Financial statements

Closed Joint Stock Company
Joint Stock Commercial Bank
National Clearing Centre

for the year ended 31 December 2013

with independent auditor's report

Contents

CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 00139790

Совершенствуя бизнес, улучшаем мир

Independent auditor's report

To the Shareholder of closed joint stock company joint stock commercial bank National Clearing Centre

We have audited the accompanying financial statements of closed joint stock company joint stock commercial bank National Clearing Centre (hereinafter – "CJSC JSCB NCC"), which comprise the statement of financial position as at 31 December 2013, and the statement of 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

Совершенствуя бизнес, улучшаем мир

Opinion

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

E.V. Zaichikova
Partner
Ernst & Young Vneshaudit CJSC

15 April 2014

Details of the audited entity

Name: CJSC JSCB NCC
Record made in the State Register of Legal Entities 30 May 2006, State Registration Number 1067711004481.
Address: Russia, 125009, 13, Bolshoy Kislovsky per., Moscow.

Details of the auditor

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

CJSC JSCB National Clearing Centre
Statement of comprehensive income
(in thousands of Russian rubles)

	Notes	2013 (RUB'000)	2012 (RUB'000)
Interest income	5	6 503 592	4 127 521
Interest expense	5	(286 193)	(258 764)
Net interest income		**6 217 399**	**3 868 757**
Fee and commission income	6	3 407 623	2 555 170
Net loss on financial assets available-for-sale		(456 720)	(680 400)
Net gain / (loss) on foreign exchange operations	7	123 171	(40 538)
Other income		3 734	13 350
Operating Income		**9 295 207**	**5 716 339**
Personnel expenses	8	(428 272)	(349 982)
Administrative and other operating expenses	9	(1 029 826)	(921 569)
Profit before Tax		**7 837 109**	**4 444 788**
Income tax expense	10	(1 548 021)	(878 163)
Net Profit		**6 289 088**	**3 566 625**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Revaluation of financial assets available-for-sale		(504 626)	(267 795)
Net loss on investments available-for sale reclassified to profit or loss		456 720	680 400
Deferred income tax		9 581	(82 521)
Other comprehensive (loss) / income that may be reclassified subsequently to profit or loss		**(38 325)**	**330 084**
Total comprehensive income		**6 250 763**	**3 896 709**

On behalf of the Management Board of the Bank

Chairman of the Management Board
Khavin Alexey Sergeevich

15 April 2014
Moscow

Chief Accounting Officer
Gorina Marina Petrovna

15 April 2014
Moscow

Notes on pages 10-40 form an integral part of these financial statements.

(in thousands of Russian rubles)

	Notes	2013 (RUB'000)	2012 (RUB'000)
ASSETS			
Cash and cash equivalents	11	224 360 838	158 174 928
Mandatory cash balances with Central Bank of the Russian Federation		1 557 523	69 604
Due from banks and other financial institutions	12	20 434 614	4 103 613
Financial assets of central counterparty	13	47 008 536	2 817 546
Financial assets available-for-sale	14	66 927 404	43 598 888
Financial assets held-to-maturity		-	529 842
Property and equipment and intangible assets	15	71 324	42 202
Deferred tax assets	10	16 122	66 264
Current income tax assets		-	202 795
Other assets	16	97 183	46 476
Total assets		**360 473 544**	**209 652 158**
LIABILITIES			
Customer accounts	17	284 282 162	192 965 020
Financial liabilities of central counterparty	13	47 008 536	2 817 546
Current income tax liabilities		60 765	-
Other liabilities	18	279 613	289 325
Total liabilities		**331 631 076**	**196 071 891**
EQUITY			
Share capital	19	15 170 000	6 170 000
Paid-in capital	19	21 095	21 095
Investments revaluation reserve		(72 620)	(34 295)
Payments based on the shares of the parent company		12 363	925
Retained earnings		13 711 630	7 422 542
Total equity		**28 842 468**	**13 580 267**
Total liabilities and equity		**360 473 544**	**209 652 158**

Notes on pages 10-40 form an integral part of these financial statements.

CJSC JSCB National Clearing Centre

Statement of cash flows

(in thousands of Russian rubles)

	Notes	2013 (RUB'000)	2012 (RUB'000)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		7 837 109	4 444 788
Adjustments for:			
Loss from disposal of financial assets available-for-sale		456 720	680 400
Change in interest accruals, net		(423 826)	(289 457)
Other accruals		73 605	169 887
Unrealized (gain) / loss on foreign exchange operations		(36 617)	204 132
Impairment of other assets	9	22 685	-
Depreciation and amortization charge	9	12 287	5 987
Payments based on the shares of the parent company	8	11 438	925
Revaluation of derivatives		(5 042)	-
Cash flows from operating activities before changes in operating assets and liabilities		**7 948 359**	**5 216 662**
Changes in operating assets and liabilities:			
Net (increase) / decrease in mandatory cash balances with the Central Bank of the Russian Federation		(1 487 919)	21 818
Net increase in due from banks and other financial institutions		(16 399 307)	(2 013 214)
Net increase in financial assets of central counterparty		(44 190 990)	(1 048 076)
Net increase in other assets		(70 579)	(18 928)
Net increase in customer accounts		78 151 485	75 681 554
Net increase in financial liabilities of central counterparty		44 190 990	1 048 076
Net (decrease) / increase in other liabilities		(75 527)	31 895
Net cash flows from operating activities before income tax		68 066 512	78 919 787
Income tax paid		(1 224 738)	(1 165 392)
Cash inflows from operating activities		**66 841 774**	**77 754 395**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of financial assets available-for-sale		(81 518 685)	(61 259 667)
Proceeds from sale of financial assets available-for-sale		58 690 248	46 441 774
Proceeds from redemption of financial assets held-to-maturity		520 069	582 245
Purchase of property and equipment and intangible assets		(41 409)	(24 321)
Net cash flows used in investing activities		**(22 349 777)**	**(14 259 969)**

Notes on pages 10-40 form an integral part of these financial statements.

(in thousands of Russian rubles)

	Notes	2013 (RUB'000)	2012 (RUB'000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares	19	9 000 000	-
Cash flows from financing activities		**9 000 000**	**-**
Effect of changes in foreign exchange rates on cash and cash equivalents		12 693 913	(3 153 826)
Net increase in cash and cash equivalents		**66 185 910**	**60 340 600**
Cash and cash equivalents, beginning of the year	11	**158 174 928**	**97 834 328**
Cash and cash equivalents, end of the year	11	**224 360 838**	**158 174 928**

Interest paid and received for the year ended 31 December 2013, amounted to RUB 308 500 thousand and RUB 6 102 073 thousand respectively.

