Consolidated financial statements

Sberbank of Russia and its subsidiaries

for the year ended 31 December 2013

with independent auditor's report

Consolidated Financial Statements – Sberbank of Russia and its subsidiaries

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and the Supervisory Board of Sberbank

We have audited the accompanying consolidated financial statements of Sberbank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 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 of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Совершенствуя бизнес,
улучшаем мир

Opinion

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

S.M. Taskaev
Partner
Ernst & Young Vneshaudit CJSC

24 March 2014

Details of the audited entity

Name: Sberbank of Russia
Record made in the State Register of Legal Entities on 16 August 2002, State Registration Number 1027700132195.
Address: 19 Vavilova st., 117997, Moscow, Russia.

Details of the auditor

Name: Ernst & Young Vneshaudit CJSC
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739199333.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
CJSC Ernst & Young Vneshaudit is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR").
CJSC Ernst & Young Vneshaudit is registered in the register of auditors and audit organizations of NP APR, number 3027, and also included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

SBERBANK

Consolidated Statement of Financial Position

in billions of Russian Roubles	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	1,327.0	1,290.8
Mandatory cash balances with central banks		251.5	211.2
Trading securities	9	101.2	90.4
Securities designated as at fair value through profit or loss	10	17.5	19.2
Due from banks	8	330.5	114.8
Loans and advances to customers	11	12,933.7	10,499.3
Securities pledged under repurchase agreements	12	1,343.8	949.7
Investment securities available-for-sale	13	476.2	804.5
Investment securities held-to-maturity	14	202.5	105.9
Deferred tax asset	29	12.3	7.5
Premises and equipment	15	477.3	436.0
Other financial assets	16	406.2	227.6
Other non-financial assets	16	330.6	340.5
TOTAL ASSETS		**18,210.3**	**15,097.4**
LIABILITIES			
Due to banks	17	2,111.3	1,452.4
Due to individuals	18	8,435.8	6,983.2
Due to corporate customers	18	3,628.4	3,196.1
Debt securities in issue	19	853.4	691.7
Other borrowed funds	20	499.1	469.2
Deferred tax liability	29	23.8	33.2
Other financial liabilities	21	291.7	227.2
Other non-financial liabilities	21	60.7	35.9
Subordinated debt	22	424.7	384.7
TOTAL LIABILITIES		**16,328.9**	**13,473.6**
EQUITY			
Share capital	23	87.7	87.7
Treasury shares	23	(7.2)	(7.6)
Share premium		232.6	232.6
Revaluation reserve for office premises		75.8	79.0
Fair value reserve for investment securities available-for-sale		1.3	37.3
Foreign currency translation reserve		(13.7)	(4.7)
Retained earnings		1,495.2	1,186.7
Total equity attributable to shareholders of the Bank		**1,871.7**	**1,611.0**
Non-controlling interest		9.7	12.8
TOTAL EQUITY		**1,881.4**	**1,623.8**
TOTAL LIABILITIES AND EQUITY		**18,210.3**	**15,097.4**

Approved for issue and signed on behalf of the Management Board on 24 March 2014.

Herman Gref, Chairman of the Management Board and CEO

Marina Lukianova, Acting Chief Accountant

SBERBANK

Consolidated Statement of Profit or Loss

in billions of Russian Roubles	Note	Year ended 31 December 2013	2012
Interest income	24	1,478.6	1,157.3
Interest expense	24	(587.8)	(428.6)
Deposit insurance expenses	24	(28.6)	(23.9)
Net interest income		**862.2**	**704.8**
Net provision charge for loan impairment	11	(133.5)	(21.5)
Net interest income after provision for loan impairment		**728.7**	**683.3**
Fee and commission income	25	244.8	189.2
Fee and commission expense	25	(24.5)	(18.9)
Net (losses)/ gains arising from trading securities		(3.6)	3.2
Net losses arising from securities designated as at fair value through profit or loss		(1.1)	(0.7)
Net gains arising from investment securities available-for-sale		10.7	7.5
Impairment of investment securities available-for-sale		(5.2)	(5.0)
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	26	12.9	19.6
Net gains arising from operations with precious metals and precious metals derivatives		2.4	5.8
Net gains arising from operations with other derivatives		8.2	4.2
Goodwill impairment	16,40	(8.7)	(1.7)
Other provisions	14,16,33	(5.9)	(4.1)
Revenue of non-financial business activities and insurance	27	38.1	51.2
Cost of sales of non-financial business activities and insurance	27	(36.8)	(38.6)
Other operating income		10.3	4.3
Operating income		**970.3**	**899.3**
Operating expenses	28	(514.6)	(451.4)
Profit before tax		**455.7**	**447.9**
Income tax expense	29	(93.7)	(100.0)
Profit for the year		**362.0**	**347.9**
Attributable to:			
- shareholders of the Bank		363.8	348.8
- non-controlling interest		(1.8)	(0.9)
Earnings per ordinary share for profit attributable to the shareholders of the Bank, basic and diluted (expressed in RR per share)	**30**	**16.78**	**16.03**

Approved for issue and signed on behalf of the Management Board on 24 March 2014.

Herman Gref, Chairman of the Management Board and CEO

Marina Lukianova, Acting Chief Accountant

SBERBANK

Consolidated Statement of Comprehensive Income

in billions of Russian Roubles	Note	Year ended 31 December 2013	2012
Profit for the year recognized in the statement of profit or loss		**362.0**	**347.9**
Other comprehensive income:			
Other comprehensive income which could be reclassified to profit or loss in subsequent period			
Investment securities available-for-sale:			
- Net (losses)/ gains on revaluation of investment securities available-for-sale		(39.9)	58.2
- Impairment of investment securities available-for-sale transferred to statement of profit or loss	13	5.2	5.0
- Accumulated gains transferred to statement of profit or loss upon disposal of investment securities available-for-sale		(10.7)	(7.5)
Net foreign currency translation effect		(9.0)	0.9
Deferred income tax relating to other comprehensive income on:			
- Investment securities available-for-sale	29	9.4	(10.9)
Total other comprehensive (loss) / income which could be reclassified to profit or loss in subsequent period, net of tax		**(45.0)**	**45.7**
Total comprehensive income for the year		**317.0**	**393.6**
Attributable to:			
- shareholders of the Bank		318.8	394.6
- non-controlling interest		(1.8)	(1.0)

Consolidated Statement of Changes in Equity

in billions of Russian Roubles	Note	Share capital	Treasury shares	Share premium	Revaluation reserve for office premises	Fair value reserve for investment securities available-for-sale	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to shareholders of the Bank									
Balance as at 31 December 2011		**87.7**	**(7.0)**	**232.6**	**81.5**	**(7.5)**	**(5.7)**	**882.9**	**1,264.5**	**3.5**	**1,268.0**
Changes in equity for the year ended 31 December 2012											
Net result from treasury shares transactions		–	(0.6)	–	–	–	–	–	**(0.6)**	–	**(0.6)**
Dividends declared	30	–	–	–	–	–	–	(47.5)	**(47.5)**	–	**(47.5)**
Amortization of revaluation reserve for office premises		–	–	–	(2.5)	–	–	2.5	**–**	–	**–**
Changes in ownership interests in subsidiaries		–	–	–	–	–	–	–	**–**	10.3	**10.3**
Total comprehensive income for the year ended 31 December 2012		–	–	–	–	44.8	1.0	348.8	**394.6**	(1.0)	**393.6**
Balance as at 31 December 2012		**87.7**	**(7.6)**	**232.6**	**79.0**	**37.3**	**(4.7)**	**1,186.7**	**1,611.0**	**12.8**	**1,623.8**
Changes in equity for the year ended 31 December 2013											
Net result from treasury shares transactions		–	0.4	–	–	–	–	–	**0.4**	–	**0.4**
Dividends declared	30	–	–	–	–	–	–	(58.5)	**(58.5)**	–	**(58.5)**
Amortization of revaluation reserve for office premises		–	–	–	(3.2)	–	–	3.2	**–**	–	**–**
Changes in ownership interests in subsidiaries		–	–	–	–	–	–	–	**–**	(1.3)	**(1.3)**
Total comprehensive income for the year ended 31 December 2013		–	–	–	–	(36.0)	(9.0)	363.8	**318.8**	(1.8)	**317.0**
Balance as at 31 December 2013		**87.7**	**(7.2)**	**232.6**	**75.8**	**1.3**	**(13.7)**	**1,495.2**	**1,871.7**	**9.7**	**1,881.4**

Consolidated Statement of Cash Flows

in billions of Russian Roubles	Note	Year ended 31 December 2013	2012
Cash flows from operating activities before changes in operating assets and liabilities			
Interest received		1,445.8	1,135.2
Interest paid		(507.1)	(384.5)
Expenses paid directly attributable to deposit insurance		(26.8)	(22.9)
Fees and commissions received		244.2	188.3
Fees and commissions paid		(25.5)	(16.7)
Net (losses incurred) / gains received from trading securities		(3.3)	5.9
Net gains received / (losses incurred) from securities designated as at fair value through profit or loss		1.2	(1.7)
Net (losses incurred) / gains received from trading in foreign currencies and from operations with foreign currency derivatives		(10.3)	16.6
Net gains received / (losses incurred) from operations with other derivatives		0.5	(0.7)
Net gains received from operations with precious metals and precious metals derivatives		0.9	5.0
Revenue of non-financial business activities and insurance		31.8	48.7
Cost of sales of non-financial business activities		(33.1)	(34.4)
Insurance premiums received		8.9	0.5
Other operating income received		24.8	8.5
Operating expenses paid		(417.3)	(370.7)
Income tax paid		(98.2)	(100.1)
Cash flows from operating activities before changes in operating assets and liabilities		**636.5**	**477.0**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(51.1)	(36.2)
Net decrease in trading securities		36.1	6.8
Net (increase) / decrease in securities designated as at fair value through profit or loss		(0.4)	31.1
Net increase in due from banks		(224.7)	(62.3)
Net increase in loans and advances to customers		(2,422.0)	(2,003.3)
Net increase in other assets		(128.7)	(69.8)
Net increase in due to banks		652.4	820.9
Net increase in due to individuals		1,438.2	867.8
Net increase in due to corporate customers		340.0	664.3
Net increase in debt securities in issue		113.3	257.3
Net increase / (decrease) in other liabilities		13.5	(34.6)
Net cash from operating activities		**403.1**	**919.0**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(710.0)	(474.9)
Proceeds from disposal and redemption of investment securities available-for-sale		541.1	232.2
Purchase of investment securities held-to-maturity		(168.3)	(8.0)
Proceeds from redemption of investment securities held-to-maturity		107.0	61.1
Acquisition of premises and equipment		(124.5)	(144.4)
Acquisition of investment property		(0.2)	(0.1)
Proceeds from disposal of investment property		0.8	–
Proceeds from disposal of premises and equipment including insurance payments		16.4	4.5
Proceeds from disposal of associates		3.4	–
Acquisition of subsidiaries net of cash acquired		(12.1)	(93.2)
Proceeds from disposal of subsidiaries net of cash disposed		0.6	8.6
Dividends received		1.3	5.1
Net cash used in investing activities		**(344.5)**	**(409.1)**
Cash flows from financing activities			
Other borrowed funds received		258.6	141.9
Redemption of other borrowed funds		(249.2)	(98.8)
Repayment of interest on other borrowed funds		(14.1)	(5.4)
Subordinated debt received		39.5	66.0
Redemption of subordinated debt		(0.7)	(0.2)
Repayment of interest on subordinated debt		(24.6)	(19.8)
Funds received from loan participation notes issued under the MTN programme		43.9	144.3
Redemption of loan participation notes issued under the MTN programme		(36.5)	(8.1)
Repayment of interest on loan participation notes issued under the MTN programme		(18.7)	(11.8)
Cash received from non-controlling shareholders		1.9	–
Acquisition of non-controlling interests in subsidiaries		(0.3)	–
Purchase of treasury shares		(49.2)	(0.6)
Proceeds from disposal of treasury shares		48.8	–
Dividends paid	30	(58.3)	(47.3)
Net cash (used in) / from financing activities		**(58.9)**	**160.2**
Effect of exchange rate changes on cash and cash equivalents		37.5	(4.2)
Effect of hyperinflation on cash and cash equivalents		(1.0)	(0.7)
Net increase in cash and cash equivalents		36.2	665.2
Cash and cash equivalents at the beginning of the year		1,290.8	625.6
Cash and cash equivalents as at the end of the reporting period	**7**	**1,327.0**	**1,290.8**

1 Introduction

These consolidated financial statements of Sberbank of Russia (Sberbank, "the Bank") and its subsidiaries (together referred to as "the Group" or "Sberbank Group") have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013. Principal subsidiaries include Russian and foreign commercial banks and other companies controlled by the Group. A list of principal subsidiaries included in these consolidated financial statements is disclosed in Note 40.

The Bank is an open joint stock commercial bank established in 1841 and operating in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal shareholder, the Central Bank of the Russian Federation ("Bank of Russia"), owns 52.3% of ordinary shares or 50.0% plus 1 voting share of the issued and outstanding shares as at 31 December 2013 (31 December 2012: 52.3% of ordinary shares or 50.0% plus 1 voting share of the issued and outstanding shares).

As at 31 December 2013 the Supervisory Board of the Bank is headed by Sergey M. Ignatiev, Chairman of the Bank of Russia in the period of 2002-2013. The Supervisory Board of the Bank includes representatives from both the Bank's principal shareholder and other shareholders as well as independent directors.

The Bank operates under a general banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian, and provision of asset management services. The Bank is regulated and supervised by the Bank of Russia as a united regulator for banking and financial markets activities in the Russian Federation being a successor to the Federal Service for Financial Markets which was abolished in 2013 and all its powers were transferred to the Bank of Russia. The Group's foreign banks/companies operate under the banking/companies regulatory regimes of their respective countries.

The Group's principal business activity is corporate and retail banking. This includes, but is not limited to, deposit taking and commercial lending in freely convertible currencies, local currencies of countries where the subsidiary banks operate and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. As at 31 December 2013 the Group conducts its business in Russia through Sberbank with its network of 17 (31 December 2012: 17) regional head offices, 77 (31 December 2012: 193) branches and 17 893 (31 December 2012: 18 377) sub-branches, and through principal subsidiaries located in Russia such as CJSC Sberbank Leasing, LLC Sberbank Capital, companies of ex-Troika Dialog Group Ltd. and Cetelem Bank LLC (former BNP Paribas Vostok LLC). The Group carries out banking operations in Turkey, Ukraine, Belarus, Kazakhstan, Austria, Switzerland and other countries of Central and Eastern Europe and also conducts operations through a branch office in India, representative offices in Germany and China and companies of ex-Troika Dialog Group Ltd. located in the United States of America, the United Kingdom, Cyprus and certain other jurisdictions.

The actual headcount of the Group's employees as at 31 December 2013 was 306,123 (31 December 2012: 286,019).

Registered address and place of business. The Bank's registered address is: Vavilova str., 19, Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"). All amounts are expressed in RR billions unless otherwise stated.

2 Operating Environment of the Group

The Group conducts its business in the Russian Federation, Turkey, CIS region (Ukraine, Belarus, Kazakhstan), Austria, Switzerland and other countries of Central and Eastern Europe.

The Russian Federation. The most part of the Group operations are conducted in the Russian Federation.

2 Operating Environment of the Group (Continued)

The most important trend in the Russian economy in 2013 was significant slow-down in economic growth resulted in the decrease of GDP growth to 1.3% in 2013 as per preliminary assessment by the Ministry of Economic Development of the Russian Federation primarily due to the low investment demand. External factors were also significant for the economic trends in the Russian Federation during 2013. The considerable capital outflow from developing markets in 2013, including the Russian market, was caused by curtailment plans for a third round of quantitative easing (QE3) of Federal Reserve System (US Fed). Consequently the Russian Rouble lost 7.2% of its value towards US dollar and 10.5% towards Euro in 2013 enhancing downtrend caused by fundamental factors. Though the crude oil prices were relatively stable in 2013, decrease in current account surplus together with above negative factors adversely influenced Russian Rouble perspectives. Inflation amounted to 6.5% in 2013 exceeding threshold planned by the Bank of Russia.

Increase in consumption remained the main driver of economic growth in 2013 despite its deceleration (increase of 3.9% in 2013 vs. 6.3% in 2012). This slowdown in consumption growth resulted from the same trend in volumes of retail loans due to the restrictions from the Bank of Russia, weakening in personal income and salaries growth.

In addition to the policy of limitation of exposure to risky unsecured consumer lending, the Bank of Russia initiated campaign for re-registration of non-state pension funds as joint-stock companies and purging the Russian banking system of the banks involved in money laundering and tax evasion transactions. As a result Russian banking system faced the decrease in the level of public trust resulted in a shift to foreign currency and precious metals deposit savings in state-owned banks.

Corporate lending increased more slowly than retail lending resulting in 12.7% compared to 28.7% growth in 2013. Low attractiveness of corporate lending was caused by decreased investment demand and extremely small share of investments financed through bank loans (appr. 10%). Increase of industrial output continued to fluctuate around zero. Moreover average real rates of interest remained relatively high also reducing demand on loans. Increase in corporate sector foreign liabilities was another factor which contributed to slowdown in lending growth.

Current account surplus decrease accompanied with capital outflow resulted in the lower fundamental supporting factors for Russian Rouble exchange rate. This required foreign currencies interventions from the Bank of Russia, which started in May 2013 and led to some liquidity tension on Russian Rouble money market. Consequently the Bank of Russia logically increased refinancing volume of banking sector especially during tax payment periods. Liabilities of the banks due to the Bank of Russia under repo deals reached its maximum – over RR 3 trillion. Interest rates on money market remained relatively high during the year with reaching the peak of interest rate corridor set by the Bank of Russia during the tax payment periods.

Other jurisdictions. In addition to Russia the Group conducts operations in CIS (Ukraine, Belarus, Kazakhstan), Central and Eastern Europe (Austria, Czech Republic, Slovakia, Bosnia and Herzegovina, Slovenia, Serbia, Hungary, Croatia), Turkey, Switzerland and some other countries. Tough economic and liquidity situation in many countries led to decrease or insignificant growth of GDP followed by shrinking in consumption as well as in investment activities. The primary goals of the local regulators were support of monetary stability, management of GDP deficit and inflation level regulation. In 2013 economy of the Republic Belarus remained hyperinflatory as defined by IAS 29.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of office premises, investment property, available-for-sale financial assets and financial instruments at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies (investees), including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented as a separate component within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference ("gain from bargain purchase") is recognized in the consolidated statement of profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies for the purpose of preparation of these consolidated financial statements.

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

Financial instruments – Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortized cost as described below.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm’s length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount and premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. Premiums and discounts on variable interest instruments are amortized to the next interest repricing date except for premiums and discounts which reflect the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include correspondent accounts, overnight interbank loans and reverse sale and repurchase agreements with original maturity up to 1 day. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. During the year ended 31 December 2013 the Management changed its estimate of the maximum maturity of interbank loans and repo deals which are considered as cash and cash equivalents from up to 30 days to up to 1 business day. Comparative figures have not been adjusted.

Mandatory cash balances with Central Banks. Mandatory cash balances with Central Banks are carried at amortized cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the reporting date.

Plastic cards settlements. Plastic cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement and are carried at amortized cost.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities on initial recognition included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated statement of profit or loss as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. Translation differences are included in Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of profit or loss as net gains/ (losses) arising from trading securities in the period in which they arise.

Securities designated as at fair value through profit or loss. Securities designated as at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortized cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

Impairment of financial assets carried at amortized cost. Impairment losses on financial assets carried at amortized cost are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when deciding whether a financial asset is impaired or not are (i) past due status of financial asset, (ii) financial position of the borrower, (iii) unsatisfactory debt servicing and (iv) realisability of related collateral, if any.

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions. As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

Impairment losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset, accounts for cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

Write-off of assets at amortized cost. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- Identification of loans that are individually significant and contain signs of impairment, i.e., those loans, that, if fully impaired, would have a material impact on the Group's operating income.
- Determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount materially exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loans.
- All remaining loans and individually significant loans without objective evidence of impairment are assessed on a portfolio basis.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The Group applies the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this methodology.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organizational structure, credit history and business reputation of the borrower are also taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of collective assessment of not past due loans and advances the Group analyses loans of each class in terms of its historical loss and recovery rate separately for renegotiated and non-renegotiated loans. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. For the purpose of collective assessment of past due loans and advances Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

Investment securities available-for-sale. This classification includes investment securities, which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss in other operating income when the Group's right to receive payment is established. Foreign currency exchange differences arising on debt investment securities available-for-sale are recognized in profit or loss in the period in which they arise. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of the security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost (less scheduled principal repayments for debt securities) and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income and recognized in profit or loss. Recognized impairment losses on equity instruments are not reversed through profit or loss in a subsequent period. As for debt instruments classified as available-for-sale, if, in a subsequent period, the fair value of such instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through current period's profit or loss. The unrealised gains/(losses) on revaluation of investment securities available-for-sale other than impairment losses are presented in other comprehensive income as net gains/(losses) on revaluation of investment securities available-for-sale.

If the Group has both the intention and ability to hold investment securities available-for-sale to maturity, they may be reclassified as investment securities held-to-maturity. In this case the fair value of securities as at the date of reclassification becomes their new amortized cost. For instruments with a fixed maturity the revaluation reserve as at the date of reclassification is amortized to profit or loss during the period until maturity using the effective interest rate method.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to banks or due to corporate customers.

Funds granted under reverse repo agreements are recorded as cash and cash equivalents, due from banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price in sale and repurchase agreements and reverse repo agreements is treated as interest income/expense and accrued over the life of agreement using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to deliver (repurchase and return) securities. The liability is carried at fair value with effects of remeasurement presented as net gains/ (losses) arising from trading securities in the consolidated statement of profit or loss.

Investment securities held-to-maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition or upon reclassification from available-for-sale category when the Group changes its intention and has the ability to hold investment securities which were previously classified as available-for-sale to maturity. The investment securities held-to-maturity are carried at amortized cost.

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. Refer to paragraph below on treatment of renegotiations which lead to derecognition of financial assets.

Renegotiated financial assets. From time to time in the normal course of business the Group performs restructuring of financial assets, mostly of loans.

Accounting treatment of renegotiations which do not lead to derecognition of financial assets. If terms of an agreement are not materially modified, restructuring of financial instruments leads to reassessment of effective interest rate based on current carrying amount and modified future cash flows.

Accounting treatment of renegotiations which lead to derecognition of financial assets. Material modifications of agreement terms lead to derecognition of a financial asset and a recognition of a new asset at fair value. The following principal modifications in terms are considered to be material:

- Change of currency in which cash flows are denominated;
- Consolidation or separation of several financial instruments;
- Present value of the cash flows under the new terms discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

3 Basis of Preparation and Significant Accounting Policies (Continued)

In all cases if the restructuring of financial assets is due to financial difficulties of a borrower, financial assets are assessed for impairment before recognition of a renegotiation.

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included as part of investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment before aggregation. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment and premises other than office premises are stated at cost less accumulated depreciation. Office premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognized in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for office premises included in equity is transferred directly to retained earnings on a straight-line basis as the asset is used by the Group. On the retirement or disposal of the asset the remaining revaluation reserve is immediately transferred to the retained earnings.

Construction in progress is accounted for based on actual costs, less provision for impairment where required. Upon completion, assets are transferred to corresponding category of Premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred through consolidated statement of profit or loss. Cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

If impaired, premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in other comprehensive income.

Positive revaluation shall be recognized in profit or loss to the extent that it reverses a negative revaluation of the same asset previously recognized in profit or loss. The amount that exceeds negative revaluation previously charged to profit or loss shall be recognized in other comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

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

Office premises	2.5-3.3%;
Other premises	2.5%;
Office equipment	14.3%;
Computer equipment	33.3%; and
Vehicles and other equipment	18%.

3 Basis of Preparation and Significant Accounting Policies (Continued)

During the year ended 31 December 2013 the management changed its estimate of expected useful life of office and computer equipment of the Group. Based on the results of analysis, beginning from 1 July 2013 expected useful life of office equipment was changed from 4 years to 7 years; expected useful life of computer equipment was changed from 4 years to 3 years. In case this change in the assessment was not carried out, depreciation charge for premises and equipment for the year ended 31 December 2013 would have been approximately RR 4.1 billion higher. Comparative figures have not been adjusted.

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is stated at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognized in consolidated statement of profit or loss as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated statement of profit or loss within other operating income.

Subsequent expenditure on investment property is capitalized only when it is probable that additional future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

If an investment property becomes occupied by the Group, it is reclassified to the corresponding category of Premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently measured according to the accounting policy provided for such category.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the Group is a lessor lease receivables are recognized at value equal to the net investment in the lease, starting from the date of commencement of the lease term. 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. The net investment in finance lease is recorded within loans and advances to customers.

Due to banks. Amounts due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. Amounts due to banks present non-derivative financial liabilities and are carried at amortized cost.

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative financial liabilities to individuals and corporate customers (including state agencies and state-controlled companies) and are carried at amortized cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, savings certificates and other debt securities issued by the Group. Debt securities in issue except structured notes which are described below are stated at amortized cost. If the Group repurchases its debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income in the consolidated statement of profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Structured notes. Structured notes are issued by the Group and are stated at fair value. The underlying assets of structured notes are securities issued by Russian companies which cannot be purchased by the Group's foreign clients directly from the market. Recognition and measurement of these financial liabilities is consistent with the policy for trading securities stated above in this Note. Structured notes are included in Debt securities in issue.

