 2013, the Bank has a concentration of loans totalling RUB 21,449,756 due from the ten largest third party borrowers (9% of gross loan portfolio) (2012 – RUB 30,684,544 or 11%). An allowance for impairment of RUB 6,524,544 (2012 – RUB 2,926,831) is recognised against these loans.

Loans to customers as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Loans to customers	243,865,188	267,213,581
Overdrafts	5,657,722	6,138,461
Loans granted under reverse repurchase agreements	1,075,584	2,160,015
Promissory notes	170,000	176,646
Factoring	821	728
	<u>250,769,315</u>	<u>275,689,431</u>
Less allowance for loan impairment	<u>(24,551,699)</u>	<u>(24,526,025)</u>
Loans to customers	<u>226,217,616</u>	<u>251,163,406</u>

*(Thousands of Russian Rubles)***Reverse repurchase agreements**

As of December 31, 2013, loans granted under reverse repurchase agreements include RUB 1,075,584 (2012 – RUB 2,160,015) placed with related parties. The fair value of corporate shares pledged under these reverse repurchase agreements is equal to RUB 1,311,674 (2012 – RUB 2,815,867).

Loans are made principally within Russia as of December 31 in the following industry sectors:

	<i>2013</i>	<i>2012</i>
Individuals	131,107,534	106,344,066
Trading enterprises	54,165,101	76,558,025
Construction and transactions with real estate	17,951,993	25,890,613
Manufacturing	8,310,336	11,668,677
Food processing	7,655,681	10,915,660
Gold mining	5,682,406	6,198,606
Financial services, other than credit institutions	5,293,754	5,454,010
Metallurgy	5,245,705	5,771,479
Transport	3,650,790	5,558,453
Forest industry	1,779,623	2,138,355
Services	1,690,713	1,879,867
Oil and gas	1,546,537	5,517,355
Machine-building	1,315,698	1,563,515
Agriculture	958,124	1,654,321
Chemical	404,495	1,294,609
Light industry	382,403	479,325
Telecommunication	85,461	108,484
Energy	79,543	1,260,362
Other	3,463,418	5,433,649
Total loans to customers, gross	250,769,315	275,689,431

Reclassification of comparative information

During 2013 the Bank reconsidered the classification of the certain corporate borrowers between the industry sectors. Comparative information has been reclassified to conform to changes in presentation in the current period. The effect of these changes in presentation as of December 31, 2012 is as follows:

	As previously reported	Reclassification	Reclassified
Loans to corporate entities, gross			
Trading enterprises	76,180,628	377,397	76,558,025
Construction and transactions with real estate	26,428,501	(537,888)	25,890,613
Manufacturing	14,190,239	(2,521,562)	11,668,677
Food processing	10,364,867	550,793	10,915,660
Metallurgy	3,640,219	2,131,260	5,771,479

Securitisation

As of December 31, 2013, the Bank has a portfolio of residential mortgage loans of RUB 3,389,603 (2012 – RUB 4,545,127) that was transferred to MA-1, a special purpose entity established for the purposes of raising finance. As of December 31, 2013 these loans are pledged under mortgage backed securities with the carrying amount of RUB 2,812,560 issued by MA-1 (2012 – RUB 3,947,567) (note 21).

11. Net investments in finance leases

Net investments in finance leases as of December 31 comprise:

	<i>2013</i>	<i>2012</i>
Gross investments in finance leases	22,591,210	23,734,274
Less unearned finance lease income	(5,333,920)	(6,032,408)
	17,257,290	17,701,866
Less allowance for impairment	(802,967)	(653,530)
Net investments in finance leases	16,454,323	17,048,336

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

(Thousands of Russian Rubles)

There is no residual value related to lease contracts existing as of December 31, 2013 and 2012. Future minimum lease payments to be received following December 31 are disclosed below:

	<u>2013</u>	<u>2012</u>
Within 1 year	8,292,490	7,652,696
From 1 to 5 years	14,298,717	15,682,721
More than 5 years	3	398,857
Minimum lease payments receivable	<u>22,591,210</u>	<u>23,734,274</u>

Gross investment in leases as of December 31 is payable in the following currencies:

	<u>2013</u>	<u>2012</u>
RUB	21,283,228	21,007,438
USD	429,297	1,703,143
EUR	878,685	1,023,693
Gross investments in finance leases	<u>22,591,210</u>	<u>23,734,274</u>

The movements in allowance for impairment of investments in finance leases for the year ended December 31 are as follows:

	<u>2013</u>	<u>2012</u>
January 1	653,530	1,134,800
Charge (recovery)	211,095	(92,696)
Amounts written off	(61,658)	(388,574)
December 31	<u>802,967</u>	<u>653,530</u>

As of December 31, 2013, the Bank has one lessee (2012 – one lessee), whose net investment in finance leases balances exceed 10% of total net investment in finance leases. The gross value of its net investment in finance leases as of December 31, 2013 is RUB 7,022,379 (2012 – RUB 7,097,056).

Key assumptions and judgements for estimating the impairment of net investments in finance leases

The Bank estimates impairment for impaired net investments in finance leases based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay of up 18 months in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset.

The Bank estimates impairment for net investments in finance leases to corporate entities for which no evidence of impairment has been identified based on its internal model which takes into account historical loss experience on probability of default and loss given default.

In determining the impairment allowance for investments in finance leases to corporate entities management makes the following key assumptions:

- loss given default rate equals 34.99% (2012 – 38.10%)
- probability of default varies from 0.32% to 100.0%.

The Bank estimates impairment for net investment in finance leases to small and medium entities ("SME") based on its internal model which takes into account historical loss experience on probability of default and loss given default.

In determining the impairment allowance for net investment in finance leases to SME, management makes the following key assumptions:

- loss given default rates vary from 55.61% to 85.06% depending on the risk profile of a portfolio
- probability of default varies from 0.2% to 100.0%.

Changes in these estimates could affect the impairment allowance for net investments in finance leases. For example, to the extent that the net present value of the estimated cash flows differs by plus/ minus one percent, the impairment allowance for net investments in finance leases as of December, 31 2013 would be RUB 164,543 (2012 – RUB 170,483) lower/ higher.

12. Investment property

Investment property mainly comprises retail trade premises, completed residential apartments, residential buildings under construction and land. The majority of the investment property is located in Moscow and the Moscow region, while the rest is situated throughout other regions of the Russian Federation.

The Bank rents trade premises to third parties under operating lease arrangements. During 2013, the Bank received RUB 377,681 of rental income from investment properties (2012 – RUB 356,803).

(Thousands of Russian Rubles)

Fair value of the investment property is categorized into Level 3 of the fair value hierarchy and was valued:

- by independent appraisers who hold recognised and relevant professional qualifications and who have recent experience in valuation of assets of similar location and category
- or based on the Bank's internal valuation methodology.

The appraisals were performed using the income capitalisation and market approaches. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/ or offers of similar premises. The final fair value is calculated based on an integrated analysis of both approaches or based on the income capitalisation approach only when there is a lack of statistics on comparable sales.

Residential and commercial property

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

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses
- vacancy losses as a percentage of potential gross rent income are estimated in a range from 2.0% to 5.3%
- capitalisation rates of 10.32% to 13.69% are applied to capitalise net income for the base year
- premises maintenance and general administrative expenses are estimated to range from 10.0% to 15.0% of effective gross rental income.

Land located in Moscow

A capitalisation rate of 20.0% to capitalise net income for the base year is used in applying the income capitalisation approach.

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

Land located in the Moscow region

Land located in the Moscow region is internally valued based on the market approach.

Changes in the estimates presented above could affect the estimate of fair value of the investment property. For example, to the extent that the net present value of the estimated cash flows differs by plus/ minus three percent, the estimate of fair value of the investment property as of December 31, 2013 would be RUB 587,422 higher/ lower (2012 – RUB 662,111 higher/ lower). The movements in fair value of investment property for the year ended December 31, 2013 are as follows:

	Residential and commercial property	Land	Total
January 1, 2013	10,846,301	11,224,072	22,070,373
Property obtained from foreclosed collateral on loans to customers	277,785	-	277,785
Net (losses) gains from revaluation and disposal	(584,970)	1,466,197	881,227
Transfer to property and equipment	(1,392,118)	-	(1,392,118)
Transfer to other assets - inventories	(7,517)	-	(7,517)
Transfer to other assets - other	(443,742)	-	(443,742)
Disposals	(1,793,059)	(12,225)	(1,805,284)
December 31, 2013	6,902,680	12,678,044	19,580,724

The movements in fair value of investment property for the year ended December 31, 2012 are as follows:

	Residential and commercial property	Land	Total
January 1, 2012	11,350,853	9,512,182	20,863,035
Acquisitions	627,888	101,695	729,583
Construction costs	-	58,563	58,563
Net gains from revaluation and disposal	67,205	557,852	625,057
Revaluation of land acquired from a related party at a price below its fair value	-	993,780	993,780
Transfer to property and equipment	(324,055)	-	(324,055)
Disposals	(875,590)	-	(875,590)
December 31, 2012	10,846,301	11,224,072	22,070,373

(Thousands of Russian Rubles)

Net gains from revaluation and disposal of investment property of RUB 881,227 (2012 – RUB 625,057) include unrealised revaluation gain of RUB 897,164 (2012 – gain of RUB 630,397) and realised loss from disposal of RUB 15,937 (2012 – loss of RUB 5,340).

13. Property and equipment

The movements in property and equipment for the year ended December 31 are as follows:

	<i>Land and buildings</i>	<i>Furniture, computers, office equipment, motor vehicles, railway wagons and boiler equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Cost or revalued amount				
December 31, 2011	9,475,132	6,030,365	167,200	15,672,697
Assets repossessed under terminated finance lease contracts	-	147,894	-	147,894
Additions	4,096	761,749	301,438	1,067,283
Disposals	(26,017)	(1,062,453)	(238,442)	(1,326,912)
Netting of accumulated depreciation due to revaluation	(207,705)	-	-	(207,705)
Revaluation	263,684	-	-	263,684
Transfers from assets under construction	78,809	8,452	(87,261)	-
Transfers from investment property	324,055	-	-	324,055
Transfers to net investments in finance leases	-	(83,559)	-	(83,559)
December 31, 2012	9,912,054	5,802,448	142,935	15,857,437
Additions	5,651	410,848	149,174	565,673
Disposals	(42,132)	(338,394)	(122,402)	(502,928)
Netting of accumulated depreciation due to revaluation	(226,244)	-	-	(226,244)
Revaluation	113,944	-	-	113,944
Transfers from assets under construction	-	66,268	(66,268)	-
Transfers from investment property	1,392,118	-	-	1,392,118
Transfer to other assets – inventory in transit	(60,521)	-	-	(60,521)
Transfers to net investments in finance leases	-	(28,814)	-	(28,814)
December 31, 2013	11,094,870	5,912,356	103,439	17,110,665
Accumulated depreciation				
December 31, 2011	-	3,575,907	-	3,575,907
Charge for the year	207,783	678,972	-	886,755
Disposals	(78)	(492,135)	-	(492,213)
Netting of accumulated depreciation due to revaluation	(207,705)	-	-	(207,705)
Transfers to net investments in finance leases	-	(5,849)	-	(5,849)
December 31, 2012	-	3,756,895	-	3,756,895
Charge for the year	226,394	614,214	-	840,608
Disposals	(150)	(335,017)	-	(335,167)
Transfers to net investments in finance leases	-	(2,593)	-	(2,593)
Netting of accumulated depreciation due to revaluation	(226,244)	-	-	(226,244)
December 31, 2013	-	4,033,499	-	4,033,499
Net book value				
December 31, 2011	9,475,132	2,454,458	167,200	12,096,790
December 31, 2012	9,912,054	2,045,553	142,935	12,100,542
December 31, 2013	11,094,870	1,878,857	103,439	13,077,166

Buildings were independently valued as of December 31, 2013. The fair values of buildings are categorized into Level 3 of the fair value hierarchy. The valuation was carried out by an independent firm of appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

(Thousands of Russian Rubles)

The appraisals are performed using the income capitalisation and market approaches.

The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales of similar buildings. The final fair value was calculated based on integrated analysis of both approaches.

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

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses
- collection losses as a percentage of potential gross rent income are estimated to range up to 2.0%
- vacancy losses as a percentage of potential gross rent income are estimated to range from 3.0% to 20.0%
- buildings maintenance and general administrative expenses are estimated to range from 10.0% to 30.0% of effective gross rent income
- capitalisation rates of 9.4% to 12.4% are applied to capitalise net income for base year.

The revaluation of buildings for the year ended December 31, 2013 includes positive revaluation of RUB 111,514 (2012 – RUB 304,491) recorded in other comprehensive income and positive revaluation of RUB 2,430 recorded in other income in the consolidated income statement (2012 – negative revaluation of RUB 40,807 recorded in administrative and operating expenses in the consolidated income statement).

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information. Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/ minus five percent, the building valuation as of December 31, 2013 would be RUB 554,744 higher/ lower (2012 - RUB 495,603).

If the buildings are measured using the cost model, the carrying amounts would be as follows:

	<u>2013</u>	<u>2012</u>
Cost	10,595,801	9,090,389
Less accumulated depreciation	(1,626,520)	(1,430,620)
Net historical cost	<u>8,969,281</u>	<u>7,659,769</u>

14. Goodwill

Goodwill as of December 31 relates to:

	<u>2013</u>	<u>2012</u>
URALSIB Banking Group	1,897,848	1,897,848
OJSC "AVTOBANK-NIKOIL"	2,629,558	2,629,558
Goodwill	<u>4,527,406</u>	<u>4,527,406</u>

Impairment testing

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- corporate banking – RUB 3,607,218
- retail banking – RUB 920,188.

