Financial statements

CJSC RN Bank

for the year ended 31 December 2013

with independent auditor's report

Contents

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Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Shareholder and Board of Directors of CJSC RN Bank

We have audited the accompanying financial statements of CJSC RN Bank (hereafter - the Bank), which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these 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 financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as disclosed in Note 1 "Principal activities" to financial statements, on 5 September 2013 the Bank changed its legal name from CSJC Bank Sibir to CJSC RN Bank.

Other matter

The financial statements of CJSC RN Bank for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 7 March 2013 with an emphasis of matter paragraph drawing attention to the business operations redesign program being implemented by the Bank.

O.V. Youshenkov
Partner
Ernst & Young LLC

21 May 2014

Details of the audited entity

Name: CJSC RN Bank
Record made in the State Register of Legal Entities on 6 November 2002 and was assigned State Registration Number 1025500003737.
Address: Russia 109028, Moscow, Serebryanicheskaya nab., 29.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002 and was assigned State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya nab., 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Statement of financial position

As of 31 December 2013

(thousands of Russian Rubles)

	Notes	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	5	5,230,893	885,144
Obligatory reserve with the CBR		14	11
Loans to customers	6	250,857	–
Property and equipment		28,328	717
Intangible assets	7	759,847	–
Deferred income tax assets	8	5,726	–
Other assets		42,139	106
Total assets		**6,317,804**	**885,978**
Liabilities			
Amounts due to customers		3,960	772
Other liabilities	9	53,056	6,721
Subordinated loans	10	–	486,101
Total liabilities		**57,016**	**493,594**
Equity			
Share capital	11	1,333,891	913,891
Share premium		5,580,000	–
Accumulated deficit		(653,103)	(521,507)
Total equity		**6,260,788**	**392,384**
Total equity and liabilities		**6,317,804**	**885,978**

Chairman of the Management Board
Bruno Robert Louis Kintzinger

Chief Accountant
Darya Lvova

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК»
ОГРН 1025500003737
РН Банк
Лицензия № 170
ИНН 5503067018
РОССИЯ Г.МОСКВА

May 21, 2014

The accompanying notes on pages 9 to 38 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

(thousands of Russian Rubles)

	Notes	2013	2012
Interest income			
Loans to customers		889	6,485
Amounts due from credit institutions		165,389	44,753
Financial instruments at fair value through profit or loss		–	773
Total interest income		**166,278**	**52,011**
Interest expense			
Amounts due to customers		–	(100)
Amounts due to credit institutions		(34,205)	(50,224)
Total interest expense		**(34,205)**	**(50,324)**
Net interest income		**132,073**	**1,687**
Reversal of allowance for loan impairment	13	–	30,745
Net interest income after allowance for loan impairment		**132,073**	**32,432**
Fee and commission income		222	310
Fee and commission expense		(226)	(4,042)
Net fee and commission income		**(4)**	**(3,732)**
Net gains from financial instruments at fair value through profit or loss		–	1,459
Net gains from foreign currencies:		211	19
- dealing		17	2
- translation differences		194	17
Other income		7,353	43
Personnel expenses	14	(136,387)	(24,378)
Other general and administrative expenses	14	(140,568)	(14,853)
Gain on sale of property		–	6,768
Gain from sale of loans	6	–	14,137
(Loss)/profit before income tax expense		**(137,322)**	**11,895**
Income tax benefit/(expense)	8	5,726	(318)
(Loss)/profit for the year		**(131,596)**	**11,577**
Comprehensive (loss)/income for the year		**(131,596)**	**11,577**

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Darya Lvova

May 21, 2014

Statement of changes in equity

For the year ended 31 December 2013

(thousands of Russian Rubles)

	Share capital	*Share premium*	*Accumulated deficit*	*Total equity*
31 December 2011	**913,891**	**–**	**(533,084)**	**380,807**
Profit for the year	–	–	11,577	**11,577**
Total comprehensive income for the year	**–**	**–**	**11,577**	**11,577**
31 December 2012	**913,891**	**–**	**(521,507)**	**392,384**
Loss for the year	–	–	(131,596)	**(131,596)**
Total comprehensive loss for the year	**–**	**–**	**(131,596)**	**(131,596)**
Issue of share capital (Note 11)	420,000	5,580,000	–	**6,000,000**
Contribution from shareholder	–	–	500,000)	**500,000**
Distribution to shareholder	–	–	(500,000)	**(500,000)**
31 December 2013	**1,333,891**	**5,580,000**	**(653,103)**	**6,260,788**

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Darya Lvova

May 21, 2014

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» • РОССИЯ Г.МОСКВА •
ОГРН 1025500003737
РН Банк
Лицензия № 170
ИНН 5503067018

Statement of cash flows

For the year ended 31 December 2013

(thousands of Russian Rubles)

	2013	*2012*
Cash flows from operating activities		
Interest received	165,523	58,980
Interest paid	(34,205)	(48,681)
Fees and commissions received	–	310
Fees and commissions paid	(210)	(59,114)
Realized gains less losses from dealing in foreign currencies	17	2
Other income received	2,353	(560)
Personnel expenses paid	(102,166)	(32,626)
Other operating expenses paid	(111,944)	(14,102)
Cash flows from operating activities before changes in operating assets and liabilities	**(80,632)**	**(95,791)**
Net (increase)/decrease in operating assets		
Obligatory reserve with the CBR	(3)	4,814
Derivative financial assets	–	61,655
Amounts due from credit institutions	–	3,064
Loans to customers	(250,278)	309,342
Other assets	(35,558)	107
Net increase/(decrease) in operating liabilities		
Amounts due to customers	3,190	(24,797)
Debt securities issued	–	(330)
Other liabilities	12	(33,256)
Net cash flows from operating activities before income tax	**(363,269)**	**224,808**
Income tax paid	–	(372)
Net cash (used in)/from operating activities	**(363,269)**	**224,436**
Cash flows from investing activities		
Purchase of property and equipment, intangible assets	(805,075)	–
Proceeds from sale of property and equipment	–	26,767
Net cash (used in)/from investing activities	**(805,075)**	**26,767**
Cash flows from financing activities		
Proceeds from issue of share capital	6,000,000	–
Contribution from shareholder	500,000	–
Distribution to shareholder	(500,000)	–
Repayment of subordinated loans	(486,158)	–
Net cash from financing activities	**5,513,842**	**–**
Effect of exchange rates changes on cash and cash equivalents	251	(8,508)
Net increase in cash and cash equivalents	**4,345,749**	**242,695**
Cash and cash equivalents, beginning	**885,144**	**642,449**
Cash and cash equivalents, ending	**5,230,893**	**885,144**

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Chief Accountant
Darya Lvova

May 21, 2014

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК»
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The accompanying notes on pages 9 to 38 are an integral part of these financial statements.

(thousands of Russian Rubles)

1. Principal activities

These are the financial statements of CJSC RN Bank.

The Bank (former CJSC Bank Sibir) was formed in the Russian Federation (the city of Omsk) on 9 March 1989. In 1995, the Bank was reorganized into a limited liability partnership. In 2002 the Bank changed its legal form to a closed joint stock company. Since May 2013, the Bank is registered and located in Moscow. On 5 September 2013, following the decision of the sole shareholder (Decision No. 1 dated 5 September 2013), the Bank changed its name as follows:

Full corporate name of the Bank: Closed joint stock company RN Bank
Short name: CJSC RN Bank.

Location (legal address): 109028, Moscow, Serebryanicheskaya nab., 29.
Location (mailing address): 109028, Moscow, Serebryanicheskaya nab., 29.
Bank's identification code (BIC): 044583105.
Taxpayer identification number (TIN): 5503067018.
Contact telephone (fax, telex) number: (495) 775-4068 (tel.), (495) 775-4067 (fax).
Web-sites in Internet: www.rn-bank.ru, www.banksibir.ru.
Main State Registration Number: 1025500003737.
Record concerning the establishment of a credit institution was made in the Uniform State Register of Legal Entities on 6 November 2002.