Other borrowed funds*.* Other borrowed funds represent syndicated loans attracted by the Group on financial markets and trade finance deals. Other borrowed funds are carried at amortized cost.

Obligation to deliver securities. Obligation to deliver securities refers to transactions in which the Group sells securities which it does not own, and which it is obligated to deliver at a future date. Such transactions are initially recorded at cost as liabilities and then are carried at fair value. Any unrealized gain or loss is recorded in the consolidated statement of profit or loss in net gains/ (losses) arising from trading securities for the difference between the proceeds receivable from the sale and the value of the open short position. The Group realizes a gain or loss when the short position is closed. Valuation of such securities is consistent with the accounting policy of the Group for trading securities.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the companies' of the Group liquidation. Subordinated debt is carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including forward and future contracts, option contracts on financial instruments and swap contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the consolidated statement of profit or loss in net results arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation; changes in the fair value of derivative financial instruments on precious metals are included in net results arising from operations with precious metals and precious metals derivatives; changes in the fair value of derivatives on securities, interest rates and other derivatives – in net results arising from operations with other derivative financial instruments.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and legislation of other jurisdictions in which the Group performs business enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the profit or loss except if it is recognized in other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognized for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognized for temporary differences on initial recognition of goodwill or any other asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost.

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

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorized for issue are disclosed in the subsequent events note. Dividends are calculated based on IFRS net profit and distributed out from the Bank statutory net results.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful for collection, the base for calculation of interest income is reduced to present value of expected cash inflows and interest income is thereafter recorded based on the asset's original effective interest rate which was used before impairment recognition.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

3 Basis of Preparation and Significant Accounting Policies (Continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

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

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions performed by the companies of the Group and from the translation of monetary assets and liabilities into each entity's functional currency are recognized in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (except for the subsidiary bank in Belarus the economy of which is considered hyperinflationary) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;

(II) income and expenses for each statement of profit or loss and statement of other comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedure: all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position.

When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in components of other comprehensive income and taken to a separate component of equity.

The cumulative balance of currency translation differences presented in equity at 31 December 2013 amounted to a loss of RR 13.7 billion (31 December 2012: a loss of RR 4,7 billion).

3 Basis of Preparation and Significant Accounting Policies (Continued)

At 31 December 2013 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RR	/UAH	/BYR	/KZT	/EUR	/CHF	/TRY
RR/	1.000	0.252	291.483	4.693	0.022	0.027	0.065
USD/	32.729	8.240	9,540.010	153.595	0.728	0.892	2.139
EUR/	44.970	11.322	13,107.968	211.039	1.000	1.225	2.939

At 31 December 2012 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RR	/UAH	/BYR	/KZT	/EUR	/CHF	/TRY
RR/	1.000	0.266	282.985	4.948	0.025	0.030	0.059
USD/	30.373	8.080	8,595.009	150.280	0.755	0.912	1.790
EUR/	40.229	10.702	11,384.078	199.046	1.000	1.208	2.371

Accounting for the effects of hyperinflation. With the effect from 1 January 2011, the Belarusian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Group has used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 were as follows:

Year	Index, %	Conversion factors
2006	106.5	454.6
2007	112.0	406.0
2008	113.5	357.9
2009	109.9	325.8
2010	110.0	296.1
2011	208.7	141.9
2012	121.7	116.6
2013	116.6	100.0

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as of 31 December 2013. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as of 31 December 2013) are restated by applying the relevant index. The effect of hyperinflation on the Group's net monetary position is included in profit or loss.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income in the consolidated statement of profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Assets under management. The Group has set up mutual investment funds and acts as the manager of their assets. The assets of these funds do not represent assets of the Group and therefore are not reported on the consolidated statement of financial position. The management fee income is recorded in the consolidated statement of profit or loss within fee and commission income.

Contingent assets. Contingent assets are assets that could arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognized by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity at initial recognition, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount or settle a position close to maturity – it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held-to-maturity as at 31 December 2013 refer to Note 35.

Evidence of an active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

Deferred income tax asset recognition. The recognised deferred tax asset represents amount of income tax which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore sometimes not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 38 and 39.

Revaluation of office premises. The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not materially differ from its fair value. Office premises have been revalued to market value at 31 December 2011. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2012.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Impairment of available-for-sale investments. The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below the cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in securities' prices and future cash flows. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Changes in presentation and reclassifications. Following the improved disclosure of other liabilities in the current period, the presentation of the comparative information has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated statement of financial position and on the corresponding note as at 31 December 2012 is as follows:

in billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Other financial liabilities			
Accrued employee benefit costs	–	29.3	29.3
Deferred commissions received on guarantees issued	1.3	(1.3)	–
Total other financial liabilities	**1.3**	**28.0**	**29.3**
Other non-financial liabilities			
Accrued employee benefit costs	29.3	(29.3)	–
Deferred commissions received on guarantees issued	–	1.3	1.3
Total other non-financial liabilities	**29.3**	**(28.0)**	**1.3**

Due to the growth of the insurance business of the Group, in these financial statements the results of operations on insurance activities have been presented separately. The presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated statement of profit or loss for the year ended 31 December 2012 is as follows:

in billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Cost of sales of non-financial business activities and insurance	(38.2)	(0.4)	(38.6)
Other operating income	3.9	0.4	4.3

The effect of corresponding reclassifications on the disclosure of revenues and costs of sales of non-banking operations and insurance for the year ended 31 December 2012 is as follows:

in billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Total revenue of non-financial business activities and insurance			
- Revenue from other activities	3.9	(0.4)	3.5
- Revenue from insurance	–	0.4	0.4
Total cost of sales of non-financial business activities and insurance			
- Costs related to insurance activities	–	(0.4)	(0.4)
Total net income of non-financial business activities and insurance	**13.0**	**(0.4)**	**12.6**

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

The corresponding effect on the segment reporting of the Group for the year ended 31 December 2012 is as follows:

in billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Moscow segment			
Cost of sales of non-financial business activities and insurance	(11.9)	(0.4)	(12.3)
Other operating income	10.6	0.4	11.0
Total			
Cost of sales of non-financial business activities and insurance	(38.1)	(0.4)	(38.5)
Other operating income	14.1	0.4	14.5

The effect of corresponding reclassifications on disclosure of the consolidated statement of cash flows for the year ended 31 December 2012 is as follows:

in billions of Russian Roubles	As previously reported	Reclassification	As reclassified
Insurance premiums received	–	0.5	0.5
Interest received	1,135.7	(0.5)	1,135.2

5 Adoption of New or Revised Standards and Interpretations

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

IFRS 10 Consolidated Financial Statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 includes all of the disclosures that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 *Interests in joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Adoption of the standard did not require any new disclosures to be made in the consolidated financial statements of the Group and had no impact on its financial position or performance.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The adoption of the IFRS 13 had no effect on the measurement of the Group's assets and liabilities accounted for at fair value.

IAS 27 Separate Financial Statements (as revised in 2011). As a consequence of the new IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 19 Employee Benefits. The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 *Presentation of Financial Statements* change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, on derecognition or settlement) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). These amendments changed presentation in the statement of comprehensive income but had no effect on the financial position and performance.

Disclosures — Offsetting Financial Assets and Financial liabilities – Amendments to IFRS 7 Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods, with retrospective application). These disclosures, which are similar to the new US GAAP requirements, provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and US GAAP.

Improvements to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2013.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property, Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 *Consolidated Financial Statements*. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

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

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

The above mentioned new or amended standards and interpretations effective from 1 January 2013 did not have a material impact on the accounting policies, financial position or performance of the Group.

6 New Accounting Pronouncements

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

IFRS 9 Financial Instruments. IFRS 9, as issued in November 2009 and amended in October 2010, December 2011 and November 2013, reflects two of the three phases of the IASB project on replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued. Key features of the standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

6 New Accounting Pronouncements (Continued)

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.

Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32 Financial Instruments: Presentation (issued in December 2011). These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments become effective for annual periods beginning on or after 1 January 2014, retrospective application is possible.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 Financial Instrument: Recognition and Measurement. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect that these amendments will have an impact on its financial statements as the Group does not apply hedge accounting according to IFRS.

IFRIC 21 Levies. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 becomes effective for annual periods beginning on or after 1 January 2014.

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 CGU 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.

Defined benefit plans: Employee contributions – Amendments to IAS 19 Employee Benefits (issued in November 2013). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. These amendments are effective for annual periods beginning 1 July 2014.

Improvements to IFRS 2010 – 2012 cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).

- *IFRS 2 Share-based Payment* was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
- *IFRS 3 Business Combinations* was amended to clarify that
  - an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and
  - all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

- *IFRS 8 Operating Segments w*as amended to require
  - o disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and
  - o a reconciliation of segment assets to the entity’s assets when segment assets are reported.
- *IFRS 13 Fair Value Measurement.* The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible* Assets were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- *IAS 24 Related Party Disclosures w*as amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Improvements to IFRSs 2011–2013 Cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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

IFRS 14 Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

The Group is considering the implications of the new standards, the impact on the Group and the timing of their adoption by the Group.

7 Cash and Cash Equivalents

in billions of Russian Roubles	**2013**	**2012**
Cash on hand	723.9	680.8
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	298.8	260.4
Correspondent accounts and placements with other banks:		
- Russian Federation	68.8	53.1
- Other countries	208.3	215.4
Reverse repo agreements	27.2	81.1
Total cash and cash equivalents	**1,327.0**	**1,290.8**

As at 31 December 2013 correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 1 day mostly represent balances with the top and well-known foreign and Russian banks, financial companies and corporate customers. As at 31 December 2012 correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 30 days mostly represent balances with the top and well-known foreign and Russian banks, financial companies and corporate customers.

Analysis by credit quality of the correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 1 day at 31 December 2013 made on the basis of ratings of international rating agencies is as follows:

in billions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Correspondent accounts and placements with banks:				
- Russian Federation	60.3	1.1	7.4	68.8
- Other countries	169.4	12.1	26.8	208.3
Reverse repo agreements	23.3	–	3.9	27.2
Total correspondent accounts and placements with banks and reverse repo agreements	**253.0**	**13.2**	**38.1**	**304.3**

Analysis by credit quality of the correspondent accounts and placements with banks and reverse repo agreements with original maturities up to 30 days at 31 December 2012 made on the basis of ratings of international rating agencies is as follows:

in billions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Correspondent accounts and placements with banks:				
- Russian Federation	32.8	0.4	19.9	53.1
- Other countries	191.1	10.7	13.6	215.4
Reverse repo agreements	24.0	22.1	35.0	81.1
Total correspondent accounts and placements with banks and reverse repo agreements	**247.9**	**33.2**	**68.5**	**349.6**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

Refer to Note 36 for the information on amounts in cash and cash equivalents which are collateralized by securities received under reverse sale and repurchase agreements.

As at 31 December 2013 and 31 December 2012 all cash and cash equivalents are neither past due nor impaired.

7 Cash and Cash Equivalents (Continued)

The estimated fair value of cash and cash equivalents and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of cash and cash equivalents are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

8 Due from Banks

in billions of Russian Roubles	2013	2012
Term placements with banks:		
- Russian Federation	108.9	59.6
- Other countries	90.3	45.4
Reverse repo agreements with banks	131.3	9.8
Total due from banks	**330.5**	**114.8**

As at 31 December 2013 term placements with banks and reverse repo agreements mostly represent balances with the top and well-known foreign and Russian banks with original maturities over 1 day. As at 31 December 2012 term placements with banks and reverse repo agreements mostly represent balances with the top and well-known foreign and Russian banks with original maturities over 30 days.

Analysis by credit quality of the term placements with banks and reverse repo agreements with original maturities over 1 day at 31 December 2013 made on the basis of ratings of international rating agencies is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Term placements with banks:				
- Russian Federation	78.4	11.3	19.2	108.9
- Other countries	58.3	18.6	13.4	90.3
Reverse repo agreements with banks	52.2	24.0	55.1	131.3
Total due from banks	**188.9**	**53.9**	**87.7**	**330.5**

Analysis by credit quality of the correspondent accounts and placements with other banks and reverse repo agreements with original maturities over 30 days at 31 December 2012 made on the basis of ratings of international rating agencies is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Term placements with banks:				
- Russian Federation	35.6	7.1	16.9	59.6
- Other countries	13.8	6.0	25.6	45.4
Reverse repo agreements with banks	5.3	3.6	0.9	9.8
Total due from banks	**54.7**	**16.7**	**43.4**	**114.8**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

The estimated fair value of due from banks and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of due from banks are disclosed in Note 32. The information on related party balances as well as state-controlled entities and government bodies balances is disclosed in Notes 38 and 39.

9 Trading Securities

in billions of Russian Roubles	31 December 2013	31 December 2012
Corporate bonds	57.9	19.6
Federal loan bonds (OFZ bonds)	13.2	26.6
Russian Federation Eurobonds	6.6	12.4
Municipal and subfederal bonds	2.7	0.8
Foreign government bonds	2.3	15.1
Total debt trading securities	**82.7**	**74.5**
Corporate shares	16.9	14.8
Investments in mutual funds	1.6	1.1
Total trading securities	**101.2**	**90.4**

Fair value of trading securities is based on their market quotations and valuation models with use of data both observable and not observable on the open market and reflects credit risk related write downs.

As trading securities are carried at fair value the Group does not analyse or monitor impairment indicators separately for these securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2013 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	32.1	25.4	0.4	57.9
Federal loan bonds (OFZ bonds)	13.2	–	–	13.2
Russian Federation Eurobonds	6.6	–	–	6.6
Municipal and subfederal bonds	1.6	1.1	–	2.7
Foreign government bonds	0.6	1.7	–	2.3
Total debt trading securities	**54.1**	**28.2**	**0.4**	**82.7**

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

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	26.6	–	–	26.6
Corporate bonds	9.5	8.9	1.2	19.6
Foreign government bonds	7.8	7.3	–	15.1
Russian Federation Eurobonds	12.4	–	–	12.4
Municipal and subfederal bonds	–	0.8	–	0.8
Total debt trading securities	**56.3**	**17.0**	**1.2**	**74.5**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

At 31 December 2013 and 31 December 2012 there were no renegotiated trading debt securities that would otherwise be past due. Trading debt securities are not collateralized. All trading debt securities are not past due.

Currency and maturity analyses of trading securities are disclosed in Note 32. The information on trading securities issued by state-controlled entities and government bodies is disclosed in Note 39.

10 Securities Designated as at Fair Value through Profit or Loss

in billions of Russian Roubles	31 December 2013	31 December 2012
Federal loan bonds (OFZ bonds)	7.1	8.5
Foreign government bonds	0.7	0.9
Corporate bonds	0.4	0.8
Total debt securities designated as at fair value through profit or loss	**8.2**	**10.2**
Corporate shares	7.9	7.0
Investments in mutual funds	1.4	2.0
Total securities designated as at fair value through profit or loss	**17.5**	**19.2**

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Management of the Group assesses performance of these investments based on their fair values in accordance with the Policy of the Group for securities portfolios classification. Fair value of securities designated as at fair value through profit or loss is based on their market quotations and valuation models with use of data both observable and not observable on the open market.

Securities designated as at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. Analysis by credit quality of debt securities designated as at fair value through profit or loss outstanding at 31 December 2013 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	7.1	–	–	7.1
Foreign government bonds	–	0.7	–	0.7
Corporate bonds	–	0.4	–	0.4
Total debt securities designated as at fair value through profit or loss	**7.1**	**1.1**	**–**	**8.2**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2012 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	8.5	–	–	8.5
Foreign government bonds	–	0.8	0.1	0.9
Corporate bonds	0.6	0.2	–	0.8
Total debt securities designated as at fair value through profit or loss	**9.1**	**1.0**	**0.1**	**10.2**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

At 31 December 2013 and 31 December 2012 there are no renegotiated balances that would otherwise be past due. Debt securities designated as at fair value through profit or loss are not collateralized. All debt securities designated as at fair value through profit or loss are not past due.

Currency and maturity analyses of securities designated as at fair value through profit or loss are disclosed in Note 32. The information on securities designated as at fair value through profit or loss issued by state-controlled entities and government bodies is disclosed in Note 39.

11 Loans and Advances to Customers

The tables below show credit quality of the Group's loan portfolio by loan classes as at 31 December 2013 and 31 December 2012.

In these consolidated financial statements the Group has made more detailed presentation of loan classes and disclosed separately credit cards and overdrafts which were previously included in consumer and other loans to individuals. Presentation of the comparative figures has been adjusted to be consistent with the new presentation.

For the purposes of these consolidated financial statements a loan is considered past due when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognized as past due.

			31 December 2013
in billions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	5,965.5	258.4	**6,223.9**
Specialized loans to legal entities	3,428.6	143.5	**3,572.1**
Consumer and other loans to individuals	1,561.6	111.2	**1,672.8**
Mortgage loans to individuals	1,509.6	59.4	**1,569.0**
Credit cards and overdrafts	303.2	45.8	**349.0**
Car loans to individuals	148.8	8.4	**157.2**
Total loans and advances to customers before provision for loan impairment	**12,917.3**	**626.7**	**13,544.0**
Less: Provision for loan impairment	(218.5)	(391.8)	**(610.3)**
Total loans and advances to customers net of provision for loan impairment	**12,698.8**	**234.9**	**12,933.7**

			31 December 2012
in billions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	5,033.7	247.8	**5,281.5**
Specialized loans to legal entities	2,836.0	110.3	**2,946.3**
Consumer and other loans to individuals	1,298.3	73.2	**1,371.5**
Mortgage loans to individuals	1,094.6	48.8	**1,143.4**
Credit cards and overdrafts	174.3	23.9	**198.2**
Car loans to individuals	118.2	5.2	**123.4**
Total loans and advances to customers before provision for loan impairment	**10,555.1**	**509.2**	**11,064.3**
Less: Provision for loan impairment	(237.1)	(327.9)	**(565.0)**
Total loans and advances to customers net of provision for loan impairment	**10,318.0**	**181.3**	**10,499.3**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Majority of commercial loans are provided for periods up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialized lending to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

11 Loans and Advances to Customers (continued)

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans and credit cards and overdrafts. These loans include loans for current needs.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by real estate.

Credit cards and overdrafts represent revolving credit lines. These loans are considered a comfortable instrument for customers as a reserve source of funds in case of need available everywhere and anytime. Credit card loans are provided for 3 years period. Interest rates for such loans are higher than for consumer loans as they carry higher risks for the Group.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for periods of up to 5 years.

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2013:

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	5,869.0	(81.7)	5,787.3	1.4%
Loans up to 30 days overdue	33.0	(5.1)	27.9	15.5%
Loans 31 to 60 days overdue	12.3	(4.2)	8.1	34.1%
Loans 61 to 90 days overdue	11.6	(4.4)	7.2	37.9%
Loans 91 to 180 days overdue	16.3	(10.2)	6.1	62.6%
Loans over 180 days overdue	131.0	(122.6)	8.4	93.6%
Total collectively assessed loans	**6,073.2**	**(228.2)**	**5,845.0**	**3.8%**
Individually impaired				
Not past due	96.5	(28.8)	67.7	29.8%
Loans up to 30 days overdue	4.9	(3.0)	1.9	61.2%
Loans 31 to 60 days overdue	1.7	(0.2)	1.5	11.8%
Loans 61 to 90 days overdue	7.5	(4.2)	3.3	56.0%
Loans 91 to 180 days overdue	3.8	(2.4)	1.4	63.2%
Loans over 180 days overdue	36.3	(26.6)	9.7	73.3%
Total individually impaired loans	**150.7**	**(65.2)**	**85.5**	**43.3%**
Total commercial loans to legal entities	**6,223.9**	**(293.4)**	**5,930.5**	**4.7%**
Specialized loans to legal entities				
Collectively assessed				
Not past due	3,315.0	(71.0)	3,244.0	2.1%
Loans up to 30 days overdue	11.6	(1.3)	10.3	11.2%
Loans 31 to 60 days overdue	9.2	(3.3)	5.9	35.9%
Loans 61 to 90 days overdue	3.7	(1.4)	2.3	37.8%
Loans 91 to 180 days overdue	6.4	(4.4)	2.0	68.8%
Loans over 180 days overdue	40.3	(35.0)	5.3	86.8%
Total collectively assessed loans	**3,386.2**	**(116.4)**	**3,269.8**	**3.4%**
Individually impaired				
Not past due	113.6	(31.1)	82.5	27.4%
Loans up to 30 days overdue	10.7	(5.8)	4.9	54.2%
Loans 31 to 60 days overdue	3.2	(2.8)	0.4	87.5%
Loans 61 to 90 days overdue	1.8	(1.5)	0.3	83.3%
Loans 91 to 180 days overdue	4.5	(3.9)	0.6	86.7%
Loans over 180 days overdue	52.1	(44.6)	7.5	85.6%
Total individually impaired loans	**185.9**	**(89.7)**	**96.2**	**48.3%**
Total specialized loans to legal entities	**3,572.1**	**(206.1)**	**3,366.0**	**5.8%**
Total loans to legal entities	**9,796.0**	**(499.5)**	**9,296.5**	**5.1%**

11 Loans and Advances to Customers (continued)

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	1,561.6	(3.2)	1,558.4	0.2%
Loans up to 30 days overdue	38.0	(2.7)	35.3	7.1%
Loans 31 to 60 days overdue	9.9	(2.7)	7.2	27.3%
Loans 61 to 90 days overdue	7.7	(3.2)	4.5	41.6%
Loans 91 to 180 days overdue	14.1	(9.9)	4.2	70.2%
Loans over 180 days overdue	41.5	(38.4)	3.1	92.5%
Total consumer and other loans to individuals	**1,672.8**	**(60.1)**	**1,612.7**	**3.6%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	1,509.6	(0.7)	1,508.9	–
Loans up to 30 days overdue	22.3	(0.6)	21.7	2.7%
Loans 31 to 60 days overdue	4.6	(0.5)	4.1	10.9%
Loans 61 to 90 days overdue	2.9	(0.5)	2.4	17.2%
Loans 91 to 180 days overdue	3.9	(1.5)	2.4	38.5%
Loans over 180 days overdue	25.7	(22.4)	3.3	87.2%
Total mortgage loans to individuals	**1,569.0**	**(26.2)**	**1,542.8**	**1.7%**
Credit cards and overdrafts				
Collectively assessed				
Not past due	303.2	(1.8)	301.4	0.6%
Loans up to 30 days overdue	22.4	(1.5)	20.9	6.7%
Loans 31 to 60 days overdue	3.7	(1.0)	2.7	27.0%
Loans 61 to 90 days overdue	2.3	(1.2)	1.1	52.2%
Loans 91 to 180 days overdue	4.5	(3.4)	1.1	75.6%
Loans over 180 days overdue	12.9	(11.7)	1.2	90.7%
Total credit cards and overdrafts	**349.0**	**(20.6)**	**328.4**	**5.9%**
Car loans to individuals				
Collectively assessed				
Not past due	148.8	(0.2)	148.6	0.1%
Loans up to 30 days overdue	3.2	(0.2)	3.0	6.3%
Loans 31 to 60 days overdue	0.8	(0.2)	0.6	25.0%
Loans 61 to 90 days overdue	0.6	(0.2)	0.4	33.3%
Loans 91 to 180 days overdue	1.0	(0.6)	0.4	60.0%
Loans over 180 days overdue	2.8	(2.5)	0.3	89.3%
Total car loans to individuals	**157.2**	**(3.9)**	**153.3**	**2.5%**
Total loans to individuals	**3,748.0**	**(110.8)**	**3,637.2**	**3.0%**
Total loans and advances to customers as at 31 December 2013	**13,544.0**	**(610.3)**	**12,933.7**	**4.5%**

11 Loans and Advances to Customers (continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2012:

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	4,972.5	(105.9)	4,866.6	2.1%
Loans up to 30 days overdue	29.3	(3.5)	25.8	11.9%
Loans 31 to 60 days overdue	11.0	(3.1)	7.9	28.2%
Loans 61 to 90 days overdue	6.6	(2.3)	4.3	34.8%
Loans 91 to 180 days overdue	14.9	(8.2)	6.7	55.0%
Loans over 180 days overdue	133.2	(121.8)	11.4	91.4%
Total collectively assessed loans	**5,167.5**	**(244.8)**	**4,922.7**	**4.7%**
Individually impaired				
Not past due	61.2	(26.1)	35.1	42.6%
Loans up to 30 days overdue	5.0	(2.5)	2.5	50.0%
Loans 31 to 60 days overdue	4.0	(2.6)	1.4	65.0%
Loans 61 to 90 days overdue	1.5	(0.5)	1.0	33.3%
Loans 91 to 180 days overdue	1.5	(0.1)	1.4	6.7%
Loans over 180 days overdue	40.8	(33.3)	7.5	81.6%
Total individually impaired loans	**114.0**	**(65.1)**	**48.9**	**57.1%**
Total commercial loans to legal entities	**5,281.5**	**(309.9)**	**4,971.6**	**5.9%**
Specialized loans to legal entities				
Collectively assessed				
Not past due	2,772.8	(76.1)	2,696.7	2.7%
Loans up to 30 days overdue	12.3	(1.4)	10.9	11.4%
Loans 31 to 60 days overdue	2.2	(0.4)	1.8	18.2%
Loans 61 to 90 days overdue	1.4	(0.7)	0.7	50.0%
Loans 91 to 180 days overdue	3.4	(2.2)	1.2	64.7%
Loans over 180 days overdue	43.7	(39.6)	4.1	90.6%
Total collectively assessed loans	**2,835.8**	**(120.4)**	**2,715.4**	**4.2%**
Individually impaired				
Not past due	63.2	(26.1)	37.1	41.3%
Loans up to 30 days overdue	5.8	(0.5)	5.3	8.6%
Loans 31 to 60 days overdue	1.9	(1.5)	0.4	78.9%
Loans 61 to 90 days overdue	3.5	(2.5)	1.0	71.4%
Loans 91 to 180 days overdue	2.9	(1.4)	1.5	48.3%
Loans over 180 days overdue	33.2	(28.2)	5.0	84.9%
Total individually impaired loans	**110.5**	**(60.2)**	**50.3**	**54.5%**
Total specialized loans to legal entities	**2,946.3**	**(180.6)**	**2,765.7**	**6.1%**
Total loans to legal entities	**8,227.8**	**(490.5)**	**7,737.3**	**6.0%**