Interest paid and received for the year ended 31 December 2012 amounted to RUB 234 056 thousand and RUB 3 813 356 thousand, respectively.

CJSC JSCB National Clearing Centre
Statement of changes in equity
(in thousands of Russian rubles)

	Notes	Share capital	Paid-in capital	Investments revaluation reserve	Payments based on the shares of the parent	Retained earnings	Total equity
December 31, 2011		**6 170 000**	**21 095**	**(364 379)**	**-**	**3 855 917**	**9 682 633**
Comprehensive income for the period		**-**	**-**	**330 084**	**-**	**3 566 625**	**3 896 709**
Transactions with owners							
Payments based on the shares of the parent company	8	-	-	-	925	-	925
Total transactions with owners		**-**	**-**	**-**	**925**	**-**	**925**
December 31, 2012		**6 170 000**	**21 095**	**(34 295)**	**925**	**7 422 542**	**13 580 267**
Comprehensive income for the period		**-**	**-**	**(38 325)**	**-**	**6 289 088**	**6 250 763**
Transactions with owners							
Issue of shares	19	9 000 000	-	-	-	-	9 000 000
Payments based on the shares of the parent company	8	-	-	-	11 438	-	11 438
Total transactions with owners		**9 000 000**	**-**	**-**	**11 438**	**-**	**9 011 438**
December 31, 2013		**15 170 000**	**21 095**	**(72 620)**	**12 363**	**13 711 630**	**28 842 468**

Notes on pages 10-40 form an integral part of these financial statements.

1. Organization

CJSC JSCB National Clearing Centre (the "Bank") is a joint-stock bank, which was incorporated in the Russian Federation in 2006. The Bank is regulated by the Central Bank of the Russian Federation ("Bank of Russia") and conducts its banking and clearing activities under general license No.3466 and license No. 077-00003-000010, respectively.

The Bank is a member of Moscow Exchange Group and as at 31 December 2012 and 2013, 100% of the Bank's shares are held by OJSC Moscow Exchange MICEX-RTS ("Moscow Exchange").

The Bank specializes in providing clearing services, including determination and measurement of liabilities of clearing participants, setting off and settling them. The Bank also acts as a central counterparty on foreign exchange, securities and derivatives markets of the Moscow Exchange.

The registered office of the Bank is located at: 13, Bolshoy Kislovsky per., Moscow, 125009, Russian Federation.

2. Basis of presentation

Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including all Interpretations originated by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"). These financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the Bank's statutory accounting records and have been adjusted to conform to IFRS. The main adjustments include recognition of deferred taxes and financial assets and liabilities of central counterparty.

3. Significant accounting policies

Recognition of revenue

Fee and commission income

Fee and commission income is recognized when services are provided.

Interest income recognition

Interest income is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate used to discount estimated future cash payments or receipts to the net carrying amount of a financial asset.

3. Significant accounting policies (continued)

Recognition of revenue (continued)

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

Interest earned on central counterparty financial assets is presented net of interest expense incurred in respect of the offsetting financial liabilities within interest income and expense.

Financial instruments

Financial assets and liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. The Bank recognizes regular purchases and disposals of financial assets and liabilities using settlement date accounting.

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 22.

Investments held-to-maturity

Investments held-to-maturity are financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Investments held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

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

3. Significant accounting policies (continued)

Financial assets (continued)

Financial assets available-for-sale

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

After initial recognition available-for-sale financial assets are stated at fair value. Fair value is determined in the manner described in Note 22. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest income calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. If a financial asset is disposed of or is determined to be impaired, cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans ands receivables

Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as refusal or evasion from payments of interest or principal;
- Default or delinquency in interests or principal payments; or
- It becomes probable that the debtor will enter bankruptcy or financial reorganization; or
- Disappearance of an active market for that financial asset as a result of financial difficulties.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When considered uncollectible, loans and receivables are written off against the allowance.

3. Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

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

- 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;
- 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.

After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with the CBR, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day, and balances on the Bank's accounts on the organized securities markets ("OSM"). Amounts that are subject to restrictions on their availability, including minimum reserve deposits with the CBR, are not included in cash and cash equivalents.

Financial assets and liabilities of central counterparty

The Bank acts as a central counterparty and guarantees settlement for transactions on foreign exchange, securities and derivatives markets. Assets and liabilities on such deals that may be offset against a clearing participant are reported net in accordance with IAS 32 and are recognized in the statement of financial position at the net fair value based on daily settlement prices, except for repo transactions, which are measured at amortized cost.

Collateral provided by central counterparty

The Bank guarantees settlement of certain traded contracts and applies a multi-level collateral system. The key component of this approach is daily determination of the overall risk per clearing participant (margin) that should be covered by collateral in the form of cash or securities.

In addition to such daily security deposits, a clearing participants, are required to make contributions to guarantee funds as described in Note 24.

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss (FVTPL) include some liabilities of central counterparty. Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognized in profit or loss.

3. Significant accounting policies (continued)

Financial liabilities (continued)

Other financial liabilities

Other financial liabilities, including customer accounts, other borrowed funds and other liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently recognized at amortized cost. Interest expense is recognized on an effective yield basis.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired. Where an existing financial liability is replaced by another 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment losses.

Useful lives of property and equipment

Depreciation is recognized so as to write off the cost or revalued amount of property and equipment less their residual value over their useful lives, using the straight-line method. The estimated useful lives, carrying amounts and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rate used in 2013: 20%-48% (2012: 20%).

Intangible assets

Intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Estimated useful lives and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimates being accounted for on a prospective basis. Amortization rates used for intangibles assets in 2013 were 10%-33% (2012: 10%-33%).

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

Taxation

Income tax expense comprises current and deferred tax.

Current income tax

Current tax expense is calculated based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current income tax liabilities are measured using statutory tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax

Deferred income tax is recognized for all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences provided it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Tax assets and liabilities are not recognized if temporary differences arise from the initial recognition of other assets or liabilities in transactions that affect neither taxable nor accounting profit.