Key assumptions used in value in use calculations

No impairment of goodwill with indefinite life is identified as a result of impairment testing.

The recoverable amounts of each of the cash-generating units are determined based on a "value in use" calculation. The cash flow projections are based on the financial budgets which cover a five year period and factor in the current macroeconomic condition. The cash flows beyond the five year period are extrapolated based on the profit earned during the fifth year.

The cash flows for both the corporate and retail banking units are most sensitive to the following assumptions: interest margins and discount rates.

*(Thousands of Russian Rubles)***Interest margins**

The strategy implies that effective interest rates on placed funds will rise by 1.4 b.p. in the medium-term of five years due to extension of lending terms and increase in share of highly marginal credit products. The strategy also implies that effective interest rates on raised funds will decline by 0.5 b.p. over a five year period as the Bank is expected to re-aimed its activities in a larger scale to payroll products and cash and settlement transaction services to SME.

Discount rates

The discount rate is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The effective discount rate applied to cash flow projections is based on the Weighted Average Cost of Capital methodology, taking into account the inflation rate as the beginning of the forecasted period and is equal to 15.48%.

Sensitivity to changes in assumptions

Unfavorable changes in the above key assumptions within a reasonable range will not result in impairment of goodwill.

15. Taxation

The corporate income tax expense for the year ended December 31 comprises:

	<u>2013</u>	<u>2012</u>
Current tax		
Current year	(387,145)	(489,238)
Deferred tax		
Origination and reversal of temporary differences	(148,633)	472,305
Total income tax expense	<u>(535,778)</u>	<u>(16,933)</u>

The Bank is liable for current profit tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 20% (2012 – 20%). Pursuant to Russian profits tax law interest income on certain types of securities is subject to income tax at a rate of 15% and 9%. At December 31, 2013 the rate of tax applicable for deferred taxes is 20% (2012 – 20%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax benefit based on statutory rates with actual (expense) benefit for the year ended December 31 is as follows:

	<u>2013</u>		<u>2012</u>	
	<u>(1,055,816)</u>	<u>%</u>	<u>(4,357,704)</u>	<u>%</u>
Loss before income tax expense				
Income tax benefit at the applicable tax rate	211,163	20%	871,541	20%
Unrecognised deferred tax asset	(464,584)	(44%)	(557,000)	(13%)
Non-deductible costs	(298,131)	(28%)	(345,978)	(7%)
Income taxed at different tax rates	15,774	1%	14,504	-
	<u>(535,778)</u>	<u>(51%)</u>	<u>(16,933)</u>	<u>-</u>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of December 31, 2013 and 2012.

(Thousands of Russian Rubles)

Tax loss carry-forwards, which expire on December 31, 2018, December 31, 2022 and December 31, 2023 in the amounts of RUB 16,934, RUB 79,943 and RUB 73,806, respectively, and the other deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values as of December 31:

	<i>Assets</i>		<i>Liabilities</i>		<i>Net</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Amounts to/ due from credit institutions	5,355	21,398	-	-	5,355	21,398
Trading securities	-	21,649	-	-	-	21,649
Available-for-sale securities	566,621	629,108	-	-	566,621	629,108
Held-to-maturity securities	-	-	2,052	815	(2,052)	(815)
Loans to customers	3,462,432	2,924,613	-	-	3,462,432	2,924,613
Net investment in finance leases	870,052	790,419	-	-	870,052	790,419
Property and equipment	-	-	930,648	963,483	(930,648)	(963,483)
Other assets including investment property	563,874	828,016	-	-	563,874	828,016
Promissory notes issued	49,141	60,434	-	-	49,141	60,434
Other borrowed funds	-	-	42,011	41,592	(42,011)	(41,592)
Other liabilities	180,643	194,675	-	-	180,643	194,675
Tax loss carry-forwards	170,683	96,877	-	-	170,683	96,877
Unrecognised deferred tax asset	(1,021,584)	(557,000)	-	-	(1,021,584)	(557,000)
Net deferred tax assets	4,847,217	5,010,189	974,711	1,005,890	3,872,506	4,004,299

Deferred tax assets are included in other assets in the consolidated statement of financial position.

A deferred tax asset is recognised for the deductible temporary differences to the extent that management believes that taxable profit will be available against which these deductible temporary differences can be utilised.

Unrecognised deferred tax asset relates mostly to the deductible temporary differences of LG.

Movement in temporary differences during the year ended December 31, 2013 are as follows:

	<i>1 January</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>31 December</i>
Amounts due from/ to credit institutions	21,398	(16,043)	-	5,355
Trading securities	21,649	(21,649)	-	-
Available-for-sale securities	629,108	(100,619)	38,132	566,621
Held-to-maturity securities	(815)	(1,237)	-	(2,052)
Loans to customers	2,924,613	537,819	-	3,462,432
Net investment in finance leases	790,419	79,633	-	870,052
Property and equipment	(963,483)	54,127	(21,292)	(930,648)
Other assets including investment property	828,016	(264,142)	-	563,874
Promissory notes issued	60,434	(11,293)	-	49,141
Other borrowed funds	(41,592)	(419)	-	(42,011)
Other liabilities	194,675	(14,032)	-	180,643
Tax loss carry-forwards	96,877	73,806	-	170,683
Unrecognised deferred tax asset	(557,000)	(464,584)	-	(1,021,584)
	4,004,299	(148,633)	16,840	3,872,506

(Thousands of Russian Rubles)

Movement in temporary differences during the year ended December 31, 2012 are as follows:

	<i>1 January</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>31 December</i>
Amounts due from/ to credit institutions	8,042	13,356	-	21,398
Trading securities	(5,864)	27,513	-	21,649
Available-for-sale securities	425,097	159,359	44,652	629,108
Held-to-maturity securities	(242)	(573)	-	(815)
Loans to customers	2,639,966	284,647	-	2,924,613
Net investment in finance leases	463,226	327,193	-	790,419
Property and equipment	(883,177)	(23,160)	(57,146)	(963,483)
Other assets including investment property	933,165	93,607	(198,756)	828,016
Promissory notes issued	25,205	35,229	-	60,434
Other borrowed funds	(34,272)	(7,320)	-	(41,592)
Other liabilities	155,164	39,511	-	194,675
Tax loss carry-forwards	16,934	79,943	-	96,877
Unrecognised deferred tax asset	-	(557,000)	-	(557,000)
	<u>3,743,244</u>	<u>472,305</u>	<u>(211,250)</u>	<u>4,004,299</u>

16. Other assets and liabilities

Other assets as of December 31 comprise:

	<i>2013</i>	<i>2012</i>
Other financial assets		
Trade debtors on transactions with securities and promissory notes	1,709,633	1,435,301
Settlements under sale-purchase agreements	710,800	865,409
Settlements on transactions with investment property	672,108	323,732
Settlements due from terminated lease contracts	223,999	264,677
Settlements on cession contracts	61,804	133,532
Other	2,752,031	2,141,276
	<u>6,130,375</u>	<u>5,163,927</u>
Less allowance for impairment of other financial assets	(2,501,603)	(2,614,064)
Total other financial assets	<u>3,628,772</u>	<u>2,549,863</u>
Other non-financial assets		
Deferred tax assets (note 15)	3,872,506	4,004,299
Intangible assets, net	2,519,526	2,144,742
Other prepaid taxes	1,615,854	2,297,454
Inventory in transit	1,356,334	2,027,819
Prepayments	1,171,731	1,104,224
Bullions	948,156	1,002,761
Current income tax assets	712,971	484,592
Investments in associate (note 17)	293,220	270,842
Other	89,864	20,757
	<u>12,580,162</u>	<u>13,357,490</u>
Less allowance for impairment of other non-financial assets	(1,055,284)	(1,060,502)
Total other non-financial assets	<u>11,524,878</u>	<u>12,296,988</u>
Total other assets	<u>15,153,650</u>	<u>14,846,851</u>

(Thousands of Russian Rubles)

The movements in intangible assets for the year ended December 31 are as follows:

	Cost	Accumulated amortisation	Net book value
December 31, 2011	2,980,709	(1,014,185)	1,966,524
Additions	619,288	(326,618)	292,670
Disposals	(114,624)	172	(114,452)
December 31, 2012	3,485,373	(1,340,631)	2,144,742
Additions	654,634	(243,622)	411,012
Disposals	(132,251)	96,023	(36,228)
December 31, 2013	4,007,756	(1,488,230)	2,519,526

Inventory in transit is generally represented by inventory from foreclosed collateral from delinquent lessees and borrowers under terminated non-performing finance lease contracts and loans. The approaches used to assess the net realisable value for the different types of inventories are as follows:

- large equipment is valued by adjusting cost for indexation and usage
- small equipment and real estate are valued based on an analysis of the results of comparable sales of similar assets.

Other prepaid taxes include RUB 1,272,565 (2012 – RUB 1,914,978) recorded in the financial statements of LG and represent excess input VAT over the output VAT. In accordance with tax legislation excess input VAT is subject to recovery either through offset against output VAT or cash refund. The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Upon the expiration of the three month period the remainder of input VAT that was not offset by the tax authorities is to be refunded to the taxpayer in cash upon its written claim, or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

The movements in allowance for impairment of other assets for the year ended December 31 are as follows:

	2013	2012
January 1	3,674,566	2,959,311
Charge	229,090	1,319,060
Amounts written off	(346,769)	(603,805)
December 31	3,556,887	3,674,566

Other liabilities as of December 31 comprise:

	2013	2012
Other financial liabilities		
Trade creditors	957,214	907,971
Accrued compensation and bonuses	828,893	719,346
Settlements under sale-purchase agreements	758,570	693,298
Settlements under finance lease contracts	71,856	108,337
Dividend settlements	3,783	3,395
Other	470,580	329,653
Total other financial liabilities	3,090,896	2,762,000
Other non-financial liabilities		
Current income tax liability	246,572	3,124
Operating taxes	168,658	274,483
Accrued contribution under obligatory deposit insurance system	157,131	-
Total other non-financial liabilities	572,361	277,607
Total other liabilities	3,663,257	3,039,607

17. Investments in associate

The following associate is accounted for under the equity method:

Associate	Ownership / Voting, %		Country	Date of incorporation	Industry	Date of acquisition
	2013	2012				
OJSC "Bashprombank"	50.0%	48.5%	Russia	November 28, 1990	Banking	June 6, 2002

(Thousands of Russian Rubles)

Movement in investments in associate for the year ended December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Investments in associate, beginning of the year	270,842	233,690
Acquisition of investments in associate	6,639	10,680
Share of profit	15,739	26,472
Investments in associate	<u>293,220</u>	<u>270,842</u>

The following table illustrates summarised financial information as of December 31 and for the year then ended of the associate:

Aggregated assets and liabilities of associate	<u>2013</u>	<u>2012</u>
Assets	628,545	711,268
Liabilities	(218,111)	(332,687)
Net assets	<u>410,434</u>	<u>378,581</u>

Aggregated revenue and profit of associate	<u>2013</u>	<u>2012</u>
Revenue	74,725	90,688
Profit	31,853	54,581

18. Amounts due to credit institutions

The amounts due to credit institutions as of December 31 comprise:

	<u>2013</u>	<u>2012</u>
Time and demand deposits and loans	17,656,321	29,018,258
Repurchase agreements with the CBR	9,312,495	4,241,610
Current accounts	8,997,310	9,846,270
Subordinated loan	8,215,538	7,703,512
Time deposits and loans from the CBR	5,008,055	4,008,716
Syndicated loan	138,409	482,705
Repurchase agreements with credit organisations	-	18,924
Amounts due to credit institutions	<u>49,328,128</u>	<u>55,319,995</u>

During 2007, the Bank received a subordinated loan of USD 250 million from an OECD bank. The contractual maturity of the subordinated loan is 2017, and the interest rate is LIBOR plus 4.95 per cent during the first 5-year period and LIBOR plus 6.45 per cent after the first five year period.

As of December 31, 2013, the nominal amount of a syndicated loan comprises USD 4.3 million from OECD and Russian banks. The contractual maturity of the syndicated loan is 2015, and the interest rate is 6 month LIBOR plus 5.36 per cent.

19. Amounts due to customers

The amounts due to customers as of December 31 include the following:

	<u>2013</u>	<u>2012</u>
Time deposits	158,913,490	189,777,394
- Time deposits of corporate clients	43,640,759	72,969,523
- Time deposits of individuals	115,272,731	116,807,871
Current accounts	104,418,809	115,140,019
- Current accounts of corporate clients	66,253,704	76,165,752
- Current accounts of individuals	38,165,105	38,974,267
Amounts due to customers	<u>263,332,299</u>	<u>304,917,413</u>

As of December 31, 2013, amounts due to customers totalling RUB 12,189,497 or 5% are due to the ten largest third party customers (2012 - RUB 27,525,202 or 9%).