11 Loans and Advances to Customers (continued)

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	1,298.3	(1.7)	1,296.6	0.1%
Loans up to 30 days overdue	23.6	(1.2)	22.4	5.1%
Loans 31 to 60 days overdue	7.0	(1.4)	5.6	20.0%
Loans 61 to 90 days overdue	4.8	(1.6)	3.2	33.3%
Loans 91 to 180 days overdue	8.1	(4.9)	3.2	60.5%
Loans over 180 days overdue	29.7	(26.5)	3.2	89.2%
Total consumer and other loans to individuals	**1,371.5**	**(37.3)**	**1,334.2**	**2.7%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	1,094.6	(0.8)	1,093.8	0.1%
Loans up to 30 days overdue	13.6	(0.5)	13.1	3.7%
Loans 31 to 60 days overdue	3.8	(0.4)	3.4	10.5%
Loans 61 to 90 days overdue	2.4	(0.4)	2.0	16.7%
Loans 91 to 180 days overdue	2.9	(1.0)	1.9	34.5%
Loans over 180 days overdue	26.1	(23.4)	2.7	89.7%
Total mortgage loans to individuals	**1,143.4**	**(26.5)**	**1,116.9**	**2.3%**
Credit cards and overdrafts				
Collectively assessed				
Not past due	174.3	(0.3)	174.0	0.2%
Loans up to 30 days overdue	11.5	(0.9)	10.6	7.8%
Loans 31 to 60 days overdue	2.7	(0.5)	2.2	18.5%
Loans 61 to 90 days overdue	1.6	(0.5)	1.1	31.3%
Loans 91 to 180 days overdue	3.1	(2.1)	1.0	67.7%
Loans over 180 days overdue	5.0	(3.9)	1.1	78.0%
Total credit cards and overdrafts	**198.2**	**(8.2)**	**190.0**	**4.1%**
Car loans to individuals				
Collectively assessed				
Not past due	118.2	(0.1)	118.1	0.1%
Loans up to 30 days overdue	2.0	(0.1)	1.9	5.0%
Loans 31 to 60 days overdue	0.4	(0.1)	0.3	25.0%
Loans 61 to 90 days overdue	0.3	(0.1)	0.2	33.3%
Loans 91 to 180 days overdue	0.4	(0.2)	0.2	50.0%
Loans over 180 days overdue	2.1	(1.9)	0.2	90.5%
Total car loans to individuals	**123.4**	**(2.5)**	**120.9**	**2.0%**
Total loans to individuals	**2,836.5**	**(74.5)**	**2,762.0**	**2.6%**
Total loans and advances to customers as at 31 December 2012	**11,064.3**	**(565.0)**	**10,499.3**	**5.1%**

11 Loans and Advances to Customers (continued)

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2013:

in billions of Russian Roubles	**1 group**	**2 group**	**3 group**	**Total**
Commercial loans to legal entities	871.0	2,859.7	2,138.3	5,869.0
Specialized loans to legal entities	162.5	1,372.0	1,780.5	3,315.0
Consumer and other loans to individuals	39.6	1,489.3	32.7	1,561.6
Mortgage loans to individuals	58.0	1,437.4	14.2	1,509.6
Credit cards and overdrafts	20.0	260.3	22.9	303.2
Car loans to individuals	40.0	106.3	2.5	148.8
Total not past due collectively assessed loans before provision for loan impairment as at 31 December 2013	**1,191.1**	**7,525.0**	**3,991.1**	**12,707.2**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2012:

in billions of Russian Roubles	**1 group**	**2 group**	**3 group**	**Total**
Commercial loans to legal entities	522.7	2,620.7	1,829.1	4,972.5
Specialized loans to legal entities	151.3	1,336.7	1,284.8	2,772.8
Consumer and other loans to individuals	26.3	1,253.5	18.5	1,298.3
Mortgage loans to individuals	43.2	1,036.4	15.0	1,094.6
Credit cards and overdrafts	10.5	152.3	11.5	174.3
Car loans to individuals	2.5	113.6	2.1	118.2
Total not past due collectively assessed loans before provision for loan impairment as at 31 December 2012	**756.5**	**6,513.2**	**3,161.0**	**10,430.7**

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality. The 1-st group includes borrowers with high level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The 1-st group of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

11 Loans and Advances to Customers (continued)

As at 31 December 2013 the outstanding non-performing loans were as follows:

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	187.4	(161.8)	25.6	86.3%
Spezialized loans to legal entities	103.3	(87.9)	15.4	85.1%
Consumer and other loans to individuals	55.6	(48.3)	7.3	86.9%
Mortgage loans to individuals	29.6	(23.9)	5.7	80.7%
Credit cards and overdrafts	17.4	(15.1)	2.3	86.8%
Car loans to individuals	3.8	(3.1)	0.7	81.6%
Total non-performing loans and advances to customers as at 31 December 2013	**397.1**	**(340.1)**	**57.0**	**85.6%**

As at 31 December 2012 the outstanding non-performing loans were as follows:

in billions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	190.4	(163.4)	27.0	85.8%
Spezialized loans to legal entities	83.2	(71.4)	11.8	85.8%
Consumer and other loans to individuals	37.8	(31.4)	6.4	83.1%
Mortgage loans to individuals	29.0	(24.4)	4.6	84.1%
Credit cards and overdrafts	8.1	(6.0)	2.1	74.1%
Car loans to individuals	2.5	(2.1)	0.4	84.0%
Total non-performing loans and advances to customers as at 31 December 2012	**351.0**	**(298.7)**	**52.3**	**85.1%**

Provisions for Loan Impairment. The analysis of changes in provisions for loan impairment for the year ended 31 December 2013 is presented in the table below:

in billions of Russian Roubles	Commercial loans to legal entities	Specialized loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Credit cards and overdrafts	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2013	**309.9**	**180.6**	**37.3**	**26.5**	**8.2**	**2.5**	**565.0**
Net provision charge for loan impairment during the year	36.4	36.0	39.4	5.2	14.0	2.5	**133.5**
Foreign currencies translation	(0.8)	0.7	0.6	0.6	0.2	–	**1.3**
Loans and advances written off during the year	(52.1)	(11.2)	(17.2)	(6.1)	(1.8)	(1.1)	**(89.5)**
Provision for loan impairment as at 31 December 2013	**293.4**	**206.1**	**60.1**	**26.2**	**20.6**	**3.9**	**610.3**

11 Loans and Advances to Customers (continued)

The analysis of changes in provisions for loan impairment for the year ended 31 December 2012 is presented in the table below:

in billions of Russian Roubles	Commercial loans to legal entities	Specialized loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Credit cards and overdrafts	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2012	**299.6**	**293.7**	**34.4**	**28.8**	**2.9**	**3.1**	**662.5**
Net provision charge/ (net recovery of provision) for loan impairment during the year	41.2	(29.9)	5.9	(0.8)	5.3	(0.2)	**21.5**
Foreign currencies translation	–	(0.2)	–	(0.2)	–	–	**(0.4)**
Loans and advances written off during the year	(30.9)	(83.0)	(3.0)	(1.3)	–	(0.4)	**(118.6)**
Provision for loan impairment as at 31 December 2012	**309.9**	**180.6**	**37.3**	**26.5**	**8.2**	**2.5**	**565.0**

Renegotiated loans. Information on loans whose terms have been renegotiated, as at 31 December 2013 and 31 December 2012 is presented in the table below. It shows the amount for renegotiated loans before provision for loan impairment by class.

in billions of Russian Roubles	Commercial loans to legal entities	Specialized loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
31 December 2013						
Not past due collectively assessed loans	542.6	533.0	6.9	16.7	0.8	1,100.0
Other renegotiated loans	96.1	107.6	6.9	10.6	1.4	222.6
Total renegotiated loans	**638.7**	**640.6**	**13.8**	**27.3**	**2.2**	**1,322.6**
31 December 2012:						
Not past due collectively assessed loans	477.2	379.8	3.0	8.2	0.5	868.7
Other renegotiated loans	90.4	37.1	2.0	6.4	0.6	136.5
Total renegotiated loans	**567.6**	**416.9**	**5.0**	**14.6**	**1.1**	**1,005.2**

Disclosure of corporate loans before provision for loan impairment by business size of borrowers. Sberbank Group members apply its own management policies in allocating corporate borrowers according to business size.

in billions of Russian Roubles	31 December 2013	31 December 2012
Largest clients	4,291.2	4,164.6
Large clients	2,340.0	1,964.4
Medium business	2,150.9	1,379.5
Small business	1,013.9	719.3
Total loans and advances to legal entities before provision for loan impairment	**9,796.0**	**8,227.8**

11 Loans and Advances to Customers (continued)

Investments in finance lease. Included in specialized loans to legal entities are net investments in finance lease. The analysis of net investments in finance lease is as follows:

in billions of Russian Roubles	31 December 2013	31 December 2012
Gross investment in finance lease	190.4	152.4
Unearned future finance income on finance lease	(53.9)	(46.5)
Net investment in finance lease before provision for impairment	**136.5**	**105.9**
Less provision for impairment	(5.4)	(3.3)
Net investment in finance lease after provision for impairment	**131.1**	**102.6**

The contractual maturity analysis of net investments in finance lease as at 31 December 2013 is as follows:

in billions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	35.0	(1.2)	33.8
Later than 1 year but not later than 5 years	74.9	(3.2)	71.7
Later than 5 years	26.6	(1.0)	25.6
Total as at 31 December 2013	**136.5**	**(5.4)**	**131.1**

The contractual maturity analysis of net investments in finance lease as at 31 December 2012 is as follows:

in billions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment	Net investment in finance lease after provision for impairment
Not later than 1 year	31.3	(1.4)	29.9
Later than 1 year but not later than 5 years	62.8	(1.6)	61.2
Later than 5 years	11.8	(0.3)	11.5
Total as at 31 December 2012	**105.9**	**(3.3)**	**102.6**

The analysis of minimal finance lease receivables per contractual maturity is as follows:

in billions of Russian Roubles	31 December 2013	31 December 2012
Not later than 1 year	38.5	34.5
Later than 1 year but not later than 5 years	101.0	88.9
Later than 5 years	50.9	29.0
Total	**190.4**	**152.4**

11 Loans and Advances to Customers (continued)

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

	31 December 2013		31 December 2012	
in billions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	3,748.0	27.7	2,836.5	25.6
Services	2,445.3	18.1	1,962.5	17.7
Trade	1,366.2	10.1	1,304.3	11.8
Food and agriculture	900.6	6.6	862.4	7.8
Government and municipal bodies	672.9	5.0	370.4	3.3
Machine building	658.7	4.9	528.6	4.8
Energy	644.9	4.8	512.2	4.6
Telecommunications	560.1	4.1	489.2	4.4
Construction	492.6	3.6	402.7	3.6
Metallurgy	459.6	3.4	410.6	3.7
Transport, aviation, space industry	448.3	3.3	387.0	3.5
Chemical industry	386.9	2.9	378.2	3.4
Oil and gas	208.3	1.5	162.2	1.5
Timber industry	76.1	0.6	72.3	0.7
Other	475.5	3.4	385.2	3.6
Total loans and advances to customers before provision for loan impairment	**13,544.0**	**100.0**	**11,064.3**	**100.0**

"Services" category includes financial, insurance and other service companies, as well as loans granted to holding and multi-industry companies.

Refer to Note 36 for the information on amounts in loans and advances to customers which are collateralized by securities received under reverse sale and repurchase agreements.

As at 31 December 2013 the Group had 20 largest corporate borrowers with aggregated loan amounts due from each of these borrowers exceeding RR 64.5 billion (31 December 2012: 20 largest borrowers with loan amounts due from each of these borrowers exceeding RR 59.1 billion). The total aggregate amount of these loans was RR 2,499.0 billion or 18.5% of the total gross loan portfolio of the Group (31 December 2012: RR 2,140.3 billion or 19.3%).

Interest income accrued on loans, for which individual impairment has been recognized, for the year ended 31 December 2013, comprised RR 15.9 billion (2012: RR 7.3 billion).

In interest income on loans and advances to customers in the consolidated statement of profit or loss are included fines and penalties received from borrowers in the amount of RR 8.0 billion (2012: RR 6.3 billion).

The estimated fair value of loans and advances to customers and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of loans and advances to customers are disclosed in Note 32. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 38 and 39.

12 Securities Pledged under Repurchase Agreements

in billions of Russian Roubles	31 December 2013	31 December 2012
Trading securities pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	4.9	19.7
Russian Federation Eurobonds	2.8	0.5
Municipal and subfederal bonds	2.2	3.4
Corporate shares	0.9	8.0
Corporate bonds	0.5	19.5
Foreign government bonds	–	6.0
Total trading securities pledged under repurchase agreements	**11.3**	**57.1**
Securities designated as at fair value through profit or loss pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	10.2	8.7
Municipal and subfederal bonds	0.1	0.1
Total securities designated as at fair value through profit or loss pledged under repurchase agreements	**10.3**	**8.8**
Investment securities available-for-sale pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	560.9	401.7
Corporate bonds	348.4	150.2
Russian Federation Eurobonds	100.0	11.1
Municipal and subfederal bonds	49.1	25.4
Foreign government bonds	13.5	26.7
Corporate shares	–	1.2
Total investment securities available-for-sale pledged under repurchase agreements	**1,071.9**	**616.3**
Investment securities held-to-maturity pledged under repurchase agreements		
Federal loan bonds (OFZ bonds)	139.6	160.3
Corporate bonds	77.1	47.1
Municipal and subfederal bonds	30.1	60.1
Foreign government bonds	3.5	–
Total investment securities held-to-maturity pledged under repurchase agreements	**250.3**	**267.5**
Total securities pledged under repurchase agreements	**1,343.8**	**949.7**

Refer to Note 36 for the detailed information on securities pledged under sale and repurchase agreements with banks and corporate customers.

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2013 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	715.6	–	–	715.6
Corporate bonds	277.6	123.1	25.3	426.0
Russian Federation Eurobonds	102.8	–	–	102.8
Municipal and subfederal bonds	53.2	28.3	–	81.5
Foreign government bonds	17.0	–	–	17.0
Total debt securities pledged under repurchase agreements	**1,166.2**	**151.4**	**25.3**	**1,342.9**

12 Securities Pledged under Repurchase Agreements (Continued)

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2012 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	590.4	–	–	590.4
Corporate bonds	89.2	102.8	24.8	216.8
Municipal and subfederal bonds	72.4	16.6	–	89.0
Foreign government bonds	32.7	–	–	32.7
Russian Federation Eurobonds	11.6	–	–	11.6
Total debt securities pledged under repurchase agreements	**796.3**	**119.4**	**24.8**	**940.5**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

All corporate bonds pledged under repurchase agreements are not past due. None of the securities pledged under repurchase agreements were renegotiated.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 32. The information on securities issued by state-controlled entities and government bodies is disclosed in Note 39.

13 Investment Securities Available-for-Sale

in billions of Russian Roubles	31 December 2013	31 December 2012
Corporate bonds	155.9	320.2
Federal loan bonds (OFZ bonds)	142.6	149.6
Foreign government bonds	113.2	150.2
Russian Federation Eurobonds	30.2	117.7
Municipal and subfederal bonds	4.9	21.3
Total debt investment securities available-for-sale	**446.8**	**759.0**
Corporate shares	29.4	45.5
Total investment securities available-for-sale	**476.2**	**804.5**

Investment securities available-for-sale are carried at fair value which also reflects credit risk related write downs. Fair value of investment securities available-for-sale is based on their market quotations and valuation models with use of data both observable and not observable on the open market. According to the assessment of the Group as at 31 December 2013 impairment of investment securities available-for-sale comprised RR 5.2 billion (31 December 2012: RR 5.0 billion) and was recognized in profit or loss. The unrealized gains/(losses) on revaluation of investment securities available-for-sale other than impairment loss are recognized in other comprehensive income and presented in equity as fair value reserve for investment securities available-for-sale as at 31 December 2013 in the cumulative gain of RR 1.3 billion (31 December 2012: gain of RR 37.3 billion).

At 31 December 2013 there are no renegotiated balances that would otherwise be past due. As at 31 December 2012 included in investment securities available-for-sale are past due fully impaired corporate bonds with nominal value of RR 0.1 billion.

None of the investment securities available-for-sale were renegotiated.

13 Investment Securities Available-for-Sale (Continued)

Analysis by credit quality of debt investment securities available-for-sale outstanding at 31 December 2013 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	106.2	42.7	7.0	155.9
Federal loan bonds (OFZ bonds)	142.6	–	–	142.6
Foreign government bonds	74.2	28.2	10.8	113.2
Russian Federation Eurobonds	30.2	–	–	30.2
Municipal and subfederal bonds	2.8	2.1	–	4.9
Total debt investment securities available-for-sale	**356.0**	**73.0**	**17.8**	**446.8**

Analysis by credit quality of debt investment securities available-for-sale outstanding at 31 December 2012 is as follows:

in billions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	219.9	95.1	5.2	320.2
Foreign government bonds	126.9	21.2	2.1	150.2
Federal loan bonds (OFZ bonds)	149.6	–	–	149.6
Russian Federation Eurobonds	117.7	–	–	117.7
Municipal and subfederal bonds	8.1	13.0	0.2	21.3
Total debt investment securities available-for-sale	**622.2**	**129.3**	**7.5**	**759.0**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

The estimated fair value of investment securities available-for-sale and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of investment securities available-for-sale are disclosed in Note 32. The information on securities issued by state-controlled entities and government bodies is disclosed in Note 39.

14 Investment Securities Held-to-Maturity

in billions of Russian Roubles	31 December 2013	31 December 2012
Corporate bonds	67.7	84.2
Federal loan bonds (OFZ bonds)	67.6	8.8
Foreign government bonds	36.3	6.1
Municipal and subfederal bonds	30.9	6.8
Total investment securities held-to-maturity	**202.5**	**105.9**

In the third quarter 2013 the Group changed its intention regarding the part of investments in foreign government bonds previously classified as available-for-sale. Taking into account changed intention and the ability of the Group to hold these securities to maturity, these investments were reclassified from available-for-sale category into held-to-maturity category. The fair value of reclassified securities as at the date of reclassification amounted to RR 26.4 billion.

14 Investment Securities Held-to-Maturity (Continued)

In the fourth quarter 2013 the Group changed its intention regarding the part of investments in OFZ bonds previously classified as available-for-sale. Taking into account changed intention and the ability of the Group to hold these securities to maturity, these investments were reclassified from available-for-sale category into held-to-maturity category. The fair value of reclassified securities as at the date of reclassification amounted to RR 118.1 billion.

During the year ended 31 December 2013 the Group recognized provision for impairment of investment securities held-to-maturity in the amount of RR 1.4 billion in the consolidated statement of profit or loss (31 December 2012: nil).

Analysis by credit quality of debt investment securities held-to-maturity outstanding at 31 December 2013 is as follows:

in billions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Corporate bonds	7.5	51.1	9.1	67.7
Federal loan bonds (OFZ bonds)	67.6	–	–	67.6
Foreign government bonds	34.4	1.3	0.6	36.3
Municipal and subfederal bonds	26.5	4.4	–	30.9
Total investment securities held-to-maturity	**136.0**	**56.8**	**9.7**	**202.5**

Analysis by credit quality of debt investment securities held-to-maturity outstanding at 31 December 2012 is as follows:

in billions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Corporate bonds	17.7	55.8	10.7	84.2
Federal loan bonds (OFZ bonds)	8.8	–	–	8.8
Municipal and subfederal bonds	0.1	6.7	–	6.8
Foreign government bonds	3.7	1.8	0.6	6.1
Total investment securities held-to-maturity	**30.3**	**64.3**	**11.3**	**105.9**

Credit quality in the table above is based on the rating scale developed by the international rating agencies.

At 31 December 2013 and at 31 December 2012 there are no renegotiated debt investment securities held-to-maturity that would otherwise be past due. All debt investment securities held-to-maturity are not past due.

The estimated fair value of investment securities held-to-maturity and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of investment securities held-to-maturity are disclosed in Note 32. The information on securities issued by state-controlled entities and government bodies is disclosed in Note 39.

15 Premises and Equipment

in billions of Russian Roubles	Note	Office premises	Other premises	Office and equipment	Vehicles and other equipment	Construction in progress	Total
Cost or revalued amount at 1 January 2012		**245.0**	**12.2**	**180.7**	**23.6**	**26.7**	**488.2**
Accumulated depreciation		**–**	**(0.7)**	**(116.8)**	**(10.8)**	**–**	**(128.3)**
Carrying amount at 1 January 2012		**245.0**	**11.5**	**63.9**	**12.8**	**26.7**	**359.9**
Additions		17.5	7.6	58.0	7.8	57.2	148.1
Acquisitions through business combinations		4.1	1.0	6.7	2.2	5.5	19.5
Transfers		27.2	0.4	–	0.1	(27.7)	–
Transfers to investment property from fixed assets		–	(0.1)	–	–	–	(0.1)
Disposals – at cost or revalued amount		(12.7)	(16.7)	(7.1)	(5.8)	(8.1)	(50.4)
Disposals - accumulated depreciation		0.4	2.7	7.7	4.4	–	15.2
Depreciation charge	27,28	(8.3)	(2.4)	(40.6)	(4.8)	–	(56.1)
Foreign currencies translation		0.1	–	(0.2)	–	–	(0.1)
Carrying amount at 31 December 2012		**273.3**	**4.0**	**88.4**	**16.7**	**53.6**	**436.0**
Cost or revalued amount at 31 December 2012		**281.1**	**4.3**	**238.1**	**28.0**	**53.6**	**605.1**
Accumulated depreciation		**(7.8)**	**(0.3)**	**(149.7)**	**(11.3)**	**–**	**(169.1)**
Additions		14.6	2.6	47.8	9.9	51.3	126.2
Transfers		40.0	–	0.1	0.2	(40.6)	(0.3)
Transfers to investment property from fixed assets		(0.2)	–	–	–	–	(0.2)
Transfers to assets held for sale at cost		–	–	–	(0.5)	–	(0.5)
Disposals – at cost or revalued amount		(18.3)	(0.4)	(10.9)	(2.3)	(10.1)	(42.0)
Foreign currencies translation related to cost or revalued amount		1.1	–	(0.1)	0.2	0.1	1.3
Disposals - accumulated depreciation		0.4	–	10.4	2.0	–	12.8
Depreciation charge	27,28	(9.2)	–	(41.5)	(4.2)	–	(54.9)
Depreciation charge during the period included in inventory		–	(0.4)	–	(0.1)	–	(0.5)
Foreign currencies translation related to depreciation		(0.3)	–	(0.3)	–	–	(0.6)
Carrying amount at 31 December 2013		**301.4**	**5.8**	**93.9**	**21.9**	**54.3**	**477.3**
Cost or revalued amount at 31 December 2013		**318.3**	**6.5**	**275.0**	**35.5**	**54.3**	**689.6**
Accumulated depreciation		**(16.9)**	**(0.7)**	**(181.1)**	**(13.6)**	**–**	**(212.3)**

Construction in progress consists of construction or refurbishment of the Group's premises and equipment. Upon completion, assets are transferred to office premises, other premises or equipment categories.

Office premises have been revalued to market value at 31 December 2011. At 31 December 2013 the carrying amount of office premises would have been RR 217.0 billion (31 December 2012: RR 183.6 billion) had the premises been carried at cost less depreciation.

15 Premises and Equipment (Continued)

As at 31 December 2013 included in office and computer equipment were fully depreciated items in the amount of RR 73.4 billion (31 December 2012: RR 60.7 billion). As at 31 December 2013 included in vehicles and other equipment were fully depreciated items in the amount of RR 6.0 billion (31 December 2012: RR 4.0 billion).

Analysis of fair value measurement of office premises is disclosed in Note 35. Maturity analyses of premises and equipment is disclosed in Note 32.