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

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

Current and deferred tax for the year

Current and deferred income taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expense in the statement of comprehensive income.

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 disclosed when an inflow of economic benefits is probable.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian rubles at the appropriate spot rates prevailing at the reporting date. Transactions in currencies other than functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses from these translations are included in net gain on foreign exchange operations.

Exchange rate

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

	31 December 2013	**31 December 2012**
RUB/1 USD	32,7292	30,3727
RUB/1 EUR	44,9699	40,2286

Equity reserves

Reserves recorded in equity (other comprehensive income) at the Bank's statement of financial position include investment revaluation reserve which comprises changes in fair values of AFS financial assets.

3. Significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Adoption of new and revised standards

In the current period, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for reporting periods ending on December 31, 2013.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

The Bank has adopted the following amended IFRS during the year:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Bank's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

This 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 amendments clarify 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 had no impact on the Bank's financial position.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Banks' financial position or performance. The new disclosures are presented in Note 25.

3. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Bank provides these disclosures in Note 22.

New and revised IFRSs in issue but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to impact on the Bank's financial position.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Bank's accounting policies, Management should apply assumptions and estimates concerning carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be reasonable in certain circumstances. Actual outcomes may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the change affects only the respective period, and in future periods if the change affects both current and future periods.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Impairment of accounts receivable

The Bank regularly reviews its receivables to analyze them for impairment.

The Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of actual data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

As at 31 December 2013, the gross receivables totaled RUB 28 900 thousand (31 December 2012: RUB 31 646 thousand). Based on the impairment analysis, the Bank has created an allowance for impairment of receivables in amount of RUB 22 685 thousand (31 December 2012: nil).

Valuation of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

5. Interest income and expense

	2013 (RUB'000)	2012 (RUB'000)
Interest income		
Interest income on financial assets available-for-sale	3 858 547	3 023 514
Interest income on cash and cash equivalents	1 987 452	835 180
Interest income on due from banks and other financial institutions	646 795	236 344
Interest income on financial assets held-to-maturity	10 798	32 483
Total interest income	**6 503 592**	**4 127 521**
Interest expense		
Interest expense on term deposits	(286 193)	(258 764)
Total interest expense	**(286 193)**	**(258 764)**

6. Fee and commission income

	2013 (RUB'000)	2012 (RUB'000)
Clearing services for securities market ("Main market" sector)	2 326 090	1 710 113
Clearing services for foreign exchange market	1 041 364	836 896
Clearing services for securities market ("Standard" sector) and derivatives market	35 739	4 721
Other commissions	4 430	3 440
Total fee and commission income	**3 407 623**	**2 555 170**

7. Net gain / (loss) on foreign exchange operations

	2013 (RUB'000)	2012 (RUB'000)
Foreign exchange swaps	120 975	(44 155)
Net other foreign exchange gain	2 196	3 617
Total net gain / (loss) on foreign exchange operations	**123 171**	**(40 538)**

The Bank enters into foreign exchange swaps for the purposes of short-term investments and liquidity management.

8. Personnel expenses

	2013 (RUB'000)	2012 (RUB'000)
Personnel expenses	362 725	306 006
Payroll taxes and charges	54 109	43 051
Payments based on the shares of the parent company	11 438	925
Total personnel expenses	**428 272**	**349 982**

9. Administrative and other operating expenses

	2013 (RUB'000)	2012 (RUB'000)
Information and technological services at securities market	336 841	358 709
Information and technological services at foreign exchange market	264 436	192 750
Taxes, other than income tax	134 013	138 121
Lease of property and equipment	90 962	90 517
Settlement services and banks' fees	69 122	58 281
Professional services	31 707	21 526
Impairment of receivables	22 685	-
Maintenance of property and equipment and intangible assets	20 865	8 901
Communications and other information services	16 652	17 015
Depreciation and amortization charge	12 287	5 987
Depository services	8 346	6 822
Other	21 910	22 940
Total administrative and other operating expenses	**1 029 826**	**921 569**

Expenses for information and technological services at foreign exchange and securities markets comprise the Bank's expenses paid to Moscow Exchange for the services required by the Bank to perform clearing operations at the foreign exchange and securities markets.

10. Income tax expense

	2013 (RUB'000)	2012 (RUB'000)
Current income tax expense	1 488 298	934 332
Deferred income tax expense	59 723	(56 169)
Total income tax expense	**1 548 021**	**878 163**

The Bank calculates its income tax for the current period based on the tax accounts maintained and prepared in accordance with the requirements of the Russian tax legislation which may differ from IFRS.

As the certain expenses are not tax-deductible, it results in permanent tax differences. A reconciliation of the income tax expense based on the statutory rate with actual income tax is as follows:

	2013 (RUB'000)	2012 (RUB'000)
Profit before income tax	**7 837 109**	**4 444 788**
Tax at the statutory tax rate (20%)	1 567 422	888 958
Tax effect of income taxed at rates other than the 20% rate	(29 840)	(27 778)
Tax effect of permanent differences	10 439	16 983
Income tax expense	**1 548 021**	**878 163**

10. Income tax expense (continued)

Deferred taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences relate mostly to different methods of income and expense recognition, as well as the difference between the accounting and tax base of certain assets.

Tax effect of temporary differences as at 31 December 2013 and 2012, comprise:

	Statement of financial position		Recognized in profit or loss	
	2013 (RUB'000)	**2012 (RUB'000)**	**2013 (RUB'000)**	**2012 (RUB'000)**
Effect of deductible temporary differences				
Financial assets available-for-sale	5 570	50 106	(54 117)	41 532
Other liabilities	7 242	19 343	(12 101)	18 106
Property and equipment and intangible assets	39	80	(41)	(274)
Other assets	4 707	171	4 536	171
Total effect of deductible temporary differences	**17 558**	**69 700**	**(61 723)**	**59 535**
Effect of taxable temporary differences				
Cash and cash equivalents	(276)	(250)	(26)	(250)
Financial assets of central counterparty	(152)	(3 176)	3 024	(3 176)
Financial assets held-to-maturity	-	(10)	10	(10)
Other assets	(1 008)	-	(1 008)	70
Total effect of taxable differences	**(1 436)**	**(3 436)**	**2 000**	**(3 366)**
Total deferred income tax expense			**(59 723)**	**56 169**
Deferred tax assets	**16 122**	**66 264**		

	2013 (RUB'000)	**2012 (RUB'000)**
As at 1 January – deferred tax assets	**66 264**	**92 616**
Change in deferred tax recognized in other comprehensive income	9 581	(82 521)
Change in deferred tax recognized in profit or loss	(59 723)	56 169
As at 31 December – deferred tax assets	**16 122**	**66 264**

11. Cash and cash equivalents

	2013 (RUB'000)	**2012 (RUB'000)**
Current accounts with other credit organizations	219 042 142	154 041 004
Balances with Bank of Russia	5 316 660	4 130 553
Settlements on brokerage operations	560	80
Cash on hand	1 476	3 291
Total cash and cash equivalents	**224 360 838**	**158 174 928**

11. Cash and cash equivalents (continued)

As at 31 December 2013, cash and cash equivalents include balances with four counterparties (31 December 2012: with three counterparties) in the amount of RUB 152 811 087 thousand (31 December 2012: RUB 105 112 395 thousand), which is a significant concentration.