The Bank has banking license No. 170 issued by the Central Bank of Russia on 6 November 2013 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals), license No. 170 issued by the Central Bank of Russia on 6 November 2013 to accept deposits denominated in rubles and foreign currencies, and operates in accordance with Federal Law "On Banks and Banking Activity" and other laws of the Russian Federation.

The Bank is primarily engaged in extending loans to individuals to purchase cars of Renault-Nissan alliance, dealer network lending and providing related services.

The Bank is a member of the deposit insurance system. The system operates under the federal laws and regulations and is governed by the State Corporation "Deposit Insurance Agency". Insurance covers the Bank's liabilities to individual depositors in the amount of up to RUB 700,000 per each individual in case of the customer's insolvency or revocation of the CBR banking license.

The Bank is not a professional participant of the securities market.

The Bank has no credit ratings assigned by Russian and foreign rating agencies.

As of 1 January 2014, the Bank has no branches and operating outlets.

As of 31 December 2014, Limited Liability Company BARN B.V. – Netherlands is the sole shareholder of CJSC RN Bank. Ownership interest: 100.00%.

Shareholder	***2013 %***	***2012 %***
Limited Liability Company BARN B.V.	100	0
CJSC UniCreditBank	0	100
Total	**100**	**100**

As of 31 December 2013, none of the members of the Bank's Board of Directors and Management Board controlled any of the Bank's shares.

2. Basis of preparation

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

These financial statements have been prepared under the historical cost convention. The historical cost is deemed to be the fair value of consideration transferred in exchange of goods and services.

2. Basis of preparation (continued)

Presentation currency

These financial statements are presented in Russian Rubles ("RUB"). Amounts in Russian Rubles are rounded to the nearest thousand.

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The application of this standard resulted in an increase in the share capital by RUB 64,091 thousand and an increase in accumulated deficit by the similar amount.

3. Summary of accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The financial assets are initially measured at fair value. The Bank determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated at initial recognition as at fair value through profit or loss cannot be reclassified from this category. Financial assets that meet the definition of loans or receivables may be reclassified from assets at fair value through profit or loss and available-for-sale assets if an entity has the intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments classified as assets at fair value through profit or loss can be reclassified only in rare circumstances. These circumstances may exist when single unusual events which are unlikely to occur in the future do, in fact, occur.

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Loans issued and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair value measurement

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, irrespective of whether this price is directly observable or is determined by calculation using another valuation technique. The fair value of financial instruments traded in an active market at the reporting date is determined based on their quoted market price or dealer price quotations. Where quoted market prices are not available, the fair value of financial instruments is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include comparative data on recent transactions between unrelated parties, current market prices of substantially similar instruments, discounted cash flow and other models for determining option price as well as other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on respective market-based measures at the reporting date.

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Offsetting

Financial asset and liability are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and nostro accounts with the CBR and other Russian banks as well as interbank loans maturing in up to 90 days are considered by the Bank as cash and cash equivalents.

Obligatory reserve with the CBR is not included in cash and cash equivalents due to restrictions on its availability.

Obligatory cash balances with the Central Bank of the Russian Federation

The Bank cannot use obligatory cash balances with the Central Bank of the Russian Federation to finance its day-to-day operating activities.

Foreclosed assets

Under certain circumstances, assets relating to defaulted loans are foreclosed. Foreclosed assets are measured at the lower of the carrying amount and the fair value less realization costs.

Borrowings

Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or other financial assets to the holder of a financial instrument, or settle the obligation in a manner different from the exchange of a fixed amount or another financial asset for a fixed number of the Bank's own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated loans and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized when borrowings are derecognized as well as through the amortization of borrowings at the effective rate.

Leases

Operating lease

Where the Bank is a lessee in leases where the lessor retains substantially all the risks and benefits of ownership of the assets, such leases are classified as operating leases. Leased assets are not recognized in the financial statements and lease expenses are recognized in profit or loss on a straight-line basis over the period of the lease.

Where the operating lease terminates prior to the expiration of the lease term, any payments due to the lessor as fines and forfeits are expensed in the period when such operating lease was terminated.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets

At the end of the reporting period, the Bank determines whether there is an objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets are deemed to be impaired only if there is objective evidence of impairment resulting from one or more events that have occurred after the initial recognition of the asset (an "impairment event"), and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include the following: financial difficulties experienced by the borrower or a group of borrowers, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganization and instances where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists for loans that are individually significant, or collectively for loans that are not individually significant.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss. Interest income continues to be accrued on the carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery of debt and all collateral has been realized or transferred. If, in a subsequent year, the amount of the estimated impairment loss decreases or increases as a result of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is decreased or increased, respectively, by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

The present value of the estimated future cash flows is discounted using the asset's original effective interest rate. If a loan has a floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted taking into consideration current observable data in order to reflect the effects of current conditions that did not affect the previous periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group of assets or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Non-financial assets

Other non-financial assets, excluding deferred taxes, are assessed for any indications of impairment at each reporting date.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Taxation

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

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Bank has offices and branches and where its subsidiaries and associates are located. The current income tax expense is the expected tax payable on the taxable income for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred income tax is calculated for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

The amount of deferred tax is based on the Bank's expected manner of realization or settlement of the carrying amount of its assets and liabilities, using income tax rates effective at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The Russian Federation has various operating taxes that are assessed on the Bank's activities. These taxes are recognized in the statement of profit or loss within other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of property and equipment begins when they become available for use. Depreciation is accrued on a straight-line basis over the estimated useful live.

Property and equipment	*Depreciation period*
Furniture	5-7 years
Equipment	2-5 years
Computer equipment	2 years
Capital investments in leased property and equipment	3-6 years
Light vehicles	3 years
Other property and equipment	3-5 years

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Current and capital repair expenses are recognized within operating expenses in the period in which they are incurred, unless they are capitalized.

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

Intangible assets and goodwill

Intangible assets other than goodwill include licenses and computer software. Licenses are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is accrued on a straight-line basis over the useful life of an intangible asset. At present, the useful life is estimated as not exceeding 5 years.

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

Collateral

The Bank obtains collateral against customers' obligations where necessary. Collateral is generally the pledge of the customer's assets entitling the Bank to claim such assets with regard to the customer's current and future obligations.

Other provisions

Provisions are made when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Pension obligations and other employee benefits

The Bank makes contributions to the state pension system of the Russian Federation under which current pension contributions are calculated as a percentage of current gross salary payments to employees. Such expense is charged in the period when the related salaries are earned.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration over the par value of shares issued is recorded as share premium.

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date, or are proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Service fee and commission income received

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating of a transaction for a third party – such as the arrangement for the acquisition of shares or other securities or the purchase of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain conditions are recognized after fulfilling the corresponding conditions.

Foreign currency translation methodology

Management identified the Russian Ruble as the Bank's functional currency, as it best reflects the economic substance of the underlying transactions conducted by the Bank and circumstances affecting its operations. Foreign currency transactions are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation are recognized in profit or loss as gains/losses from translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank of Russia exchange rate on the date of the transaction are included in profit or loss.

Changes in accounting policies

In May 2011, a set of 5 financial reporting and accounting standards was issued, with regard to consolidation, joint arrangements, associates and disclosures, comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (revised in 2011) and IAS 28 *Investments in Associates and Joint Ventures* (revised in 2011). Amendments to IFRS 10, IFRS 11 and IFRS 12 were subsequently issued to provide guidance for the first-time adoption of these standards.

The Bank does not apply the above standards.