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits of individuals upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(Thousands of Russian Rubles)

Amounts due to customers include accounts with the following types of customers:

	<u>2013</u>	<u>2012</u>
Private enterprises	108,290,885	136,381,562
Individuals	149,124,595	151,041,606
Employees	4,313,241	4,740,532
State and budgetary organisations	1,603,578	12,753,713
Amounts due to customers	<u>263,332,299</u>	<u>304,917,413</u>

An analysis of customer accounts by economic sector is as follows:

	<u>2013</u>	<u>2012</u>
Individuals	153,437,836	155,782,138
Investment and finance	23,333,679	37,017,867
Trade and food processing	22,815,232	32,475,356
Real estate construction	19,016,442	18,829,490
Services	17,280,528	16,774,826
Production and manufacturing	9,830,698	11,877,204
Transport and communication	4,183,220	4,554,563
Chemical	1,770,274	1,272,676
Government bodies	1,603,578	12,753,713
Energy	790,045	1,279,482
Other	9,270,767	12,300,098
Amounts due to customers	<u>263,332,299</u>	<u>304,917,413</u>

20. Promissory notes

Promissory notes as of December 31 consist of the following:

	<u>2013</u>	<u>2012</u>
Promissory notes	4,986,423	9,660,077
Promissory notes	<u>4,986,423</u>	<u>9,660,077</u>

Promissory notes issued by the Bank as of December 31, 2013, bear annual interest rates ranging from 6.39% to 10.00% (2012 - from 1.51% to 14.55%).

21. Other borrowed funds

Other borrowed funds as of December 31 comprised the following:

	<u>2013</u>	<u>2012</u>
Bonds (LG)	12,532,568	10,491,570
Bonds (OJSC "URALSIB")	8,367,745	12,318,749
Subordinated deposit	5,880,181	5,881,745
Mortgage backed securities (MA-1)	2,812,560	3,947,567
Other borrowed funds	<u>29,593,054</u>	<u>32,639,631</u>

(Thousands of Russian Rubles)

Bonds issued comprise the following non-convertible documentary bonds:

<i>Issue date</i>	<i>Maturity date</i>	<i>Offer date</i>	<i>Issuer</i>	<i>Interest payments</i>	<i>Interest rate</i>	<i>Amount of issue</i>		<i>Carrying value</i>	
						<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
November 2010	October 2013	-	LG	quarterly	9.50%	-	1,000,800	-	1,015,938
March 2011	February 2014	-	LG	quarterly	9.50%	167,400	833,800	168,510	839,333
July 2011	July 2014	-	LG	quarterly	8.50%	750,900	1,750,500	760,105	1,783,237
January 2012	January 2015	-	LG	quarterly	11.50%	2,000,000	2,000,000	91,695	102,374
February 2012	February 2015	-	LG	quarterly	11.50%	1,250,700	2,250,300	1,265,622	2,282,697
February 2012	February 2015	-	LG	quarterly	11.50%	1,250,700	2,250,300	1,264,449	2,267,068
February 2012	February 2015	-	LG	quarterly	11.50%	1,500,000	1,500,000	89,413	101,235
March 2012	March 2017	September 2014	OJSC "URALSIB"	semi-annually	8.75%	1,145,296	5,000,000	1,147,037	5,113,451
April 2012	April 2015	-	LG	quarterly	11.00%	1,000,400	1,666,800	1,018,390	1,698,550
July 2012	October 2018	-	MA-1 OJSC	quarterly	8.75%	2,761,675	3,876,149	2,812,560	3,947,567
August 2012	August 2017	March 2014	OJSC "URALSIB"	semi-annually	9.70%	7,000,000	7,000,000	7,220,708	7,205,298
December 2012	December 2015	-	LG	quarterly	10.50%	2,000,000	2,000,000	102,530	200,569
December 2012	December 2015	-	LG	quarterly	10.50%	1,500,000	1,500,000	192,069	200,569
March 2013	March 2019	March 2016	LG	quarterly	10.25%	3,000,000	-	3,002,719	-
April 2013	April 2016	-	LG	quarterly	11.00%	1,666,800	-	1,547,138	-
November 2013	November 2016	-	LG	quarterly	11.50%	2,000,000	-	2,026,263	-
December 2013	December 2016	-	LG	quarterly	9.00%	1,000,000	-	1,003,665	-
								23,712,873	26,757,886

Bond issues of LG were partially purchased by the Bank and are eliminated in consolidation.

In September 2013 OJSC "URALSIB" partially repaid non-convertible documentary bonds issued in March 2012 under the terms of a tender offer with a nominal value of RUB 3,854,704.

In July 2012 MA-1 issued two tranches of mortgage backed securities with a nominal value of RUB 5,375,000. Tranche A securities with a nominal amount of RUB 4,300,000 have a coupon rate of 8.75% and mature in 2045. Tranche B securities with a nominal amount of RUB 1,075,000 have a floating coupon rate and mature in 2045. Tranche B securities were purchased by OJSC "URALSIB" and thus are not recognised in these consolidated financial statements. The ultimate maturity of mortgage backed securities may be different from the contractual due to earlier repayment of the underlying mortgage loans.

In November 2008 the Bank received a subordinated deposit of RUB 6,000,000 from OJSC "Regional fund". The contractual maturity of the subordinated deposit is 2019, and the effective interest rate is 16.63%. In case of bankruptcy, the repayment of the subordinate deposit will be made after repayment in full of all other liabilities of the Bank.

22. Equity

As of December 31, 2013, the number of ordinary shares in issue is 292,575,808,568 (2012 - 292,575,808,568). There were no movements in the share capital for the year ended December 31, 2013.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Parent from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with Russian Accounting Legislation.

The share capital of the Parent was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

23. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

*(Thousands of Russian Rubles)***Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

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

As of December 31, 2013, management believes that its interpretation of the relevant legislation is appropriate and that tax, currency and customs positions will be sustained.

As of December 31, commitments and contingencies comprise the following:

	<i>2013</i>	<i>2012</i>
Credit related commitments		
-Undrawn loan commitments		
Russian Federation companies	47,836,497	58,779,668
Total undrawn loan commitments	47,836,497	58,779,668
-Letters of credit		
Russian Federation companies	745,842	1,436,335
OECD companies	-	1,321,316
Other foreign companies	-	10,961
Total letters of credit	745,842	2,768,612
-Guarantees issued		
Russian Federation companies	23,572,969	40,970,476
OECD companies	-	10,643
Total guarantees issued	23,572,969	40,981,119
Total credit related commitments	72,155,308	102,529,399
Operating lease commitments		
Not later than 1 year	1,484,096	1,396,170
Later than 1 year but not later than 5 years	3,408,083	3,082,595
Later than 5 years	196,652	485,351
	5,088,831	4,964,116
Capital expenditure commitments	1,044,104	1,088,507
Commitments and contingencies	78,288,243	108,582,022

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. This type of liability insurance is generally not available in Russia at present.

*(Thousands of Russian Rubles)***24. Net fee and commission income**

Net fee and commission income for the year ended December 31 comprises:

	<u>2013</u>	<u>2012</u>
Fee and commission income		
Settlement transactions	7,240,398	6,027,011
Cash transactions	2,582,652	2,524,321
Guarantees and letters of credit	407,643	513,927
Foreign exchange transactions	346,645	355,249
Agent fees for insurance	66,347	69,701
Securities transactions	48,454	35,957
Other	117,128	61,399
Total fee and commission income	<u>10,809,267</u>	<u>9,587,565</u>
Fee and commission expense		
Settlement transactions	3,020,524	2,270,725
Cash transactions	675,029	651,616
Trust transactions	420,327	457,615
Collection agencies services	346,509	380,378
Guarantees	68,100	61,752
Securities transactions	26,217	51,965
Currency conversion transactions	13,136	19,652
Other	1,486	784
Total fee and commission expense	<u>4,571,328</u>	<u>3,894,487</u>
Net fee and commission income	<u>6,237,939</u>	<u>5,693,078</u>

Settlement commissions represent commissions received for transfer of customer funds and on other transactions with client accounts, the issue and processing of payments by cards and from other financial institutions on acquiring services. Commissions on cash transactions are received from clients for encashment transactions. Guarantees and letters of credit commissions represent payments received for origination of guarantees and letters of credit facilities by the Bank. Foreign exchange transactions commissions represent commissions charged for currency exchange transactions and currency control function performed by the Bank.

25. Net gains from operations with securities

	<u>2013</u>	<u>2012</u>
Equity investments	78,235	1,107,118
Corporate, municipal bonds, Russian Government bonds and government bonds of foreign countries	39,672	(70,125)
Other	4,356	(9,125)
Net gains from operations with securities	<u>122,263</u>	<u>1,027,868</u>

26. Net gains from foreign currencies

Gains less losses from foreign currencies for the year ended December 31 comprise:

	<u>2013</u>	<u>2012</u>
Dealing gains	849,015	2,646,108
Translation differences	751,195	(1,834,671)
Net gains from foreign currencies	<u>1,600,210</u>	<u>811,437</u>

27. Other income

Other income for the year ended December 31 comprises the following:

	<u>2013</u>	<u>2012</u>
Gain from sale of overdue lease contracts receivables	642,197	-
Rent income	621,642	582,787
Penalties	536,629	557,072
Brokerage	81,802	91,129
Dividend income	1,087	191,469
Other operating income	275,246	434,349
Other income	<u>2,158,603</u>	<u>1,856,806</u>

(Thousands of Russian Rubles)

In 2013 the Bank sold overdue lease receivables under terminated lease contracts for RUB 642,197 to a third party. The Bank received full payment in August 2013. The gain on sale was recognised as other operating income as these receivables were written off when lease contracts were terminated.

28. Personnel expenses, administrative and operating expenses

Personnel, administrative and operating expenses for the year ended December 31 comprise:

	<i>2013</i>	<i>2012</i>
Salaries and bonuses	10,183,641	9,741,525
Social security costs	2,383,614	2,242,764
Personnel expenses	12,567,255	11,984,289
Rental fees	1,819,413	1,740,715
Operating taxes	1,306,523	1,364,019
Repairs and maintenance of property and equipment	975,065	975,250
Professional services	745,822	837,998
Obligatory deposit insurance system contributions	618,185	570,049
Office materials	514,914	470,553
Security costs	388,932	381,760
Communications	375,549	390,455
Personnel training	363,071	268,250
Marketing and advertising	337,376	459,851
Business travel and related expenses	303,573	252,861
Business development	301,093	224,100
Data processing	290,630	372,774
Insurance	204,223	211,187
Expenses under leasing contracts	98,978	231,379
Charity	60,589	107,582
Other	466,386	573,867
Administrative and operating expenses	9,170,322	9,432,650

29. Risk management, corporate governance and internal control

Corporate governance framework

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

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the activities of OJSC "URALSIB".

Russian legislation and the charter of the OJSC "URALSIB" establish the lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

(Thousands of Russian Rubles)

As of December 31, 2013, the Supervisory Board includes:

Name	Position
Nikolay A. Tsvetkov	Chairman of the Supervisory Board, Chairman of OJSC "Financial Corporation URALSIB"
Ildar R. Muslimov	General Director OJSC "Financial Corporation URALSIB"
Mikhail Y. Molokovskiy	Deputy General Director OJSC "Financial Corporation URALSIB"
Denis I. Korobkov	Deputy General Director OJSC "Financial Corporation URALSIB"
Alexander S. Smirnov	First Vice President OJSC "Financial Corporation URALSIB"
Airat R. Gaskarov	Member of the Supervisory Board of Open Joint Stock Company "BANK URALSIB"
Douglas W. Gardner	Member of the Supervisory Board of Open Joint Stock Company "BANK URALSIB"
Ilkka S. Salonen	Chairman of the Management Board of Open Joint Stock Company "BANK URALSIB"
Natalia I. Zvereva	Advisor, Open Joint Stock Company "BANK URALSIB"

During the year ended December 31, 2013 the following changes occurred in composition of the Supervisory Board:

On May 21, 2013, annual shareholders meeting appointed the above stated Supervisory Board composition which resulted in:

- Shabalkina L.A. and Shmelev D.G. resigned from the Supervisory Board
- Smirnov A.S. and Gaskarov A.R. joined the Supervisory Board.

General activities of OJSC "URALSIB" are managed by the sole executive body, i.e. Chairman of the Management Board and the Management Board. The Supervisory Board elects the Chairman of the Management Board and determines the composition of the Management Board. The executive bodies of OJSC "URALSIB" are responsible for implementation of decisions of the general meeting of shareholders' and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general meeting of shareholders'.

As of December 31, 2013, the Management Board includes:

Name	Position
Ilkka S. Salonen	Chairman of the Management Board, CEO
Airat R. Gaskarov	Deputy Chairman of the Management Board
Alexei V. Sazonov	Deputy Chairman of the Management Board
Alexei V. Gonus	Deputy Chairman of the Management Board
Evgeny A. Guryev	Deputy Chairman of the Management Board
Ilia V. Filatov	Deputy Chairman of the Management Board
Svetlana B. Bastrykina	Member of the Management Board
Konstantin A. Kolpakov	Member of the Management Board
Anna B. Tregubenkova	Member of the Management Board.

During the year ended December 31, 2013 the following changes occurred in composition of the Management Board:

- 15.01.2013 – Kolpakov K.A. joined the Management Board
- 27.02.2013 – Petukhov Y.V. resigned from the Management Board
- 11.03.2013 – Gaskarov A.R. joined the Management Board
- 03.06.2013 – Plytnik L.E. resigned from the Management Board

(Thousands of Russian Rubles)

- 22.08.2013 - Tregubenkova A.B. joined the Management Board
- 28.10.2013 – Gonus A.V. joined the Management Board.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls of the Bank and periodically implements additional controls or modifies existing controls as considered necessary.

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and a system of automated controls is in place.

Compliance with OJSC "URALSIB" standards is supported by a program of periodic reviews undertaken by Internal Control Department and Internal Audit Department. The Internal Control Department and Internal Audit Department functions are independent from management and report directly to the Supervisory Board. The results of Internal Control Department and Internal Audit Department reviews are discussed with relevant business process managers. The summaries are submitted to the Audit Committee and the Supervisory Board and senior management.