12. Due from banks and other financial institutions

	2013 (RUB'000)	2012 (RUB'000)
Term deposits	20 115 330	3 520 727
Reverse repurchase agreements with financial institutions	319 284	582 886
Total due from banks and other financial institutions	**20 434 614**	**4 103 613**

As at 31 December 2013, the fair value of bonds pledged under reverse repurchase agreements with financial institutions was RUB 354 903 thousand (31 December 2012: RUB 643 843 thousand).

13. Financial assets and liabilities of central counterparty

	2013 (RUB'000)	2012 (RUB'000)
Repo transactions	44 706 755	2 178 432
Currency transactions	2 301 781	639 114
Total financial assets and liabilities of central counterparty	**47 008 536**	**2 817 546**

Assets from repo transactions represent amounts receivable under reverse repurchase agreements, and liabilities from repo transactions represent amounts payable under respective direct repurchase agreements entered by the Bank in its capacity of central counterparty ("CCP"). Fair value of securities pledged as collateral under repo transactions is RUB 50 210 672 thousand (31 December 2012: RUB 2 181 313 thousand).

CCP financial assets and liabilities under currency transactions represent fair values of overnight currency deals. Gross claims and liabilities with individual counterparties are offset in accordance with IAS 32. Information about financial assets offset against financial liabilities in the statement of financial position is disclosed in Note 25.

As at 31 December 2013, there was no allowance created for financial assets of central counterparty (31 December 2012: no allowance) and these financial assets were not overdue (31 December 2012: not overdue).

14. Financial assets available-for-sale

	2013 (RUB'000)	2012 (RUB'000)
Bonds issued by Russian companies	27 723 323	16 611 748
Bonds issued by Russian Federation	22 422 160	4 995 235
Bonds issued by Russian commercial banks	16 419 470	19 639 778
Bonds issued by Vnesheconombank	248 353	1 425 355
Bonds issued by Russian local governments	113 495	244 013
Corporate shares	603	539
Bonds issued by foreign commercial banks	-	682 220
Total investments available-for-sale	**66 927 404**	**43 598 888**

15. Property, equipment and intangible assets

	Furniture & Equipment	Intangible assets	Total
Cost			
December 31, 2011	**3 621**	**35 321**	**38 942**
Additions	371	23 950	24 321
Disposals	(49)	(6 624)	(6 673)
December 31, 2012	**3 943**	**52 647**	**56 590**
Additions	8 656	32 753	41 409
Disposals	-	(152)	(152)
December 31, 2013	**12 599**	**85 248**	**97 847**
Accumulated depreciation			
December 31, 2011	**2 172**	**12 902**	**15 074**
Charge for the period	827	5 160	5 987
Disposals	(49)	(6 624)	(6 673)
December 31, 2012	**2 950**	**11 438**	**14 388**
Charge for the period	1 399	10 888	12 287
Disposals	-	(152)	(152)
December 31, 2013	**4 349**	**22 174**	**26 523**
Net book value			
December 31, 2012	**993**	**41 209**	**42 202**
December 31, 2013	**8 250**	**63 074**	**71 324**

16. Other assets

	2013 (RUB'000)	2012 (RUB'000)
Other financial assets		
Receivables on transactions with securities	22 693	17 107
Receivables on services rendered	6 207	14 539
Fair value of foreign currency derivatives	5 042	-
Less allowance for impairment	(22 685)	-
Total other financial assets	**11 257**	**31 646**
Other non-financial assets		
Precious metals	57 752	-
Taxes receivable other than income tax	11 912	8 388
Prepayments and other receivables	16 262	6 442
Total other non-financial assets	**85 926**	**14 830**
Total other assets	**97 183**	**46 476**

17. Customer accounts

	2013 (RUB'000)	2012 (RUB'000)
Accounts of clearing participants	273 891 759	176 796 915
Term deposits	3 482 543	3 539 795
Current accounts	3 217 651	10 766 247
Financial stability fund	1 754 000	-
Insurance fund	1 230 184	1 259 379
Risk-covering fund	625 975	602 684
Guarantee fund on OTC derivatives market	80 050	-
Total customer accounts	**284 282 162**	**192 965 020**

Accounts of clearing participants include margins deposited by clearing participants to cover risks arising from open positions and to guarantee payment of commissions.

Guarantee funds (Insurance fund, Financial stability fund, Risk-covering fund, Guarantee fund on OTC derivatives market) consist of collective clearing collateral contributed by clearing members. The purpose of these funds is to provide market participants with additional assurance of the Bank’s ability to guarantee proper settlements of open positions in case of a market participant default.

18. Other liabilities

	2013 (RUB'000)	2012 (RUB'000)
Other financial liabilities		
Payables to personnel	122 414	91 132
Payables on information and technological services	70 818	49 736
Payables for support services	17 090	1 997
Payables for unused vacations	4 975	3 847
Other	5 673	10 113
Total other financial liabilities	**220 970**	**156 825**
Other non-financial liabilities		
Accounts in precious metals	57 752	-
Taxes payable, other than income tax	891	132 500
Total other liabilities	**279 613**	**289 325**

19. Share capital and paid-in capital

As at 31 December 2013 the Bank's share capital consists of 15 170 000 issued and paid ordinary shares (31 December 2012: 6 170 000 shares) with the nominal value of RUB 1 thousand each.

In 2013 share capital of the Bank was increased by RUB 9 000 000 thousand as a result of issue of 9 000 000 thousand shares acquired by Moscow Exchange.