Amendments to IFRS 7 Financial Instruments: Disclosures

In the current year, the Bank applied amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*. Amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements) for financial instruments existing under legally valid framework offset agreements or similar arrangements. The amendments were applied retrospectively. Since the Bank did not have the rights to set-off, these amendments had no impact on the volume of disclosures and the Bank's financial statements.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IAS 1 Presentation of Financial Statements (the standard was revised in June 2011) before the effective date of the amendments (annual periods beginning after 1 July 2012)

The amendments enhanced the level of disclosure required in the statement of comprehensive income. The amendments 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, net losses or gains on available-for-sale financial assets) should be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendments affect presentation only and have no impact on the Bank's financial position or performance.

Amendment to IAS 1 Clarification of the Requirements for Comparative Information

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only and has no impact on the Bank's financial position or performance.

IAS 19 Employee Benefits (revised in June 2011)

In the current year, the Bank applied IAS 19 *Employee Benefits*. Transitional provisions do not affect future periods. Amendments to IAS 19 introduced changes to the procedure for the recognition of termination benefits and defined benefit pension plans. The most significant changes relate to the accounting for the defined benefit plan obligations and the plan assets. The amendments require that changes in defined benefit plan obligations and in the fair value of defined benefit plan assets must be recognized immediately. This requirement cancels the so-called "corridor approach" from the previous version of IAS 19 and enables to accelerate the recognition of past service costs. All actuarial gains and losses are recognized directly in other comprehensive income so as to ensure that the net pension asset or liability included in the statement of financial position reflects the full amount of the pension plan deficit or surplus. In addition, interest costs and expected returns on plan assets used in the previous version of IAS 19 *Employee Benefits* were replaced by the "net interest", the amount of which is calculated by applying the discount rate to the net defined benefit plan obligation or asset. IAS 19 also requires more detailed disclosures with regard to costs attributed to defined benefit pension plans. Since the Bank does not have defined benefit pension plans, these amendments had no impact on the volume of disclosures and the Bank's financial statements.

IFRS 13 Fair Value Measurement

In the current year, the Bank applied IFRS 13 for the first time. IFRS 13 is the only standard that establishes the procedure for the fair value measurements and related disclosures. IFRS 13 is widely used; its requirements to the fair value measurement apply to financial and non-financial instruments for which the other standards require or permit the use of the fair value measurement methodology and related disclosures, net of payments calculated based on share prices that fall within the scope of IFRS 2 *Share-Based Payment*, leasing operations within the scope of IAS 17 *Leases*, and measurements that can be compared to the fair value but do not represent the fair value (e.g., net realizable value for inventory valuation or value in use for impairment assessment).

According to IFRS 13, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction made under current market conditions in a principal (or the most advantageous) market at the measurement date, irrespective of whether this price is directly observable or is determined by calculation using another valuation technique. In addition, IFRS 13 sets out extended disclosure requirements.

IFRS 13 should be applied prospectively from 1 January 2013. Moreover, according to certain transitional provisions, entities are not required to disclose comparative information in respect of the periods preceding the period of the standard's initial application. Following these transitional provisions, the Bank did not disclose new information for the comparative period of 2012, as required by IFRS 13 (see Note 15 for 2013). Apart from additional disclosures, IFRS 13 had no material impact on the Bank's financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRS: 2009-2011 Cycle issued in May 2012)

The Annual Improvements to IFRS: 2009-2011 Cycle introduced a number of amendments. Amendments to IAS 1 applied to the Bank require the presentation of the statement of financial position at the beginning of the preceding period (the third statement of financial position) and respective notes. According to amendments, the third statement of financial position is required when a) an entity applies the accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements and b) retrospective application of the accounting policy, retrospective adjustments or reclassifications have a material effect on the information presented in the third statement of financial position. The amendments clarify that the respective notes to the third statement of financial position are not required.

3. Summary of accounting policies (continued)

New and revised IFRS issued but not yet effective

The Bank did not apply the following new and revised IFRS issued but not yet effective:

- IFRS 9 *Financial Instruments*;
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*;
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Investment Entities*[1];
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*[1];
- Amendments to IAS 36 *Impairment of Assets*[1];
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*[1];
- IFRIC 21 *Levies*[1].

[1] Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

IFRS 9 issued in November 2009 introduced new requirements to classification and measurement of financial assets. IFRS 9 was amended in October 2010 and included new requirements to classification, measurement and derecognition of financial liabilities.

According to the key requirements of IFRS 9, all recognized financial assets that meet the definition stipulated in IAS 39 *Financial Instruments: Recognition and Measurement* should be measured after initial recognition either at amortized cost or at fair value. In particular, debt instruments held within a business model (whose objective is to receive contractual cash flows comprising only principal and interest payments) are generally measured at amortized cost at the end of subsequent reporting periods. All other debt instruments and equity securities are measured at fair value at the end of subsequent reporting periods. In addition, IFRS 9 provides the entities with an irrevocable option to recognize subsequent changes in the fair value of an equity instrument (not held for sale) within other comprehensive income, except for dividend income which is recognized in profit or loss.

According to IFRS 9, for financial liabilities at fair value through profit or loss, all changes in the fair value of a financial liability associated with changes in the credit risk of such liability are recognized within other comprehensive income, unless the effect of changes in the credit risk of a liability within other comprehensive income results in the development of or increase in the accounting mismatch in profit or loss. Changes in the fair value associated with the credit risk of a financial liability are not subsequently reclassified to profit or loss. According to IAS 39, all changes in the fair value of a financial liability designated at fair value through profit or loss are recognized in profit or loss.

The reliable estimate of the impact of IFRS 9 requires a detailed analysis.

Amendments to IFRS 10 provide a definition of an investment entity and require that the entity presenting the financial statements and meeting the definition of an investment entity does not consolidate financial statements of its subsidiaries but measures the subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

In order to be classified as an investment entity, the entity presenting the financial statements should:

- obtain funds from one or more investors in exchange of professional investment management services;
- be primarily engaged in investment activity solely for the purpose of receiving income due to capital appreciation, increase in investment income, or both, and
- measure all investment results primarily at fair value.

IFRS 12 and IAS 27 were amended accordingly in order to introduce new disclosure requirements for investment entities. The Bank's management expects that amendments introduced for investment entities will not have an impact on the Bank's financial statements, as the Bank is not an investment entity.

Amendments to IAS 32 clarify offsetting requirements for financial assets and liabilities. In particular, the meaning of "currently existing legally enforceable right to set-off" and "condition for realizing the asset and settling the liability simultaneously" has been clarified.

The Bank's management expects that these amendments will not affect the Bank's financial statements, as the Bank has no financial assets and liabilities to be offset.

Reclassification

In 2013, no changes were made to the 2012 data.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates

In preparing these financial statements in accordance with IFRS, management used a wide range of estimates and assumptions relating to disclosures of assets, liabilities and contingencies. Actual results could differ from those estimates.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2013	*31 December 2012*
Cash on hand	10	1,827
Current accounts with the CBR	78,524	19,284
Current accounts with other banks rated not lower than BBB	15,302	1,302
Cash equivalents:		
- time deposits (up to 90 days) with other banks rated not lower than BBB	5,137,057	862,731
Total cash and cash equivalents	**5,230,893**	**885,144**

Cash and cash equivalents are neither impaired, nor past due.

As of 31 December 2013, the Bank had balances with 5 counterparties (2012: one counterparty). As of 31 December 2013, total balances of the largest counterparty comprise 34.7% (RUB 1,813,466 thousand) of the total amount of cash and cash equivalents (2012: 97.6%, or RUB 864,033 thousand).