The internal control system comprises:

- the Supervisory Board and its committees, including the Audit Committee
- the Chief Executive officer, i.e. Chairman of the Management Board, and the Management Board

(Thousands of Russian Rubles)

- the Chief Accountant
- the Risk Management Division
- Business Assistance Service
- IT-security function
- the human resource function
- the Internal Control Department
- the Internal Audit Department
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
 - heads of branches and business departments
 - managers of business processes
 - the Compliance Department responsible for compliance with anti-money laundering, terrorism finance regulations, compliance with anticorruption principles and requirements by employees and compliance with requirements to professional participants of the stock market
 - law specialists
 - other employees/ divisions responsible for control procedures.

Russian legislation, including Federal Law dated December 2, 1990 No 395-1 *On Banks and Banking Activity*, establishes the professional qualifications, business reputation and other requirements for members of the Supervisory Board, the Management Board, the Head of Internal Control Department and other key management personnel. All members of OJSC "URALSIB" governing and management bodies meet with these requirements.

Management believes that OJSC "URALSIB" complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Control Department, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

The Bank is exposed to credit risk, market risk and liquidity risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

In order to control the level of certain risks and to restrict its losses, the Bank has implemented an ongoing risk management process. The risk management system is based on an integrated approach to identification, measurement, choosing and realisation of measures to decrease risks, monitoring and controlling of risk. The Bank's risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Bank.

Risk management structure

Risk management governance is an integral part of the Bank's overall corporate governance:

The **Supervisory Board (Board of Directors)** performs supervisory functions and provides overall assurance over the risk management process.

The **Management Board** is responsible for defining the risk management strategy, approving risk management policies and procedures, segregating risk management functions between the Bank's committees and departments, and approving large exposures.

The Board determines the overall risk limits by types of risks and by business-segments and also sets risk limits for large exposures. The Board regularly analyses risk reports and, where necessary, reallocates risk limits to achieve target strategic risk profiles.

To make the risk management system more efficient, the Management Board delegates authority for setting specific risk limits to other committees, departments or personnel.

The **Assets and Liabilities Management Committee** ("the ALCO") is responsible for managing currency, interest rate and liquidity risks. The ALCO determines the strategy for the assets and liabilities structure, and its quantitative and qualitative features.

(Thousands of Russian Rubles)

The ALCO sets limits for liquidity gaps, open currency positions, interest rate risk exposures, exposures to market risk on operations with securities for the Bank as a whole and for its separate divisions. The ALCO determines principles and procedures for setting interest rates for funds placements and funding. The Chairman of the Management Board is in-charge of the ALCO.

Day-to-day management of currency, interest rate risk of assets and liabilities (except the securities portfolio) and liquidity risk as well as administration of the internal funds transfer pricing system is carried out by the **Treasury Department**. Day-to-day management of interest rate risk of the securities portfolio is carried out by the **Risk Management Division**.

The **Corporate Credit Committee** reviews loan applications and sets credit risk limits for corporate customers. The Committee functions are performed at both the head office and regional levels. The Corporate Credit Committee sets the methodology for credit process organization, including procedures for analysing, making and executing of decisions on granting loans to corporate entities. The Committee delegates its powers on loan decisions to a lower level of corporate governance and analyses reports on the quality of the corporate loan portfolio. The Head of the Committee is Member of the Management Board who is in charge of the Corporate banking business, the Deputy Head is the Head of the Risk Management Division.

The **Committee for Assets Quality Recovery** is responsible for problem assets credit risk management through setting of policies and procedures, approving large individual exposures and non-standard transactions aimed to enhance of loan portfolio quality, and day-to-day reviewing of the problem loan portfolio quality reports. The Senior Committee for Assets Quality Recovery is chaired by the member of the Management Board who is in charge of work on assets quality recovery with the Head of the Risk Management Division.

The **Retail Credit Committee** is responsible for setting retail and SB credit policies and procedures, approving large individual exposures and non-standard transactions and reviewing retail and SB portfolio risk reports on a regular basis. The Committee is chaired by the Member of the Management Board who is in charge of the Retail Banking business and co-chaired by the Head of the Risk Management Division. The Retail Credit Committee is authorized to set limits for issuing credit products to individuals and clients of the SB segment, and to amend terms of retail loan products.

The **Credit Committee for Money Markets and Capital Markets Transactions** sets risk limits for market domestic and foreign counterparties (banks, stock-exchanges, investment, brokerage and management companies), securities issuers (domestic and foreign) as well as country risk limits. The Committee is chaired by the Head of the Risk Management Division.

Members of Credit Committees from the Risk Management Division have the right to veto decisions by the Corporate Credit Committee, Retail Credit Committee and Credit Committee for Money Markets and Capital Markets Transactions.

The **Risk Management Division** is responsible for overall risk management process and reports directly to the Deputy Chairman of the Management Board supervising the risk management and compliance functions.

The risk management departments and units report directly to the Head of the Risk Management Division and are responsible for managing specific risks on a day-to-day basis. The **Corporate Risk Control Department** has risk officers at the head office and regional branches who review corporate loan applications, perform collateral valuation and monitoring, vote at the regional credit committees and act under the "four eyes" principle together with the loan officers of the Corporate Banking Division. The **Retail Risk Control Department** is responsible for developing underwriting policies and procedures for retail and SB banking, anti-fraud procedures, portfolio analysis and loan loss provisions. The **Aggregate Risk Control Department** is responsible for the methodology for corporate business credit risk management: development and maintenance of rating and scoring models and validation of market risk valuation model. The Department prepares reports on corporate credit, market and operational risk. The Department is also responsible for market risk management for transactions on financial markets.

The **Internal Control Department** performs internal control functions, reviews risk management policies and procedures, and reports its findings and recommendations to the Supervisory Board and senior management.

The **Internal Audit Department** assesses the effectiveness of the risk management system at both the Bank and individual business levels, and reports its findings and recommendations to the Supervisory Board's Audit Committee.

Credit risk

Credit risk is the risk that the Bank will incur losses as a result of its counterparties failing to fulfil their financial obligations in full or in part or when they fall due. The exposure to credit risk depends on amounts due and the unrecognised commitments that carry credit risk.

(Thousands of Russian Rubles)

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk concentrations arise when significant loans are granted to an individual counterparty (borrower) or to a group of related counterparties (borrowers) or in case when counterparties (borrowers) are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause them to be similarly affected by changes of the same economic factors.

Credit risk concentration by geographical regions as of December 31 is as follows:

	2013				2012			
	Russia	OECD	Other countries	Total	Russia	OECD	Other countries	Total
Assets								
Cash and cash equivalents	18,550,380	15,830,029	191,453	34,571,862	39,111,751	17,532,213	421,486	57,065,450
Amounts due from credit institutions	1,260,969	-	211,453	1,472,422	4,725,633	1,823,888	1,181,466	7,730,987
Trading securities	-	-	-	-	5,628,889	-	-	5,628,889
Available-for-sale securities	17,091,147	481,039	-	17,572,186	13,380,621	-	-	13,380,621
Held-to-maturity securities	44,715	-	-	44,715	122,336	-	-	122,336
Derivative financial assets	41,661	3,514	-	45,175	6,850	56,243	-	63,093
Loans to customers	226,217,616	-	-	226,217,616	251,163,406	-	-	251,163,406
Net investments in finance leases	16,454,323	-	-	16,454,323	17,048,336	-	-	17,048,336
Other financial assets	3,613,842	14,930	-	3,628,772	2,529,457	20,406	-	2,549,863
Total	283,274,653	16,329,512	402,906	300,007,071	333,717,279	19,432,750	1,602,952	354,752,981

The Bank's credit procedures are designed to make the credit approval process effective, depending on the credit risk level, by taking into consideration the specifics of different geographic regions, industries, business segments, groups of customers and types of credit products.

Financial markets transactions

The Risk Management Division is responsible for management of credit risk related to transactions on financial markets by setting limits on certain transactions and counterparties. Transactions on financial markets are authorised jointly within set limits.

Loans to large and medium corporate entities

Loan applications by corporate entities are handled by credit officers in the Corporate Lending Department, who analyse the applicant's business, determine the loan structure, and prepare a credit report for the Corporate Credit Committee. The credit report and application documents are then sent to the Corporate Risk Control Department which assesses the credit risk and the fair value of the collateral by applying the relevant methodology, and provides its own independent analysis of the proposed loan.

Loan approval depends on the amount and structure of the exposure and is made by either:

- a loan officer and a risk officer ("four-eyes" principle), or
- one of the Credit Committees, or
- the Management Board.

The subsequent monitoring of the loan is carried out by the Credit-Finance Transactions Department and the Corporate Risk Control Department, which administer an "early warning" system aimed at identifying signs of impairment, and take timely and effective measures to prevent further deterioration of loan quality or transfer the problem loan to the work-out unit for recovery.

A loan could be classified as a problem loan by the Credit Committee if:

- it is past due
- the borrower's financial position worsens
- value of collateral substantially decreases, or

(Thousands of Russian Rubles)

- there are other circumstances negatively affecting the borrower's ability to repay the loan.

Loans to small entities

Customer segmentation based on principle loan amount is applied in order to differentiate the approach to loan issue to SE: "micro" – up to RUB 5,000, "small" – up to RUB 40,000, "medium" – up to RUB 170,000. The credit officer collects and prepares documentation to review the financial position of customers and their businesses, determines the capability to grant credit within limits specified for a client or product and then transfers the credit application to the Business Assistance Service.

Credit applications of "micro" segment clients are submitted to an underwriter who checks loan parameters to the internal documents regulating loan issuing to SE and makes a final call on the credit application.

Credit applications of "small" and "medium" segment clients are analysed by the Collateral and Legal services and checked for completeness and relevance of data prepared by the Credit service. Subsequently a credit application is submitted to an underwriter who checks loan parameters to the internal documents and makes a preliminary decision on application approval. The final approval of credit applications of "small" segment clients are made by underwriter-controller or managers from the SE Line of Business or the Risk Management Division. Credit applications of "medium" segment clients are finally approved by the Retail Credit Committee.

The subsequent monitoring of loans is conducted by the Monitoring service.

Retail lending

Retail customers submit their loan applications to customer managers who collect and review all necessary documents for compliance with the Bank's minimum requirements and make an initial assessment of the customer's credit limit. Applications together with supporting documents are then reviewed by underwriters who conduct scoring of the application, make requests to credit records bureau, perform valuation of creditworthiness and solvency of the borrower and request a report from the Security service of the Bank. Based on the data collected a maximum credit limit is calculated and collateral is valued to form a final credit conclusion. The final loan approval is made by authorized managers.

The subsequent monitoring of loans is carried out by credit controllers of the Retail Banking Division.

Collection activities

All problem loans are transferred to the Problem Assets Division. Work-out procedures depend on the type of loans and customer segment and include loan restructuring, judicial foreclosure and extra-judicial settlements.

This Problem Assets Division has an extensive regional presence and takes into account regional specifics during work-out procedures for problem assets.

Collateral for transactions with credit risk

The type and amount of collateral required depends on the credit quality of the counterparty. Depending on the type of transactions, the Bank requires the following types of collateral:

- repurchase transactions: securities
- retail lending: real estate, traded securities and motor vehicles
- corporate lending and loans to SE: real estate (manufacturing premises, office and trade areas, warehouses), machinery and equipment, inventories, receivables, securities, guarantees and sureties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

The Bank established procedures that determine the amount of required collateral depending on the type of transaction and liquidity of collateral. The procedures for monitoring the fair value of collateral also require the borrower to put up additional collateral in case the current collateral value declines.

To reduce its risks, the Bank requires that collateral be insured by insurance companies accredited by the Bank.

Analysis of collateral and other credit enhancements

Loans to individuals

Residential mortgages are secured by the underlying housing real estate. The Bank's policy is to issue residential mortgages with a loan-to-value ratio of a maximum of 80%.

(Thousands of Russian Rubles)

The following table provides fair value information as of December 31 on real estate collateral securing residential mortgages, net of impairment:

	<i>2013</i>		<i>2012</i>	
	Loans to customers, carrying amount	Fair value of collateral assessed as of loan inception date	Loans to customers, carrying amount	Fair value of collateral assessed as of loan inception date
Not past due loans	41,400,071	41,400,071	39,347,560	39,347,560
Past due loans	1,860,286	1,860,286	662,086	661,788
Total mortgage loans	43,260,357	43,260,357	40,009,646	40,009,348

The table above excludes overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.

Auto loans are secured by the underlying cars. The Bank's policy is to issue auto loans with a loan-to-value ratio of a maximum of 85%.

The following table provides fair value information as of December 31 on collateral securing auto loans, net of impairment:

	<i>2013</i>		<i>2012</i>	
	Loans to customers, carrying amount	Fair value of collateral assessed as of loan inception date	Loans to customers, carrying amount	Fair value of collateral assessed as of loan inception date
Not past due loans	27,198,549	27,198,549	21,844,686	21,844,686
Past due loans	931,457	931,457	530,424	529,338
Total auto loans	28,130,006	28,130,006	22,375,110	22,374,024

The table above excludes overcollateralisation.

Other loans to individuals with a net carrying amount of RUB 2,384,991 (2012 – RUB 2,721,398) are secured by traded securities, real estate and motor vehicles. The fair value of collateral on these loans assessed as of loan inception date equals RUB 2,028,151 (2012 – RUB 2,522,695). Credit cards, consumer and the remaining amount of other loans to individuals are not secured.