Change of the number of shares outstanding for 2013 and 2012 is presented in the table below:

	Number of ordinary shares
December 31, 2012 and 2013	**6 170 000**
Issue of ordinary shares	9 000 000
December 31, 2013	**15 170 000**

Paid-in capital in the amount of RUB 21 095 thousand represents the financial aid received by the Bank from the parent company, and is recognized at initial cost.

The Bank's reserves distributable between the shareholders are limited by the amounts disclosed in its statutory RAS accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the regulations of the Russian Federation, to cover general banking risks, including future losses and other unforeseen risks or contingencies. As at 31 December 2013, the reserve fund amounted to RUB 308 500 thousand (31 December 2012: RUB 308 500 thousand).

20. Commitments and contingencies

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of premises, parking slots and cars are as follows:

	2013 (RUB'000)	**2012 (RUB'000)**
Less than 1 year	64 809	10 301

Legal proceedings – From time to time and in the normal course of business, claims against the Bank may be received from customers and counterparties. Management believes that no significant losses will be incurred by the Bank as a result of such complaints and accordingly no provisions have been made in these financial statements.

Taxation **–** Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to make decisions based on their own arbitrary interpretations of these provisions. In practice, the Russian tax authorities often do not interpret the tax legislation in favor of the taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concepts of "unjustified tax benefit" and "primary commercial goal of transaction" and the criteria of "commercial purpose/substance of transaction".

The Management's interpretation of such legislation as applied to its operations and activity may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Such uncertainty could, in particular, be attributed to tax treatment of financial instruments and determination of market price of transactions.

The Bank’s Management believes its interpretation of the relevant legislation is appropriate and that the tax positions of the Bank will be confirmed. Accordingly, at 31 December 2013 and 2012, reserves are not accrued.

Tax years remain open to normal audit by the tax authorities for three years. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates. Also, according to the clarification of the Russian Federation Constitutional Court, the statute of limitation for tax liabilities may be extended if a court determines that the taxpayer has obstructed or hindered a tax inspection.

21. Transactions with related parties

a) Control relationships

As at 31 December 2013 and 2012, the Bank is a wholly owned subsidiary of Moscow Exchange. As at 31 December 2013 and 2012, the entities controlled by the Russian Federation indirectly hold more than 50% of the Bank's shares.

21. Transactions with related parties (continued)

b) Transactions with key management

Key management personnel comprises members of the Management Board and the Supervisory Board. The total remuneration paid to key management personnel includes short-term benefits (salary, bonuses, payroll related taxes, insurance, health care, etc.) and share-based payment expense.

	2013 (RUB'000)	2012 (RUB'000)
Short-term employee benefits	61 341	65 528
Share-based payment expense	6 380	925
Total remuneration of key management personnel	**67 721**	**66 453**

c) Transactions with government-related entities

The Bank considers government-related entities as related parties if Russian Federation has direct or indirect control and exercises significant influence over the entity. The Bank provides clearing, cash and settlement services to government-related entities, deposits funds with state banks and purchases bonds issued by the Russian Federation. Such entities provide to the Bank information and technological services and provide premises for rent.

22. Fair Value Measurements

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: 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.

The foreign currency forward contracts are measured based on observable spot exchange rates and the yield curves of the respective currencies.

The fair value of the unquoted debt securities has been determined using a discounted cash flow model, by reference to quoted market prices for similar instruments.

22. Fair Value Measurements (continued)

Information on techniques applied by the Bank to measure fair value of financial instruments is as follows:

	2013		
	Level 1	**Level 2**	**Total**
Central counterparty financial assets	2 301 781	-	2 301 781
Investments avaliable-for-sale	63 809 946	3 117 458	66 927 404
Other financial assets (derivatives)	-	5 042	5 042

	2012		
	Level 1	**Level 2**	**Total**
Central counterparty financial assets	639 114	-	639 114
Investments avaliable-for-sale	40 884 248	2 714 640	43 598 888

The Bank's Management considers that the fair value of all financial assets and liabilities approximates their carrying value.

23. Capital management

The Bank manages its capital to ensure that it will be able to continue to operate as a going concern and keep the required balance between ensuring financial stability in any economic environment, minimizing expenses of the market players and ensuring the return to stakeholders at a high level.

Issues related to the Bank's capital management are reviewed by the Supervisory Board. As part of this review, Supervisory Board in particular analyzes capital adequacy and risks associated with each class of capital. On the basis of recommendations of the Supervisory Board, the Bank adjusts its capital structure by dividend payments, additional issue of shares or repurchase of shares from active shareholders.

The Bank's general policy with respect the risks associated with capital management has not changed compared to 2012.

23. Capital management (continued)

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2013 and 2012, this minimum level was 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2013 and 2012.

	2013 (RUB'000)	**2012 (RUB'000)**
Equity	28 839 271	13 501 400
Risk weighted assets	132 733 934	80 013 471
Capital adequacy ratio (H1)	**21,7%**	**16,9%**
Statutory ratio of capital adequacy	10%	10%

24. Risk management policies

Risk management is a material element of the Bank’s activities and is exercised with respect to the following main risks inherent in its operations: credit, market, geographic, currency, liquidity, interest rate and operational risks. The main objective of financial risk management is to determine and assess the risk zones and exposure, develop risk management policies, create risk controls, including setting of limits and further ensuring compliance with the established limits.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. The Bank’s risk management policies are described below. Through the risk management framework, the Bank manages the following risks:

Credit risk

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

The Bank’s key methods of credit risk management are as follows:

- continuous analysis of receivables, credit risk-bearing financial assets as well as financial position of counterparties;
- setting limits with respect to counterparties and credit risk-bearing financial assets;
- continuous monitoring of indicators of exposure to credit risk (credit risk indicators).

The Bank assesses credit risks using credit risk indicators as well as professional judgment about the counterparty's financial position.

The Bank uses the following credit risk indicators:

- mandatory economic ratios established by the CBR for credit risk assessment;
- asset quality indicators developed in accordance with the CBR methodology for determining financial stability of credit institutions;
- the Bank's limits set with respect to counterparties and financial assets.