16 Other Assets

in billions of Russian Roubles	31 December 2013	31 December 2012
Other financial assets		
Receivables on bank cards settlements	162.3	107.5
Derivative financial instruments	108.9	74.4
Receivables from Deposit Insurance Agency	54.0	–
Settlements on currency conversion operations	19.8	16.7
Margin calls given	19.7	3.5
Settlements on operations with securities	12.8	10.1
Trade receivables	8.6	4.4
Funds in settlement	7.2	2.2
Accrued fees and commissions	5.4	4.5
Other	9.3	6.7
Provision for impairment of other financial assets	(1.8)	(2.4)
Total other financial assets	**406.2**	**227.6**
Other non-financial assets		
Prepayments for premises and other assets	93.6	67.7
Inventory	71.2	58.9
Intangible assets	55.7	52.3
Precious metals	42.4	84.8
Goodwill	20.2	25.0
Investment property	15.3	15.3
Prepaid expenses	10.2	8.6
Tax settlements (other than on income)	8.2	8.0
Investments in associates	4.4	8.6
Non-current assets held for sale and assets of the disposal group	3.1	5.1
Prepayment on income tax	2.0	2.4
Other	13.7	9.9
Provision for impairment of other non-financial assets	(9.4)	(6.1)
Total other non-financial assets	**330.6**	**340.5**
Total other assets	**736.8**	**568.1**

As at 31 December 2013 receivables on plastic cards settlements of RR 162.3 billion (31 December 2012: RR 107.5 billion) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

As at 31 December 2013 receivables from Deposit Insurance Agency of RR 54,0 billion (31 December 2012: nil) represent receivables recognized from settlements on deposit compensations to clients of the banks whose license was withdrawn by the Bank of Russia. The Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 0.7 million per individual in case of the withdrawal of a license of a bank or the Bank of Russia imposed moratorium on payments. The settlement of receivables due to the Bank from the Deposit Insurance Agency is conducted in tranches and not earlier than 3 months from the date of first payment of deposit compensations to clients or from the date of previous tranche transfer.

16 Other Assets (Continued)

Movements in the provision for impairment of other assets during the year ended 31 December 2013 are as follows:

in billions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2013	**0.1**	**2.3**	**1.1**	**5.0**	**8.5**
Net provision charge/ (net recovery of provision) for impairment of other assets during the year	0.8	(1.0)	1.1	2.9	3.8
Other assets written off during the year as uncollectible	(0.1)	(0.3)	(0.1)	(0.6)	(1.1)
Provision for impairment at 31 December 2013	**0.8**	**1.0**	**2.1**	**7.3**	**11.2**

Movements in the provision for impairment of other assets during the year ended 31 December 2012 are as follows:

in billions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2012	**0.1**	**2.1**	**1.0**	**2.9**	**6.1**
Net provision charge for impairment during the year	–	0.5	0.1	3.5	4.1
Other assets written off during the year as uncollectible	–	(0.3)	–	(1.4)	(1.7)
Provision for impairment at 31 December 2012	**0.1**	**2.3**	**1.1**	**5.0**	**8.5**

Provision for impairment of other assets is recognized by the Group on operations conducted in the normal course of the Group's business. Provision is assessed on the basis of the Group's best estimates of recoverability of other assets.

Movements in goodwill arising on the acquisition of subsidiaries are:

in billions of Russian Roubles	Note	2013	2012
Carrying amount at 1 January		**25.0**	**15.1**
Goodwill related to acquisition of subsidiaries	40	3.7	16.7
Disposal of subsidiaries		–	(5.1)
Impairment loss	40	(8.7)	(1.7)
Currency revaluation of goodwill		0.2	–
Carrying amount at 31 December		**20.2**	**25.0**

The estimated fair value of other financial assets is disclosed in Note 35. Currency and maturity analyses of other assets are disclosed in Note 32. The information on related party balances as well as state-controlled entities and government bodies balances is disclosed in Notes 38 and 39.

17 Due to Banks

in billions of Russian Roubles	31 December 2013	31 December 2012
Direct repo deals with banks	1,293.9	854.9
Term placements of banks	738.0	518.2
Correspondent accounts and overnight placements of banks	79.4	79.3
Total due to banks	**2,111.3**	**1,452.4**

Term placements of other banks represent funds received on interbank market.

Refer to Note 36 for information on the amounts in due to banks received under sale and repurchase agreements and fair value of securities pledged.

The estimated fair value of due to banks and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of due to banks are disclosed in Note 32. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 38 and 39.

18 Due to Individuals and Corporate Customers

in billions of Russian Roubles	31 December 2013	31 December 2012
Individuals:		
- Current/demand accounts	1,748.4	1,401.1
- Term deposits	6,687.4	5,582.1
Total due to individuals	**8,435.8**	**6,983.2**
State and public organizations:		
- Current/settlement accounts	158.7	99.0
- Term deposits	88.6	270.1
Total due to state and public organizations	**247.3**	**369.1**
Other corporate customers:		
- Current/settlement accounts	1,504.8	1,130.1
- Term deposits	1,863.5	1,660.5
- Direct repo deals	12.8	36.4
Total due to other corporate customers	**3,381.1**	**2,827.0**
Total due to corporate customers	**3,628.4**	**3,196.1**
Total due to individuals and corporate customers	**12,064.2**	**10,179.3**

18 Due to Individuals and Corporate Customers (continued)

Economic sector concentrations within customer accounts are as follows:

in billions of Russian Roubles	31 December 2013 Amount	%	31 December 2012 Amount	%
Individuals	8,435.8	69.9	6,983.2	68.6
Services	829.5	6.9	826.3	8.1
Oil and gas	534.2	4.4	453.7	4.5
Trade	509.0	4.2	404.8	4.0
Construction	382.9	3.2	253.8	2.5
Machine building	213.4	1.8	165.6	1.6
Energy	140.7	1.2	167.4	1.6
Metallurgy	125.9	1.0	77.2	0.8
Transport, aviation, space industry	114.0	0.9	118.5	1.2
Food and agriculture	97.1	0.8	84.3	0.8
Telecommunications	94.5	0.8	59.4	0.6
Chemical	92.4	0.8	96.6	0.9
Municipal bodies and state organizations	90.0	0.7	208.4	2.0
Timber industry	31.1	0.3	26.2	0.3
Other	373.7	3.1	253.9	2.5
Total due to individuals and corporate customers	**12,064.2**	**100.0**	**10,179.3**	**100.0**

As at 31 December 2013 included in Due to corporate customers are deposits of RR 107.7 billion (31 December 2012: RR 79.0 billion) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2013 the Group had 20 largest customers with balances above RR 12.1 billion each (31 December 2012: 20 customers with balances above RR 13.1 billion each). The aggregate balance of these customers was 1,043.6 billion (31 December 2012: RR 914.2 billion) or 8.7% (31 December 2012: 9.0%) of total due to individuals and corporate customers.

Refer to Note 36 for information on the amounts in due to corporate customers received under sale and repurchase agreements and fair value of securities pledged.

The estimated fair value of due to individuals and corporate customers and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of due to individuals and corporate customers are disclosed in Note 32. The information on related parties balances as well as state-controlled entities and government bodies balances is disclosed in Notes 38 and 39.

19 Debt Securities in Issue

in billions of Russian Roubles	31 December 2013	31 December 2012
Savings certificates	344.5	227.2
Loan participation notes issued under the MTN programme	324.9	291.6
Promissory notes	74.7	110.1
Bonds issued	59.4	44.3
Notes issued under the ECP programme	46.9	16.1
Structured notes	1.4	2.3
Other debt securities issued	1.6	0.1
Total debt securities in issue	**853.4**	**691.7**

19 Debt Securities in Issue (Continued)

Description of the debt securities issued by the Group is presented in the table below:

						31 December 2013		31 December 2012	
Issue	Drawdown date	Maturity date	Currency	Nominal value in currency of issue, in millions of currency	Contractual interest rate, %p.a.	Carrying value, in billions of RR	Effective interest rate, %p.a.	Carrying value, in billions of RR	Effective interest rate, %p.a.
MTN programme									
Series 1	15 May 2006	15 May 2013	USD	500	6.5	**-**	-	**15.3**	6.6
Series 3	02 July 2008	02 July 2013	USD	500	6.5	**-**	-	**15.7**	6.6
Series 4	07 July 2010	07 July 2015	USD	1,500	5.5	**50.0**	5.4	**46.9**	5.4
Series 5	24 September 2010	24 March 2017	USD	1,250	5.4	**41.2**	5.4	**38.6**	5.4
Series 6	12 November 2010	12 November 2014	CHF	400	3.5	**14.7**	3.6	**13.4**	3.6
Series 7	16 June 2011	16 June 2021	USD	1,000	5.7	**32.8**	5.8	**30.4**	5.8
Series 8	07 February 2012	07 February 2017	USD	1,300	5.0	**43.6**	4.8	**38.9**	4.8
Series 9	07 February 2012	07 February 2022	USD	1,500	6.1	**52.0**	5.6	**48.4**	5.6
Series 10	14 March 2012	14 September 2015	CHF	410	3.1	**15.2**	3.2	**13.7**	3.2
Series 11	28 June 2012	28 June 2019	USD	1,000	5.2	**32.7**	5.3	**30.3**	5.3
Series 13	31 January 2013	31 January 2016	RR	25,000	7.0	**25.7**	7.2	**-**	-
Series 14	28 February 2013	28 February 2017	CHF	250	2.1	**9.3**	2.1	**-**	-
Series 15	04 March 2013	04 March 2018	TRY	550	7.4	**7.7**	7.6	**-**	-
Total carrying amount						**324.9**		**291.6**	

In May 2013 the Group repaid in full the Series 1 of loan participation notes under the MTN issuance programme for the amount of USD 0.5 billion. The notes were issued in May 2006 and had contractual fixed interest rate of 6.5% p.a.

In July 2013 the Group repaid in full the Series 3 of loan participation notes under the MTN issuance programme for the amount of USD 0.5 billion. The notes were issued in July 2008 and had contractual fixed interest rate of 6.5% p.a.

Bonds issued represent interest-bearing securities issued by the members of the Group. They are denominated in Russian Roubles, Turkish Lyra, Belarusian Roubles, US Dollars, Euro, Kazakh Tenge and Czech crowns and have maturity dates from January 2014 to September 2023 (2012: from “on demand” to September 2023). Interest rates on these securities vary from 0.0% to 10.9% p.a. (2012: from 0.0% to 8.0% p.a.).

In November 2012 the Group launched Euro-Commercial Paper programme (ECP programme) for the total amount of issues limited by USD 3 billion. As at 31 December 2013 the outstanding amount of funds attracted by the Group totalled USD 1.4 billion. As at 31 December 2013 these notes were accounted for at amortized cost of RR 46,9 billion (31 December 2013: RR 16.1 billion). The issues include both discount and coupon issues. The notes have maturity dates from January 2014 to December 2014 (31 December 2012: October 2013 to September 2014) with contractual interest rates varying from 0.5% to 1.6% p.a. (31 December 2012: from 0.4% to 1.8% p.a.).

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in Russian Roubles, US Dollars, Euro and Hungarian Forints and have maturity dates from two weeks to seven years (31 December 2012: from two weeks to three years). Interest or discount rates on promissory notes issued by the Group vary from 0.1% to 9.0% p.a. (31 December 2012: from 4.7% to 8.3% p.a.).

19 Debt Securities in Issue (Continued)

Savings certificates are interest-bearing securities issued by the Group. They are denominated in Russian Roubles and have maturity dates from three months to three years (31 December 2012: from three months to three years). Interest rates on these securities vary from 5.5% to 9.8% p.a. (31 December 2012: from 0.01% to 10.5% p.a.).

Structured notes represent interest-bearing and non-interest-bearing securities issued by the Group. They are denominated mainly in Russian Roubles and have maturity dates from "on demand" to November 2023 (31 December 2012: from "on demand" to June 2021). Interest rates on these securities vary from 0.0% to 14.9% p.a. (31 December 2012: from 0.0% to 13.3% p.a.).

The estimated fair value of debt securities in issue and fair value measurement used are disclosed in Note 35. Currency and maturity analyses are disclosed in Note 32.

20 Other Borrowed Funds

in billions of Russian Roubles	**31 December 2013**	**31 December 2012**
Trade finance deals	380.8	306.3
Syndicated loans received	118.3	162.9
Total other borrowed funds	**499.1**	**469.2**

Description of the syndicated loans issued by the Group is presented in the table below:

						31 December 2013		**31 December 2012**	
Issue	**Drawdown date**	**Maturity date**	**Currency**	**Nominal value in currency of issue, in millions of currency**	**Contractual interest rate, %p.a.**	**Carrying value, in billions of RR**	**Effective interest rate, %p.a.**	**Carrying value, in billions of RR**	**Effective interest rate, %p.a.**
Syndicated loans									
Issue 1	17 December 2010	17 December 2013	USD	2,000	6m LIBOR + 1.50%	**-**	-	**60.6**	2.4%
Issue 2 - tranche in USD	25 November 2011	25 November 2014	USD	1,059	3m LIBOR + 1.50%	**34.6**	2.1%	**32.0**	2.2%
Issue 2 - tranche in EUR	25 November 2011	25 November 2014	EUR	103	3m EURIBOR + 1.10%	**4.6**	1.6%	**4.1**	1.6%
Issue 3	30 October 2012	30 October 2015	USD	1,500	3m LIBOR + 1.50%	**48.8**	2.2%	**45.0**	2.3%
Issue 4	15 November 2012	14 November 2013	EUR	393	1.1%	**-**	-	**15.6**	1.1%
Issue 5	15 November 2012	14 November 2013	USD	221	1.3%	**-**	-	**5.6**	1.3%
Issue 6	21 November 2013	20 November 2014	EUR	1,419	0.62%	**21.7**	0.62%	**-**	-
Issue 7	21 November 2013	20 November 2014	USD	560	0.65%	**8.6**	0.65%	**-**	-
Total carrying amount						**118.3**		**162.9**	

20 Other Borrowed Funds (continued)

In December 2013 the Group repaid in full the syndicated loan for the amount of USD 2 billion. The loan was received in December 2010 from a consortium of foreign banks and had contractual floating interest rate of 6 months LIBOR + 1.5% p.a.

As at 31 December 2013 trade finance deals were accounted for at amortised cost of RR 380.8 billion (31 December 2012: RR 306.3 billion), had interest rates varying from 0.7% to 6.4% p.a. (31 December 2012: from 0.3% to 12.4% p.a.) and maturity dates from January 2014 to December 2021 (31 December 2012: from January 2013 to December 2021).

The estimated fair value of other borrowed funds and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of other borrowed funds are disclosed in Note 32.

21 Other Liabilities

in billions of Russian Roubles	31 December 2013	31 December 2012
Other financial liabilities		
Payables on bank card settlements	87.6	63.7
Derivative financial instruments	65.7	41.7
Funds in settlement	18.8	32.2
Trade payables	29.4	11.7
Accrued employee benefit costs	29.2	29.3
Obligation to deliver securities	21.4	18.6
Deposit insurance system fees payable	7.4	6.2
Settlements on operations with securities	3.1	4.1
Margin calls received	9.9	4.3
Deferred consideration on acquisition of subsidiaries	–	2.7
Other	19.2	12.7
Total other financial liabilities	**291.7**	**227.2**
Other non-financial liabilities		
Taxes payable other than on income	25.2	18.1
Advances received	10.3	2.8
Payables arising out of insurance operations	8.9	0.5
Income tax payable	2.3	3.3
Provisions for credit related commitments and legal claims	1.6	2.2
Deferred commissions received on guarantees issued	1.5	1.3
Liabilities of the disposal group	0.2	–
Deferred gains on initial recognition of financial instruments	–	0.4
Other	10.7	7.3
Total other non-financial liabilities	**60.7**	**35.9**
Total other liabilities	**352.4**	**263.1**

The second stage of payment for the acquisition of 100.0% Troika Dialog was settled in the third quarter of 2013. As the second stage of the deal USD 0.35 billion (RR 11.3 billion) was paid to Standard Bank and the Troika Dialog Partnership. This amount is disclosed in the cash flow statement as "Acquisition of subsidiaries net of cash acquired".

Defined pension plans of the Group. The Group applies IAS 19 Employee Benefits for accounting for its pension liabilities. As at 31 December 2013 the Group operates two benefit pension plans – benefit plan with defined pension payments and benefit plan with defined pension contributions. The Group takes direct liability to provide pension payments and contributions defined according to the Group's pension programmes.

21 Other Liabilities (continued)

All the employees of the Bank (including retired) who are entitled for state pension payments or have five years or less to retirement as at 1 January 2011 participate in the benefit plan with defined pension payments. The amount of payments is determined based on employee staying with the Bank at the date of retirement. As at 31 December 2013 the Bank operates 18 separate pension programmes with defined payments, for Central Head Office and each Regional Head Office.

All the employees of the Bank with three years of continuous employment with the Bank except the Management Board members, those employees who have five years or less to retirement as at 1 January 2011 or those who are already entitled for state pension payments participate in the benefit plan with defined pension contributions (which are calculated as a percent of wage). According to the programme employees whose continuous employment with the Bank reaches seven years become unconditionally entitled for these contributions upon retirement.

As at pension liabilities of the Group comprised RR 8.2 billion (31 December 2012: RR 8.1 billion) and were included in accrued employee benefit costs in the item Other liabilities of the consolidated statement of financial position. Pension expenses for 2013 amounted to RR 2.0 billion (31 December 2012: RR 4.4 billion) and were included in staff costs within operating expenses.

The estimated fair value of other financial liabilities and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of other liabilities are disclosed in Note 32.

22 Subordinated Debt

in billions of Russian Roubles	31 December 2013	31 December 2012
Subordinated debt received from the Bank of Russia	303.3	303.3
Subordinated debt received under the MTN programme	98.5	61.1
Other subordinated debts	22.9	20.3
Total subordinated debt	**424.7**	**384.7**

Description of the subordinated loans received by the Group is presented in the table below:

						31 December 2013		31 December 2012	
Issue	**Drawdown date**	**Maturity date**	**Currency**	**Nominal value in currency of issue, in millions of currency**	**Contractual interest rate, %p.a.**	**Carrying value, in billions of RR**	**Effective interest rate, %p.a.**	**Carrying value, in billions of RR**	**Effective interest rate, %p.a.**
Subordinated debt received from the Bank of Russia	16 December 2008	31 December 2019	RR	300,000	6.5	**303.3**	6.5	**303.3**	6.5
Subordinated debt received under the MTN programme									
Series 12	29 October 2012	29 October 2022	USD	2,000	5.1	**65.7**	5.2	**61.1**	5.2
Series 16	23 May 2013	23 May 2023	USD	1,000	5.3	**32.8**	5.4	**-**	-
Total carrying amount						**98.5**		**61.1**	
Other subordinated debts						**22.9**		**20.3**	

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

The estimated fair value of subordinated debt and fair value measurement used are disclosed in Note 35. Currency and maturity analyses of subordinated debt are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

23 Share Capital and Treasury Shares

In billions of Russian Roubles, except for number of shares	31 December 2013 Number of shares, in millions	Nominal amount	Hyper-inflation adjusted amount	31 December 2012 Number of shares, in millions	Nominal amount	Hyper-inflation adjusted amount
Ordinary shares	21,587	64.8	83.3	21,587	64.8	83.3
Preference shares	1,000	3.0	4.4	1,000	3.0	4.4
Total share capital	**22,587**	**67.8**	**87.7**	**22,587**	**67.8**	**87.7**

As at 31 December 2013 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 106.7% of nominal value in 2013 for the year ended 31 December 2012 (31 December 2012: 86.3% of nominal value for the year ended 31 December 2011). Preference share dividends rank above ordinary dividends.

On 22 March 2013 Supervisory Board in accordance with the Dividend policy recommended to the General Shareholders Meeting to pay RR 58,7 billion to shareholders as dividends for the year ended 31 December 2012.

The treasury shares as at 31 December 2013 and 31 December 2012 were as follows:

In billions of Russian Roubles, except for number of shares	31 December 2013 Number of shares, in millions	Inflation adjusted amount	Acquisition cost	31 December 2012 Number of shares, in millions	Inflation adjusted amount	Acquisition cost
Ordinary shares	51.4	0.2	4.7	56.4	0.2	5.4
Preference shares	30.0	0.1	2.5	32.1	0.1	2.2
Total treasury shares	**81.4**	**0.3**	**7.2**	**88.5**	**0.3**	**7.6**

24 Interest Income and Expense

in billions of Russian Roubles	Year ended 31 December 2013	2012
Interest income		
Interest income on financial assets carried at amortized cost and on financial assets available-for-sale:		
- Loans and advances to customers	1,335.7	1,037.4
- Debt investment securities available-for-sale	98.2	76.8
- Debt investment securities held-to-maturity	24.9	28.9
- Due from banks	11.0	6.0
- Correspondent accounts with banks	0.5	0.7
	1,470.3	**1,149.8**
Interest income on financial assets carried at fair value through profit or loss:		
- Debt trading securities	7.0	5.7
- Debt securities designated as at fair value through profit or loss	1.2	1.6
- Other interest income	0.1	0.2
	8.3	**7.5**
Total interest income	**1,478.6**	**1,157.3**
Interest expense		
Term deposits of individuals	(304.1)	(230.6)
Term deposits of legal entities	(104.7)	(73.1)
Term placements of banks	(64.0)	(45.4)
Debt securities in issue	(45.2)	(25.1)
Subordinated debts	(25.1)	(20.9)
Current/settlement accounts of legal entities	(21.9)	(16.7)
Current/demand accounts of individuals	(10.9)	(8.0)
Other borrowed funds	(8.7)	(6.9)
Correspondent accounts of banks	(2.1)	(1.2)
Other interest expense	(1.1)	(0.7)
Total interest expense	**(587.8)**	**(428.6)**
Deposit insurance expenses	(28.6)	(23.9)
Total interest expense including deposit insurance expenses	**(616.4)**	**(452.5)**
Net interest income	**862.2**	**704.8**

25 Fee and Commission Income and Expense

	Year ended 31 December	
in billions of Russian Roubles	**2013**	**2012**
Fee and commission income		
Bank cards operations	76.6	51.9
Cash and settlements transactions with individuals	57.5	48.7
Cash and settlements transactions with legal entities	52.1	47.5
Agent commissions on selling insurance contracts	28.9	17.0
Guarantees issued	10.0	7.3
Cash collection	5.6	5.1
Operations with foreign currencies	3.8	5.2
Transactions with securities	3.4	2.6
Other	6.9	3.9
Total fee and commission income	**244.8**	**189.2**
Fee and commission expense		
Settlement transactions	(20.1)	(12.3)
Cash collection	(0.4)	(0.3)
Operations with foreign currencies	(0.4)	(0.5)
Other	(3.6)	(5.8)
Total fee and commission expense	**(24.5)**	**(18.9)**
Net fee and commission income	**220.3**	**170.3**

26 Net Gains Arising from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation Gains

	Year ended 31 December	
in billions of Russian Roubles	**2013**	**2012**
Net gains arising from trading in foreign currencies	13.8	10.6
Net gains on revaluation of foreign currency derivatives	1.1	8.4
Net foreign exchange translation (losses) / gains	(2.0)	0.6
Total net gains arising from trading in foreign currencies, foreign exchange translation and revaluation of foreign currency derivatives	**12.9**	**19.6**

27 Net Income of Non-financial Business Activities and Insurance

in billions of Russian Roubles	Year ended 31 December 2013	2012
Revenue from sale of goods	24.8	45.8
Revenue from insurance	7.9	0.4
Revenue from completed construction contracts	1.1	1.5
Revenue from operating lease	0.1	–
Revenue from other activities	4.2	3.5
Total revenue of non-financial business activities and insurance	**38.1**	**51.2**
Cost of sales:		
- cost of goods sold	(21.5)	(23.2)
- costs related to insurance activities	(7.4)	(0.4)
- staff costs	(3.0)	(1.7)
- depreciation of fixed assets	(0.4)	(4.3)
- maintenance of premises and equipment	(0.2)	(0.5)
- customs duties and taxes	–	(4.9)
- transport costs	–	(0.7)
- other costs	(4.3)	(2.9)
Total cost of sales of non-financial business activities and insurance	**(36.8)**	**(38.6)**
Total net income of non-financial business activities and insurance	**1.3**	**12.6**

Due to the growth of the insurance business of the Group, the results of operations on insurance activities have been presented separately in the table above.