6. Loans to customers

Loans before allowance for impairment and the respective impairment amount are presented in the table below:

	31 December 2013	*31 December 2012*
Loans to individuals		
Car loans	250,857	–
- not past due	250,857	–
Allowance for impairment	–	–
Total loans to customers	**250,857**	**–**

Key assumptions and judgments in loan impairment assessment

A loan is impaired as a result of one or more events that occurred after the initial recognition of a loan and had an impact on the estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

The Bank estimates an allowance for impairment of loans issued to retail customers using its own model, which accounts for the following: past actual loss experience by each type of loan, probability of default and loss given default.

Impaired loans

There was no interest income on impaired loans for the year ended 31 December 2013.

As of 31 December 2013, the Bank had no loans with evidence of impairment.

(thousands of Russian Rubles)

6. Loans to customers (continued)

Impaired loans (continued)

Movements in the impairment allowance by class of loans to customers for the year 2012 were as follows:

	Notes	*Loans to legal entities*	*Loans to individuals*	*Total*
Impairment allowance at the beginning of the year		**34,071**	**29,171**	**63,242**
Reversal of allowance for impairment of repaid loans	13	(20,562)	(2,682)	**(23,244)**
Reversal of allowance for impairment of sold loans		(13,066)	(26,489)	**(39,555)**
Write-offs		(443)	–	**(443)**
Impairment allowance at the end of the year		–	–	–

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines are implemented regarding the acceptability of different types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For retail lending, chargers over motor vehicles.

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements. The value of collateral is determined based on the value identified at the time when the loan was raised, and is reassessed on a regular basis.

As of 31 December 2013, loans issued to retail customers did not include renegotiated loans.

Foreclosure on property pledged as collateral

For the year ended 31 December 2013, property pledged as collateral was not foreclosed by the Bank.

Gain from sale of loans to customers

In 2012, the Bank sold the remaining loans to customers with the net carrying amount of RUB 43,633 thousand to CJSC UniCreditBank, OJSC Orient Express Bank and OJSC Miraf-Bank for the consideration of RUB 57,770 thousand. Income from sale of these loans amounted to RUB 14,137 thousand.

7. Intangible assets

Movements in intangible assets for the year 2013 were as follows:

Cost	
1 January 2013	–
Acquisitions	784,990
Disposals	–
31 December 2013	**784,990**
Accumulated amortization	
1 January 2013	–
Amortization charge	(25,143)
Disposals	–
31 December 2013	**(25,143)**
Net book value	
31 December 2013	**759,847**

(thousands of Russian Rubles)

7. Intangible assets (continued)

Since in 2013 the Bank changed its strategic goals for extending loans to purchase cars of the Alliance and modified its product platform, such changes required investments in information systems, which were done in 2013. The information systems were recognized as an intangible asset with the useful life of 5 years.

The list of individually significant intangible assets as of 31 December 2013 is set out below:

	Book value	*Remaining useful life, months*
CFT system software (automated banking system)	273,879	57
NeoFlex Front Office software (system for processing loan applications for loans to individuals)	275,543	57
FICO Debt Manager software (system for automated collection of overdue loans)	58,174	57
Credit Reseau software (system for automated corporate lending)	34,711	57

8. Taxation

The movement of income tax comprises:

	2013	*2012*
Current income tax charge	–	(318)
Origination and reversal of temporary differences	5,726	–
Total income tax recovery/(expense)	**5,726**	**(318)**

Russian legal entities must file individual tax declarations. Corporate income tax rate for companies and banks, excluding income on governmental securities, comprised 20% for 2013 and 2012.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2013	*2012*
(Loss)/profit before tax	**(137,322)**	**11,895**
Statutory tax rate	20%	20%
Recovery/(income tax expense) at effective income tax rate	**27,464**	**(2,379)**
Non-deductible expenditures and non-taxable income	(6,438)	(151)
Unrecognized deferred tax asset movement	(15,300)	2,175
Income taxable at a lower rate	–	37
Income tax recovery/(expense)	**5,726**	**(318)**

As of 31 December 2013 and 2012, deferred tax assets and liabilities comprise:

	1 January 2013	*Recognized in profit or loss*	*31 December 2013*
Allowance for loan impairment	–	(892)	(892)
Property and equipment	634	(634)	–
Other assets	1,472	2,815	4,287
Other liabilities	1,158	1,173	2,331
Tax losses carried forward	59,283	18,564	77,847
Deferred tax asset provision	(62,547)	(15,300)	(77,847)
Total deferred tax assets/(liabilities)	–	**5,726**	**5,726**

(thousands of Russian Rubles)

8. Taxation (continued)

	1 January 2012	*Recognized in profit or loss*	*31 December 2012*
Financial instruments at fair value	338	(338)	–
Loans to customers	11,306	(11,306)	–
Property and equipment	798	(164)	634
Other assets	7,872	(6,400)	1,472
Other liabilities	3,044	(1,886)	1,158
Tax losses carried forward	41,364	17,919	59,283
Deferred tax asset provision	(64,722)	2,175	(62,547)
Total deferred tax assets/(liabilities)	–	–	–

As of 31 December 2013, the Bank has available tax losses carried forward which comprise:

- tax losses for 2009 in the amount of RUB 129,100 thousand, that result in deferred tax asset in the amount of RUB 25,820 thousand applying 20% tax rate is applied (tax losses carried forward expire in 2019, if not utilized);
- tax losses for 2012 in the amount of RUB 167,310 thousand, that result in deferred tax asset in the amount of RUB 33,463 thousand applying 20% tax rate is applied (tax losses carried forward expire in 2022, if not utilized);
- tax losses for 2013 in the amount of RUB 92,810 thousand, that result in deferred tax asset in the amount of RUB 18,564 thousand applying 20% tax rate is applied (tax losses carried forward expire in 2023, ifnot utilized).

The Bank recognized a tax asset equal to its estimated sufficient taxable profit available in the foreseeable future to realize the deferred tax asset in accordance with the Bank's business plan which is adjusted for expected adverse economic changes in the market where the Bank operates.

9. Other liabilities

Other liabilities comprise:

	31 December 2013	*31 December 2012*
Staff related expenses accrued	27,564	–
Provision for unused vacations	3,990	5,792
Accounts payable	16,553	929
Taxes payable	4,933	–
Other	16	–
Total other liabilities	**53,056**	**6,721**

10. Subordinated loans

As of 31 December 2012, subordinated loans include loans from a related party, maturing in 2022 and 2042 and bearing interest rates of 12.4% and 6.0% p.a., respectively. Due to increase of Bank's share capital and change of ownership in 2013, the Bank early repaid subordinated loans in August and November 2013, respectively.

11. Equity

As of 31 December 2013, the authorized, issued and outstanding share capital of the Bank comprises 907,000 ordinary shares (31 December 2012: 607,000 ordinary shares) with a nominal value of RUB 1,400 per share:

(In thousands of Russian Rubles, except for number of shares)	*Number of shares outstanding*	*Nominal amount*	*Inflation-adjusted amount*
1 January 2012	607,000	849,800	913,891
New ordinary shares issued	–	–	–
31 December 2012	607,000	849,800	913,891
New ordinary shares issued	300,000	420,000	420,000
31 December 2013	907,000	1,269,800	1,333,891

(thousands of Russian Rubles)

11. Equity (continued)

The share capital of the Bank was increased from RUB 931,891 thousand up to RUB 1,333,891 thousand due to placement of the additional issue of shares subject to the following terms:

- the Bank issued 300,000 ordinary book-entry registered shares with a nominal value of RUB 1,400 per share and a total nominal value of RUB 420,000 thousand;
- additional issue of ordinary book-entry registered shares was placed via private offering with CJSC "UniCredit Bank", which was the Bank's sole shareholder. The issue was placed after receipt of statutory registration of the decision to issue additional shares from the CBR;
- on 26 July 2013, additional issue of 300,000 Bank's shares with a nominal value of RUB 1,400 per share was purchased by CJSC "UniCredit Bank", the Bank's sole shareholder, within established limits under Securities Purchase Agreement No. (unnumbered) of 26 July 2013 at RUB 20,000 per share;
- the increase in the share capital of the Bank totaled RUB 6,000,000 thousand, of which RUB 420,000 thousand were taken to share capital and RUB 5,580,000 thousand amounted to share premium.