Loans to corporate entities and small entities

The following tables provide fair value information as of December 31 on collateral and other credit enhancements securing loans to corporate entities, net of impairment, by types of collateral:

2013	Loans to customers, carrying amount	Fair value of collateral assessed as of reporting date	Fair value of collateral not determined
Loans without individual signs of impairment			
Real estate	29,938,560	29,938,560	-
Movable property	6,059,196	6,059,196	-
Traded securities	555,624	555,624	-
Goods in turnover	10,660,482	-	10,660,482
No collateral or other credit enhancement	30,661,500	-	-
Total loans without individual signs of impairment	77,875,362	36,553,380	10,660,482
Impaired loans			
Real estate	7,735,041	7,735,041	-
Movable property	1,401,696	1,401,696	-
Traded securities	606,450	606,450	-
Goods in turnover	115,583	-	115,583
No collateral or other credit enhancement	2,267,609	-	-
Total overdue or impaired loans	12,126,379	9,743,187	115,583
Total loans to corporate entities	90,001,741	46,296,567	10,776,065

(Thousands of Russian Rubles)

	Loans to customers, carrying amount	Fair value of collateral assessed as of reporting date	Fair value of collateral not determined
2012			
Loans without individual signs of impairment			
Real estate	40,063,934	40,063,934	-
Movable property	9,395,270	9,395,270	-
Traded securities	2,160,015	2,160,015	-
Goods in turnover	19,524,384	-	19,524,384
No collateral or other credit enhancement	51,966,029	-	-
Total loans without individual signs of impairment	123,109,632	51,619,219	19,524,384
Impaired loans			
Real estate	10,479,668	10,479,668	-
Movable property	1,376,438	1,376,438	-
Traded securities	516,308	516,308	-
Goods in turnover	210,333	-	210,333
No collateral or other credit enhancement	3,929,351	-	-
Total overdue or impaired loans	16,512,098	12,372,414	210,333
Total loans to corporate entities	139,621,730	63,991,633	19,734,717

The table above excludes overcollateralisation.

The following tables provide fair value information as of December 31 on collateral and other credit enhancements securing loans to SE, net of impairment, by types of collateral:

	Loans to customers, carrying amount	Fair value of collateral assessed as of reporting date	Fair value of collateral not determined
2013			
Not past due loans and past due less than 90 days			
Real estate	5,796,235	5,796,235	-
Movable property	2,695,190	2,695,190	-
Goods in turnover	1,403,579	-	1,403,579
No collateral or other credit enhancement	1,491,788	-	-
Total loans not past due and past due less than 90 days	11,386,792	8,491,425	1,403,579
Past due loans more than 90 days			
Real estate	148,284	148,283	-
Movable property	110,674	110,674	-
Goods in turnover	7,886	-	7,886
No collateral or other credit enhancement	25,517	-	-
Total loans past due more than 90 days	292,361	258,957	7,886
Total loans to small entities	11,679,153	8,750,382	1,411,465

	Loans to customers, carrying amount	Fair value of collateral assessed as of reporting date	Fair value of collateral not determined
2012			
Not past due loans and past due less than 90 days			
Real estate	6,638,790	6,638,790	-
Movable property	1,176,260	1,176,260	-
Goods in turnover	174,482	-	174,482
No collateral or other credit enhancement	2,983,052	-	-
Total loans not past due and past due less than 90 days	10,972,584	7,815,050	174,482
Past due loans more than 90 days			
Real estate	70,747	70,747	-
Movable property	43,058	43,058	-
Goods in turnover	4,712	-	4,712
No collateral or other credit enhancement	7,869	-	-
Total loans past due more than 90 days	126,386	113,805	4,712
Total loans to small entities	11,098,970	7,928,855	179,194

The tables above exclude overcollateralisation.

(Thousands of Russian Rubles)

Guarantees and sureties received from individuals, such as shareholders of SE borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Net investments in finance leases

As of December 31, 2013, impaired net investments in finance leases with a net carrying amount of RUB 647,530 (2012 – RUB 451,532) are secured by pledge of leased equipment with a fair value of at least RUB 647,530 (2012 – RUB 388,745), excluding the effect of overcollateralisation.

As of December 31, 2013, remaining impaired net investment in finance leases with a net value of RUB 93,291 (2012 – RUB 46,532) is secured by pledge of lease equipment with the fair value which was estimated at the commencement of the corresponding lease contracts. Management believes that fair values of the collateral is not less than carrying amount of net investment in finance leases as at reporting date.

For remaining net investment in finance leases with a net value of RUB 15,713,502 (2012 – RUB 16,550,272), which is neither past due nor impaired, the fair value of collateral was estimated at the commencement of the net investment in finance leases and was not adjusted for subsequent changes to the reporting date. The recoverability of this net investment in finance leases is primarily dependent on the creditworthiness of the lessees rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Repossessed collateral

During the year ended December 31, the Bank obtained certain assets by taking possession of collateral for loans to customers which comprise:

	<u>2013</u>	<u>2012</u>
Inventory in transit	356,730	582,800
Investment property	277,785	-
Total repossessed collateral	<u>634,515</u>	<u>582,800</u>

*(Thousands of Russian Rubles)***Credit quality of financial assets**

The assessment of credit quality of financial assets is based on the qualitative and quantitative assessment of credit risk.

The following table provides information on the credit quality of loans to individuals as of December 31, 2013:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Residential mortgage				
Not past due	41,415,074	(15,003)	41,400,071	0.0%
Past due less than 30 days	1,388,614	(19,857)	1,368,757	1.4%
Past due 30-89 days	244,395	(48,063)	196,332	19.7%
Past due 90-179 days	211,764	(134,301)	77,463	63.4%
Past due 180-360 days	195,468	(123,966)	71,502	63.4%
Past due more than 360 days	1,646,482	(1,500,250)	146,232	91.1%
Total residential mortgage	45,101,797	(1,841,440)	43,260,357	4.1%
Consumer lending				
Not past due	38,828,906	(46,572)	38,782,334	0.1%
Past due less than 30 days	820,151	(47,405)	772,746	5.8%
Past due 30-89 days	533,095	(162,542)	370,553	30.5%
Past due 90-179 days	529,520	(271,591)	257,929	51.3%
Past due 180-360 days	670,600	(373,189)	297,411	55.7%
Past due more than 360 days	1,284,214	(1,093,510)	190,704	85.2%
Total consumer lending	42,666,486	(1,994,809)	40,671,677	4.7%
Auto loans				
Not past due	27,207,040	(8,491)	27,198,549	0.0%
Past due less than 30 days	473,018	(11,731)	461,287	2.5%
Past due 30-89 days	212,223	(35,983)	176,240	17.0%
Past due 90-179 days	215,627	(92,418)	123,209	42.9%
Past due 180-360 days	242,272	(136,157)	106,115	56.2%
Past due more than 360 days	526,510	(461,904)	64,606	87.7%
Total auto loans	28,876,690	(746,684)	28,130,006	2.6%
Credit cards				
Not past due	8,415,410	(17,666)	8,397,744	0.2%
Past due less than 30 days	785,487	(51,214)	734,273	6.5%
Past due 30-89 days	442,574	(146,386)	296,188	33.1%
Past due 90-179 days	292,038	(177,354)	114,684	60.7%
Past due 180-360 days	326,378	(213,582)	112,796	65.4%
Past due more than 360 days	324,517	(259,860)	64,657	80.1%
Total credit cards	10,586,404	(866,062)	9,720,342	8.2%
Other loans to individuals				
Not past due	2,485,645	(5,680)	2,479,965	0.2%
Past due less than 30 days	126,819	(12,674)	114,145	10.0%
Past due 30-89 days	59,448	(26,148)	33,300	44.0%
Past due 90-179 days	77,107	(56,815)	20,292	73.7%
Past due 180-360 days	166,216	(126,108)	40,108	75.9%
Past due more than 360 days	960,922	(894,392)	66,530	93.1%
Total other loans to individuals	3,876,157	(1,121,817)	2,754,340	28.9%
Total loans to individuals	131,107,534	(6,570,812)	124,536,722	5.0%

(Thousands of Russian Rubles)

The following table provides information on the credit quality of loans to individuals as of December 31, 2012:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Residential mortgage				
Not past due	39,359,366	(11,806)	39,347,560	0.0%
Past due less than 30 days	122,653	(1,815)	120,838	1.5%
Past due 30-89 days	265,130	(39,304)	225,826	14.8%
Past due 90-179 days	169,699	(116,464)	53,235	68.6%
Past due 180-360 days	386,186	(272,802)	113,384	70.6%
Past due more than 360 days	1,871,342	(1,722,539)	148,803	92.0%
Total residential mortgage	42,174,376	(2,164,730)	40,009,646	5.1%
Consumer lending				
Not past due	26,292,183	(16,410)	26,275,773	0.1%
Past due less than 30 days	336,014	(9,476)	326,538	2.8%
Past due 30-89 days	199,970	(33,490)	166,480	16.7%
Past due 90-179 days	197,579	(88,713)	108,866	44.9%
Past due 180-360 days	312,169	(185,554)	126,615	59.4%
Past due more than 360 days	1,274,134	(1,198,378)	75,756	94.1%
Total consumer lending	28,612,049	(1,532,021)	27,080,028	5.4%
Auto loans				
Not past due	21,851,296	(6,610)	21,844,686	0.0%
Past due less than 30 days	277,080	(5,458)	271,622	2.0%
Past due 30-89 days	131,344	(18,547)	112,797	14.1%
Past due 90-179 days	80,902	(36,689)	44,213	45.4%
Past due 180-360 days	134,802	(77,241)	57,561	57.3%
Past due more than 360 days	485,979	(441,748)	44,231	90.9%
Total auto loans	22,961,403	(586,293)	22,375,110	2.6%
Credit cards				
Not past due	5,906,254	(8,041)	5,898,213	0.1%
Past due less than 30 days	387,404	(35,215)	352,189	9.1%
Past due 30-89 days	139,961	(44,505)	95,456	31.8%
Past due 90-179 days	110,654	(53,191)	57,463	48.1%
Past due 180-360 days	103,158	(63,916)	39,242	62.0%
Past due more than 360 days	141,395	(121,681)	19,714	86.1%
Total credit cards	6,788,826	(326,549)	6,462,277	4.8%
Other loans to individuals				
Not past due	4,166,653	(8,541)	4,158,112	0.2%
Past due less than 30 days	136,197	(12,079)	124,118	8.9%
Past due 30-89 days	114,747	(41,638)	73,109	36.3%
Past due 90-179 days	131,210	(92,174)	39,036	70.2%
Past due 180-360 days	243,077	(192,749)	50,328	79.3%
Past due more than 360 days	1,015,528	(944,586)	70,942	93.0%
Total other loans to individuals	5,807,412	(1,291,767)	4,515,645	22.2%
Total loans to individuals	106,344,066	(5,901,360)	100,442,706	5.5%

(Thousands of Russian Rubles)

The assessment of credit quality of loans to corporate entities is based on assessment of the borrower's financial position and value and liquidity of collateral obtained. The assessment is made also with regard to the type of lending: working capital loans, investment financing, project financing and lease financing.

The following table provides information on the credit quality of the loans to corporate entities and net investments in finance leases as of December 31, 2013:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Corporate lending				
Loans for which no evidence of impairment has been identified	78,573,340	(697,978)	77,875,362	0.9%
Impaired loans:				
- not past due	10,329,736	(2,549,803)	7,779,933	24.7%
- past due less than 90 days	390,862	(164,457)	226,405	42.1%
- past due more than 90 days and less than 1 year	3,016,623	(1,669,123)	1,347,500	55.3%
- past due more than 1 year	14,586,134	(11,813,593)	2,772,541	81.0%
Total impaired loans	28,323,355	(16,196,976)	12,126,379	57.2%
Total corporate loans	106,896,695	(16,894,954)	90,001,741	15.8%
Net investments in finance leases				
Loans for which no evidence of impairment has been identified	15,828,458	(114,956)	15,713,502	0.7%
Impaired loans:				
- not past due	417,658	(43,021)	374,637	10.3%
- past due less than 90 days	103,891	(24,591)	79,300	23.7%
- past due more than 90 days and less than 1 year	298,589	(152,340)	146,249	51.0%
- past due more than 1 year	608,694	(468,059)	140,635	76.9%
Total impaired loans	1,428,832	(688,011)	740,821	48.2%
Total net investments in finance leases	17,257,290	(802,967)	16,454,323	4.7%

The following table provides information on the credit quality of loans to corporate entities and net investment in finance leases as of December 31, 2012:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Loans to corporate entities				
Loans for which no evidence of impairment has been identified	124,366,041	(1,256,409)	123,109,632	1.0%
Impaired loans:				
- not past due	13,935,788	(2,393,949)	11,541,839	17.2%
- past due less than 90 days	692,200	(434,302)	257,898	62.7%
- past due more than 90 days and less than 1 year	6,916,394	(4,181,849)	2,734,545	60.5%
- past due more than 1 year	10,822,794	(8,844,978)	1,977,816	81.7%
Total impaired loans	32,367,176	(15,855,078)	16,512,098	49.0%
Total loans to corporate entities	156,733,217	(17,111,487)	139,621,730	10.9%
Net investments in finance leases				
Loans for which no evidence of impairment has been identified	16,684,834	(134,562)	16,550,272	0.8%
Impaired loans:				
- not past due	45,652	(4,349)	41,303	9.5%
- past due less than 90 days	247,078	(71,212)	175,866	28.8%
- past due more than 90 days and less than 1 year	321,236	(124,667)	196,569	38.8%
- past due more than 1 year	403,066	(318,740)	84,326	79.1%
Total impaired loans	1,017,032	(518,968)	498,064	51.0%
Total net investments in finance leases	17,701,866	(653,530)	17,048,336	3.7%