28 Operating Expenses

in billions of Russian Roubles	Year ended 31 December 2013	2012
Staff costs	285.3	245.8
Depreciation of premises and equipment	54.5	51.8
Repairs and maintenance of premises and equipment	31.8	29.8
Administrative expenses	29.7	30.7
Taxes other than on income	24.6	19.3
Operating lease expenses for premises and equipment	17.5	11.7
Telecommunication expenses	16.6	19.1
Amortization of intangible assets	14.4	10.8
Advertising and marketing services	12.7	9.6
Consulting and assurance services	9.2	7.3
Other	18.3	15.5
Total operating expenses	**514.6**	**451.4**

29 Income Taxes

Income tax expenses consist of the following components:

In billions of Russian Roubles	2013	2012
Current tax	97.6	101.0
Deferred tax	(13.3)	9.9
Less: Deferred tax recognized in other comprehensive income	9.4	(10.9)
Income tax expense for the year	**93.7**	**100.0**

29 Income Taxes (Continued)

The income tax rate applicable to the major part of the Group's income for 31 December 2013 is 20% (31 December 2012: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

In billions of Russian Roubles	2013	2012
IFRS profit before tax	**455.7**	**447.9**
Theoretical tax charge at statutory rate (2013: 20%; 2012: 20%)	91.1	89.6
Tax effect on income on government securities taxed at different rates	(3.3)	(3.2)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	1.0	1.7
- Unrecognised tax asset of subsidiaries	3.7	9.8
- Non-deductible losses on cessions	0.4	1.1
- Other non-temporary differences	0.8	1.0
Income tax expense for the year	**93.7**	**100.0**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (31 December 2012: 20%), except for income on state, municipal and certain other types of securities that is taxed at 15%, 9% and 0% (31 December 2012: 15%, 9% and 0%) and on dividends that is taxed at a standard rate of 9% (31 December 2012: 9%).

in billions of Russian Roubles	31 December 2012	Business combinations	Credited/ (charged)to profit or loss	Recognized in other comprehensive income	Recognized directly in equity	Unrecognized currency translation differences	31 December 2013
Tax effect of deductible temporary differences							
Deferred fees and commissions income	5.3	–	(0.1)	–	–	(0.1)	5.1
Accrued employee benefit costs	0.9	–	1.1	–	–	–	2.0
Low value items write-off	2.5	–	0.1	–	–	–	2.6
Accrued interest on loans	3.8	–	(0.8)	–	–	–	3.0
Fair valuation of trading securities and securities designated as at fair value through profit or loss	17.0	–	(5.1)	–	–	–	11.9
Other	5.9	–	4.0	–	(0.1)	0.3	10.1
Gross deferred tax asset	**35.4**	**–**	**(0.8)**	**–**	**(0.1)**	**0.2**	**34.7**
Tax effect of taxable temporary differences							
Loan impairment provision	(13.7)	–	6.0	–	0.6	(0.2)	(7.3)
Premises and equipment	(20.7)	(0.4)	(1.4)	–	–	–	(22.5)
Fair valuation of investment securities available-for-sale	(7.2)	–	(1.5)	9.4	–	–	0.7
Other	(19.5)	(0.1)	1.6	–	0.4	0.5	(17.1)
Gross deferred tax liability	**(61.1)**	**(0.5)**	**4.7**	**9.4**	**1.0**	**0.3**	**(46.2)**
Total net deferred tax asset /(liability)	**(25.7)**	**(0.5)**	**3.9**	**9.4**	**0.9**	**0.5**	**(11.5)**

29 Income Taxes (Continued)

In billions of Russian Roubles	31 December 2011	Business combinations	Credited/ (charged)to profit or loss	Recognized in other comprehensive income	Unrecognized currency translation differences	31 December 2012
Tax effect of deductible temporary differences						
Deferred fees and commissions income	5.1	0.5	(0.3)	–	–	5.3
Accrued employee benefit costs	0.1	0.4	0.4	–	–	0.9
Low value items write-off	1.9	–	0.6	–	–	2.5
Accrued interest on loans	5.2	(0.4)	(1.0)	–	–	3.8
Fair valuation of trading securities and securities designated as at fair value through profit or loss	9.3	–	7.7	–	–	17.0
Other	(8.6)	–	14.5	–	–	5.9
Gross deferred tax asset	**13.0**	**0.5**	**21.9**	**–**	**–**	**35.4**
Tax effect of taxable temporary differences						
Loan impairment provision	(4.5)	3.0	(12.1)	–	(0.1)	(13.7)
Premises and equipment	(22.4)	0.7	1.0	–	–	(20.7)
Fair valuation of investment securities available-for-sale	2.4	–	1.3	(10.9)	–	(7.2)
Other	(1.9)	(6.7)	(11.1)	–	0.2	(19.5)
Gross deferred tax liability	**(26.4)**	**(3.0)**	**(20.9)**	**(10.9)**	**0.1**	**(61.1)**
Total net deferred tax asset /(liability)	**(13.4)**	**(2.5)**	**1.0**	**(10.9)**	**0.1**	**(25.7)**

As at 31 December 2013 the temporary difference associated with investments in subsidiaries in the statement of financial position of the parent company amounted to RR 47.9 billion (31 December 2012: RR 27.3 billion). In accordance with IAS 12 Income Taxes respective deferred tax asset of RR 9.6 billion (31 December 2012: respective deferred tax asset of RR 5.5 billion) was not recognized in the financial statements.

30 Earnings per Share and Dividends

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore the diluted earnings per share equal to the basic earnings per share.

	Year ended 31 December	
in billions of Russian Roubles	**2013**	**2012**
Profit for the year attributable to the shareholders of the Bank	363.8	348.8
Less preference dividends declared	(3.1)	(2.6)
Profit attributable to the ordinary shareholders of the Bank	**360.7**	**346.2**
Weighted average number of ordinary shares in issue (billions)	21.5	21.6
Earnings per ordinary share, basic and diluted (expressed in RR per share)	**16.78**	**16.03**

On 31 May 2013, the Annual General Shareholders’ Meeting of the Bank declared dividends of RR 58.7 billion for 2012 including RR 0.2 billion paid to one of the subsidiary of the Bank. In June 2012 the Annual General Shareholders’ Meeting of the Bank declared dividends of RR 47.5 billion for 2011.

		2013		2012
in billions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	0.2	0.1	0.1	–
Dividends declared during the year ended 31 December	55.4	3.1	44.9	2.6
Dividends paid during the year ended 31 December	(55.2)	(3.1)	(44.8)	(2.5)
Dividends payable as at 31 December	**0.4**	**0.1**	**0.2**	**0.1**
Dividends per share declared during the year (RR per share)	**2.57**	**3.20**	**2.08**	**2.60**

All dividends were declared and paid in Russian Roubles.

31 Segment Analysis

For the purposes of management the Group is divided into operating segments of activity – central head office, 17 regional head offices and subsidiaries – which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- **Moscow, including:**
  - Central head office of the Group,
  - Regional head office of Moscow,
  - Subsidiaries of the Group located in the region.
- **Central and Northern regions of European part of Russia, including:**

  Regional head offices:
  - Severny – Yaroslavl,
  - Severo-Zapadny – Saint-Petersburg,
  - Tsentralno-Chernozemny – Voronezh,
  - Srednerussky – Moscow;

  Subsidiaries of the Group located in the region.
- **Volga region and South of European part of Russia, including:**

  Regional head offices:
  - Volgo-Vyatsky – Nizhniy Novgorod,
  - Povolzhsky – Samara,
  - Severo-Kavkazsky – Stavropol,
  - Yugo-Zapadny – Rostov-on-Don;

  Subsidiaries of the Group located in the region.
- **Ural, Siberia and Far East of Russia, including:**

  Regional head offices:
  - Zapadno-Uralsky – Perm,
  - Uralsky – Ekaterinburg,
  - Sibirsky – Novosibirsk,
  - Zapadno-Sibirsky – Tumen,
  - Severo-Vostochny – Magadan,
  - Dalnevostochny – Khabarovsk,
  - Vostochno-Sibirsky – Krasnoyarsk,
  - Baikalsky – Irkutsk;

  Subsidiaries of the Group located in the region.
- **Other countries, including:**
  - Subsidiaries located in Turkey,
  - Subsidiaries located in CIS (Ukraine, Kazakhstan, Belarus),
  - Subsidiaries located in Austria and Switzerland,
  - Subsidiaries of Sberbank Europe AG located in Central and Eastern Europe,
  - Companies of ex-Troika Dialog Group Ltd. located in the USA, the United Kingdom, Cyprus and certain other jurisdictions,
  - A branch office in India.

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segments' reporting and operating results which are provided to the Management of the Group for analysis are prepared under Russian accounting standards, except the segments' reporting of the subsidiaries which is prepared under International Financial Reporting Standards.

31 Segment Analysis (continued)

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

The subsidiaries' activity is controlled by the Group integrally.

Segment reporting of the Group's assets and liabilities as at 31 December 2013 is as follows:

in billions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**7,103.9**	**2,797.3**	**2,516.6**	**3,400.8**	**2,438.5**	**18,257.1**
Total liabilities	**6,720.8**	**2,914.1**	**2,131.4**	**2,683.7**	**1,919.5**	**16,369.5**

Segment reporting of the Group's assets and liabilities as at 31 December 2012 is as follows:

in billions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Total assets	**6,226.8**	**2,299.7**	**1,971.7**	**2,694.2**	**1,913.9**	**15,106.3**
Total liabilities	**5,651.6**	**2,395.3**	**1,725.9**	**2,213.2**	**1,497.8**	**13,483.8**

Reconciliation of total assets and total liabilities as per the reportable segments with the Group's total assets and total liabilities under IFRS as of 31 December 2013 and 31 December 2012 is as follows:

	Total assets		Total liabilities	
in billions of Russian Roubles	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Total amount per segment information	**18,257.1**	**15,106.3**	**16,369.5**	**13,483.8**
Adjustment of provisions	69.9	96.4	(33.7)	(16.4)
Additional interest accrued on loans	6.5	4.6	0.4	0.1
Deferred commission income on loans	(22.3)	(23.7)	0.3	0.4
Adjustment of depreciation and cost or revalued amount of premises and equipment including effect of deferred tax	(44.2)	(57.1)	3.2	(2.0)
Differences arising on securities' classification and valuation	–	–	(7.3)	10.5
Pledged securities received under reverse repo deals	(55.1)	(36.0)	(55.1)	(36.0)
Accounting for derivatives at fair value	(3.1)	2.4	(0.3)	(0.1)
Staff expenses accrued related to the reporting period (bonuses, annual leave, pension liabilities)	0.2	0.2	21.4	17.5
Adjustment of income tax	–	0.4	27.9	7.8
Deferred commission income on guarantees	–	–	1.4	1.3
Other adjustments	1.3	3.9	1.2	6.7
The Group's total amount under IFRS	**18,210.3**	**15,097.4**	**16,328.9**	**13,473.6**

31 Segment Analysis (continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2013 is as follows:

in billions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	482.4	257.1	225.9	330.1	171.2	**1,466.7**
Interest expense	(264.8)	(110.4)	(77.0)	(96.2)	(67.6)	**(616.0)**
Inter-segment (expense)/income	(30.8)	47.3	0.3	(16.8)	–	**–**
Fee and commission income	50.4	51.6	44.1	65.4	30.3	**241.8**
Fee and commission expense	(15.4)	(0.5)	(0.6)	(0.8)	(7.1)	**(24.4)**
Net gains arising from securities	7.7	–	–	–	2.5	**10.2**
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	15.1	3.8	2.2	3.2	–	**24.3**
Net gains/ (losses) arising from operations with other derivatives	6.0	–	–	–	(2.2)	**3.8**
Net gains arising from operations with precious metals	2.6	0.3	0.2	0.5	0.2	**3.8**
Revenue of non-financial business activities and insurance	16.1	0.1	20.2	–	1.7	**38.1**
Cost of sales of non-financial business activities and insurance	(16.5)	(0.1)	(19.2)	(0.1)	(0.9)	**(36.8)**
Other operating (expense) / income	(0.8)	0.9	0.6	1.5	1.8	**4.0**
Operating income before provision charge for loan impairment	**252.0**	**250.1**	**196.7**	**286.8**	**129.9**	**1,115.5**
Net provision charge for loan impairment	(11.8)	(29.0)	(19.7)	(26.4)	(25.4)	**(112.3)**
Operating income after provision charge for loan impairment	**240.2**	**221.1**	**177.0**	**260.4**	**104.5**	**1,003.2**
Operating expenses	(149.1)	(92.2)	(91.3)	(116.5)	(80.2)	**(529.3)**
Profit before tax (Segment result)	**91.1**	**128.9**	**85.7**	**143.9**	**24.3**	**473.9**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	30.8	23.4	34.7	32.9	8.9	**130.7**
Depreciation of premises and equipment	(19.2)	(7.8)	(6.7)	(10.5)	(3.5)	**(47.7)**

31 Segment Analysis (continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2012 is as follows:

in billions of Russian Roubles	**Moscow**	**Central and Northern regions of European part of Russia**	**Volga region and South of European part of Russia**	**Ural, Siberia and Far East of Russia**	**Other countries**	**Total**
Interest income	413.9	207.1	180.0	256.3	84.7	**1,142.0**
Interest expense	(198.6)	(75.9)	(53.0)	(67.2)	(34.0)	**(428.7)**
Inter-segment (expense)/income	(24.3)	31.8	1.1	(8.6)	–	**–**
Fee and commission income	46.4	42.2	36.2	52.3	13.0	**190.1**
Fee and commission expense	(13.4)	(0.4)	(0.6)	(0.7)	(4.0)	**(19.1)**
Net gains arising from securities	5.2	–	–	–	2.1	**7.3**
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation	8.7	3.9	2.6	3.1	5.6	**23.9**
Net gains arising from operations with other derivatives	–	–	–	–	3.0	**3.0**
Net gains/ (losses) arising from operations with precious metals	0.7	0.4	0.4	0.7	(0.3)	**1.9**
Revenue of non-financial business activities and insurance	15.3	2.8	14.2	18.8	0.1	**51.2**
Cost of sales of non-financial business activities and insurance	(12.3)	(2.1)	(13.4)	(10.6)	(0.1)	**(38.5)**
Other operating income/(expense)	11.0	4.6	1.6	(1.1)	(1.6)	**14.5**
Operating income before provision charge for loan impairment	**252.6**	**214.4**	**169.1**	**243.0**	**68.5**	**947.6**
Net provision charge for loan impairment	(0.2)	(12.8)	(16.4)	(1.7)	(21.1)	**(52.2)**
Operating income after provision charge for loan impairment	**252.4**	**201.6**	**152.7**	**241.3**	**47.4**	**895.4**
Operating expenses	(136.2)	(92.2)	(76.4)	(116.6)	(40.1)	**(461.5)**
Profit before tax (Segment result)	**116.2**	**109.4**	**76.3**	**124.7**	**7.3**	**433.9**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	39.9	27.5	27.2	48.5	3.5	**146.6**
Depreciation of premises and equipment	(11.5)	(7.1)	(6.5)	(13.1)	(2.0)	**(40.2)**

31 Segment Analysis (continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's statement of profit or loss items under IFRS for the year ended 31 December 2013 as follows:

in billions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**473.9**	**1,466.7**	**(616.0)**	**241.8**	**10.2**	**24.3**
Adjustment of provisions	(17.9)	(3.7)	–	–	–	–
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(3.7)	–	–	–	–	–
Differences arising on reporting of fee and commission income and expense	1.3	13.7	26.6	3.0	–	(3.1)
Differencies arising on securities classification	(4.3)	(1.2)	–	–	(4.1)	0.1
Accounting for derivatives at fair value	(7.7)	0.2	–	–	–	(8.9)
Additional interest accrued on loans	1.9	2.6	–	–	–	–
Adjustment of depreciation and cost or revalued amount of premises and equipment	10.8	–	–	–	–	–
Adjustment of amortized cost and partial repurchase of other borrowed funds	(0.2)	(0.1)	(0.2)	–	–	0.5
Other adjustments	1.6	0.4	1.8	–	(5.3)	–
The Group's total amount under IFRS	**455.7**	**1,478.6**	**(587.8)**	**244.8**	**0.8**	**12.9**

31 Segment Analysis (continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's statement of profit or loss items under IFRS for the year ended 31 December 2012 as follows:

in billions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**433.9**	**1,142.0**	**(428.7)**	**190.1**	**7.3**	**23.9**
Adjustment of provisions	24.4	(1.4)	–	–	–	–
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(5.1)	–	–	–	–	–
Differences arising on reporting of fee and commission income and expense	–	11.9	–	(1.9)	–	(4.5)
Differences arising on securities classification	6.1	1.3	–	–	(2.3)	–
Accounting for derivatives at fair value	3.9	–	–	–	–	0.2
Additional interest accrued on loans	0.5	0.5	–	–	–	–
Adjustment of depreciation and cost or revalued amount of premises and equipment	(9.0)	–	–	–	–	–
Adjustment of amortized cost and partial repurchase of other borrowed funds	(1.4)	–	(0.1)	–	–	–
Other adjustments	(5.4)	3.0	0.2	1.0	–	–
The Group's total amount under IFRS	**447.9**	**1,157.3**	**(428.6)**	**189.2**	**5.0**	**19.6**

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting and estimation methodology according to IFRS.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated as at fair value through profit or loss in IFRS reporting but classified as available-for-sale in statutory accounting records.

31 Segment Analysis (continued)

For the year ended 31 December 2013 the Group's revenues from customers in the Russian Federation amounted to RR 1,600.8 billion (for the year ended 31 December 2012: RR 1,345.5 billion); revenues from customers in all foreign countries from which the Group derives revenues amounted to RR 200.5 billion (for the year ended 31 December 2012: RR 96.1 billion).

No revenue from transactions with a single external customer or counterparty amounted to 10.0% or more of the Group's total revenue during the year ended 31 December 2013 and 31 December 2012.

32 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, market, liquidity and operational risks. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational risk.

Integrated risk management system (IRMS) of the Group is defined by Integrated risk management policy of the Bank and represented as three-level process defined below:

- First management level (performed by The Bank's Management Board, The Group Risks Committee) – is management of aggregated risk. This process results in setting requirements and limits to the management of specific groups of risks, to the management of the Group members' risks as well as appointment of collective bodies and subdivisions of the Group responsible for the management of certain risk groups.
- Second management level (performed by the appropriate Bank's committees) – the management of specific groups of risks considering requirements and limits stated on the first management level.
- Third management level (performed by collective bodies and structural subdivisions of the Group) – the management of specific groups of risks in the companies of the Group considering requirements and limits stated on the first and second management level.

Integrated risk management process includes five core group steps:

- Risk identification and measurement of its materiality for the Group – aimed to identify all the significant risks which the Group is exposed to;
- Developing system for managing significant risks – aimed to allocate functions (or actualize such allocation) of risk management between executives, subdivisions and collective bodies of the Bank and its subsidiaries as well as developing (or actualize such development) methodological framework regulating risk management for the Group;
- Forecasting risk exposure level – aimed to define target risk level using risk-metrics in business-plan of the Group and each of its members;
- Setting risk appetite for the Group and each of its members – aimed to confirm by the Bank and then by its Supervisory Board maximum allowable risk exposure for the Group and launch of limit and restriction system that will enable not to exceed the maximum risk level;
- Management of aggregated risk level of the Group – aimed to provide correspondence between risk level and target values.

The Group is constantly developing risk management system in order to correspond to the best practices and recommendations of regulators. Thereupon it is expected that risk management methods and processes would be integrated and improved on aggregate level as well as on the level of specific risks management systems.

32 Financial Risk Management (Continued)

Credit risk is the risk of losses caused by failure to fulfill, as well as untimely or incomplete fulfillment of financial obligations by debtor in accordance with contract conditions. Among financial obligations mentioned above there are obligations of debtor concerning loans received including interbank loans, bonds, other placed funds including requirements for repurchase of debt securities, shares and promissory notes, provided in accordance with loan agreement, discounted bills, bank guarantees for which money paid by the organization was not compensated by the principal, finance deals with assignment of monetary claim (factoring), rights (claims) obtained in accordance with agreement (cession), mortgages obtained on secondary market, deals of financial assets sale (purchase) with deferred payments (supply of financial assets), paid letter of credit (including uncovered letter of credit), return of cash (assets) in accordance with deal of financial assets purchase with an obligation of their repurchase, claims for financial leasing operations.

Credit risk management policy applied by the Group aims at increasing competitive advantage of the Group by expanding the list of counterparties and the range of credit products, implementing systemic approach to credit risk to maintain or bring down the level of credit risk losses, optimization of credit portfolio structure by industry, region and product.

The Group applies the following basic methods of credit risk management:

- prevention of credit risk by identifying, analyzing and assessing potential risks before entering the transaction creating risk exposure;
- planning the level of credit risk by assessing the level of expected losses;
- implementation of common assessment processes and identification of risks;
- limiting credit risk by setting exposure or risk limits;
- structuring of transactions;
- collateral management for transactions on financial markets;
- monitoring and control of credit risk level;
- application of the system of decision-making authority;
- provisions for impairment losses.

In the sphere of credit risk management the Group sets following objectives:

- implementation of systemic approach to credit risk, optimization of Group's credit portfolio structure by industry, region and product in order to limit credit risk level;
- increasing competitive advantage of the Group by more precise assessment of risks taken as well as the implementation of measures aimed at credit risk management including maintaining or bringing down the level of credit risk losses;
- retention of sustainability during expansion of product range of Group members (introduction of more complicated products) in consequence of reasonable assessment and taken risks' management particularly credit risks.

32 Financial Risk Management (Continued)

Credit risk management system of the Group is organized on the basis of integrated risk management principles as well as following principles:

- application of modern methods and instruments in credit risk management of the Bank and the Group as a whole developed on the basis of unified approach used for building crediting processes standardized to the maximum taking into account client segmentation by risk profile and minimization of process member's quantity due to centralization and process automation;
- objectivity, concreteness and precision of credit risk assessment, application of reliable actual and statistical information;
- integration of credit risk management process into organizational structure of the Bank and Group members;
- application of unified rules for allocation and delimitation of authorities for credit risk management based on combination of centralized and decentralized approaches;
- independence of departments responsible for credit risk assessment and control from departments that initiate deals generating credit risk;
- credit risk management system of the Group meets the requirements of the Bank of Russia / bank regulator (for the credit organizations – members of the Group operating outside the Russian Federation) as well as the requirements of the Russian law or law of other countries under which Group members operate;
- control and risk limitation as well as control over expected loss of the Bank in consequence of borrower/group of related borrowers' default are performed by means of Bank limit system.

The system of Group credit risk level control and monitoring is performed on the basis of principles stated in Group's internal normative documents providing preliminary, current and subsequent control over operations subject to credit risk, observance of stated risk limits and timely performance of its actualization.

There is multilevel system of limit for each business line generated in the Group based on the limitation of credit risk for credit operations and operations on financial markets.

For retail credit risks set limits are based on the assessment of borrower's risk and divided into groups in the following way:

- structure limits (this group includes such limit types as limit of crediting by scheme, limit of guarantee for the corporate client, limit for the product/group of approved products);
- authority limits (divided into authority limits of collegial body and personal limits);
- limits of risk concentration by the size of credit product provided to the borrower (this group includes the limit of borrower's debt amount);
- limits for the department giving the credit (this group includes the limit of received application amount).

Assessment of the Group's credit risk is made in aggregate, by individual portfolios of credit risk bearing assets, by individual counterparties, transactions and groups, by country, geographic region and by industry.

The Group operates a system of internal ratings based on economic-mathematical models for estimating the probability of default of counterparties and transactions. Assessment of credit risks of the Group's counterparties in transactions which carry credit risks depends on the counterparty category:

- corporate customers, credit institutions, financial companies, clients – the subjects of small business, sovereigns, subjects of the Russian Federation and municipal entities, insurance and leasing companies are assessed on the basis of the system of credit ratings and expected cash flow models or other important indicators;
- individuals and clients – the subjects of Micro business are assessed based on their creditworthiness in accordance with the Bank's internal regulatory documents and express assessment.

32 Financial Risk Management (Continued)

The Group's system of credit ratings provides a differentiated assessment of probability of default/non-execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative factors of credit risk (factors of market and external influence, characteristics of management quality, assessment of business reputation and others), materiality of their impact on the ability of the counterparty to serve and repay their obligations.

The Group's internal procedures provide for a multi-factor approach, the factor list being standardized depending on the counterparty category: risk factors related to counterparty's creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control, transparency, position of the client in the industry and the region, strength of support from local administration and parent companies (in case of a holding) as well as the so-called early warning factors are subject to mandatory monitoring and control. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty/transaction with their subsequent classification ratings.

The Group closely monitors its credit risk concentration and compliance with prudential regulations of the regulator, making analysis and forecast of credit risk level. In analysis, monitoring and management of credit risk concentration the following methods are used:

- a distributed criteria mechanism for identifying legally and economically related borrowers, followed by the centralized maintenance of a uniform hierarchical list of groups of related borrowers;
- control of large loans per borrower in groups of related borrowers,
- identifying groups of borrowers by industry, country and region.

Collateral is the main instrument decreasing credit risk of non-payment under the credit contract. The Group usually requires collateral for granted loans. Different kinds of collateral could be approved in order to limit credit risk simultaneously. In accordance with Group's policy collateral for loans provided to legal entities (pledge amount and/or liability amount (limit of responsibilities) through surety agreement and/or guarantee amount) should cover the amount of credit and interests, accrued during not less than 3 months.

One of the concepts concerning hedge of credit deals risks is represented by developed Pledge policy (as a part of Credit policy) which defines basis principles and elements of work organization for pledges in case of loan granting.

Pledge policy is concentrated on the improvement of quality of credit portfolio in the part of collateral. Collateral quality depends on the probability of cash receipt in amount of supporting pledge in case of enforcement or realization of pledge. Collateral quality can be indirectly characterized by the list and materiality of risks conjugated to the pledge and is represented by the range of factors (liquidity, reliability of cost determination, impairment risks, susceptibility to the risks of loss and damage, law risks and others).

Pledge amount assessment is performed on the base of internal expert valuation of Group experts, assessment of independent valuers or pledge amount stated in borrower's financial reports with discount correction. Using surety of creditworthiness legal entities as the collateral requires risk assessment from the side of guarantor as well as from borrower's side.

At the same time, the Group operates a multi-dimensional system of authority to determine the level of decision-making for each loan application. Each territorial unit is assigned a risk profile, which defines the discretionary powers of the unit to take independent decisions, depending on the risk category of the requested loan. In its turn, the risk category of the requested loan depends on the aggregate risk limit and the risk category of the borrower/group of related borrowers and also on loan product category. Thus, existing systems of limits and decision-making authority allows to optimize the lending process and provides for proper management of credit risk.

Considering the focus of the Bank and the Group for the using of modern technics and instruments of credit risk managing, the Group is in the process of constructing the most common standardized processes of retail lending considering the customer segmentation by risk profile and minimizing the number of participants in the process by centralizing and automatizing.