12. Contingencies

As of 31 December 2013 and 2012, there were no contingencies.

Operating environment

Markets of developing countries including the Russian Federation are subject to various risks different from risks which are adherent to more mature markets, including economic, political, social, legal and legislative risks. The past experience shows that either potential or existing financial difficulties as well as the increasing level of possible risks, associated with investments in developing countries, may negatively affect the Russian economy in general and its investment climate in particular.

Regulatory issues influencing business activity in the Russian Federation are still subject to frequent changes. Tax, currency and customs legislation of the Russian Federation is subject to various interpretations, while other legal and fiscal barriers increase the amount of difficulties that companies, currently operating in Russia, face. Future development of the country depends in many aspects on the economic, tax and monetary measures undertaken by the government, as well as changes in regulatory framework and political environment in the country.

The negative impact of the global financial crisis of 2009-2010 on Russian financial and capital markets reduced and in 2011-2012 the country faced the economic growth. At the same time there continues to be substantial economic uncertainty. Unfavorable changes related to risks adherent to the world financial system (such as further deterioration of liquidity) may lead to economic slowdown or recession in the Russian Federation and have an adverse effect on access to capital and cost of capital for the Bank as well as the Bank's business, performance, financial position and development prospects.

Inflation in the Russian Federation remains at a relatively high level (according to the data provided by the state statistical agencies, CPI growth for the years ended 31 December 2013 and 2012 was 6.45% and 6.59%, respectively).

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. 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 Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant 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 Russian transfer pricing legislation was amended with revised version came into force on 1 January 2013. The new requirements are more detailed and closer to international principles developed by OECD. The new rules enables tax authorities to charge additional tax on controlled transactions, i.e. transactions entered into with related parties as well as certain types of transactions with unrelated parties, if the transaction does not comply with the arm's-length principle. Due to the absence of law enforcement precedents based on the new rules, consequences of any disputes with tax authorities relating to prices cannot be estimated reliably, but may influence the Bank's financial results and performance.

(thousands of Russian Rubles)

12. Contingencies (continued)

Taxation (continued)

As of 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.

Operating leases

As of 31 December 2013 and 2012, operating lease commitments are as follows:

Operating lease commitments	*31 December 2013*	*31 December 2012*
Not later than 1 year	81,946	1,613
Later than 1 year and not later than 5 years	204,193	–
	286,139	**1,613**

The Bank entered into operating lease agreement for the office premises that are the Bank's location and business address. In accordance with the agreement the total period of lease is equal to 5 years with the options of renewal upon expiry and early termination. Lease payments are increasing annually, which reflects market trends.

The Bank also entered into operating lease agreements for the cars used by the Bank in carrying out its core activities. The term of the agreements is 2 years.

During 2013 RUB 18,306 thousand are recognized as operating lease expenses in profit or loss (2012: RUB 3,226 thousand).

13. Reversal of allowance for impairment

	Notes	*2013*	*2012*
Loans to customers	6	–	23,244
Off-balance sheet commitments		–	7,501
Total reversal of allowance for impairment		–	**30,745**

14. Personnel and other general and administrative expenses

Personnel expenses

	2013	*2012*
Personnel benefits	117,536	18,001
Payroll related taxes and charges	18,851	6,377
Total personnel expenses	**136,387**	**24,378**

Other general and administrative expenses

	2013	*2012*
Professional services	32,516	2,819
Depreciation and amortization	26,348	1,742
Taxes other than income tax	21,014	1,569
Communications and information services	20,459	1,294
Lease expenses	18,306	3,226
Advertising and marketing, entertainment	6,353	
Repairs and maintenance	4,546	1,367
Business travel	1,713	105
Security	614	692
Insurance	35	31
Other	8,664	2,008
Total other general and administrative expenses	**140,568**	**14,853**

(thousands of Russian Rubles)

15. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

As of 31 December 2013, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	–	5,230,893	–	**5,230,893**
Loans to customers	–	–	250,857	**250,857**
Total assets for which fair values are disclosed	–	**5,230,893**	**250,857**	**5,481,750**
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	3,960	**3,960**
Total liabilities for which fair values are disclosed	–	–	**3,960**	**3,960**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 31 December 2013	*Fair value 31 December 2013*	*Unrecognized gain/(loss) 31 December 2013*	*Carrying amount 31 December 2012*	*Fair value 31 December 2012*	*Unrecognized gain/(loss) 31 December 2012*
Financial assets						
Cash and cash equivalents	5,230,893	5,230,893	–	885,144	885,144	–
Loans to customers	250,857	250,857	–	–	–	–
Financial liabilities						
Amounts due to customers	3,960	3,960	–	772	772	–
Subordinated loans	–	–	–	486,101	486,101	–
Total unrecognized change in fair value			–			–

Valuation techniques and assumptions

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

Assets for which carrying amount approximates fair value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to the CBR, amounts due to credit institutions, other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

(thousands of Russian Rubles)

16. Risk management

16.1 Risk management system and internal controls

The Bank has established the risk and capital management systems and internal controls that are harmonized with the nature and scale of transactions and the level and combination of the risks assumed and comply with the requirements set by the CBR to risk and capital management systems and internal controls.

The Bank's risk management system is based on the following components:

- strategy;
- methodology;
- procedures;
- control;
- updating.

The goal of risk management system is to maintain the overall risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure maximum safety of assets and equity by mitigation of risk exposures which might lead to unexpected losses.

The goal of the risk management system is achieved using a systemic and complex approach that focuses on the following:

- risk identification and analysis for all risks arising in the course of the Bank's activities;
- interpretation of approach to various risk types;
- quantitative and qualitative assessment (measurement) of specific risk types;
- establishing correlation between individual risks in order to assess the impact of the actions planned to be taken to limit a particular type of risk on the increase or decrease in the level of other risks;
- performing full risk level analysis concerning operations planned and completed by the Bank to determine the total amount of risk level;
- assess whether the total amount of risk level is acceptable and reasonable;
- establishing a subsystem of risk monitoring at the origination phase of negative tendency and a subsystem of swift and adequate response aimed at preventing or mitigating the risk.

Each risk faced by the Bank must be indicated and recognized. The risks are classified into internal and external as well as controllable and non-controllable by the Bank. Risks are regularly indicated due to fast-evolving internal and external environment.

The management of the Bank determines its approach towards all indicated risks. A number of risks which the Bank is not ready to accept must be totally excluded, while the Bank terminates activities related to the indicated risks. With regard to the risks assumed, the Bank defines the maximum acceptable amount of risk. Risk approach is under the influence of the Bank's strategy.

The Bank's management strategy is based on the break-even principle and is focused on achieving optimum correlation between profitability of the Bank's business activities and level of assumed risks.

The Bank's risk management strategy involves:

- alignment with the Bank's strategic goals set by the Board of the Directors;
- credit business activities as priority development area;
- effective management of equity with the aim to maintain equity at a sufficient level.

Risk management strategy implies using the whole range of risk mitigation instruments and choosing each particular instrument depending on the risk type.

Different methodologies set by the Bank's internal documents are applied for evaluation of various risk types.

The Bank complies with the requirements set by the CBR to risk and capital management systems and internal controls.

Both chief risk officer and head of the Internal Control Function comply with qualification criteria established by the CBR and business reputation requirements set forth in accordance with the Federal Law No. 395-1.