(Thousands of Russian Rubles)

The following table provides information on the credit quality of the loans to small entities as of December 31, 2013:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Loans to small entities				
Not past due	11,266,616	(65,710)	11,200,906	0.6%
Past due less than 30 days	102,742	(15,802)	86,940	15.4%
Past due 30-89 days	150,477	(51,531)	98,946	34.2%
Past due 90-179 days	193,393	(99,009)	94,384	51.2%
Past due 180-360 days	202,490	(115,573)	86,917	57.1%
Past due more than 360 days	849,368	(738,308)	111,060	86.9%
Total loans to small entities	12,765,086	(1,085,933)	11,679,153	8.5%

The following table provides information on the credit quality of the loans to small entities as of December 31, 2012:

	<i>Gross loans</i>	<i>Impairment allowance</i>	<i>Net loans</i>	<i>Impairment to gross loans, %</i>
Loans to small entities				
Not past due	10,953,824	(63,419)	10,890,405	0.6%
Past due less than 30 days	44,835	(6,190)	38,645	13.8%
Past due 30-89 days	73,003	(29,469)	43,534	40.4%
Past due 90-179 days	68,278	(35,671)	32,607	52.2%
Past due 180-360 days	102,918	(63,623)	39,295	61.8%
Past due more than 360 days	1,369,290	(1,314,806)	54,484	96.0%
Total loans to small entities	12,612,148	(1,513,178)	11,098,970	12.0%

*(Thousands of Russian Rubles)***Offsetting financial assets and financial liabilities**

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

Types of financial assets/ liabilities	Gross amounts of recognised financial asset/ liability	Gross amount of recognised financial liability/ asset offset in the consolidated statement of financial position	Net amount of financial assets/ liabilities presented in the consolidated statement of financial position	Related amounts of financial instruments offset in case of bankruptcy	Net amount
Derivative financial assets	45,175	-	45,175	(31)	45,144
Reverse repurchase agreements with credit and other finance institutions up to 90 days	638,154	-	638,154	(638,154)	-
Reverse repurchase agreements with corporate entities	1,075,584	-	1,075,584	(1,075,584)	-
Total financial assets	1,758,913	-	1,758,913	(1,713,769)	45,144
Derivative financial liabilities	(41,031)	-	(41,031)	31	(41,000)
Repurchase agreements	(9,312,495)	-	(9,312,495)	9,312,495	-
Total financial liabilities	(9,353,526)	-	(9,353,526)	9,312,526	(41,000)

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

Types of financial assets/ liabilities	Gross amounts of recognised financial asset/ liability	Gross amount of recognised financial liability/ asset offset in the consolidated statement of financial position	Net amount of financial assets/ liabilities presented in the consolidated statement of financial position	Related amounts of financial instruments offset in case of bankruptcy	Net amount
Derivative financial assets	63,093	-	63,093	(18,356)	44,737
Reverse repurchase agreements with credit and other finance institutions up to 90 days	3,233,533	-	3,233,533	(3,233,533)	-
Reverse repurchase agreements with corporate entities	2,160,015	-	2,160,015	(2,160,015)	-
Total financial assets	5,456,641	-	5,456,641	(5,411,904)	44,737
Derivative financial liabilities	(76,522)	-	(76,522)	18,356	(58,166)
Repurchase agreements	(4,260,534)	-	(4,260,534)	4,260,534	-
Total financial liabilities	(4,337,056)	-	(4,337,056)	4,278,890	(58,166)

(Thousands of Russian Rubles)

Liquidity risk

Liquidity risk is the risk of a potential loss arising in the case when the Bank is unable to meet its financial obligations as they fall due.

The **Treasury Department** is responsible for day-to-day liquidity risk management that is aimed at maintaining current and medium-term liquidity. In managing liquidity risk, the Treasury Department prepares a weekly "cash-plan" report, sets limits on liquidity gaps and manages portfolios of liquid assets. The Treasury Department also performs regular stress-testing of the Bank's liquidity position. The Bank has implemented special procedures aimed at maintaining solvency in critical situations by establishing procedures for committees, departments and personnel in case of a possible lack of funding sources.

In accordance with the CBR's requirements, the Bank maintains an obligatory reserve with the CBR. As of December 31, 2013 the obligatory reserve with the CBR amounts to RUB 2,920,152 (2012 - RUB 4,965,150). The Bank meets the following CBR liquidity requirements:

- immediate-liquidity ratio (N2): calculated by dividing the total amount of highly liquid assets by the total amount of liabilities that must be repaid on demand
- current-liquidity ratio (N3): calculated by dividing the total amount of all liquid assets by the total amount of liabilities maturing in the next 30 days
- long-term-liquidity ratio (N4): calculated by dividing the total amount of assets with a maturity of more than 1 year by equity and liabilities with a maturity of more than 1 year.

The following tables give data on the structure of assets and liabilities as of December 31 in accordance with the contractual maturities, with the exception of:

- debt trading securities are shown in the category "Less than 3 months", because the management believes that all of these debt securities can be liquidated within 3 months in the normal course of business
- stable balances on current accounts of RUB 99,209,893 (2012 – RUB 105,880,244) are shown in the category "1 to 3 years", based on an analysis of the statistical data on the movement of balances on the client accounts in the past
- mortgage backed securities of RUB 2,812,560 are shown in the categories up to 5 years in accordance with the management expectations of the maturity of the underlying residential mortgages (2012 – RUB 3,947,567).
- issued bonds included in other borrowed funds are shown in accordance with their nearest offer date.

Included in past due loans to customers are wholly overdue loans and partially overdue loans but only in the amount of overdue payments.

(Thousands of Russian Rubles)

	2013								
	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>No stated maturity</i>	<i>Total</i>
Assets									
Cash and cash equivalents	50,851,371	5,229,014	-	-	-	-	-	-	56,080,385
Obligatory reserves with the Central Bank	60,021	579,002	954,046	1,261,762	65,091	230	-	-	2,920,152
Amounts due from credit institutions	-	257,940	494,328	172,618	336,083	211,453	-	-	1,472,422
Available-for-sale securities	-	946,911	1,760,266	8,751,290	2,275,784	3,837,935	-	20,203,075	37,775,261
Held-to-maturity securities	-	-	-	-	-	44,715	-	-	44,715
Derivative financial assets	-	45,175	-	-	-	-	-	-	45,175
Loans to customers	-	32,295,992	47,194,847	37,295,036	55,275,479	50,147,426	4,008,836	-	226,217,616
Net investments in finance leases	-	1,508,714	3,504,893	4,290,940	6,525,191	3	624,582	-	16,454,323
Investment property	-	-	-	-	-	-	-	19,580,724	19,580,724
Property and equipment	-	-	-	-	-	-	-	13,077,166	13,077,166
Goodwill	-	-	-	-	-	-	-	4,527,406	4,527,406
Other assets	126,675	5,185,598	3,119,542	36,583	-	-	-	6,685,252	15,153,650
	51,038,067	46,048,346	57,027,922	51,808,229	64,477,628	54,241,762	4,633,418	64,073,623	393,348,995
Liabilities									
Derivative financial liabilities	-	28,692	12,339	-	-	-	-	-	41,031
Amounts due to credit institutions	9,671,107	16,354,385	4,723,702	7,730,984	10,847,950	-	-	-	49,328,128
Amounts due to customers	5,295,619	52,074,574	84,319,958	115,691,105	5,929,936	21,107	-	-	263,332,299
Promissory notes issued	219,462	1,127,180	3,342,658	246,146	50,955	22	-	-	4,986,423
Other borrowed funds	-	8,691,760	5,780,723	8,740,707	499,682	5,880,182	-	-	29,593,054
Other liabilities	427,668	2,309,319	926,270	-	-	-	-	-	3,663,257
	15,613,856	80,585,910	99,105,650	132,408,942	17,328,523	5,901,311	-	-	350,944,192
Net position	35,424,211	(34,537,564)	(42,077,728)	(80,600,713)	47,149,105	48,340,451	4,633,418	64,073,623	42,404,803
Cumulative gap	35,424,211	886,647	(41,191,081)	(121,791,794)	(74,642,689)	(26,302,238)	(21,668,820)	42,404,803	

(Thousands of Russian Rubles)

	2012								
	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>No stated maturity</i>	<i>Total</i>
Assets									
Cash and cash equivalents	41,711,747	35,358,547	-	-	-	-	-	-	77,070,294
Obligatory reserves with the Central Bank	183,567	1,237,069	1,318,026	2,083,725	120,608	22,155	-	-	4,965,150
Amounts due from credit institutions	-	7,064,580	-	221,000	-	445,407	-	-	7,730,987
Trading securities	-	5,628,889	-	-	-	-	-	-	5,628,889
Available-for-sale securities	-	67,690	2,053,088	4,252,273	2,167,420	4,840,151	-	20,468,458	33,849,080
Held-to-maturity securities	-	-	-	-	-	122,336	-	-	122,336
Derivative financial assets	-	6,917	56,176	-	-	-	-	-	63,093
Loans to customers	-	62,296,931	55,671,617	35,212,611	46,305,036	47,517,871	4,159,340	-	251,163,406
Net investments in finance leases	-	1,437,396	3,350,913	4,684,848	6,717,688	361,776	495,715	-	17,048,336
Investment property	-	-	-	-	-	-	-	22,070,373	22,070,373
Property and equipment	-	-	-	-	-	-	-	12,100,542	12,100,542
Goodwill	-	-	-	-	-	-	-	4,527,406	4,527,406
Other assets	139,250	4,754,199	2,289,758	1,029,553	-	-	202,779	6,431,312	14,846,851
	42,034,564	117,852,218	64,739,578	47,484,010	55,310,752	53,309,696	4,857,834	65,598,091	451,186,743
Liabilities									
Derivative financial liabilities	-	24,764	51,758	-	-	-	-	-	76,522
Amounts due to credit institutions	14,647,301	12,529,150	9,299,299	5,497,865	12,948,278	398,102	-	-	55,319,995
Amounts due to customers	11,255,609	72,992,031	79,624,157	132,011,345	7,630,626	1,403,645	-	-	304,917,413
Promissory notes issued	374,686	5,385,031	3,882,152	7,431	10,749	28	-	-	9,660,077
Other borrowed funds	-	2,536,262	9,301,166	13,754,910	935,914	6,111,379	-	-	32,639,631
Other liabilities	285,619	2,069,888	684,100	-	-	-	-	-	3,039,607
	26,563,215	95,537,126	102,842,632	151,271,551	21,525,567	7,913,154	-	-	405,653,245
Net position	15,471,349	22,315,092	(38,103,054)	(103,787,541)	33,785,185	45,396,542	4,857,834	65,598,091	45,533,498
Cumulative gap	15,471,349	37,786,441	(316,613)	(104,104,154)	(70,318,969)	(24,922,427)	(20,064,593)	45,533,498	

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.

As of December 31, 2013 and 2012, the Bank had a total negative cumulative liquidity gap. The Bank's liquidity risk management policy seeks to ensure that any negative liquidity gaps can be maintained at a level that the Bank can comfortably fulfil. This policy prescribes the weekly monitoring of behaviour of assets and liabilities, active management of their structure, and use of various treasury tools and methodologies.

The Treasury Department prepares cash and liquidity reports on a daily and weekly basis, respectively, regularly computes the volatility-related factors using statistical analyses, and provides management with various stress-test scenarios and recommendations. The results of those tests are considered weekly by the ALCO.

The Bank has credit lines with the Ministry of Finance of the Russian Federation, the CBR and other financial institutions. Accordingly, the Bank in its liquidity forecasts estimates that the liquidity gaps in the tables above will be sufficiently covered by these undrawn credit line facilities.

(Thousands of Russian Rubles)

Large accounts of legal entities are managed on an individual basis. The Bank influences its liquidity situation through regular adjustments of the interest rates on funds borrowed and loaned.