32 Financial Risk Management (Continued)

The Bank provides basic types of loan products to individual customers – consumer loans, auto- and mortgage loans, credit cards under "Credit Factory" technology. "Credit Factory" technology is constantly improving, in particular:

- technology of automatized verification (check) of real estate valuation assessment report in the context of credit application processing procedure has been realized;
- technology of automatized passport identification aimed at the exclusion of check of client's passport data correctness manually has been realized;
- automatized system ensuring revelation of the facts of forgery or falsification of documents identifying client on the base of photomaterials has been integrated.

At the Group's level the implementation of the "Credit Factory" technology is continued in the subsidiaries - Belpromstroy Bank OJSC (OAO BPS Bank) (Belarus), Sberbank of Russia JSC (Ukraine), Sberbank SB JSC (Kazakhstan), Sberbank Europe AG.

In accordance with "Credit Factory" technology main types of credit products are provided to the subjects of Micro business as well as such subjects are translated to "Credit Factory" technology in a number of Group banking subsidiaries.

In 2013 the Group has opened the project of technology automation "Credit conveyor". Development of this technology has following objectives:

- building of transparent and controlled credit process for Small Business;
- decrease of Bank operational expenses and work time related to credit process including time of credit application processing;
- shortage of Bank losses level caused by increase in quality of application processing.

As part of the introduction of Basel II in the Bank and a number of banking subsidiaries, the complete set of behavioral models of Basel for all retail lending products has been developed. Also, there were identified indicators required to calculate economic capital.

Using the macroeconomic scenarios, the Group conducts sensitivity analyses of credit risk level by both counterparty and credit portfolio to identify macro factors of maximum correlation with the counterparties' probability of default. Statistics on radical changes of macro factors is used in stress-scenario for ratings models for the purpose of stress-testing.

The Group monitors debt recovery at all phases of debt collection. In case of identification of problem areas/phases in the process of debt recovery, drop in debt recovery ratio and non-performing loans growth in territorial units, customer or product segments, the optimization of lending/collection process is performed.

Country risk is the risk of losses due to the default by sovereign and other counterparties in a particular country for reasons other than the standard risks (caused by the Government actions but beyond the control of the counterparties).

Risk exposure of the Group when financing non-residents or foreign Governments is minimized by assessment of the country related risk and setting country risk limits. Assessment of country risks is based on the ratings by international rating agencies (Fitch, Moody's, S&P), the nominal GDP, the level of economic development of the country and its strategic relevance for the group. Countries without international ratings are assessed in accordance with internal procedures, which include the analysis of risk factors related to sovereign solvency, current development trends, efficiency of external debt management, offshore status and international reputation, public policy and domestic political situation. To reduce the country risk, transactions with counterparties are conducted within the risk limits on the countries concerned.

32 Financial Risk Management (Continued)

Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices and other market indicators. The main goal of Market Risk Management is the optimization of market risk level within the Group, compliance of the risk level risk with limits set and minimization of loss in case of unfavorable scenario realization.

The Group categorises market risk into:

- **Currency risk** is the risk of losses or reduction of income due to fluctuations in the prevailing foreign currency exchange rates;
- **Interest rate risk** is the risk of losses or reduction of income due to fluctuations in interest rates;
- **Equity price risk** is the risk of losses or reduction of income due to changes in fair value of equity securities, for example, ordinary and preference shares;
- **Commodity risk** is the risk of losses or reduction of income due to changes in value of commodity assets, in particular, precious metals;
- **Volatility risk** is the risk of losses or reduction of income on option operations due to changes in imputed option volatility of underlying assets;
- **Liquidity risk** is the risk of inability to open / close or change of a market position on the market, exchange, or in case of market quotation against a particular counterparty, and an inability to fulfill contractual obligations in time without incurring losses unacceptable to the financial stability.

The Group manages its market risks through securities portfolios management and control over open positions in currencies, interest rates and derivatives. Authorized bodies and departments determine the methodology for the market risk management and set limits on particular transactions.

Market risk limits are set on the basis of the value-at-risk analysis (VaR), scenario analysis and stress-testing as well as regulatory requirements of the Bank of Russia and recommendations of the Basel Committee on Banking Supervision. The Group calculates VaR for the operations on financial markets both by components and in aggregate, determining the diversification effect.

The Group divides the principles of market risk management under the trading and banking book. Authority to manage the market risk are divided between Trading Risk Committee (TRC) of the Bank and Bank Committee of assets and liabilities management (ALMC) by type of market risk on a group of operations (trading and non-trading operations).

Market risk management is carried out in accordance with the "Policy for managing market and credit risk operations on financial markets" and "Policy for managing interest rate and currency risk of the banking book".

Market risk on non-trading positions

Interest rate risk on non-trading assets and liabilities. The Group accepts risk on market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basis risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds up faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin. Decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

32 Financial Risk Management (Continued)

The objective of managing this type of market risk is minimization of potential losses caused by realization of interest rate risk and stabilization of bank interest margin regardless of market conditions. To manage interest rate risk the ALMC sets maximum interest rates on corporate deposits/ current accounts and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on investments into long-term assets bearing inherently the maximum interest rate risk. The Bank's Management Board approves fixed interest rates on deposits. Interest rates on deposits depend on deposit maturity date, amount and the client's category. Interest rates on loans for individuals are confirmed by ALMC.

ALMC of each regional bank approves interest rates for corporate clients taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the ALMC of the Bank's Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the standardized shock in accordance with Basel Committee for Banking Supervision (BCBS) recommendations. Forecasting of possible changes in interest rates is carried out separately for Russian Rouble positions and positions in foreign currency. The shock of interest rates is calculated as 1% and 99% of the allocation quantile of average annual interest rate's change by historical simulations method using data no less than the last 5 years. As basic rate for the purpose of shock assessment in RUR the indicative rate is used for interest swap in RUR with 1 year terms (RR IRS 1Y). For the purpose of shock assessment in foreign currency position the rate LIBOR 3M is used.

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2013:

Change in profit before tax as at 31 December 2013 *(in billions of Russian Roubles)*	**RR positions**	**Foreign currency positions**	**Total**
Decrease in interest rates by 292 bps	89.0	–	**89.0**
Increase in interest rates by 570 bps	(173.6)	–	**(173.6)**
Decrease in interest rates by 19 bps	–	0.12	**0.12**
Increase in interest rates by 66 bps	–	(0.41)	**(0.41)**

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2012:

Change in profit before tax as at 31 December 2012 *(in billions of Russian Roubles)*	**RR positions**	**Foreign currency positions**	**Total**
Decrease in interest rates by 302 bps	50.7	–	**50.7**
Increase in interest rates by 583 bps	(98.0)	–	**(98.0)**
Decrease in interest rates by 20 bps	–	0.3	**0.3**
Increase in interest rates by 85 bps	–	(1.4)	**(1.4)**

Increase of interest rate risk of non-trading positions as at 31 December 2013 in comparison with 31 December 2012 is caused mostly by the rise of short-term borrowings from the Bank of Russia and increase in total assets.

Currency risk of non-trading assets and liabilities. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RR and EUR/RR exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for Regional Head Offices. Besides, limits and control system are in place for conversion operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets.

32 Financial Risk Management (Continued)

The Bank's Treasury Department undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group's currency risk exposure at a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MOEX as the main instruments for risk management.

Market risk on the operations on financial markets. Among credentials of TRC there is management over market risk of the trade operations on financial markets, concerning liquidity risk TRC obeys to ALMC.

Market risks are controlled by monitoring of operations on foreign exchange and securities market by departments independent of trading divisions. Monitoring of market risks implies continual control over trading deals at all steps of operational process.

For the purposes of market risk management of the financial markets' operations, trade operations are aggregated in portfolios with hierarchical structure defined in accordance with risk types and responsibilities allocation. Market risk management of the trade operations in Group is performed through the system of authorized bodies, making decisions depending on risk level and portfolio hierarchy, such system allows to reach efficiency and flexibility of decision making.

In 2013 the Group process of market risk for trade operations management was stated, its integration was initiated in banking Group members, completion of the process of integration is planned in 2014.

The Group derives following most important types of market risk of the trade operations.

Interest rate risk on the trade operations. The Group is exposed to interest rate risk of its trade operations with debt securities and derivatives.

For managing and limiting interest rate risk in accordance with the "Policy for managing market and credit risk operations on financial markets" TRC as well as persons authorized by it set following types of limits and restrictions: limits on investments, limits on sensitivity to interest rate changes (DV01), concentration limits, limits on losses of trade operations, VaR limits, limits on direct and reverse REPO-deals.

Equity Price Risk. The Group is exposed to equity price risk through changes in fair value of corporate lobar securities as well as its derivatives in case of Group having positions in them. In order to limit equity price risk the TRC and persons authorized by it set common position limits, limits on losses of trade operations, VaR limits, sensitivity limits. Regional Head Offices does not take part in trade operations with shares.

Currency Risk. In order to limit the foreign exchange risk of financial market operations TRC as well as persons authorized by it set VaR limits and limits for open foreign exchange positions for all operations, which are sensitive to currency risk.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon.

The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates) as well as changes in price of specific instruments not due to changes in the market situation.

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 2 years preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices as well as interest rates levels;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days.

32 Financial Risk Management (Continued)

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2013:

In billions of Russian Roubles	**Value as at 31 December 2013**	**Average value for 2013**	**Maximum value for 2013**	**Minimum value for 2013**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	17.2	16.1	17.2	15.0	0.9%	4.4%
Equity price risk	2.2	2.2	2.5	2.0	0.1%	0.6%
Currency risk	5.7	5.5	5.7	5.3	0.3%	1.5%
Market risk including diversification effect	18.8	18.5	18.9	18.0	0.9%	4.8%
Diversification effect	6.4	–	–	–	0.3%	1.6%

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2012:

In billions of Russian Roubles	**Value as at 31 December 2012**	**Average value for 2012**	**Maximum value for 2012**	**Minimum value for 2012**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	18.1	16.6	21.7	12.1	1.1%	5.2%
Equity price risk	4.0	9.0	12.6	4.3	0.2%	1.2%
Currency risk	5.3	3.1	7.0	1.4	0.3%	1.5%
Market risk including diversification effect	19.6	17.6	24.5	12.1	1.2%	5.7%
Diversification effect	7.8	–	–	–	0.5%	2.3%

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

32 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to foreign exchange risk in respect of financial assets, liabilities and derivatives as at 31 December 2013. Foreign exchange risk on forward and future contracts is represented by their discounted positions. Foreign exchange options are disclosed in the amount that reflects theoretical sensitivity of their fair value to reasonable change in exchange rates. Commodity options are shown at their fair value in relative settlement currency. Equity instruments are classified based on the country of origin of issuer.

	Russian Roubles	US Dollars	Euro	Turkish Lyra	Other	Total
Assets						
Cash and cash equivalents	1,023.0	120.6	77.2	27.3	78.9	**1,327.0**
Mandatory cash balances with central banks	112.2	52.0	45.3	12.1	29.9	**251.5**
Trading securities	66.3	29.5	3.4	1.5	0.5	**101.2**
Securities designated as at fair value through profit or loss	14.2	3.2	–	–	0.1	**17.5**
Due from banks	210.5	35.1	44.8	3.2	36.9	**330.5**
Loans and advances to customers	9,371.1	2,270.3	508.7	457.3	326.3	**12,933.7**
Securities pledged under repurchase agreements	1,153.0	140.8	32.9	10.7	6.4	**1,343.8**
Investment securities available-for-sale	244.9	101.1	49.5	48.3	32.4	**476.2**
Investment securities held-to-maturity	136.9	32.8	2.8	29.5	0.5	**202.5**
Other financial assets (less fair value of derivatives)	250.5	28.4	5.5	6.4	6.5	**297.3**
Total financial assets	**12,582.6**	**2,813.8**	**770.1**	**596.3**	**518.4**	**17,281.2**
Liabilities						
Due to banks	1,834.0	151.2	80.3	10.1	35.7	**2,111.3**
Due to individuals	6,785.5	676.2	582.8	210.6	180.7	**8,435.8**
Due to corporate customers	2,039.7	1,046.0	222.4	125.7	194.6	**3,628.4**
Debt securities in issue	425.9	321.0	20.7	32.4	53.4	**853.4**
Other borrowed funds	0.1	376.8	94.2	28.0	–	**499.1**
Other financial liabilities (less fair value of derivatives)	143.7	42.7	11.9	23.7	4.0	**226.0**
Subordinated debt	303.2	110.3	4.7	–	6.5	**424.7**
Total financial liabilities	**11,532.1**	**2,724.2**	**1,017.0**	**430.5**	**474.9**	**16,178.7**
Net financial assets/(liabilities)	**1,050.5**	**89.6**	**(246.9)**	**165.8**	**43.5**	**1,102.5**
Net derivatives	**271.7**	**(341.3)**	**218.3**	**(101.5)**	**(4.0)**	**43.2**
Credit related commitments (Note 33)	**2,524.2**	**847.0**	**258.5**	**320.4**	**62.2**	**4,012.3**

32 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to foreign exchange risk in respect of financial assets, liabilities and derivatives as at 31 December 2012.

	Russian Roubles	US Dollars	Euro	Turkish Lyra	Other	Total
Assets						
Cash and cash equivalents	946.0	125.6	118.8	19.8	80.6	**1,290.8**
Mandatory cash balances with central banks	122.6	32.8	31.5	5.6	18.7	**211.2**
Trading securities	47.3	31.6	0.5	7.9	3.1	**90.4**
Securities designated as at fair value through profit or loss	11.2	2.9	4.4	–	0.7	**19.2**
Due from banks	60.6	1.7	39.6	–	12.9	**114.8**
Loans and advances to customers	7,714.9	1,783.9	366.4	367.9	266.2	**10,499.3**
Securities pledged under repurchase agreements	888.8	28.3	–	32.6	–	**949.7**
Investment securities available-for-sale	394.8	222.3	72.0	77.9	37.5	**804.5**
Investment securities held-to-maturity	85.0	13.2	2.5	2.4	2.8	**105.9**
Other financial assets (less fair value of derivatives)	123.8	18.7	3.0	6.5	1.2	**153.2**
Total financial assets	**10,395.0**	**2,261.0**	**638.7**	**520.6**	**423.7**	**14,239.0**
Liabilities						
Due to banks	1,289.4	52.7	57.7	22.3	30.3	**1,452.4**
Due to individuals	5,660.1	521.8	452.1	170.5	178.7	**6,983.2**
Due to corporate customers	1,958.3	747.8	171.6	153.3	165.1	**3,196.1**
Debt securities in issue	297.7	327.3	17.2	12.9	36.6	**691.7**
Other borrowed funds	0.7	362.9	76.8	25.4	3.4	**469.2**
Other financial liabilities (less fair value of derivatives)	122.8	32.0	5.0	23.1	2.6	**185.5**
Subordinated debt	303.4	71.6	4.7	–	5.0	**384.7**
Total financial liabilities	**9,632.4**	**2,116.1**	**785.1**	**407.5**	**421.7**	**13,362.8**
Net financial assets/ (liabilities)	**762.6**	**144.9**	**(146.4)**	**113.1**	**2.0**	**876.2**
Net derivatives	**(323.4)**	**223.9**	**178.9**	**(39.1)**	**(7.6)**	**32.7**
Credit related commitments (Note 33)	**1,848.2**	**621.7**	**236.8**	**258.4**	**64.6**	**3,029.7**

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

Liquidity risk. Liquidity risk is defined as the ability of the Group to fulfill all its obligations to the clients and counterparties subject to the requirements of the local regulator unconditionally and promptly in the normal course of business as well as during crisis situations. The Group is subject to the liquidity risk caused by daily calls on its available cash resources from obligations to clients, settlements of interbank deposits, guarantees payments, from calls on cash settled derivative instruments and other operations. The Group does not maintain cash resources to meet all of the above mentioned needs, performing on the basis of accrued historical data, current market situation as well as information from business divisions a forecast of sufficient level of cash and liquidity reserves necessary for the fulfillment of these obligations.

32 Financial Risk Management (Continued)

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of present payment obligations on the condition of absolute compliance to the requirements of local regulator. For this purpose the Group:

- maintains a stable and diversified liabilities structure including resources attracted from different groups of investors/clients into term instruments as well as into funds on demand,
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity;
- has an opportunity to attract funds from financial markets in short period of time.

Policy and Procedures. The Treasury performs analysis and forecasts and advices Management on regulation of short-term, medium-term and long-term liquidity of the Group. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of “Policy of “Sberbank of Russia” OJSC for liquidity risk management” and the guidelines of the Bank of Russia, local regulators and the Basel Committee for Banking Supervision. The Bank performs control and management over liquidity on the level of the Group as well as the coordination of all external borrowings of the Group in order to minimize the cost of funding.

The managing bodies of banking subsidiaries are responsible for efficiently managing and controlling the liquidity of banking subsidiaries. They are also responsible for monitoring limits and controls required by the Group’s internal regulations and the requirements of local regulators. Assessment, management and control of banking subsidiaries liquidity risk are performed in accordance with unified Group standards. In case of an insufficient liquidity banking subsidiaries are provided with mandate on attraction of funds from financial markets or funding in accordance with stated limits (planned limit and reserve limit).

Group liquidity risk management is based on the initiative of the Bank of Russia / local regulators taking into consideration the use of the best world practices and applies following methods of assessment and liquidity risk management instruments:

- forecasting payment flows by major currencies to ensure the necessary volume of liquid assets to cover liquidity deficit and amounts of mandatory rules stated by local regulators;
- forecasting assets and liabilities structure for different scenarios of Group balance development to control the required volume of liquid assets in medium-term and long-term perspective in the context of making plans concerning funding;
- control and forecasting of amounts of the main liquidity factors on the basis of Group Standard for liquidity risk-metrics calculation;
- settlement of limits for risk metrics including but not only components of risk appetite of the Group;
- stress-testing of liquidity profile by analysis of different scenarios and stress phases as well as planning activities to recover necessary liquidity level in case of negative conditions or during crisis;
- control over indicators of early warning in order to uncover timely negative changes in liquidity situation.

32 Financial Risk Management (Continued)

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities. The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2013 is set out below:

in billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	1,675.1	176.8	179.9	53.0	51.1	2,135.9
Due to individuals	2,360.8	1,406.4	1,097.4	3,446.5	430.0	8,741.1
Due to corporate customers	1,303.4	442.5	186.1	1,707.2	97.2	3,736.4
Debt securities in issue	73.9	197.1	183.0	217.7	284.0	955.7
Other borrowed funds	56.9	128.4	156.1	144.8	36.7	522.9
Other financial liabilities (including derivative financial instruments)	179.7	49.8	21.6	31.9	26.0	309.0
Subordinated debt	–	2.8	22.4	54.8	515.7	595.7
Total liabilities	**5,649.8**	**2,403.8**	**1,846.5**	**5,655.9**	**1,440.7**	**16,996.7**
Credit related commitments	4,012.3	–	–	–	–	4,012.3

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2012 is set out below:

in billions of Russian Roubles	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to banks	1,050.3	230.8	123.0	24.4	39.9	1,468.4
Due to individuals	1,871.6	1,252.4	1,159.6	2,599.8	361.4	7,244.8
Due to corporate customers	1,271.1	375.1	91.0	1,558.5	5.7	3,301.4
Debt securities in issue	74.3	145.7	159.0	163.1	242.1	784.2
Other borrowed funds	29.6	75.7	174.4	192.6	42.3	514.6
Other financial liabilities (including derivative financial instruments)	140.7	50.1	10.0	31.6	13.5	245.9
Subordinated debt	–	1.8	22.0	46.0	500.3	570.1
Total liabilities	**4,437.6**	**2,131.6**	**1,739.0**	**4,616.0**	**1,205.2**	**14,129.4**
Credit related commitments	3,029.7	–	–	–	–	3,029.7

32 Financial Risk Management (Continued)

Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of CBR initiatives and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "on demand and less than 30 days";
- Trading securities, securities designated as at fair value through profit or loss and highly liquid portion of investment securities available-for-sale are considered to be liquid assets as these securities could be easily converted into cash within short period of time. Such financial instruments are disclosed in gap analysis table as "on demand and less than 30 days";
- Investment securities available-for-sale which are less liquid are disclosed according to remaining contractual maturities (for debt instruments) or as "no stated maturity" (for equities);
- Investment securities held-to-maturity including those pledged under repurchase agreements are classified based on the remaining maturities;
- Highly liquid portion of securities pledged under repurchase agreements is disclosed based on the remaining maturities of repurchase agreements;
- Loans and advances to customers, amounts due from banks, other assets, debt securities in issue, amounts due to banks, other borrowed funds and other liabilities are included into gap analysis table based on remaining contractual maturities;
- Customer deposits aren't disclosed as "on demand and less than 30 days" although customers have an opportunity to withdraw money from any account, including term deposits, before maturity date, losing the right on accrued interest. Customer deposits diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the "permanent" part of current account balances.

32 Financial Risk Management (Continued)

The liquidity position of the Group's assets and liabilities as at 31 December 2013 is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	1,327.0	–	–	–	–	–	**1,327.0**
Mandatory cash balances with central banks	72.2	37.1	26.2	101.0	15.0	–	**251.5**
Trading securities	101.2	–	–	–	–	–	**101.2**
Securities designated as at fair value through profit or loss	17.5	–	–	–	–	–	**17.5**
Due from banks	185.2	112.6	18.8	9.2	4.7	–	**330.5**
Loans and advances to customers	616.9	1,337.6	1,941.4	4,200.0	4,743.9	93.9	**12,933.7**
Securities pledged under repurchase agreements	1,094.0	9.9	25.5	39.1	175.3	–	**1,343.8**
Investment securities available-for-sale	444.6	4.5	2.0	6.0	18.8	0.3	**476.2**
Investment securities held-to-maturity	0.5	20.6	28.4	55.0	98.0	–	**202.5**
Deferred income tax asset	–	–	–	–	–	12.3	**12.3**
Premises and equipment	–	–	–	–	–	477.3	**477.3**
Other assets	314.3	89.9	32.4	115.7	82.2	102.3	**736.8**
Total assets	**4,173.4**	**1,612.2**	**2,074.7**	**4,526.0**	**5,137.9**	**686.1**	**18,210.3**
Liabilities							
Due to banks	1,669.1	176.8	169.9	50.1	45.4	–	**2,111.3**
Due to individuals	2,337.2	1,301.5	1,019.7	3,349.5	427.8	0.1	**8,435.8**
Due to corporate customers	1,298.8	414.8	162.2	1,659.5	93.1	–	**3,628.4**
Debt securities in issue	72.3	186.7	165.9	178.7	249.8	–	**853.4**
Other borrowed funds	48.5	125.5	150.3	137.2	37.6	–	**499.1**
Deferred income tax liability	–	–	–	–	–	23.8	**23.8**
Other liabilities	180.7	67.7	23.3	36.6	22.6	21.5	**352.4**
Subordinated debt	–	–	–	4.5	420.2	–	**424.7**
Total liabilities	**5,606.6**	**2,273.0**	**1,691.3**	**5,416.1**	**1,296.5**	**45.4**	**16,328.9**
Net liquidity gap	**(1,433.2)**	**(660.8)**	**383.4**	**(890.1)**	**3,841.4**	**640.7**	**1,881.4**
Cumulative liquidity gap as at 31 December 2013	**(1,433.2)**	**(2,094.0)**	**(1,710.6)**	**(2,600.7)**	**1,240.7**	**1,881.4**	**–**

32 Financial Risk Management (Continued)

The liquidity position of the Group's assets and liabilities as at 31 December 2012 is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	1,290.8	–	–	–	–	–	**1,290.8**
Mandatory cash balances with central banks	61.4	32.4	25.6	80.7	11.1	–	**211.2**
Trading securities	90.4	–	–	–	–	–	**90.4**
Securities designated as at fair value through profit or loss	19.2	–	–	–	–	–	**19.2**
Due from banks	57.0	46.2	0.6	2.4	8.6	–	**114.8**
Loans and advances to customers	373.0	1,384.1	1,541.0	3,524.7	3,595.5	81.0	**10,499.3**
Securities pledged under repurchase agreements	723.6	21.4	39.4	89.4	75.9	–	**949.7**
Investment securities available-for-sale	788.3	2.7	2.6	8.4	2.2	0.3	**804.5**
Investment securities held-to-maturity	0.2	5.8	8.8	38.5	52.6	–	**105.9**
Deferred income tax asset	–	–	–	–	–	7.5	**7.5**
Premises and equipment	–	–	–	–	–	436.0	**436.0**
Other assets	174.3	72.7	36.3	94.3	46.3	144.2	**568.1**
Total assets	**3,578.2**	**1,565.3**	**1,654.3**	**3,838.4**	**3,792.2**	**669.0**	**15,097.4**
Liabilities							
Due to banks	1,046.3	226.6	115.4	18.5	45.6	–	**1,452.4**
Due to individuals	1,848.2	1,162.9	1,091.2	2,521.1	359.8	–	**6,983.2**
Due to corporate customers	1,245.5	363.4	82.3	1,500.7	4.2	–	**3,196.1**
Debt securities in issue	70.9	140.6	142.5	131.2	206.5	–	**691.7**
Other borrowed funds	29.1	69.9	169.6	160.1	40.5	–	**469.2**
Deferred income tax liability	–	–	–	–	–	33.2	**33.2**
Other liabilities	135.5	53.4	21.2	21.9	6.0	25.1	**263.1**
Subordinated debt	–	0.1	0.7	–	383.9	–	**384.7**
Total liabilities	**4,375.5**	**2,016.9**	**1,622.9**	**4,353.5**	**1,046.5**	**58.3**	**13,473.6**
Net liquidity gap	**(797.3)**	**(451.6)**	**31.4**	**(515.1)**	**2,745.7**	**610.7**	**1,623.8**
Cumulative liquidity gap as at 31 December 2012	**(797.3)**	**(1,248.9)**	**(1,217.5)**	**(1,732.6)**	**1,013.1**	**1,623.8**	**–**

32 Financial Risk Management (Continued)

Operational Risk. Operational risk is the risk of Group losses caused by defects of internal processes, functioning of informational systems, unapproved/unlawful actions or mistakes of employees as well as due to external events.