(thousands of Russian Rubles)

16. Risk management (continued)

16.1 Risk management system and internal controls (continued)

Internal control management is performed by the following bodies within the scope of their powers as set forth in the Bank's founding and internal documents:

- The Bank's management bodies;
- The Bank's Chief accountant (his deputy);
- Departments and officers responsible for internal control in accordance with their functions set forth in the Bank's internal documents, among them:
  - The Internal Control Function;
  - Personnel responsible for anti-money laundering and counter- terrorism financing.

The Bank's internal control system includes the following areas of focus:

- Control over organization of Bank's operations performed by the management bodies;
- Control over functioning of the banking risk management system and banking risk assessment;
- Control over distribution of powers with respect to banking operations and other transactions;
- Control over data flow management (information provision and transmission) and information security assurance;
- Ongoing monitoring of internal control system to assess its compliance with the Bank's operating objectives, detection of deficiencies, proposal development, and control over enhancement of the Bank's internal control system ("monitoring of internal control system").

Control over system of banking risks management is performed by the Bank on a regular basis as provided in the internal regulations.

Internal control system is regularly monitored. The Bank takes appropriate measures to enhance internal control aimed at ensuring its effectiveness, including subject to changing internal and external factors that affect the Bank's activities.

Monitoring of internal control system is performed by the management and personnel of various business units, including departments responsible for banking operations and other transactions and their recognition in accounting and reporting as well as the Internal Control Function.

Frequency of monitoring of various types of banking activities is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities.

The results of the review are documented and communicated to the respective managers of the Bank and its departments.

The Internal Control Function is formed to perform the internal control and assist the Bank's management bodies in ensuring the Bank's effective operation.

The Internal Control Function performs the following activities:

- Checking and evaluating the internal control system's effectiveness.
- Checking how thoroughly the methodology for assessing banking risks and procedures for managing banking risks is implemented (methodologies, programs, rules, practices and procedures of banking and other transactions, banking risk management).
- Review of reliability of the Internal Control Function over the use of automated information systems, including control over accounting data integrity and their protection from unsanctioned access and (or) usage, considering measures to be taken in case of any emergencies which goes in line with the Bank's business continuity and/or disaster recovery plans.
- Testing and checking the accuracy, completeness, objectivity and timeliness of accounting records and financial statements as well as their reliability (including accuracy, completeness, objectivity) and timeliness of collecting and submitting information and financial statements.
- Checking the accuracy, completeness, objectivity and timeliness of other data submitted to the state agencies and the CBR in accordance with the regulatory legal acts.
- Checking the methods (techniques) used to safeguard the Bank's assets.
- Assessing the economic viability and effectiveness of the Bank's operations.
- Controls of compliance of the Bank's internal documentation with the current legislation.
- Assessing internal controls procedures and processes.
- Checking systems developed to comply with legal demands and professional behavior codes.
- Assessment of the Bank's personnel management function.

(thousands of Russian Rubles)

16. Risk management (continued)

16.1 Risk management system and internal controls (continued)

The Bank has ensured consistency, independence and objectivity of the Internal Control Function, professional qualification of its head, also there has been established environment for the Internal Control Function to comply with its duties efficiently and smoothly. The Internal Control Function operates under direct control of the Board of Directors.

16.2 Risks assumed by the Bank

16.2.1. Risks assumed by the Bank, methods of their identification, assessment, monitoring and control

The Bank has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks.

Core structural units that bear responsibilities of risk assessment and analysis are as follows:

The Bank's Board of Directors approves the Bank's overall risk management policy ("Regulation on the Procedure for Risk Management Concerning Banking Risks Inherent to the Activity of the Bank Sibir"), that regulates the general risk management principles, acceptable risk level, and strategic goals in the area of risk management. Credit policy and other policies relating to lending and funding operations are also approved by the Board of Directors.

The Management Board implements risk management system, approves members of risk management collegial bodies and their responsibilities, decides whether to accept certain risk types.

The Bank's Risk Committee executes control over elements of risk management system, approves acceptable risk level as part of the approved development strategy, controls compliance of operations performed by the Bank's management with principle of the credit policy and policies relating to other lending operations, develops and bears responsibility for optimization of credit risks in the context of balance between risk and profitability and performs control over risk at portfolio level in general.

The Bank's Credit Committee takes decisions regarding corporate and dealer financing, which includes approval of limits of financing and change of credit risk within the scope of their authority. In addition the Credit Committee of the Bank while making decision bears the responsibility for appropriate balance between risk and profitability including cases, when the approval from a higher-level management is needed.

The Finance Committee is organized by the Chief Financial Officer, its members are Chairman of the Management Board, Operating Officer, Risk Management Officer, Marketing and Retail Loans Officer, Chief Financial Officer, Dealer Financing Officer, Treasury Officer, Head of the Corporate Credit Risk Department. The Finance Committee reviews and approves key macroeconomic indicators, core financial operations and changes in relations between the Bank and other banks, fulfills and forecasts financing plan, performs financial risk monitoring (rates, liquidity, currency exchange rates, counterparties) and projections of refinancing rate.

The Internal Control, Operational Risk and Compliance Committee is organized by the Head of the Internal Control Function, its members are Chairman of the Management Board, Deputy Chairman of the Management Board, Operating Officer, Risk Management Officer, Chief Accountant, Retail Sales and Marketing Officer, Chief Financial Officer, HR Managing Director and Head of the Internal Control Function. The Committee reviews the Inspection Plan, past audits and their assessment as well as operational risk issues and compliance of the Bank's activities with legislative and regulatory acts, including demands to prevention procedures which avert legalizing (laundering) incomes derived through crime, and financing terrorism.

Risk Management Officer executes overall credit risk management and on a regular basis ensures the implementation of common principles and methods for identifying, measuring, managing and reporting credit risk data. Risk Management Officer develops the methodology for risk measurement and performs independent risk analysis of products and programs submitted for approval and limits on specific clients/operations, performs portfolio analysis on credit risk and exercises credit risk control function: applies limits and exercises control over them, provides reports on the level of credit risk, which are presented to the Board of Directors, the Management Board, and the Risk Committee on a regular basis.

The structural units of the Bank manage risks within their functional duties.

The Internal Control Function audits business units to check their compliance with the internal policies, reports its results to the Board of Directors and Management, proposes remedial actions for the results and controls their correction.

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

16.2.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its borrowers or counterparties failed to discharge their contractual obligations.

The Bank has developed credit policies and procedures for the financing of and consumers and dealers which provide guidelines on evaluation of the borrower's financial performance, procedure for lending decision-making, control over timely repayment of loans.

Credit risk management is performed through:

- monitoring;
- setting limitation;
- diversification;
- scenario analysis.

In accordance with the requirements of the CBR the Bank limits risk concentrations per borrower or group of related borrowers, maximal large credit risk, aggregate risk on Bank's insiders, maximum amount of loans, bank guarantees and sureties provided by the bank to its participants (shareholders). Actual exposures against limits are monitored by the Accounting Department daily.

Additionally, the Bank limits concentrations of exposure to individual customers and counterparties, as well as groups of related customers depending on the level of accepted credit risk.

Overdue and restructured loans

The assets is past due in full in case of breach of payment terms laid down in the contract and relating to payments of principal or interest .

As of 31 December 2013 and 2012, the Bank had no amounts overdue.

In 2013 and 2012, the Bank didn't write off any amounts overdue.

The loan is considered restructured if arrangements have been made with the borrower to amend material terms and conditions of the initial agreement to become more favorable to the borrower, excluding cases when restructured payments are made fully and timely or there is a single case of overdue payment during the previous 180 calendar days, within the limits defined in Regulation No. 254-P, and providing the borrower's financial position during the last and current year may be graded not less than "average".

As of 31 December 2013 and 2012, the Bank had no restructured loans.

As of 31 December 2013 and 2012, all loans were issued to high grade borrowers.

Provision for loans receivable

As of 31 December 2013 and as of 31 December 2012, the Bank had not made provision for loans receivable as there were no loans with indications of impairment.