The maturity profile of financial liabilities and credit related commitments as of December 31, 2013 based on contractual undiscounted repayment obligations is as follows:

	<i>On demand and less than</i>					<i>Total gross amount outflow/ (inflow)</i>	<i>Carrying amount</i>
	<i>1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>More than 3 years</i>		
Amounts due to credit institutions	21,430,092	5,170,831	4,961,944	8,524,388	13,545,622	53,632,877	49,328,128
Amounts due to customers	239,333,420	6,582,649	12,395,755	8,884,998	81,291	267,278,113	263,332,299
Promissory notes issued	547,574	814,004	3,470,627	261,781	65,075	5,159,061	4,986,423
Other borrowed funds	1,019,702	7,977,185	6,964,909	12,809,971	9,359,089	38,130,856	29,593,054
Other liabilities	427,668	1,736,958	926,270	-	-	3,090,896	3,090,896
Derivative financial instruments							
-inflow	(4,880,992)	(676,380)	(322,550)	-	-	(5,879,922)	(45,175)
-outflow	4,851,160	689,729	334,889	-	-	5,875,778	41,031
Total financial liabilities	262,728,624	22,294,976	28,731,844	30,481,138	23,051,077	367,287,659	350,326,656
Credit related commitments	72,155,308	-	-	-	-	72,155,308	72,155,308

The maturity profile of financial liabilities and credit related commitments as of December 31, 2012 based on contractual undiscounted repayment obligations is as follows:

	<i>On demand and less than</i>					<i>Total gross amount outflow/ (inflow)</i>	<i>Carrying amount</i>
	<i>1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>More than 3 years</i>		
Amounts due to credit institutions	21,234,250	6,149,546	9,724,825	6,088,308	17,079,392	60,276,321	55,319,995
Amounts due to customers	262,319,960	16,302,117	20,150,551	7,651,706	4,311,270	310,735,604	304,917,413
Promissory notes issued	1,282,450	4,527,711	4,096,231	11,337	20,386	9,938,115	9,660,077
Other borrowed funds	840,883	1,518,232	9,807,895	16,060,337	14,311,906	42,539,253	32,639,631
Other liabilities	285,619	1,792,281	684,100	-	-	2,762,000	2,762,000
Derivative financial instruments							
-inflow	(7,645,976)	(1,632,762)	(1,082,603)	-	-	(10,361,341)	(63,093)
-outflow	7,663,662	1,634,123	1,076,985	-	-	10,374,770	76,522
Total financial liabilities	285,980,848	30,291,248	44,457,984	29,811,688	35,722,954	426,264,722	405,312,545
Credit related commitments	102,529,399	-	-	-	-	102,529,399	102,529,399

Included in amounts due to customers are time deposits of individuals of RUB 115,272,731 (2012 – RUB 116,807,871). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to note 19. Accordingly, these amounts are shown in the category "Less than 1 month" in the tables above.

Market risk

Market risk is the risk that the fair value of assets or future cash flows from financial instruments will diminish due to adverse changes in the interest rates, share prices or currency rates.

The Bank distinguishes the market risk related to its trading activities in financial markets (**price risk** for equities and **fair value interest rate risk** for fixed income securities) and the market risk related to the structure of assets and liabilities (**currency risk** and **interest rate repricing risk**).

Market risk assessment methods

The Bank assesses the overall market risk as well as its components: the price, currency, fair value interest rate and interest rate repricing risks.

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

Fair value interest rate risk is the risk that the fair values of fixed income securities decrease as a result of adverse changes in interest rates.

(Thousands of Russian Rubles)

Price risk and fair value interest rate risk are managed by setting exposure limits for different security portfolios, including position limits, concentration limits for different types of securities and individual issuers, as well as stop-loss limits. These limits are established by the ALCO with the overall limit for exposure in securities submitted to the Management Board for approval. The Risk Management Division monitors security positions on a daily basis and submits weekly reports to the ALCO outlining the composition of the securities portfolio, utilization of established limits (including any breaches).

Price risk and fair value interest rate risk are measured by performing sensitivity analysis on equities and fixed income securities that comprise the trading and available-for-sale portfolios.

The sensitivity analysis results for trading and available-for-sale debt securities using the modified duration method and based on an assumption of 100 basis point change in interest rates for positions existing as of December 31, 2013 and 2012 are following:

Trading portfolio:

	<i>Fair value December 31, 2013</i>	<i>Effect on net profit</i>	<i>Effect on equity</i>	<i>Fair value December 31, 2012</i>	<i>Effect on net profit</i>	<i>Effect on equity</i>
- Corporate promissory notes	-	-	-	5,628,889	12,563	12,563

Available-for-sale portfolio:

	<i>Fair value December 31, 2013</i>	<i>Effect on net profit</i>	<i>Effect on equity</i>	<i>Fair value December 31, 2012</i>	<i>Effect on net profit</i>	<i>Effect on equity</i>
- Government and municipal bonds	5,209,332	-	97,419	3,007,264	-	103,281
Russian Government bonds	4,653,346	-	64,756	2,158,915	-	92,684
Government bonds of foreign countries	481,039	-	32,363	-	-	-
Municipal and government bonds	74,947	-	300	848,349	-	10,597
- Corporate bonds	12,362,765	-	170,986	10,373,277	-	88,538
Corporate Ruble bonds	7,132,019	-	64,204	9,608,110	-	69,670
Corporate Eurobonds	5,230,746	-	106,782	765,167	-	18,868

An analysis of sensitivity of net profit for the year and equity to changes in equity securities prices based on positions existing as of December 31, 2013 and 2012 and a simplified scenario of a 5% change in all equity security prices is as follows:

	<i>2013</i>	<i>2012</i>
	<i>Change in equity</i>	
Available-for-sale portfolio		
5% increase in equity securities prices	834,392	867,685
5% decrease in equity securities prices	(834,392)	(867,685)

*(Thousands of Russian Rubles)***Currency risk**

Currency risk is the risk of a potential loss on positions in foreign currencies or precious metals due to adverse changes in foreign exchange rates or the market prices of precious metals.

The exposure to currency risk as of December 31 is as follows:

	2013					2012				
	Rubles	USD	EUR	Other	Total	Rubles	USD	EUR	Other	Total
Assets:										
Cash and cash equivalents	36,494,509	12,668,205	6,585,793	331,878	56,080,385	53,827,634	17,296,978	5,626,146	319,536	77,070,294
Obligatory reserves with the CBR	2,920,152	-	-	-	2,920,152	4,965,150	-	-	-	4,965,150
Amounts due from credit institutions	506,081	904,774	61,567	-	1,472,422	950,728	5,110,482	1,669,777	-	7,730,987
Trading securities	-	-	-	-	-	3,413,624	1,774,381	440,884	-	5,628,889
Available-for-sale securities	33,150,816	4,613,400	11,045	-	37,775,261	32,604,600	1,220,629	23,851	-	33,849,080
Held-to-maturity securities	44,715	-	-	-	44,715	122,336	-	-	-	122,336
Derivative financial assets	22,838	18,823	-	3,514	45,175	-	6,850	-	56,243	63,093
Loans to customers	211,298,906	10,994,987	3,923,723	-	226,217,616	218,780,670	25,673,330	6,709,406	-	251,163,406
Net investments in finance leases	15,449,846	369,478	634,999	-	16,454,323	14,679,177	1,579,304	789,855	-	17,048,336
Investment property	19,580,724	-	-	-	19,580,724	22,070,373	-	-	-	22,070,373
Property and equipment	13,077,166	-	-	-	13,077,166	12,100,542	-	-	-	12,100,542
Goodwill	4,527,406	-	-	-	4,527,406	4,527,406	-	-	-	4,527,406
Other assets	13,376,925	772,479	55,612	948,634	15,153,650	11,891,996	1,683,587	266,010	1,005,258	14,846,851
	350,450,084	30,342,146	11,272,739	1,284,026	393,348,995	379,934,236	54,345,541	15,525,929	1,381,037	451,186,743
Liabilities:										
Derivative financial liabilities	-	-	-	41,031	41,031	-	9,956	942	65,624	76,522
Amounts due to credit institutions	32,891,847	12,972,529	3,451,705	12,047	49,328,128	36,338,697	13,986,689	4,489,613	504,996	55,319,995
Amounts due to customers	227,483,202	23,113,445	9,411,030	3,324,622	263,332,299	257,565,663	33,259,424	11,416,227	2,676,099	304,917,413
Promissory notes issued	4,796,998	189,425	-	-	4,986,423	8,451,763	1,149,995	58,319	-	9,660,077
Other borrowed funds	29,593,054	-	-	-	29,593,054	32,639,631	-	-	-	32,639,631
Other liabilities	3,488,452	113,362	61,443	-	3,663,257	2,785,209	142,452	111,946	-	3,039,607
	298,253,553	36,388,761	12,924,178	3,377,700	350,944,192	337,780,963	48,548,516	16,077,047	3,246,719	405,653,245
Net recognised position	52,196,531	(6,046,615)	(1,651,439)	(2,093,674)	42,404,803	42,153,273	5,797,025	(551,118)	(1,865,682)	45,533,498
Notional amount – derivatives	(2,303,336)	203,815	-	2,099,521	-	3,341,126	(5,848,699)	200,383	2,307,190	-
Commitments and contingencies	73,251,333	4,291,743	745,167	-	78,288,243	99,701,453	5,990,826	2,889,743	-	108,582,022

(Thousands of Russian Rubles)

The Treasury Department is responsible for day-to-day management and control of open positions in foreign currencies. An analysis of the sensitivity of profit or loss before tax to the changes in the Ruble exchange rate (when other parameters remain unchanged) is given below:

<i>Currency</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>Change in currency rate</i>		<i>Effect on profit before tax</i>	
USD	+10.0%	+10.0%	(584,280)	(5,167)
	-10.0%	-10.0%	584,280	5,167
EUR	+10.0%	+10.0%	(165,144)	(35,074)
	-10.0%	-10.0%	165,144	35,074
Other currencies	+10.0%	+10.0%	585	44,151
	-10.0%	-10.0%	(585)	(44,151)

The effect on profit before taxes is calculated on the basis of changes in the currency exchange rates that are applied to the sum of net recognised position and present value of notional amount for derivatives.

Interest rate repricing risk

Interest rate repricing risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the assets, liabilities and unrecognised positions sensitive to such changes, except for debt trading and available-for-sale securities.

The Treasury Department manages interest rate risk based on a gap-analysis and the current level of the operating margin. Each week The Treasury Department informs the ALCO about the level of interest rate risk.

An analysis of sensitivity of net interest income for the year and equity to interest rate repricing risk based on a simplified scenario of 100 and 50 basis point (b.p.) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as of December 31 is as follows:

<i>Change in interest rates in basis points</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>Sensitivity of net interest income</i>		<i>Change in equity</i>	
+100	(735,020)	(625,121)	(588,016)	(500,097)
-100	735,020	625,121	588,016	500,097
+50	(367,510)	(312,561)	(294,008)	(250,049)
-50	367,510	312,561	294,008	250,049

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events.

Operational risk is managed by performing self-assessments throughout the departments with the purpose of identifying key operational risk improvement measures taken to reduce the risk level, as well as to formulate Key Risk Indicators. Information on events that generate operational risks is input into the Operational Risks Database, which is used to analyse the level of operational risk and provides statistical data for the quantitative methods of the operational risk assessment.

(Thousands of Russian Rubles)

30. Fair values of financial instruments

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as of December 31, 2013:

	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	34,571,862	-	21,508,523	56,080,385	56,080,385
Amounts due from credit institutions	-	-	1,472,422	-	-	1,472,422	1,341,700
Available-for-sale securities	-	-	-	37,775,261	-	37,775,261	18,392,724
Held-to-maturity securities	-	44,715	-	-	-	44,715	50,568
Derivative financial assets	45,175	-	-	-	-	45,175	45,175
Loans to customers	-	-	226,217,616	-	-	226,217,616	225,620,587
Net investments in finance leases	-	-	16,454,323	-	-	16,454,323	16,268,086
Other financial assets	-	-	-	-	3,628,772	3,628,772	3,628,772
	45,175	44,715	278,716,223	37,775,261	25,137,295	341,718,669	321,427,997
Derivative financial liabilities	41,031	-	-	-	-	41,031	41,031
Amounts due to credit institutions	-	-	-	-	49,328,128	49,328,128	48,934,420
Amounts due to customers	-	-	-	-	263,332,299	263,332,299	269,245,651
Promissory notes issued	-	-	-	-	4,986,423	4,986,423	5,006,431
Other borrowed funds	-	-	-	-	29,593,054	29,593,054	30,803,686
Other financial liabilities	-	-	-	-	3,090,896	3,090,896	3,090,896
	41,031	-	-	-	350,330,800	350,371,831	357,122,115

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as of December 31, 2012:

	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	57,065,450	-	20,004,844	77,070,294	77,070,294
Amounts due from credit institutions	-	-	7,730,987	-	-	7,730,987	7,744,363
Trading securities	5,628,889	-	-	-	-	5,628,889	5,628,889
Available-for-sale securities	-	-	-	33,849,080	-	33,849,080	14,380,524
Held-to-maturity securities	-	122,336	-	-	-	122,336	134,079
Derivative financial assets	63,093	-	-	-	-	63,093	63,093
Loans to customers	-	-	251,163,406	-	-	251,163,406	254,127,818
Net investments in finance leases	-	-	17,048,336	-	-	17,048,336	17,276,560
Other financial assets	-	-	-	-	2,549,863	2,549,863	2,549,863
	5,691,982	122,336	333,008,179	33,849,080	22,554,707	395,226,284	378,975,483
Derivative financial liabilities	76,522	-	-	-	-	76,522	76,522
Amounts due to credit institutions	-	-	-	-	55,319,995	55,319,995	54,997,875
Amounts due to customers	-	-	-	-	304,917,413	304,917,413	301,918,993
Promissory notes issued	-	-	-	-	9,660,077	9,660,077	9,548,838
Other borrowed funds	-	-	-	-	32,639,631	32,639,631	35,949,292
Other financial liabilities	-	-	-	-	2,762,000	2,762,000	2,762,000
	76,522	-	-	-	405,299,116	405,375,638	405,253,520

(Thousands of Russian Rubles)

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments measured at amortized cost, by the level in the fair value hierarchy into which each fair value measurement is categorized as of December 31, 2013:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
ASSETS					
Loans to customers	-	-	225,620,587	225,620,587	226,217,616
Held-to-maturity investments	50,568	-	-	50,568	44,715
LIABILITIES					
Amounts due to credit institutions	-	40,960,846	7,973,574	48,934,420	49,328,128
Amounts due to customers	-	269,245,651	-	269,245,651	263,332,299
Other borrowed funds	7,230,440	16,583,250	6,989,996	30,803,686	29,593,054

The following table analyses the fair value of financial instruments measured at amortized cost, by the level in the fair value hierarchy into which each fair value measurement is categorized as of December 31, 2012:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
ASSETS					
Loans to customers	-	-	254,127,818	254,127,818	251,163,406
Held-to-maturity investments	134,079	-	-	134,079	122,336
LIABILITIES					
Amounts due to credit institutions	-	46,723,490	8,274,385	54,997,875	55,319,995
Amounts due to customers	-	301,918,993	-	301,918,993	304,917,413
Other borrowed funds	12,343,690	14,853,125	8,752,477	35,949,292	32,639,631

For other financial instruments accounted at amortized cost not presented in the tables above the Bank believes that fair value does not differ significantly from their carrying amounts.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

*(Thousands of Russian Rubles)***Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Available-for-sale securities	16,563,286	-	1,829,438	19,392,724
Derivative financial assets	-	45,175	-	45,175
Financial liabilities				
Derivative financial liabilities	-	41,031	-	41,031

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Trading securities	5,628,889	-	-	5,628,889
Available-for-sale securities	13,380,843	-	999,681	14,380,524
Derivative financial assets	-	63,093	-	63,093
Financial liabilities				
Derivative financial liabilities	-	76,522	-	76,522

Movements within category of Level 3 financial instruments where the valuation techniques involve the use of non-market observable inputs for the year ended December 31 are as follows:

	<u>2013</u>	<u>2012</u>
At January 1	999,681	8,774,546
Transfer to accounted at cost	-	(7,903,543)
Additions	1,000,000	-
Coupon accrued	3,452	-
Net result recognised in the income statement	92,693	(36,000)
Net result recognised in other comprehensive income	(3,811)	(92,504)
Disposals - cash consideration received	(262,577)	(177)
At December 31	1,829,438	999,681

As disclosed in note 8, the investment in IG is accounted for at cost. Accordingly, it is not included in the fair value hierarchy above.