24. Risk management policies (continued)

Credit risk (continued)

Credit risks are directly managed by the Assets Management Committee, Treasury and Risk Management Department. The limits with respect to counterparties and financial assets are approved by the Bank's Management Board. The list of acceptable assets approved by the Bank's Management Board comprises assets with low credit risks and is limited to bonds issued by the Bank of Russia, bonds issued by the Russian Federation, bonds issued by the financially stable subjects of the Russian Federation and corporate bonds with high international credit ratings.

The Bank acts as a clearing center and a central counterparty to transactions entered into on the Moscow Exchange securities, money, foreign exchange and derivatives markets and therefore becomes a party of transactions entered into by participants in various segments of the financial market; all net liabilities of market participants are calculated with respect to the Bank. The Bank is responsible for its obligations to participants regardless of whether or not other participants perform their obligations.

To avoid the risk of default of clearing participants in respect of transactions not fully covered by collateral, clearing participants must deposit margins in the form of cash or securities on a regular basis prior to or during trading in the amounts set by the Bank for each participant. The amount of margin is determined by the amount of the Bank's potential losses resulting from closure of the participant's open positions if he fails to perform its obligations.

Clearing participants of the foreign exchange market that meet certain requirements (including capital requirements) may become participants of the Risk-covering fund (the "Fund") which is formed by equal contributions from the Fund's participants. Based on the individual analysis, a limit is established for each participant of the Fund; within that limit, the participant may enter into transactions without preliminary depositing. The Risk-covering fund is intended to cover market (exchange rate) risks resulting from potential default of clearing participants joined the Fund, with respect to their obligations under transactions entered into on the Moscow Exchange FX market.

Each clearing participant of the derivatives and securities ("Standard" sector) markets must contribute to the Insurance fund, of securities ("Main market" sector) – to the Financial stability fund, of OTC derivatives market – to Guarantee fund on OTC derivatives market. These funds are formed to provide additional financial guarantees to market participants in case the market participant fails to perform its obligations.

Maximum exposure to credit risk

The Bank's maximum exposure to credit risk is equal to the carrying value of assets exposed to credit risk.

Credit risks are not significant for the Bank’s activities as the Bank does not issue loans and guarantees, settlement documents of customers are executed only if the customers have positive balance of accounts with the Bank, and customer accounts and own funds denominated in Russian rubles are held only on accounts with banks with high credit ratings.

Financial assets are graded according to the current credit rating that has been issued by an internationally recognized rating agency such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets which have ratings lower than BBB- are classed as speculative grade.

24. Risk management policies (continued)

Credit risk (continued)

Cash and cash equivalents (Note 11) include accounts with Non-Banking Credit Organization Closed Joint-stock Company National Settlement Depository ("NSD") of RUB 23 556 999 thousand (31 December 2012: RUB 36 578 072 thousand). NSD has not been rated by the above-mentioned rating agencies, however the company was rated by Thomas Murray, which is a rating agency specializing in assigning ratings to custodians. As at 31 December 2013, NSD had AA- rating (31 December 2012: AA-) which corresponds to the low risk level.

The following tables detail the credit ratings of financial assets held by the Bank as at 31 December 2013 and 2012:

	AA	A	BBB	less BBB-	Not rated	December 31, 2013 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	305	114 492 391	86 052 365	156 283	23 658 018	**224 359 362**
Mandatory cash balances with Central Bank of the Russian Federation	-	-	1 557 523	-	-	**1 557 523**
Due from financial institutions	5 001 218	-	15 114 112	319 284	-	**20 434 614**
Central counterparty financial assets	-	-	4 560 873	3 444 162	39 003 501	**47 008 536**
Investments avaliable-for-sale	-	-	46 616 775	20 310 026	603	**66 927 404**
Other financial assets	-	-	9 861	-	1 396	**11 257**

	AA	A	BBB	less BBB-	Not rated	December 31, 2012 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	427	63 067 019	58 230 686	-	36 873 505	**158 171 637**
Mandatory cash balances with Central Bank of the Russian Federation	-	-	69 604	-	-	**69 604**
Due from financial institutions	348 614	-	2 870 016	302 096	582 887	**4 103 613**
Central counterparty financial assets	-	-	84 522	356 426	2 376 598	**2 817 546**
Investments avaliable-for-sale	-	-	27 053 566	16 544 784	538	**43 598 888**
Investments held-to-maturity	-	-	93 210	436 632	-	**529 842**
Other financial assets	-	-	23 653	-	7 993	**31 646**

The Bank makes a decision to create an impairment allowance based on the analysis of financial position of its counterparties and maturities of financial assets.

24. Risk management policies (continued)

Geographical concentration

Geographical concentration of assets and liabilities is as follows:

	Russian Federation	OECD countries	Other	December 31, 2013 Total
Financial assets				
Cash and cash equivalents	79 199 165	145 150 032	11 641	224 360 838
Mandatory cash balances with Central Bank of the Russian Federation	1 557 523	-	-	1 557 523
Due from financial institutions	15 114 112	5 001 218	319 284	20 434 614
Central counterparty financial assets	47 008 536	-	-	47 008 536
Investments avaliable-for-sale	66 926 801	603	-	66 927 404
Other financial assets	11 257	-	-	11 257
Total financial assets	**209 817 394**	**150 151 853**	**330 925**	**360 300 172**
Financial liabilities				
Customer accounts	284 282 162	-	-	284 282 162
Central counterparty financial liabilities	47 008 536	-	-	47 008 536
Other financial liabilities	220 970	-	-	220 970
Total financial liabilities	**331 511 668**	**-**	**-**	**331 511 668**

	Russian Federation	OECD countries	Other	December 31, 2012 Total
Financial assets				
Cash and cash equivalents	71 703 982	86 470 643	303	158 174 928
Mandatory cash balances with Central Bank of the Russian Federation	69 604	-	-	69 604
Due from financial institutions	3 172 113	348 614	582 886	4 103 613
Central counterparty financial assets	2 817 546	-	-	2 817 546
Investments avaliable-for-sale	42 916 129	539	682 220	43 598 888
Investments held-to-maturity	529 842	-	-	529 842
Other financial assets	31 646	-	-	31 646
Total financial assets	**121 240 862**	**86 819 796**	**1 265 409**	**209 326 067**

Financial liabilities				
Customer accounts	192 965 020	-	-	192 965 020
Central counterparty financial liabilities	2 817 546	-	-	2 817 546
Other financial liabilities	156 825	-	-	156 825
Total financial liabilities	**195 939 391**	**-**	**-**	**195 939 391**

Liquidity risk

Liquidity risk is the risk of encountering difficulty in raising funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk arises when maturities of assets and liabilities do not match. The Bank is exposed to the risk due to its daily calls on available cash resources for settlements of market participants.