16.2.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from interest rate open positions, equity financial instruments exposed to general and specific market movements and changes in the level of volatility of market prices and currency exchange rates.

The purpose of market risk management is to maintain the risk accepted by the Bank at the appropriate level defined by the Bank subject to its business strategy. The priority is to ensure maximum safety of assets and equity by reducing (excluding) the possibility of loss incurred on the Bank's operations at financial markets as well as other Bank's operations involving the acceptance of risk exposure.

The Bank manages its market risk by setting open position limits in relation to interest rate repricing and currency positions and stop-loss limits which are monitored on a monthly basis and reviewed and approved by the Management Board.

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

The table below discloses the Bank's currency risk exposure as of 31 December 2013 and 2012. Currency risk is limited and controlled based on the balance between open current position and the Bank's equity. This ratio can not exceed 10% for each foreign currency and 20% of overall amount of open positions.

	2013				*2012*		
	Ruble	*USD*	*EUR*	*Total*	*Ruble*	*USD*	*Total*
Assets							
Cash and cash equivalents	5,228,928	1,224	741	**5,230,893**	733,222	151,922	**885,144**
Obligatory reserve with the CBR	14	–	–	**14**	11	–	**11**
Loans to customers	250,857	–	–	**250,857**	–	–	**–**
Property and equipment	28,328	–	–	**28,328**	717	–	**717**
Intangible assets	759,847	–	–	**759,847**	–	–	**–**
Deferred income tax assets	5,726	–	–	**5,726**	–	–	**–**
Other assets	42,139	–	–	**42,139**	106	–	**106**
Total assets	**6,315,839**	**1,224**	**741**	**6,317,804**	**734,056**	**151,922**	**885,978**
Liabilities							
Amounts due to customers	3,960	–	–	**3,960**	772	–	**772**
Other liabilities	53,056	–	–	**53,056**	6,721	–	**6,721**
Subordinated loans	0	–	–	**–**	333,466	152,635	**486,101**
Total liabilities	**57,016**	**–**	**–**	**57,016**	**340,959**	**152,635**	**493,594**
Net position	**6,258,823**	**1,224**	**741**	**6,260,788**	**393,097**	**(713)**	**392,384**

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

As of 31 December 2013 and 2012, a reduction in the value of the Russian Ruble to other currencies would have caused increase (reduction) in equity and profit or loss as indicated in the following table. This analysis was performed net of tax and is based on 10% change in currency exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013	*2012*
10% appreciation of USD against RUB	4	(57)
10% appreciation of EUR against RUB	2	–

As of 31 December 2013 and 2012, the appreciation of the Russian Ruble against the above-mentioned currencies would produce the reverse effect with all other variables held constant.

16.2.4 Interest risk

Interest risk is also managed by monitoring of interest rate difference and sensitivity of the net interest margin to various standard and non-standard interest rates.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the income or the value of financial instruments.

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rate sensitivity analysis

A sensitivity analysis of profit/loss and equity (net of tax) to the changes in interest rates (interest rate repricing risk) is based on a simplified scenario of a 100 basis point (bp) parallel fall or rise in all yield curves and positions of interest-bearing assets and liabilities.

As of 31 December 2013, the Bank had no assets or liabilities issued at a floating rate, no sensitivity analysis was performed.

The following table indicates sensitivity analysis data for 2012:

	2012
100 bp parallel fall	(8,831)
100 bp parallel rise	8,831

16.2.5 Operational risk

Operational risk is one of the main risks inherent to the Bank's operations. Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and/or non-compliance with applicable legislation of internal practices and procedures of banking and other transactions, their breach by the employees of the Bank and/or other persons (through inadvertent or deliberate actions or omission to act), inappropriate (insufficient) functionalities (specifications) of IT and other systems applied by the Bank and/or their failures (malfunctions), or ensuing from the effect of external events.

The Bank's operational risk management policy involves prevention of operational risk and identification of new operational risks arising in the course of the Bank's activities and also develops procedures to identify, evaluate and prevent these risks.

The Bank manages its operational risk in accordance with CBR Letter No. 76-T of 24 May 2005 *On organizing management of operational risks in credit institutions* and recommendations of the Basel Committee on banking supervision.

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

Operational risk management system is based on principle of segregating powers and duties among all levels of the Bank's Management.

Risk management department regularly provides operational risk report that covers data on the level of operational risk across the Bank's business lines, risk mitigation measures, etc. The report is presented to heads of structural units, executive bodies and the Board of Directors.

The Bank assesses operational risk in accordance with CBR Regulation No. 346-P of 3 November 2009, *Concerning the procedure for calculating operational risk exposure.*

Compliance with prudential ratios

During 2013 and 2012, the Bank had complied with prudential ratios set by the CBR.

16.2.6 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations or make current payments on instructions of its customers unless it will restructure its assets and/or urgently mobilize adequate funds for making such payments. Liquidity risk arises when the maturity of assets and liabilities does not match.

Liquidity management policy was developed in the Bank to ensure control over liquidity and meet its payment obligations in full and on a timely basis. The liquidity management policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- development of fund-raising plans using borrowed funds;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and projected cash flows arising from projected future business. Then it provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term funds in credit institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Any decisions on the liquidity management policy are taken by the Finance Committee and implemented by the Treasury. Reports prepared by the Treasury is communicated to the Management of the Bank and the Board of Directors.

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

As of 31 December 2013, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	4,877,933	352,960	–	–	–	–	**5,230,893**
Obligatory reserve with the CBR	–	–	–	–	–	14	**14**
Loans to customers	17,003	18,705	63,063	151,459	627	–	**250,857**
Property and equipment	–	–	–	–	–	28,328	**28,328**
Intangible assets	–	–	–	–	–	759,847	**759,847**
Deferred income tax assets	–	–	5,726	–	–	–	**5,726**
Other assets	28,176	–	293	13,670	–	–	**42,139**
Total assets	**4,923,112**	**371,665**	**69,082**	**165,129**	**627**	**788,189**	**6,317,804**
Liabilities							
Amounts due to customers	3,960	–	–	–	–	–	**3,960**
Other liabilities	4,948	16,553	31,555	–	–	–	**53,056**
Total liabilities	**8,908**	**16,553**	**31,555**	**–**	**–**	**–**	**57,016**
Net position	**4,914,204**	**355,112**	**37,527**	**165,129**	**627**	**788,189**	**6,260,788**

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

As of 31 December 2012, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	22,413	862,731	–	–	–	–	**885,144**
Obligatory reserve with the CBR	–	–	–	–	–	11	**11**
Property and equipment	–	–	–	–	–	717	**717**
Other assets	–	–	105	–	–	1	**106**
Total assets	**22,413**	**862,731**	**105**	**–**	**–**	**729**	**885,978**
Liabilities							
Amounts due to customers	772	–	–	–	–	–	**772**
Other liabilities	929	–	5,792	–	–	–	**6,721**
Subordinated loans	4,238	–	–	–	481,863	–	**486,101**
Total liabilities	**5,939**	**–**	**5,792**	**–**	**481,863**	**–**	**493,594**
Net position	**16,474**	**862,731**	**(5,687)**	**–**	**(481,863)**	**729**	**392,384**

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

The following table presents undiscounted cash flows of financial liabilities as of 31 December 2013:

Liabilities	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Later than 1 year*	*Total amount of cash outflow*	*Carrying amount*
Customer accounts and deposits	3,960	–	–	–	–	3,960	3,960
Other liabilities	4,948	16,553	31,555	–	–	53,056	53,056
Total liabilities	**8,908**	**16,553**	**31,555**	**–**	**–**	**57,016**	**57,016**

The following table presents undiscounted cash flows of financial liabilities as of 31 December 2012:

Liabilities	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Later than 1 year*	*Total amount of cash outflow*	*Carrying amount*
Customer accounts and deposits	772	–		–		772	772
Subordinated loans	4,238	–		–	1,140,246	1,144,484	486,101
Other liabilities	929	–	5,792	–		6,721	6,721
Total liabilities	**5,939**	**–**	**5,792**	**–**	**1,140,246**	**1,151,977**	**493,594**

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

Liquidity ratios

During 2013 and 2012, the Bank had complied with prudential liquidity ratios set by the CBR.