The Bank has a control framework with respect to the measurement of fair values. The Internal Audit Department has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement

(Thousands of Russian Rubles)

- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Audit Committee.

Fair values of Level 3 financial instruments are based on pricing models that utilise market unobservable inputs or management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

The Bank utilises a variety of security valuation models that are based on valuation techniques commonly used by market participants. The most frequently used models include analyses based on discounted cash flows, multiples of EV to EBITDA and revenues, and reference to the current fair value of another instrument that is substantially the same.

Impact on fair value of Level 3 financial instruments of changes to key assumptions

Investment in mutual fund of corporate shares

Fair value of investment in mutual fund's units of corporate shares is determined based on fair value of securities which comprise the mutual funds portfolio at the date of valuation adjusted to the ability of the Bank to realise these units. Application of market average quotes within market range, which is considered to be a reasonably possible change of assumptions used in valuation model for calculation of fair value of such units, resulted in increase/ decrease of fair value by RUB 28,047 (2012 – RUB 28,530) in case of application of the highest/ lowest level of the range respectively.

Investment in corporate bonds

The Bank determines fair value of the investment based on discounted cash flow model which implies a discount rate of 9%. Should the discount rate used by the Bank in the valuation model increase/decrease by 100 b.p., the carrying value of the financial instrument would be RUB 27,408 lower / RUB 28,506 higher.

The estimates of fair values are intended to approximate 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 reporting date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

31. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity or the party is a member of the key management personnel of the entity or its parent.

Related parties may enter into transactions on such terms and conditions that may not be effected between unrelated parties.

A significant amount of related party transactions are carried out by the Bank with other members of OJSC "Financial Corporation URALSIB" (together referred to as the "Group") as the Bank plays an important role in the Group, providing a full range of financial and banking services. All members of the Group are regarded as related parties since they represent entities under common control. Additionally, there are also other entities under common control that are not members of the Bank.

(Thousands of Russian Rubles)

The outstanding balances and the related average interest rates as of December 31, 2013 with the related parties are as follows:

	<i>Companies of Financial Corporation Uralsib</i>		<i>Other entities under common control</i>		<i>Key management personnel</i>	
	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>
Assets						
Cash and cash equivalents						
– time deposits	638,034	6.94%	1,024,928	5.22%	-	-
Amounts due from credit institutions (gross)	-	-	366,453	11.09%	-	-
Available-for-sale securities						
– interest bearing	-	-	110,662	11.50%	-	-
– non-interest bearing	-	-	19,468,556	-	-	-
Loans to customers (gross)	1,355,661	2.26%	2,854,149	9.58%	54,129	10.13%
Less allowance for loan impairment	(1,008)	-	(191,459)	-	(24)	-
Loans to customers (net)	1,354,653	-	2,662,690	-	54,105	-
Other assets	4,354	-	1,673,192	-	-	-
Other assets (investments in associate)	-	-	293,220	-	-	-
Liabilities						
Amounts due to credit institutions						
– time deposits and loans	-	-	101,041	5.85%	-	-
– current accounts	-	-	59,614	-	-	-
Amounts due to customers						
– time deposits	1,142,284	7.62%	5,850,043	7.61%	1,627,290	4.88%
– current accounts	1,972,015	3.50%	1,747,110	0.80%	4,544	0.33%
Promissory notes issued	32,032	10.00%	154,383	6.40%	-	-
Other borrowed funds	832,812	11.43%	1,299,393	11.02%	-	-
Other liabilities	9,462	-	203,958	-	38,235	-
Off-balance sheet commitments						
Commitments and contingencies, gross	3,014,038	-	153,840	-	-	-

(Thousands of Russian Rubles)

The outstanding balances and the related average interest rates as of December 31, 2012 with the related parties are as follows:

	<i>Companies of Financial Corporation Uralsib</i>		<i>Other entities under common control</i>		<i>Key management personnel</i>	
	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>
Assets						
Cash and cash equivalents						
– time deposits	100,033	5.99%	3,184,732	6.46%	-	-
Available-for-sale securities						
– interest bearing	-	-	170	10.00%	-	-
– non-interest bearing	-	-	19,468,556	-	-	-
Loans to customers (gross)	2,160,015	3.48%	3,158,525	9.97%	59,215	9.74%
Less allowance for loan impairment	-	-	(91,290)	-	(22)	-
Loans to customers (net)	<u>2,160,015</u>	<u>-</u>	<u>3,067,235</u>	<u>-</u>	<u>59,193</u>	<u>-</u>
Net investments in finance leases	-	-	9,474	-	-	-
Other assets	54,322	-	758,615	-	-	-
Other assets (investments in associate)	-	-	270,842	-	-	-
Liabilities						
Amounts due to credit institutions						
– time deposits and loans	-	-	299,007	2.56%	-	-
– current accounts	-	-	52,928	-	-	-
Amounts due to customers						
– time deposits	1,615,471	7.60%	5,905,490	7.77%	1,560,244	5.95%
– current accounts	2,648,691	1.74%	1,231,320	0.40%	1,687	1.82%
Promissory notes issued	-	-	735,946	7.87%	-	-
Other borrowed funds	817,496	9.96%	773,856	9.85%	-	-
Other liabilities	43,401	-	180,418	-	37,856	-
Off-balance sheet commitments						
Commitments and contingencies, gross	1,643,701	-	151,253	-	-	-

(Thousands of Russian Rubles)

The related profit or loss amounts of transactions with the related parties for the years ended December 31 are as follows:

	2013			2012		
	<i>Companies of Financial Corporation Uralsib</i>	<i>Other entities under common control</i>	<i>Key management personnel</i>	<i>Companies of Financial Corporation Uralsib</i>	<i>Other entities under common control</i>	<i>Key management personnel</i>
Interest income	133,806	445,640	6,256	206,630	777,128	5,945
Interest expense	(252,774)	(619,485)	(115,251)	(166,275)	(612,183)	(83,785)
Net realised gains from available-for-sale securities	65,417	-	-	39,931	-	-
Net gains (losses) from foreign currencies	10,684	2,598	-	(1,474)	(58,106)	-
Net fee and commission income:						
– fees and commission income	95,182	64,785	-	21,642	73,921	-
– fees and commission expenses	(331,395)	(432,342)	-	(392,128)	(457,666)	-
Other operating income	48,096	64,675	-	52,569	50,765	-
Share of profit of associate	-	15,740	-	-	26,472	-
(Provision on) recovery of impairment of interest-bearing assets	(1,008)	(100,169)	(2)	41,800	(36,000)	(22)
Administrative and operating expenses:						
– insurance	(93)	(75,577)	-	-	(91,483)	-
– rent	(345,686)	(21,257)	-	(326,356)	(22,908)	-
– personnel training	-	(343,488)	-	-	(156,749)	-
– other	(2,479)	(5)	-	(1,269)	(301)	-
Salaries and bonuses	-	-	(370,478)	-	-	(674,238)
Social security costs	-	-	(35,237)	-	-	(63,619)

The Bank uses the services of an affiliate broker to facilitate purchases and sales of securities to third parties. The terms of these transactions are at market. During 2013 these transactions resulted in a net gain of RUB 12,978 and are not disclosed as related party transactions in the table above (2012 – net gain of RUB 463,767).

Management establishes the terms and conditions for transactions with related parties in the same way as for other clients.

32. Trust activities

The Bank provides custody, trustee and investment management service to third parties that involve the Bank making asset management, purchase and sales decisions in relation to a wide range of financial instruments. The assets that are held in a fiduciary capacity are not included in the consolidated financial statements. The trust assets as of December 31 comprise:

	2013	2012
Securities on custody with the Bank	28,967,912	25,517,722
Securities on accounts of clients' trust managers	1,400,041	811,287
Other property	20,248	20,248
Settlement accounts with MICEX and brokerage houses	29	540
Trust assets	30,388,230	26,349,797

33. Capital adequacy

The primary objectives of capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation
- maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties
- ensuring that the amount of capital is sufficient for business expansion and development.

*(Thousands of Russian Rubles)***Minimum capital requirement under Russian legislation**

Federal laws No 395-1 dated December 2, 1990 *On Banks and Banking Activity* and No 86-FZ dated July 10, 2002 *On the Central Bank of Russian Federation* require Russian banks to maintain, at all times, capital equal to at least 5 million Euros. The Bank complied with this requirement during the reporting periods.

Capital adequacy under Russian Accounting Legislation

Management constantly monitors the adequacy of capital and its compliance with regulatory capital requirements. The Bank uses rules and ratios established by the CBR regulations. Necessary capital adequacy calculations required by Russian legislation are submitted to the CBR on a monthly basis.

The CBR requires banks to maintain a capital adequacy ratio of 10% with respect to risk-weighted assets, as computed in accordance with Russian Accounting Standards. As of December 31, 2013 and 2012, the Bank's CBR-defined capital adequacy ratio exceeded the required statutory minimum.

	<u>2013</u>	<u>2012</u>
Main capital	34,118,203	34,029,028
Additional capital	15,470,829	17,397,303
Less capital deductions	-	(4)
Total regulatory capital	<u>49,589,032</u>	<u>51,426,327</u>
Risk-weighted assets	<u>413,495,022</u>	<u>478,921,048</u>
Capital adequacy ratio	<u>11.99%</u>	<u>10.74%</u>

Since April 1, 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with the CBR requirements based on Basel III requirements. The amount of capital and capital adequacy ratios were used by the CBR in 2013 for information purposes and not for supervision purposes. As of January 1, 2014 the Bank is in compliance with the CBR minimum level for capital adequacy, calculated on the basis of new requirements.

Capital adequacy under the Basel Accord guidelines (the "Basel ratio")

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

1. Tier 1 capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), non-controlling interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.
2. Tier II capital is "supplementary" bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealised gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

In computing risk based capital, Tier 1 and Tier 2 capital amounts are reduced by post-acquisition changes in the Bank's share in net assets of associates.

The table below presents the composition of capital complying with Basel and discloses the capital adequacy ratio as of December 31:

	<u>2013</u>	<u>2012</u>
Tier 1 capital	34,008,871	37,070,209
Tier 2 capital	15,596,136	16,769,741
Less investments in associates and shares of credit institutions	(293,220)	(270,842)
Total risk based capital	<u>49,311,787</u>	<u>53,569,108</u>
Risk-weighted assets:		
Recognised	320,699,315	345,745,873
Unrecognised	32,691,009	48,565,394
Total risk-weighted assets	<u>353,390,324</u>	<u>394,311,267</u>
Total capital	13.95%	13.59%
Tier 1	<u>9.62%</u>	<u>9.40%</u>

The capital adequacy ratios as of December 31, 2013 and 2012 exceeded the minimum ratio of 8% recommended by the Basel Accord. As of December 31, 2013 and 2012, the Bank 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 unfavourable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders' vision and strategy of long-term development. As compared with 2012, the policy of capital management remained unchanged.

(Thousands of Russian Rubles)

LG is subject to minimum capital adequacy requirements established by covenants under liabilities incurred by LG. LG was in compliance with all externally imposed capital requirements as of December 31, 2013.

34. Events after the reporting date

On January 20, 2014, the Bank obtained control over its associate - OJSC "Bashprombank" by acquiring the remaining 49.99996% of shares.

In March 2014 OJSC "URALSIB" partially repaid non-convertible documentary bonds issued in August 2012 under the terms of a tender offer with a nominal value of RUB 6,387,111.

In March 2014 the Parent issued and registered 5,663,916,168 new common shares at a price of 0.245 ruble per share. The issue of common shares resulted in an increase of share capital and additional paid-in capital of the Parent by RUB 566,392 and RUB 821,267, respectively, in return for office buildings located in Moscow. The buildings were previously held by the Parent under an operating lease.

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant

April 29, 2014