Liquidity risk management includes developing day-to-day liquidity management techniques as well as assessing and monitoring liquidity risk.

The key methods and techniques of liquidity risk management are as follows:

- Building the optimal structure of assets which helps to maintain the target profitability of assets and equity while minimizing the risk of failure by the Bank to fulfill its obligations;
- Performing quantitative assessment of liquidity risk and using the system of liquidity risk indicators;
- Setting limits with respect to operations or counterparties, which are balanced according to the asset operations funding timelines;
- Establishing efficient mechanisms to support payment positions with respect to the Bank's correspondent accounts;
- Cash flows forecasting.

Forecasts are prepared with a breakdown by maturities or expected dates of asset disposal. Forecasts take into account risk of late settlement of assets as well as potential need for their early disposal in order to support the payment positions with respect to the Bank's correspondent accounts.

The Bank maintains the required and sufficient amount of highly liquid assets: cash, balances on correspondent accounts with the Bank of Russia and other credit institutions, government securities and other highly liquid debt securities. While managing liabilities, the Bank considers the possibility of raising interbank loans for day-to-day liquidity management and increasing equity through strategic liquidity management.

The Bank assesses its liquidity risk exposure based on the following liquidity risk indicators:

- Mandatory liquidity ratios established by the Bank of Russia;
- Parameters of payment positions with respect to NOSTRO correspondent accounts;
- Liquidity indicators developed in accordance with Bank of Russia methodologies for determining financial sustainability of credit institutions and analyzing liquidity of credit institutions.

Current liquidity management is carried out by the Treasury Department, which trades on the money markets to support liquidity and optimize cash flows. The Asset Management Committee and the Risk Management Department control the liquidity risk by analyzing the risk indicators, develop the strategy of asset operations and manage medium and long term liquidity.

An analysis of liquidity risk is presented in the following table. The presentation below is based on information provided to the Bank's key management. As at 31 December 2013 and 2012, financial assets available-for-sale, which are included into the Bank of Russia's Lombard list are presented within the category "Up to 1 month".

24. Risk management policies (continued)

Liquidity risk (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2013 Total
Financial assets						
Cash and cash equivalents	224 360 838	-	-	-	-	224 360 838
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	-	1 557 523	1 557 523
Due from financial institutions	15 393 686	5 040 928	-	-	-	20 434 614
Central counterparty financial assets	47 008 536	-	-	-	-	47 008 536
Investments avaliable-for-sale	50 845 814	973 050	9 980 316	5 127 621	603	66 927 404
Other financial assets	11 257	-	-	-	-	11 257
Total financial assets	**337 620 131**	**6 013 978**	**9 980 316**	**5 127 621**	**1 558 126**	**360 300 172**
Financial liabilities						
Customer accounts	283 685 109	30 494	566 559	-	-	284 282 162
Central counterparty financial liabilities	47 008 536	-	-	-	-	47 008 536
Other financial liabilities	91 832	122 416	6 722	-	-	220 970
Total financial liabilities	**330 785 477**	**152 910**	**573 281**	**-**	**-**	**331 511 668**
Liquidity gap	**6 834 654**	**5 861 068**	**9 407 035**	**5 127 621**	**1 558 126**	
Cumulative liquidity gap	**6 834 654**	**12 695 722**	**22 102 757**	**27 230 378**	**28 788 504**	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2012 Total
Financial assets						
Cash and cash equivalents	158 174 928	-	-	-	-	158 174 928
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	-	69 604	69 604
Due from financial institutions	931 500	1 510 279	1 661 834	-	-	4 103 613
Central counterparty financial assets	2 817 546	-	-	-	-	2 817 546
Investments avaliable-for-sale	34 188 812	525 299	6 170 425	2 713 814	538	43 598 888
Investments held-to-maturity	-	89 379	440 463	-	-	529 842
Other financial assets	28 671	2 975	-	-	-	31 646
Total financial assets	**196 141 457**	**2 127 932**	**8 272 722**	**2 713 814**	**70 142**	**209 326 067**

Financial liabilities						
Customer accounts	190 201 760	5 025	2 758 235	-	-	192 965 020
Central counterparty financial liabilities	2 817 546	-	-	-	-	2 817 546
Other financial liabilities	1 643	149 600	5 582	-	-	156 825
Total financial liabilities	**193 020 949**	**154 625**	**2 763 817**	**-**	**-**	**195 939 391**
Liquidity gap	**3 120 508**	**1 973 307**	**5 508 905**	**2 713 814**	**70 142**	
Cumulative liquidity gap	**3 120 508**	**5 093 815**	**10 602 720**	**13 316 534**	**13 386 676**	

The following tables detail a contractual maturity analysis of the Bank's financial liabilities with fixed maturities. The tables present undiscounted cash flows of the Bank's financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows.

	Up to 1 month	1 month to 3 months	3 months to 1 year	December 31, 2013 Total
Financial liabilities				
Customer accounts	283 698 797	30 333	571 570	284 300 700
Central counterparty financial liabilities	47 008 536	-	-	47 008 536
Other financial liabilities	91 832	122 416	6 722	220 970
Total financial liabilities	**330 799 165**	**152 749**	**578 292**	**331 530 206**

	Up to 1 month	1 month to 3 months	3 months to 1 year	December 31, 2012 Total
Financial liabilities				
Customer accounts	190 250 020	56 547	2 784 270	193 090 837
Central counterparty financial liabilities	2 817 546	-	-	2 817 546
Other financial liabilities	1 643	149 600	5 582	156 825
Total financial liabilities	**193 069 209**	**206 147**	**2 789 852**	**196 065 208**

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank's assets measured at fair value, and which are sensitive to changes in market interest rates consist of the portfolio of financial assets available-for-sale.

24. Risk management policies (continued)

Interest rate risk (continued)

Limits with respect to financial assets are approved by the Bank's Management Board. The list of acceptable assets with regard to investments in bonds, which is approved by the Bank's Supervisory Board, is limited to bonds issued by the Bank of Russia, bonds issued by the Russian Federation, bonds issued by subjects of the Russian Federation and corporate bonds with high international credit ratings.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department monitors the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank’s profitability.