Operational risk management system is defined by the Policy for operational risk management and aimed at prevention of such risk or maximum possible decrease of potential loss danger (direct and/or related) connected to internal process organization and external factors (events), measurement of operational risk for the calculation of necessary regulatory and economic capital as well as generation of adequate system of internal control.

Operational risk management process in Group includes following basic phases:

- operational risk identification;
- operational risk assessment;
- analysis of problem zones of processes, development of solution and decision- making concerning optimization / change in processes in order to decrease operational risk level;
- operational risk monitoring;
- control and/or decrease of operational risk.

In order to perform the phases mentioned above such operational risk management instruments as collection of internal data concerning losses caused by the realization of operational risk incidents, self-appraisal of departments and scenario analysis for operational risks are integrated in the Group. In 2013 the Group began replication of operational risk management instruments into banking and non-banking subsidiaries.

Risk-coordinators were appointed in all organization departments of the Bank and group members who are employees whose composition of functions includes interaction with operational risk departments concerning questions of identification, measurement, monitoring and control over operational risk. In particular risk-coordinators inform about realized incidents of operational risk as well as measure potential risks during self-appraisal.

In 2013 new automatized operational risk management system was integrated in the context of which forming of internal database concerning realized operational risk and loss taken was continued. Step-by-step transfer of departments' self-appraisal process into new automatized system is conducted. Work on replication of this system into banking and non-banking subsidiaries is initiated that will allow to measure operational risk level throughout the Group and uncover risk concentration zones of the Group.

In order to monitor operational risk the Group uses the system of reports for the management and collegial bodies, involved in risk management process. Operational risk reporting is formed on daily, monthly and quarterly basis.

During the period of realized operational risk database formation assessment and forecast of operational risk level are performed using basic indicative approach, recommended by Basel Committee on Banking Supervision, on the basis of statement of profit or loss. Current level of operational risk in Group is estimated as acceptable.

In order to prevent or/and decrease losses arised from operational risk the Group has developed and used mechanisms and procedures such as overall reglamentation of business-processes and procedures, segregation of duties, rules and procedures for deals and transactions execution, control over credit limit discipline, action plan for information security, continuity, improvement of an audit procedures and quality control over performance of automatized systems and hardware complex, property and assets insurance, ongoing professional development of staff across the Group's hierarchy, etc.

Measures for operational risk minimization are being processed during accrued statistical information analysis concerning operational risk incidents, analysis of Bank / subsidiaries processes, self-appraisal of organization departments concerning operational risks as well as during scenario analysis. They are subject to the regular monitoring from the side of organization departments as well as operational risk departments, management and collegial bodies of the Bank and Group's subsidiary.

33 Contingencies and Commitments

Legal proceedings**.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of the claims. During the year ended 31 December 2013 the Group recognized provision in the consolidated statement of profit or loss for the claims on which the Group expects cash outflows in the amount of RR 0.8 billion (31 December 2012: nil).

Tax legislation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions if the transaction price deviates from the market prices determined for tax purposes. The list of “controlled” transactions includes transactions concluded with Russian and foreign related parties and certain types of cross-border transactions concluded with independent parties concluded starting 1 January 2012 or earlier if related income and expenses were recognized in 2012 or thereafter. Russian transfer pricing rules which are currently in effect have considerably increased the compliance burden for the taxpayers as compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules continue to apply to securities transactions and derivatives.

In 2013 the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices and making appropriate transfer pricing adjustments (where applicable).

Due to the uncertainty and absence of any stable practice of the application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities, unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

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

Capital expenditure commitments. As at 31 December 2013 the Group had contractual capital expenditure commitments in respect of premises and equipment totaling RR 13.9 billion (31 December 2012: RR 38.9 billion) and in respect of computer equipment acquisition of RR 9.2 billion (31 December 2012: RR 2.1 billion). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

33 Contingencies and Commitments (Continued)

Operating lease commitments. When the Group is the lessee, the future minimum lease payments under operating leases, both cancellable and non-cancellable, are as follows:

		31 December 2013		31 December 2012
In billions of Russian Roubles	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**
Not later than 1 year	13.2	1.8	10.8	1.4
Later than 1 year and not later than 5 years	29.7	5.5	19.0	3.2
Later than 5 years	29.2	4.2	14.5	3.3
Total operating lease commitments	**72.1**	**11.5**	**44.3**	**7.9**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. The Group is in compliance with covenants as at 31 December 2013 and as at 31 December 2012.

Credit related commitments. The primary purpose of credit related commitments instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet the obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct lending.

Commitments to extend credit represent unused portions of authorizations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the maturities of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

in billions of Russian Roubles	**31 December 2013**	**31 December 2012**
Commitments to extend credit	1,477.8	1,112.0
Guarantees issued	1,362.4	934.2
Undrawn credit lines	545.7	495.2
Export letters of credit	399.5	302.8
Import letters of credit and letters of credit for domestic settlements	226.9	185.5
Total credit related commitments	**4,012.3**	**3,029.7**

At 31 December 2013 included in Due to corporate customers are deposits of RR 107.7 billion (31 December 2012: RR 79.0 billion) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 18.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash payments, as these financial instruments may expire or terminate without any payments being made.

The information on credit related commitments issued by state-controlled entities and government bodies is disclosed in Note 39.

33 Contingencies and Commitments (Continued)

Assets under management. As at 31 December 2013 and 31 December 2012 several asset management companies of the Group were managing assets of various investment entities. The net value of such assets was as follows:

In billions of Russian Roubles	**2013**	**2012**
Pension funds	90.7	47.7
Mutual investment funds	25.3	17.5
Individual	8.9	7.4
Hedge funds	5.2	3.7
Designated funds	3.9	4.3
Venture funds	2.6	2.7
Private equity funds	–	0.9
Other	6.2	1.1
Total	**142.8**	**85.3**

34 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. Fair value of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value of forward contracts is calculated as present value of amounts receivable less present value of amounts payable. The inputs in the discounted cash flows model used are forward exchange rate quotations and quoted implied depo rates. Such instruments are classified as level 2 of fair value hierarchy. Refer to Note 35.

Fair value of option contracts is calculated using the Black-Scholes model. Adjustments for credit risk are made where appropriate. The main inputs of this model are current market price and implied volatility. Where these inputs could be observed on the open market, the carrying amounts are disclosed as level 2 of fair value hierarchy. Otherwise, the amounts are disclosed as level 3. Refer to Note 35.

The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

34 Derivative Financial Instruments (Continued)

The table below shows the analysis of derivative financial instruments of the Group as at 31 December 2013:

	Fair value of principal debt amount or agreed amount			
in billions of Russian Roubles	**Receivables**	**Payables**	**Assets - Positive fair value**	**Liabilities - Negative fair value**
Foreign currency:				
Market swaps	35.9	(36.0)	–	(0.1)
OTC options	294.4	(291.6)	24.9	(22.1)
OTC swaps	1,822.4	(1,796.4)	40.7	(14.7)
Forwards	317.0	(316.1)	3.1	(2.2)
Futures	0.7	(0.7)	0.7	(0.7)
Total	**2,470.4**	**(2,440.8)**	**69.4**	**(39.8)**
Interest rate:				
Market options	2.6	(2.6)	–	–
Market swaps	5.8	(5.7)	0.1	–
OTC options	3.6	(3.6)	0.8	(0.8)
OTC swaps	455.7	(448.3)	26.5	(19.1)
Forwards	0.2	(0.2)	–	–
Total	**467.9**	**(460.4)**	**27.4**	**(19.9)**
Commodities including precious metals:				
OTC options	10.3	(10.4)	4.4	(4.5)
OTC swaps	19.4	(15.1)	4.3	–
Forwards	3.6	(3.9)	0.2	(0.5)
Futures	0.6	(0.2)	0.6	(0.2)
Total	**33.9**	**(29.6)**	**9.5**	**(5.2)**
Equities:				
Market options	0.4	–	0.4	–
OTC options	2.3	(1.5)	1.0	(0.2)
OTC swaps	0.1	(0.4)	0.1	(0.4)
Forwards	0.3	–	0.3	–
Futures	0.1	(0.1)	0.1	(0.1)
Total	**3.2**	**(2.0)**	**1.9**	**(0.7)**
Other:				
Market options	0.1	–	0.1	–
OTC options	0.4	(0.4)	–	–
Forwards	0.2	–	0.2	–
Futures	0.1	–	0.1	–
Total	**0.8**	**(0.4)**	**0.4**	**–**
Credit risk:				
OTC swaps	1.1	(0.9)	0.3	(0.1)
Total	**1.1**	**(0.9)**	**0.3**	**(0.1)**
Total	**2,977.3**	**(2,934.1)**	**108.9**	**(65.7)**

34 Derivative Financial Instruments (Continued)

The table below shows the analysis of derivative financial instruments of the Group as at 31 December 2012:

	Fair value of principal debt amount or agreed amount			
in billions of Russian Roubles	**Receivables**	**Payables**	**Assets - Positive fair value**	**Liabilities - Negative fair value**
Foreign currency:				
Market options	0.3	(0.3)	–	–
Market swaps	(6.7)	6.7	(0.1)	0.1
OTC options	246.1	(245.5)	9.7	(9.1)
OTC swaps	1,018.6	(1,000.9)	30.7	(13.0)
Forwards	203.2	(203.7)	1.8	(2.3)
Futures	13.1	(13.1)	0.4	(0.4)
Total	**1,474.6**	**(1,456.8)**	**42.5**	**(24.7)**
Interest rate:				
Market swaps	2.1	(1.9)	0.2	–
OTC options	0.6	(0.6)	–	–
OTC swaps	406.6	(403.4)	16.9	(13.7)
Forwards	0.3	(0.3)	–	–
Futures	14.4	(14.4)	–	–
Total	**424.0**	**(420.6)**	**17.1**	**(13.7)**
Commodities including precious metals:				
OTC options	2.5	(2.5)	2.3	(2.3)
OTC swaps	21.3	(12.8)	8.7	(0.2)
Forwards	3.2	(3.2)	–	–
Futures	2.5	(2.5)	–	–
Total	**29.5**	**(21.0)**	**11.0**	**(2.5)**
Equities:				
Market options	0.6	(0.6)	0.1	(0.1)
OTC options	9.6	(6.4)	3.5	(0.3)
Forwards	2.5	(2.4)	0.2	(0.1)
Futures	7.8	(7.8)	–	–
Total	**20.5**	**(17.2)**	**3.8**	**(0.5)**
Debt securities:				
Forwards	0.2	(0.2)	–	–
Total	**0.2**	**(0.2)**	**–**	**–**
Other:				
OTC swaps	–	(0.3)	–	(0.3)
Total	**–**	**(0.3)**	**–**	**(0.3)**
Total	**1,948.8**	**(1,916.1)**	**74.4**	**(41.7)**

During the year the Group has incurred a net gain on foreign currency derivatives in the amount of RR 1.1 billion (31 December 2012: a net gain of RR 8.4 billion) and earned net gain on precious metals derivatives in the amount of RR 4.4 billion (31 December 2012: a net gain of RR 6.0 billion), which is recorded in the Group's consolidated statement of profit or loss within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation, and net gains arising from operations with precious metals and precious metals derivatives correspondingly.

35 Fair Value of Financial Instruments

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.

35 Fair Value of Financial Instruments (Continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table show an analysis of classes of assets carried at fair value by level of the fair value hierarchy as at 31 December 2013:

in billions of Russian Roubles	Level 1	Level 2	Level 3	Total
Assets carried at fair value				
Trading securities	**98.2**	**1.2**	**1.8**	**101.2**
Corporate bonds	57.3	0.6	–	57.9
Corporate shares	15.5	0.3	1.1	16.9
Federal loan bonds (OFZ bonds)	13.2	–	–	13.2
Russian Federation Eurobonds	6.6	–	–	6.6
Municipal and subfederal bonds	2.7	–	–	2.7
Foreign government bonds	2.0	0.3	–	2.3
Investments in mutual funds	0.9	–	0.7	1.6
Securities designated as at fair value through profit or loss	**7.5**	**0.9**	**9.1**	**17.5**
Corporate shares	–	–	7.9	7.9
Federal loan bonds (OFZ bonds)	7.1	–	–	7.1
Investments in mutual funds	–	0.3	1.1	1.4
Foreign government bonds	–	0.6	0.1	0.7
Corporate bonds	0.4	–	–	0.4
Securities pledged under repurchase agreements	**1,093.5**	**–**	**–**	**1,093.5**
Federal loan bonds (OFZ bonds)	576.0	–	–	576.0
Corporate bonds	348.9	–	–	348.9
Russian Federation Eurobonds	102.8	–	–	102.8
Municipal and subfederal bonds	51.4	–	–	51.4
Foreign government bonds	13.5	–	–	13.5
Corporate shares	0.9	–	–	0.9
Investment securities available-for-sale	**425.2**	**51.0**	**–**	**476.2**
Corporate bonds	117.0	38.9	–	155.9
Federal loan bonds (OFZ bonds)	142.6	–	–	142.6
Foreign government bonds	101.4	11.8	–	113.2
Russian Federation Eurobonds	30.2	–	–	30.2
Corporate shares	29.1	0.3	–	29.4
Municipal and subfederal bonds	4.9	–	–	4.9
Derivative financial instruments	**1.5**	**89.8**	**17.6**	**108.9**
OTC swaps	–	55.1	16.8	71.9
OTC options	–	30.3	0.8	31.1
Forwards	–	3.8	–	3.8
Futures	1.5	–	–	1.5
Market options	–	0.5	–	0.5
Market swaps	–	0.1	–	0.1
Investment property	**–**	**–**	**15.3**	**15.3**
Office premises	**–**	**–**	**318.3**	**318.3**
Total assets carried at fair value	**1,625.9**	**142.9**	**362.1**	**2,130.9**

35 Fair Value of Financial Instruments (Continued)

The following table show an analysis of classes of assets for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2013:

in billions of Russian Roubles	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Due from banks	–	330.5	–	330.5
Loans and advances to customers	–	118.5	13,243.0	13,361.5
Investment securities held-to-maturity	199.3	0.9	–	200.2
Investment securities held-to-maturity pledged under repurchase agreement	250.3	–	–	250.3
Total assets for which fair values are disclosed	**449.6**	**449.9**	**13,243.0**	**14,142.5**

The following tables show an analysis of classes of liabilities carried at fair value and of liabilities for which fair values are disclosed, by level of the fair value hierarchy as at 31 December 2013:

in billions of Russian Roubles	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value				
Derivative financial instruments	**1.0**	**64.6**	**0.1**	**65.7**
OTC swaps	–	34.3	–	34.3
OTC options	–	27.5	0.1	27.6
Forwards	–	2.7	–	2.7
Futures	1.0	–	–	1.0
Market swaps	–	0.1	–	0.1
Obligation to deliver securities	**19.9**	**1.5**	**–**	**21.4**
Corporate bonds	13.3	1.0	–	14.3
Corporate shares	4.2	–	–	4.2
Foreign government bonds	1.3	0.5	–	1.8
Russian Federation Eurobonds	0.8	–	–	0.8
Federal loan bonds (OFZ bonds)	0.3	–	–	0.3
Structured notes	**–**	**0.4**	**1.0**	**1.4**
Total liabilities carried at fair value	**20.9**	**66.5**	**1.1**	**88.5**
Liabilities for which fair values are disclosed				
Due to banks	–	2,111.3	–	2,111.3
Due to individuals	–	154.2	8,276.1	8,430.3
Due to corporate customers	–	180.0	3,517.3	3,697.3
Debt securities in issue	341.7	518.1	–	859.8
Other borrowed funds	–	501.0	–	501.0
Subordinated debt	92.6	325.4	–	418.0
Total liabilities for which fair values are disclosed	**434.3**	**3,790.0**	**11,793.4**	**16,017.7**

35 Fair Value of Financial Instruments (Continued)

The following tables show an analysis of financial instruments carried at fair value as at 31 December 2012 by level of the fair value hierarchy:

				31 December 2012
in billions of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Trading securities	81.5	8.0	0.9	**90.4**
Securities designated as at fair value through profit or loss	11.5	0.6	7.1	**19.2**
Securities pledged under repurchase agreements	677.9	4.3	–	**682.2**
Investment securities available-for-sale	734.3	52.1	18.1	**804.5**
Derivative financial instruments	–	52.2	22.2	**74.4**
Total financial assets at fair value	**1,505.2**	**117.2**	**48.3**	**1,670.7**
Financial liabilities				
Obligation to deliver securities	15.9	2.7	–	**18.6**
Derivative financial instruments	–	41.4	0.3	**41.7**
Structured notes	–	1.3	1.0	**2.3**
Total financial liabilities at fair value	**15.9**	**45.4**	**1.3**	**62.6**

Level 2 includes debt securities of first-class borrowers and derivative financial instruments that are not actively traded on the market. Fair value of these financial instruments was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

The following describes the methodologies and assumptions used to determine fair values for financial instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs derived from well-known market information systems are mainly interest rate swaps, currency swaps, forward foreign exchange contracts and foreign exchange option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Option-pricing is mostly done with Black-Scholes model. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and implied volatility.

Trading securities and investment securities available-for-sale

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

35 Fair Value of Financial Instruments (Continued)

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities measured as at fair value during the year ended 31 December 2013:

	Transfers between Level 1 and Level 2	
in billions of Russian Roubles	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Trading securities	–	0.6
Investment securities available-for-sale	2.1	0.6
Total transfers of financial assets	**2.1**	**1.2**
Financial liabilities		
Obligation to deliver securities	–	0.8
Total transfers of financial liabilities	**–**	**0.8**

The financial instruments are transferred from Level 2 and Level 3 to Level 1 when they become actively traded and fair values are determined using quoted prices in an active market.

The financial instruments are transferred from Level 1 to Level 2 when they ceased to be actively traded. The liquidity of the market is not sufficient to use the market quotation for its valuation and fair values are consequently obtained from valuation techniques using observable market inputs.

The financial instruments are transferred to Level 3 when they ceased to be actively traded and there is no possibility to use valuation techniques with observable market inputs.

35 Fair Value of Financial Instruments (Continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded as at fair value as at 31 December 2013:

in billions of Russian Roubles	At 1 January 2013	Total gains/(losses) reported in statement of profit or loss	Total (losses) reported in other compre-hensive income	Purchases	Sales	Transfers from Level 3	Transfers to Level 3	At 31 December 2013
Financial assets								
Trading securities	**0.9**	0.8	–	0.1	(1.0)	–	1.0	**1.8**
Securities designated as at fair value through profit or loss	**7.1**	(4.0)	–	7.6	(1.6)	–	–	**9.1**
Investment securities available-for-sale	**18.1**	–	–	–	(5.2)	(12.9)	–	**–**
Derivative financial instruments	**22.2**	1.2	(0.6)	0.2	(5.1)	(0.3)	–	**17.6**
Investment property	**15.3**	(0.1)	–	0.5	(0.4)	–	–	**15.3**
Total level 3 financial assets	**63.6**	**(2.1)**	**(0.6)**	**8.4**	**(13.3)**	**(13.2)**	**1.0**	**43.8**
Financial liabilities								
Derivative financial instruments	**0.3**	0.1	–	–	(0.3)	–	–	**0.1**
Structured notes	**1.0**	–	–	–	–	–	–	**1.0**
Total level 3 financial liabilities	**1.3**	**0.1**	**–**	**–**	**(0.3)**	**–**	**–**	**1.1**

During the year ended 31 December 2013 there was a transfer of Investment securities available-for-sale representing shares of the stock exchange from Level 3 to Level 1 as they became actively traded during the year ended 31 December 2013. The carrying amount of shares of the stock exchange as at the date of transfer was RR 13.7 billion.

For the year ended 31 December 2013 the losses in the amount of RR 4.3 billion reported in the consolidated statement of profit or loss on Level 3 financial assets were unrealized.

For the year ended 31 December 2013 the losses in the amount of RR 0.6 billion reported in components of other comprehensive income on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on trading securities which are presented in the table above are reported in the statement of profit or loss within net (losses)/gains arising from trading securities.

Total losses recognized as profit or loss on securities designated as at fair value through profit or loss which are presented in the table above are reported in the statement of profit or loss within net losses arising from securities designated as at fair value through profit or loss.

35 Fair Value of Financial Instruments (Continued)

Total losses recognized as profit or loss on investment property which are presented in the table above are reported in the statement of profit or loss within other operating income.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in the statement of profit or loss within net gains arising from operations with other derivatives.

Valuation of securities designated as at fair value through profit or loss in a real estate company of RR 4.5 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated capitalization rate which depend on forecasts on property prices. As at 31 December 2013 the estimated value of the WACC used by the Group comprised 10.0%.

Should the discount rate used by the Group in the valuation model increase/decrease by 1.0%, the carrying value of the financial instrument would be RR 0.05 billion lower / RR 0.05 billion higher. Should the capitalization rate used by the Group in the valuation model increase/decrease by 1.0%, the carrying value of the financial instrument would be RR 1.1 billion lower / RR 1.0 billion higher.

Valuation of investments in mutual fund which main assets comprised real estate investments of RR 1.7 billion using valuation techniques based on non-observable inputs

Fair value of investments in mutual funds' units which main assets comprised real estate investments is determined based on fair value of property units. Each property unit is revalued regularly by independent appraisals using sales comparison and income approach. Application of market average rates, 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 RR 0.07 billion in case of application of the highest / lowest level of the range respectively.

Valuation of shares in a special oil and gas investment entity of RR 1.6 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated guaranteed fixed yield on exit. Guaranteed fixed yield is not linked to the market and so has immaterial influence on the value of the financial instrument. As at 31 December 2013 the estimated value of the WACC used by the Group comprised 10.0%.

Should the discount rate used by the Group in the valuation model increase/decrease by 1.0%, the carrying value of the financial instrument would be RR 0.03 billion lower / RR 0.03 billion higher.

Valuation of foreign currency derivatives contracts of RR 16.8 billion using non-observable inputs

The input used for estimation of fair values of foreign currency derivatives as at 31 December 2013 was the yield to maturity of the Belarusian Eurobonds in USD 7.5%. The obligations in Belarusian roubles were estimated against the prevailing rate of attracting funds in Belarusian roubles at the reporting date 34.9%. Should the input rate for Belarusian roubles decrease for 1000 base points the carrying value of the foreign currency derivatives would be 3.9% lower.

35 Fair Value of Financial Instruments (Continued)

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities measured as at fair value during the year ended 31 December 2012:

	Transfers between Level 1 and Level 2	
in billions of Russian Roubles	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Trading securities	2.4	1.3
Securities designated as at fair value through profit or loss	0.2	0.1
Investment securities available-for-sale	0.1	0.6
Total transfers of financial assets	**2.7**	**2.0**
Financial liabilities		
Obligation to deliver securities	1.4	0.2
Structured notes	0.2	–
Total transfers of financial liabilities	**1.6**	**0.2**

The financial instruments are transferred from Level 2 and Level 3 to Level 1 when they become actively traded and fair values are determined using quoted prices in an active market.

The financial instruments are transferred from Level 1 to Level 2 when they ceased to be actively traded. The liquidity of the market is not sufficient to use the market quotation for its valuation and fair values are consequently obtained from valuation techniques using observable market inputs.

The financial instruments are transferred to Level 3 when they ceased to be actively traded and there is no possibility to use valuation techniques with observable market inputs.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded as at fair value as at 31 December 2012:

(in billions of Russian Roubles)	At 1 January 2012	Total (losses)/gains reported in the statement of profit or loss	Foreign currency revaluation	Changes in fair value due to deferred gains	Purchases	Sales	Transfers from Level 3	Transfers to Level 3	At 31 December 2012
Financial assets									
Trading securities	2.7	(0.5)	–	–	0.5	(1.9)	–	0.1	**0.9**
Securities designated as at fair value through profit or loss	5.4	(2.3)	–	–	7.6	(0.5)	(3.5)	0.4	**7.1**
Investment securities available-for-sale	14.3	–	–	–	5.3	(1.5)	–	–	**18.1**
Derivative financial instruments	23.6	3.3	(2.1)	0.2	0.1	(2.9)	–	–	**22.2**
Total level 3 financial assets	**46.0**	**0.5**	**(2.1)**	**0.2**	**13.5**	**(6.8)**	**(3.5)**	**0.5**	**48.3**
Financial liabilities									
Structured notes	0.9	–	–	–	0.1	–	–	–	**1.0**
Derivative financial instruments	0.6	(0.6)	–	–	0.3	–	–	–	**0.3**
Obligation to deliver securities	0.3	(0.3)	–	–	–	–	–	–	–
Total level 3 financial liabilities	**1.8**	**(0.9)**	–	–	**0.4**	–	–	–	**1.3**

Transfers from Level 3 during the year ended 31 December 2012 were due to receipt of control over construction company. The carrying amount of the total assets transferred was RR 3.5 billion.