The following liquidity ratios should be complied with and monitored in accordance with the CBR regulations:

- Instant liquidity ratio (N2), which is calculated as the ratio of liquid assets to liabilities payable on demand and overnight liabilities.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liquid liabilities maturing within 30 calendar days.
- Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.
- As of 31 December 2013 and 31 December 2012, the values of the given ratios were as follows:

	2013, %	*2012,* %
Instant liquidity ratio, N2 (min 15%)	2,532%	2,903%
Current liquidity ratio, N3 (min 50%)	27,189%	377%
Long-term liquidity ratio, N4 (max 120%)	3%	0%

16.2.7 Legal risk

Legal risk inherent to the Bank's activities results from the following risks:

- Risks to perform transactions that are considered invalid in compliance with the applicable legislation of the Russian Federation;
- Risks to conclude agreements containing inadequate provisions concerning the Bank's responsibility or provisions that may cause significant impairment of assets or growing liabilities of the Bank;
- Risks associated with a possible unfavorable outcome of litigations involving the Bank;
- Risks arising from changes in currency, tax and banking legislation, judicial practices pertaining to key business issues of the Bank.

The above risks are not specific to the Bank but inherent to all financial institutions.

Current and potential claims against the Bank

As of 31 December 2013, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial and business performance.

16.2.8 Strategic risk

Strategic risk is a risk of losses which the Bank may incur as result of mistakes (deficiencies) in making decisions defining the Bank's strategy due to lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lack or insufficient resources required (financial, material and technical, etc.).

The Management Board formulates development strategy of the Bank for a period from three to five years as well as business plan for the current financial year that are approved by the Board of Directors. The Management Board provides results of business plan implementation in the current financial year on a monthly basis and results of development strategy implementation on an annual basis. The Management Board introduces respective amendments to the strategy and the business plan, if required, and they are approved by the Board of Directors.

16.2.9 Reputational risk

The Bank has consistent corporate reputation, promotes positive image of the Bank, quality of its services and nature of its business in general, based on the actual operating results. The risk that the Bank may incur losses as a result of business reputation deterioration is assessed by the Management of the Bank as minimal.

(thousands of Russian Rubles)

16. Risk management (continued)

16.2 Risks assumed by the Bank (continued)

16.2.10 Country risk

Country risk (including non-payment risk) is a risk that the Bank may incur losses as a result of foreign counterparties (legal or individual persons) failing to meet their obligations or doing that improperly due to economic, political and social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to specifics of the national legislation (irrespective of the counterparty's financial position).

The Bank is the resident in the Russian Federation and is operating in the Russian Federation.

17. Related parties

17.1 Transactions with the members of the Supervisory Board and the Management Board

The total amount of compensations included in personnel expenses in 2013 may be presented as follows.

	2013	*2012*
Short-term employee benefits	10,402	7,066

17.2 Relationship with shareholders

Limited Liability Company BARN B.V. – Netherlands is the ultimate parent company of the Bank. Ownership interest: 100.00% (shareholder since 29 August 2013).

The direct owners of the Bank are:

- UniCredit Bank Austria AG – 40%;
- Renault S.A., France – 30%;
- Nissan Motor Co., Ltd., Japan – 30%.

Until 29 August 2013 CJSC "UniCredit Bank" was the sole shareholder of the Bank.

One of the direct owners of the Bank (Renault S.A., France – 30%) has the following entities in the Russian Federation that participated in transactions with the Bank in 2013:

- LLC RN FINANCE RUS, 100% subsidiary of RCI Banque (France), a share company, which is 100% owned by Renault S.A., France;
- Representative office of RCI Banque (France), a share company, in Moscow.

According to IAS 24, *Related Party Disclosures,* the parties are considered related when one party is able to control the other party, or significantly influence the financial and operating decisions of the other party. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and amounts as transactions between unrelated parties.

For the purpose of these financial statements, the Bank regards its ultimate owner, direct owner and representative office of RCI Banque (France), a share company, in Moscow as shareholders.

Other companies are regarded as related parties.

Information on transactions with shareholders is presented below:

(thousands of Russian Rubles)

17. Related parties (continued)

17.2 Relationship with shareholders (continued)

Statement of financial position

	31 December 2013		31 December 2012	
Assets		***Average yield to maturity, %***		***Average yield to maturity, %***
Accounts and deposits in banks in RUB	–	–	712,127	6.96
Accounts and deposits in banks in foreign currency	–	–	151,906	0.50
Liabilities				
Subordinated loans in RUB	–	–	333,466	12.40
Subordinated loans in USD	–	–	152,635	6.00

Profit (loss)	***Year 2013***	***Year 2012***
Interest income	54,583	44,753
Interest expense	(31,890)	(50,224)
Fee and commission expense	–	(3,229)
Other income	353	–
Other operating expenses	(22,081)	–

During the period from September through December 2013, the Bank acquired from the Shareholder:

Description	***RUB thousand***
Property and equipment	25,653
Computer software	708,352

17.3 Transactions with other related parties

The table below summarizes information about transactions with other related parties:

Statement of financial position

	31 December 2013		31 December 2012	
Assets		***Average yield to maturity, %***		***Average yield to maturity, %***
Accounts and deposits in banks in RUB	1,020,229	5.85	–	
Accounts and deposits in banks in foreign currency	1,965		–	
Other assets	5,000	–		
Liabilities				
Other liabilities	16	–	–	

Profit (loss)	***Year 2013***	***Year 2012***
Interest income	35,425	–
Fee and commission expense	(16)	–
Other income	7,000	–

18. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using the ratios established by the CBR.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

(thousands of Russian Rubles)

18. Capital management (continued)

CBR capital adequacy ratio

Under the requirements set by the CBR, banks have to maintain a capital adequacy ratio of at least 10% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

As of 31 December 2013 and 2012, the Bank's capital adequacy ratio calculated on this basis was 367.5% and 137.4%, respectively.

As of 31 December 2013 and as of 31 December 2012 capital of the Bank for purpose of calculation the ratio of capital adequacy included:

	31 December 2013	*31 December 2012*
Share capital	1,269,800	849,800
Share premium	5,580,000	–
Financial result, included in calculation of capital	(1,352,686)	(450,914)
Intangible assets	(420)	
Subordinated loan	–	481,863
Total capital	**5,496,694**	**880,749**

In 2013 and 2012 the Bank's operations have complied with all externally imposed capital requirements.

19. Events after the reporting date

The Bank continues to increase its business volume, following the adopted Strategy. In January 2014 the Bank started to issue loans for the Alliance dealer network.

The fact that Russia's rating outlook was reduced from stable to negative by Standard & Poor's may have a negative impact on the economy of the Russian Federation. Moreover, the Administration of the U.S. President pushes investment funds forward to cut investments in Russian stocks. Despite EU leaders haven't agreed to swift economic sanctions on Russia, the issue remains open. The downgrade of outlook forecast imposed by Standard & Poor's will negatively impact funding conditions that West-European banks set to russian banks.

These measures have resulted in capital outflow from Russia, which had a significant influence on changes in the exchange rates of US dollar and EUR to Russian ruble. Since the beginning of 2014 the Russian ruble has significantly depreciated against bi-currency basket.

Chairman of the Management Board
Bruno Robert Louis Kintzinger

Chief Accountant
Darya Lvova

May 21, 2014