For the year ended 31 December 2012 the losses in the amount of RR 1.8 billion reported in the consolidated statement of profit or loss on Level 3 financial assets were unrealized.

35 Fair Value of Financial Instruments (Continued)

Total losses recognized as profit or loss on trading securities which are presented in the table above are reported in the consolidated statement of profit or loss within net gains arising from trading securities.

Total losses recognized as profit or loss on securities designated as at fair value through profit or loss which are presented in the table above are reported in the consolidated statement of profit or loss within net losses arising from securities designated as at fair value through profit or loss.

Total gains recognized as profit or loss on derivative financial instruments which are presented in the table above are reported in the consolidated statement of profit or loss within net gains from operations with other derivatives.

Valuation of available-for-sale shares in a stock exchange of RR 13.7 billion using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of WACC and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 1.2 billion lower / RR 1.4 billion higher.

Valuation of investments in shares of a company involved in innovation business at fair value through profit and loss of RR 4.4 billion using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC"); volume of production, sale price of goods sold (in particular crystal polisilicon), cost of sales. When determining the sale price of goods sold the Group used current market prices and forecasts of analytical companies. As at 31 December 2012 the estimated value of the WACC used by the Group comprised 18.38%.

Should the WACC used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 0.3 billion lower / RR 0.3 billion higher.

Valuation of shares in a real estate company of RR 3.1 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated capitalization rate which depend on forecasts on property prices.

Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 0.1 billion lower / RR 0.1 billion higher. Should the capitalization rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 0.3 billion lower / RR 0.3 billion higher.

Valuation of shares in a special investment entity of RR 1.6 billion using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash flow model using the following key assumptions: type of WACC and estimated guaranteed fixed yield on exit. Guaranteed fixed yield is not linked to the market and so has immaterial influence on the value of the financial instrument.

Should the discount rate used by the Group in the valuation model increase/decrease by 1%, the carrying value of the financial instrument would be RR 0.03 billion lower / RR 0.03 billion higher.

35 Fair Value of Financial Instruments (Continued)

Valuation of foreign currency derivatives contracts of RR 19.8 billion using non-observable inputs

The inputs used for estimation of fair values of foreign currency derivatives were the yield to maturity of the Belarusian Eurobonds in USD (7.44%). The obligations in Belarusian Roubles were estimated against the prevailing rate of attracting funds in Belarusian Roubles at the reporting date (37.0%). Should the input rate for Belarusian roubles decrease for 1000 base points the carrying value of the foreign currency derivatives would be 3.1% lower.

Fair values of financial assets and liabilities not accounted at fair value in the financial statements are disclosed below. There are following financial assets and financial liabilities not disclosed in the table below because their carrying amount is a reasonable approximation of fair value due to their short-term nature or repricing to current market rates:

- cash and cash equivalents,
- mandatory cash balances with central banks,
- other financial assets,
- other financial liabilities.

Fair values of financial assets not accounted at fair value in the financial statements are as follows:

	31 December 2013		31 December 2012	
in billions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortized cost				
Due from banks	330.5	330.5	114.8	114.8
Loans and advances to customers:				
- Commercial loans to legal entities	5,930.5	6,103.6	4,971.6	5,029.4
- Specialized loans to legal entities	3,366.0	3,531.0	2,765.7	2,734.4
- Consumer and other loans to individuals	1,612.7	1,691.4	1,334.2	1,274.6
- Mortgage loans to individuals	1,542.8	1,553.2	1,116.9	1,094.1
- Credit cards and overdrafts	328.4	328.5	190.0	189.6
- Car loans to individuals	153.3	153.8	120.9	118.2
Securities pledged under repurchase agreements:				
- Investment securities held-to-maturity pledged under repurchase agreements	250.3	250.3	267.5	266.8
Investment securities held-to-maturity	202.5	200.2	105.9	105.5
Total financial assets carried at amortized cost	**13,717.0**	**14,142.5**	**10,987.5**	**10,927.4**

35 Fair Value of Financial Instruments (Continued)

Fair values of financial liabilities not accounted at fair value in the financial statements are as follows:

	31 December 2013		31 December 2012	
in billions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities carried at amortized cost				
Due to banks	2,111.3	2,111.3	1,452.4	1,452.4
Due to Individuals:				
- Current/demand accounts	1,748.4	1,748.4	1,401.1	1,401.1
- Term Deposits	6,687.4	6,681.9	5,582.1	5,541.7
Due to corporate customers:				
- Current/settlement accounts of state and public organizations	158.7	158.7	99.0	99.0
- Term deposits of state and public organizations	88.6	90.3	270.1	273.9
- Current/settlement accounts of other corporate customers	1,504.8	1,504.8	1,130.1	1,130.1
- Term deposits of other corporate customers	1,863.5	1,930.7	1,660.5	1,685.7
- Direct repo deals	12.8	12.8	36.4	36.4
Debt securities in issue:				
- Loan participation notes issued under the MTN programme	324.9	334.8	291.6	315.0
- Savings certificates	344.5	343.1	227.2	231.6
- Promissory notes	74.7	74.2	110.1	109.7
- Notes issued under the ECP programme	46.9	46.8	16.1	16.1
- Bonds issued	59.4	59.3	44.3	44.5
- Other debt securities except for structured notes	1.6	1.6	0.1	0.1
Other borrowed funds	499.1	501.0	469.2	467.4
Subordinated debt:				
- Subordinated debt received by the Group from the Bank of Russia	303.3	303.3	303.3	303.3
- Subordinated debt received under the MTN programme	98.5	92.6	61.1	62.3
- Other subordinated debts	22.9	22.1	20.3	19.0
Total financial liabilities carried at amortized cost	**15,951.3**	**16,017.7**	**13,175.0**	**13,189.3**

Financial instruments carried at fair value. Trading securities, other assets at fair value through profit or loss, financial derivatives, available-for-sale financial assets are carried in the consolidated statement of financial position at fair value.

Cash and cash equivalents are carried at amortized cost which approximately equals their current fair value.

Refer to Note 3 for accounting policy on financial instruments carried at fair value.

Loans and receivables carried at amortized cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

35 Fair Value of Financial Instruments (Continued)

Contractual interest rates on loans and advances to customers and due from banks as at 31 December 2013 and 31 December 2012 were as follows:

	2013	2012
Due from banks	0.05% to 13.3% p.a.	0.01% to 11.0% p.a.
Loans and advances to customers:		
Corporate loans	4.1% to 25.0% p.a.	5.2% to 18.7% p.a.
Loans to individuals	8.0% to 25.5% p.a.	7.4% to 24.0% p.a.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.0% p.a. to 14.9% p.a. (2012: from 0.0% p.a. to 13.3% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 34.

36 Transfers of Financial Assets

The following note provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

The table below shows the amount of operations under sale and repurchase agreements which the Group enters into in the normal course of business.

	31 December 2013				31 December 2012			
	Due to banks		Due to customers		Due to banks		Due to customers	
	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability
Securities pledged under repurchase agreements	1,337.5	1,267.8	6.3	6.0	919.2	845.8	30.5	23.8
Securities issued by the Bank pledged under repurchase agreements	6.3	5.3	–	–	0.4	0.3	0.8	0.7
Securities of clients pledged under repurchase agreements	30.3	20.8	8.9	6.8	10.2	8.8	17.6	11.9
Total before margin calls	**1,374.1**	**1,293.9**	**15.2**	**12.8**	**929.8**	**854.9**	**48.9**	**36.4**
Other financial assets (margin calls under repurchase agreements)	0.7	–	0.6	–	2.4	–	1.1	–
Total	**1,374.8**	**1,293.9**	**15.8**	**12.8**	**932.2**	**854.9**	**50.0**	**36.4**

Refer to Note 12 for detailed information on types of securities pledged under repurchase agreements.

36 Transfers of Financial Assets (continued)

In the normal course of business, the Group makes borrowings on interbank market using different financial instruments as collateral to support its everyday operations in terms of liquidity.

The summary of the assets transferred without derecognition is presented below:

	31 December 2013		31 December 2012	
in billions of Russian Roubles	Carrying value of assets	Carrying value of related liability	Carrying value of assets	Carrying value of related liability
Cash and cash equivalents	0.1	0.1	–	–
Loans to corporate customers	125.3	110.8	224.8	170.7
Securities	28.5	28.5	20.0	17.6
Other assets	18.3	39.7	–	–
Total	**172.2**	**179.1**	**244.8**	**188.3**

The Group also enters into reverse sale and repurchase agreements. The summary of such operations is provided in the table below:

	31 December 2013		31 December 2012	
in billions of Russian Roubles	Amount of loans granted under repo agreements	Fair value of securities received as collateral	Amount of loans granted under repo agreements	Fair value of securities received as collateral
Cash and cash equivalents	27.2	28.6	81.1	88.7
Due from banks	131.3	154.8	9.8	12.1
Loans and advances to customers	137.0	202.8	133.5	167.3
Total	**295.5**	**386.2**	**224.4**	**268.1**

37 Offsetting of Financial Instruments

The table below shows financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position as at 31 December 2013:

				Related amounts not set off in the statement of financial position		
in billions of Russian Roubles	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets						
Derivative financial assets	69.5	(0.9)	68.6	(38.9)	(7.2)	22.5
Reverse repurchase agreements	295.5	–	295.5	(295.5)	–	–
Other financial assets	99.4	(0.2)	99.2	(2.2)	(0.6)	96.4
Total	**464.4**	**(1.1)**	**463.3**	**(336.6)**	**(7.8)**	**118.9**
Financial liabilities						
Derivative financial liabilities	82.2	(0.9)	81.3	(38.9)	(9.9)	32.5
Direct repurchase agreements	1,306.7	–	1,306.7	(1,306.7)	–	–
Other financial liabilities	6.2	(0.2)	6.0	(2.2)	(1.8)	2.0
Total	**1,395.1**	**(1.1)**	**1,394.0**	**(1,347.8)**	**(11.7)**	**34.5**

37 Offsetting of Financial Instruments (continued)

The comparative information as at 31 December 2012 is presented in the table below:

in billions of Russian Roubles	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral received	Net amount
Financial assets						
Derivative financial assets	42.8	(1.5)	41.3	(27.6)	(1.3)	12.4
Reverse repurchase agreements	224.4	–	224.4	(224.4)	–	–
Other financial assets	75.6	(2.5)	73.1	(48.1)	(3.6)	21.4
Total	**342.8**	**(4.0)**	**338.8**	**(300.1)**	**(4.9)**	**33.8**
Financial liabilities						
Derivative financial liabilities	34.6	(1.5)	33.1	(27.6)	(2.4)	3.1
Direct repurchase agreements	891.4	–	891.4	(891.4)	–	–
Other financial liabilities	56.6	(2.5)	54.1	(48.1)	(2.9)	3.1
Total	**982.6**	**(4.0)**	**978.6**	**(967.1)**	**(5.3)**	**6.2**

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group’s principal shareholder is the Bank of Russia (refer to Note 1). Other related parties in the tables below comprise key management personnel, their close family members, associated companies of the Group. Disclosures are made in Note 39 for significant transactions with state-controlled entities and government bodies.

As at 31 December 2013 and 31 December 2012, the outstanding balances with the Bank of Russia and other related parties were as follows:

	31 December 2013		31 December 2012	
	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Assets				
Cash and cash equivalents (contractual interest rates: 0.0% p.a. - 4.5% p.a.)	348.8	–	260.4	–
Mandatory cash balances with the Bank of Russia	112.3	–	122.6	–
Gross amount of loans and advances to customers (contractual interest rates: 9.0% p.a. - 20.0% p.a.)	–	0.3	–	0.1
Other assets	–	51.5	–	23.0
Liabilities				
Due to banks (contractual interest rates: 5.5% p.a. - 6.8% p.a.)	1,669.4	–	1,070.8	–
Due to individuals	–	6.6	–	8.3
Due to corporate customers (contractual interest rates: 0.2% p.a. - 7.8% p.a.)	–	0.6	–	0.9
Subordinated debt (contractual interest rate: 6.5% p.a.)	303.3	–	303.3	–
Other liabilities	–	3.4	–	–

38 Related Party Transactions (Continued)

The income and expense items with the Bank of Russia and other related parties for the year ended 31 December 2013 and 31 December 2012 were as follows:

	Year ended 31 December			
	2013		2012	
	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Interest income	0.1	0.1	–	–
Interest expense on subordinated debt	(19.5)	–	(19.6)	–
Interest expense other than on subordinated debt	(48.3)	(0.4)	(38.6)	(0.3)
Net other income	–	1.9	–	–
Operating expenses	(1.5)	(0.7)	(1.4)	(0.2)

For the year ended 31 December 2013, remuneration of the members of the key management personnel comprised salaries and bonuses totaling RR 3.2 billion (for the year ended 31 December 2012: RR 2.4 billion).

39 Operations with State-Controlled Entities and Government Bodies

In the normal course of business, the Group enters into contractual agreements with the government of the Russian Federation and entities controlled or significantly influenced by it. The Group provides the government-related entities with a full range of banking services including, but not limited to, lending, deposit-taking, issue of guarantees, operations with securities, cash and settlement transactions. Operations with government-related entities are carried out on general market terms and constitute the minority of the Group’s operations.

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2013 are disclosed below:

Client	Sector	Loans and advances to customers/Due from banks	Due to corporate customers/Due to banks	Guarantees issued
Client 1	Oil and gas	117.5	76.8	20.6
Client 2	Oil and gas	–	34.2	–
Client 3	Energy	163.3	38.6	–
Client 4	Energy	147.7	19.0	–
Client 5	Energy	–	61.9	0.1
Client 6	Telecommunications	116.0	–	5.9
Client 7	Machine building	134.9	45.0	23.5
Client 8	Machine building	115.7	36.2	16.0
Client 9	Machine building	22.0	–	98.2
Client 10	Machine building	98.9	–	8.4
Client 11	Transport, aviation, space industry	5.7	–	25.2
Client 12	Transport, aviation, space industry	5.0	–	21.2
Client 13	Transport, aviation, space industry	–	–	22.7
Client 14	Transport, aviation, space industry	7.9	–	11.6
Client 15	Transport, aviation, space industry	6.5	2.6	8.9
Client 16	Banking	71.9	0.2	90.0
Client 17	Banking	8.3	54.3	–
Client 18	Services	–	22.7	–
Client 19	Other	58.9	–	–
Client 20	Other	–	33.7	–

39 Operations with State-Controlled Entities and Government Bodies (Continued)

Additionally as at 31 December 2013 balances from operations with state-controlled entities and government bodies include receivables from Deposit Insurance Agency of RR 54,0 billion (31 December 2012: nil) which represent receivables recognized from settlements on deposit compensations to clients of the banks whose license was withdrawn by the Bank of Russia. These balances are included in other financial assets in the consolidated statement of financial position. Refer to Note 16.

Balances with government-related entities which are significant in terms of the carrying amount as at 31 December 2012 are disclosed below:

Client	Sector	Loans and advances to customers/Due from banks	Due to corporate customers/Due to banks	Guarantees issued
Client 1	Oil and gas	77.0	23.4	–
Client 2	Oil and gas	4.3	16.7	–
Client 3	Energy	110.9	23.7	–
Client 4	Energy	106.7	35.0	0.6
Client 5	Energy	62.5	63.3	–
Client 6	Telecommunications	137.4	–	–
Client 7	Machine building	81.5	25.1	8.4
Client 8	Machine building	84.2	25.0	–
Client 9	Machine building	5.7	–	33.3
Client 10	Machine building	79.0	–	8.9
Client 11	Transport, aviation, space industry	3.1	–	17.3
Client 13	Transport, aviation, space industry	–	–	21.6
Client 14	Transport, aviation, space industry	3.7	–	14.4
Client 16	Banking	0.9	20.2	100.0
Client 17	Banking	33.3	25.2	–
Client 18	Services	–	17.6	–
Client 19	Other	57.4	–	–
Client 20	Other	–	32.0	–
Client 21	Transport, aviation, space industry	–	55.7	–
Client 22	Government and municipal bodies	–	73.8	–
Client 23	Government and municipal bodies	–	17.4	–
Client 24	Government and municipal bodies	–	15.0	–

As at 31 December 2013 and 31 December 2012 the Group's investments in securities issued by government-related corporate entities were as follows:

	31 December 2013		31 December 2012	
	Corporate bonds	Corporate shares	Corporate bonds	Corporate shares
Trading securities	25.9	5.1	11.2	1.4
Securities designated as at fair value through profit or loss	–	–	0.1	–
Securities pledged under repurchase agreements	131.0	14.7	98.9	3.9
Investment securities available-for-sale	105.9	13.6	166.9	15.2
Investment securities held-to-maturity	19.7	–	8.9	–

For disclosures on investments in government debt securities please refer to Notes 9, 10, 12, 13 and 14.

40 Principal Subsidiaries

The table below provides details on principal subsidiaries of the Bank as at 31 December 2013:

Name	Nature of business	Percentage of ownership	Country of registration
DenizBank (DenizBank AS)	banking	99.85%	Turkey
Sberbank Europe AG	banking	100.00%	Austria
OJSC BPS-Sberbank	banking	97.91%	Belarus
SB JSC Sberbank	banking	100.00%	Kazakhstan
JSC Sberbank of Russia	banking	100.00%	Ukraine
Sberbank (Switzerland) AG	banking	99.15%	Switzerland
Cetelem Bank LLC (former BNP Paribas Vostok LLC)	banking	74.00%	Russia
CJSC Sberbank Leasing	leasing	100.00%	Russia
LLC Sberbank Capital	finance	100.00%	Russia
Troika Dialog Group Ltd.	finance	100.00%	Cayman islands
CJSC Rublevo-Archangelskoe	construction	100.00%	Russia
LLC Sberbank Investments	finance	100.00%	Russia
LLC Aukcion	services	100.00%	Russia
OJSC Krasnaya Polyana	construction	92.10%	Russia
PS Yandex.Money LLC	telecommunications	75.00% minus one Russian Rouble	Russia
LLC Khrustalnye Bashni	construction	50.01%	Russia

In the first quarter 2013 final purchase price allocation of DenizBank AS was performed. The final fair values of identifiable assets and liabilities of DenizBank AS at the acquisition date do not differ significantly from preliminary results.

In April 2013 DenizBank and Citibank signed an agreement to purchase consumer banking business of Citibank Turkey. The transaction was approved by Turkish Authorities in June 2013. At the approval date Citibank Turkey's consumer banking business had consumer banking portfolio with more than 600,000 customers with loans/receivables fair value of TRY 1.2 billion, and fair value of deposits of TRY 1.4 billion. The deal on acquisition of Citibank retail business in Turkey was finalized in July 2013.

Final amounts of fair values of assets/liabilities from the business combination at the acquisition date were as follows:

in billions of Russian Roubles	**Fair value**
Loans and advances to customers	18.7
Premises and equipment	0.1
Intangible assets	0.5
Other financial assets	0.1
Total assets	**19.4**
Due to individuals	(22.2)
Other financial liabilities	(4.0)
Other non-financial liabilities	(0.1)
Total liabilities	**(26.3)**
Fair value of net assets of subsidiaries	**(6.9)**
Calculation of goodwill:	
Total purchase consideration	**(6.9)**
Fair value of net assets of subsidiaries	**6.9**
Goodwill on acquisition	**–**

40 Principal Subsidiaries (Continued)

The Group's consolidated net profit for the year ended 31 December 2013 would not change materially if the acquisition occurred on 1 January 2013.

The Group has finalized purchase price allocation of identifiable assets and liabilities of OJSC Krasnaya Polyana and several other companies based on the final results of an independent external appraisal. Final goodwill from the business combination at the acquisition date was as follows:

in billions of Russian Roubles	**Fair value**
Cash and cash equivalents	1.5
Due from banks	0.6
Loans and advances to customers	1.5
Premises and equipment	1.3
Other non-financial assets	10.2
Total assets	**15.1**
Due to banks	(5.6)
Other financial liabilities	(0.2)
Other non-financial liabilities	(2.1)
Total liabilities	**(7.9)**
Fair value of net assets of subsidiaries	**7.2**
Calculation of goodwill:	
Total purchase consideration	**13.3**
Non-controlling interest at fair value	3.4
Fair value of net assets of subsidiaries	**(7.2)**
Goodwill on acquisition	**9.5**

The Group tested the above disclosed goodwill as at 31 December 2013 for impairment. As a result of this test the Group recognized the impairment of goodwill in the amount of RR 8.7 billion, which relates to segment Volga region and South of European part of Russia in the amount of RR 7.8 billion and to segment Moscow in the amount of RR 0.9 billion. Refer to Note 16.

In the third quarter 2013 the Group and BNP Paribas Personal Finance completed the deal under which the Group increased its stake in Cetelem Bank LLC from 70.0% up to 74.0%. In accordance with the terms of the transaction the governance remained unchanged. The amount paid by the Group equaled RR 0.4 billion. After three years, the Group has an option to increase its stake in the Cetelem Bank LLC up to 80.0% subject to achieving certain agreed business performance metrics.

In July 2013 the Group and Yandex, the Russian internet company, completed acquisition by the Group of 75.0% share minus one Russian Rouble in PS Yandex.Money LLC for USD 59.1 million. The key objective of this deal is to drive innovation in online retail payment solutions. Yandex will retain a substantial interest of 25.0% plus one Russian Rouble.

The goodwill is primarily attributable to the potential synergies of the business as well as well established business processes. The goodwill will not be deducted for tax purposes in future periods.

The Group's consolidated net profit for the year ended 31 December 2013 would not have changed if the acquisition occurred on 1 January 2013. Profit of PS Yandex.Money LLC since the acquisition date amounted to RR 0.1 billion.

40 Principal Subsidiaries (Continued)

Final amount of goodwill and final values for assets/liabilities from the business combination at the acquisition date were as follows:

in billions of Russian Roubles	**Fair value**
Cash and cash equivalents	1.2
Premises and equipment	0.8
Other financial assets	0.5
Total assets	**2.5**
Due to individuals	(0.3)
Other financial liabilities	(1.4)
Total liabilities	**(1.7)**
Fair value of net assets of subsidiaries	**0.8**
Calculation of goodwill:	
Total purchase consideration	**2.0**
Non-controlling interest at fair value	0.2
Fair value of net assets of subsidiaries	**(0.8)**
Goodwill on acquisition	**1.4**

The share of the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2013 was 15.4% (31 December 2012: 14.5%).

41 Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern.

According to requirements set by the Bank of Russia statutory capital ratio has to be maintained by the Bank above the minimum level of 10.0%. As at 31 December 2013 this regulatory capital adequacy ratio N1 was 12.9% (31 December 2012: 12.6%). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation.

41 Capital Adequacy Ratio (continued)

The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8.0%. As at 31 December 2013 and 31 December 2012, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

	31 December 2013	31 December 2012
Tier 1 capital		
Share capital	87.7	87.7
Share premium	232.6	232.6
Retained earnings	1,495.2	1,186.7
Treasury shares	(7.2)	(7.6)
less Goodwill	(20.2)	(25.0)
Total Tier 1 capital	***1,788.1***	***1,474.4***
Tier 2 capital		
Revaluation reserve for premises	75.8	79.0
Fair value reserve for investment securities available-for-sale	0.6	16.8
Foreign currency translation reserve	(13.7)	(4.7)
Subordinated capital	420.1	382.7
less Investments in associates	(4.4)	(8.6)
Total Tier 2 capital	***478.4***	***465.2***
Total capital	**2,266.5**	**1,939.6**
Risk weighted assets (RWA)		
Credit risk	16,397.1	13,693.1
Market risk	550.0	452.5
Total risk weighted assets (RWA)	**16,947.1**	**14,145.6**
Core capital adequacy ratio (Total Tier 1 capital to Total RWA)	**10.6**	**10.4**
Total capital adequacy ratio (Total capital to Total RWA)	**13.4**	**13.7**

42 Subsequent Events

In February 2014 the Group issued the seventeenth series of loan participation notes under the MTN issuance programme in the amount of USD 1.0 billion. The notes received the status of subordinated. The notes mature in February 2024 and have contractual fixed interest rate of 5.5% p.a.

In March 2014 the Group issued the eighteenth series of loan participation notes under the MTN issuance programme in the amount of USD 0.5 billion. The notes mature in March 2019 and have contractual fixed interest rate of 4.15% p.a.

In March 2014 the Group issued the nineteenth series of loan participation notes under the MTN issuance programme in the amount of EUR 0.5 billion. The notes mature in March 2019 and have contractual fixed interest rate of 3.08% p.a.

42 Subsequent Events (continued)

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Furthermore, the Ukrainian Hryvnia devalued to Russian Rouble by approximately 11%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in deterioration of liquidity and much tighter credit conditions where credit is available.

At 31 December 2013, the Group exposure to Ukrainian risk amounted to approximately 0.8% of total consolidated assets. The exposure consists of net assets of and the Group funding to the Group's Ukrainian subsidiaries, as well as investments in equity and debt instruments issued by and loans to the Ukrainian government and corporate clients.

International rating agencies revised their outlook of Russia’s sovereign credit rating in local and foreign currency from stable to negative following the political instability in Ukraine and heightened geopolitical risk and the prospect of U.S. and EU economic sanctions following Russia’s incorporation of Crimea, which may reduce the flow of potential investment, trigger rising capital outflows and other negative economic effects.

Management is monitoring these developments in the current environment and taking actions where appropriate. These and any further possible negative developments in Ukraine could adversely impact results and financial position of the Group in a manner not currently determinable.