As the majority of the Bank's financial instruments are fixed rate contracts, their contractual maturity dates are also their repricing dates.

The sensitivity analysis presented below has been performed based on the risk of interest rate fluctuations as at the reporting date. The estimation is based on the assumption that the interest rate will change by 100 bp (31 December 2012: 150 bp) which is in line with the Management's expectations with regard to a reasonably possible change in interest rates.

	Net profit	Equity	Net profit	Equity
100 bp parallel rise (December 31, 2012: 150 bp)	-	(495 946)	-	(572 501)
100 bp parallel fall (December 31, 2012: 150 bp)	-	503 836	-	582 861

Currency risk

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

The Bank is a specific participant of the foreign exchange market; as a central counterparty on the foreign exchange market, it participates in transactions in a passive mode. The methods used to mitigate the Bank’s currency risk include exchange rate limits with respect to foreign exchange trading, a system of trading limits, margin system (through preliminary depositing of cash collateral by market participants), controlling over collateral of open trading positions, "delivery versus payment" principle, and replacement of dishonest clearing participants by the Bank of Russia.

While clearing transactions with foreign currencies, the Bank’s market risks are mainly dependent on the volatility of currency pairs. Therefore, in order to manage market risk the Bank monitors the condition of the domestic and foreign currency markets and sets the limits of daily exchange rate fluctuations during trading in accordance with the market situation. Based on the set (and coordinated with the Bank of Russia) limits on cross-rate fluctuations for each currency pair and each instrument, the Bank calculates the margin requirement, i.e. the amount of cash as a percentage of the planned volume of transactions to be transferred by the participants to enable them to enter into transactions during trading. The Management Board of the Bank, as agreed with the Bank of Russia, sets parameters of the Moscow Exchange foreign exchange market, which determine exchange rate limits for trading instruments and margin requirements.

Another mechanism for mitigating the Bank’s exposure to market risk arising from failure of participants to settle obligations resulted from clearing is an additional trading session with the Bank of Russia which allows to eliminate a participant's failure to deliver assets.

24. Risk management policies (continued)

Currency risk (continued)

The Bank's exposure to currency risk is as follows:

	RUB	USD	EUR	Other currencies	December 31, 2013 Total
Financial assets					
Cash and cash equivalents	35 167 321	118 151 866	70 930 567	111 084	224 360 838
Mandatory cash balances with Central Bank of the Russian Federation	1 557 523	-	-	-	1 557 523
Due from financial institutions	15 114 112	5 320 502	-	-	20 434 614
Central counterparty financial assets	47 008 536	-	-	-	47 008 536
Investments avaliable-for-sale	56 898 476	10 028 325	603	-	66 927 404
Other financial assets	11 257	-	-	-	11 257
Total financial assets	**155 757 225**	**133 500 693**	**70 931 170**	**111 084**	**360 300 172**
Financial liabilities					
Customer accounts	81 313 873	131 932 855	70 924 852	110 582	284 282 162
Central counterparty financial liabilities	47 008 536	-	-	-	47 008 536
Other financial liabilities	215 733	5 237	-	-	220 970
Total financial liabilities	**128 538 142**	**131 938 092**	**70 924 852**	**110 582**	**331 511 668**
Derivatives	1 480 029	(1 480 029)	-	-	-
Open position	**28 699 112**	**82 572**	**6 318**	**502**	

	RUB	USD	EUR	Other currencies	December 31, 2012 Total
Financial assets					
Cash and cash equivalents	51 611 998	49 512 121	56 757 970	292 839	158 174 928
Mandatory cash balances with Central Bank of the Russian Federation	69 604	-	-	-	69 604
Due from financial institutions	3 172 113	931 500	-	-	4 103 613
Central counterparty financial assets	2 817 546	-	-	-	2 817 546
Investments avaliable-for-sale	34 130 879	9 467 470	539	-	43 598 888
Investments held-to-maturity	529 842	-	-	-	529 842
Other financial assets	14 539	17 107	-	-	31 646
Total financial assets	**92 346 521**	**59 928 198**	**56 758 509**	**292 839**	**209 326 067**

Financial liabilities					
Customer accounts	76 091 815	59 821 906	56 758 522	292 777	192 965 020
Central counterparty financial liabilities	2 817 546	-	-	-	2 817 546
Other financial liabilities	155 823	646	356	-	156 825
Total financial liabilities	**79 065 184**	**59 822 552**	**56 758 878**	**292 777**	**195 939 391**
Open position	**13 281 337**	**105 646**	**(369)**	**62**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the Russian ruble exchange rate against relevant foreign currencies. 10% is the sensitivity rate used when reporting currency risk internally to the Bank’s key management and represents Management’s assessment of the reasonably possible change in foreign exchange rates.

	2013		**2012**	
	USD	**EUR**	**USD**	**EUR**
	10%	**10%**	**10%**	**10%**
10% rouble appreciation	(6 606)	(505)	(8 452)	30
10% rouble depreciation	6 606	505	8 452	(30)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In fact, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, thus the results should not be interpolated or extrapolated.

Sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the Bank's financial position may vary depending on changes in the market. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In the event of sharp negative fluctuations in the securities market, Management actions could include selling investments, changing investment portfolio structure, and taking other protective measures. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas significantly impact assets measured at fair value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to significant fluctuations in equity.

Other limitations of the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of future market changes that cannot be predicted with any certainty. Another assumption is that all interest rates move in an identical manner.

24. Risk management policies (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. If operational risks cannot be managed, such risks may damage reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot eliminate all operational risks, but it aims to manage these risks by establishing a control system and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, use of reliable equipment and IT systems, well-tuned procedures for personnel training and procedures related to assessment and management of operational risks.

25. Offsetting of financial instruments

Gross claims and liabilities with individual counterparties under CCP currency transactions are offset in accordance with IAS 32.

Direct and reverse repo transactions with individual counterparties are subject to clearing rules that create a contingent right of set-off that does not qualify for offsetting.

Clearing participants are required to deposit collateral in the form of cash or securities for current deals and make contribution to guarantee funds, as described in Note 24. Clearing rules give the Bank right to use these amounts under certain conditions (e.g. in case of default).

The table below shows financial assets and liabilities offset in the statement of financial position, as well as the effect of clearing agreements that do not result in an offset in the statement of financial position:

	2 013			Related amounts not set off in the statement of the financial position		
	Gross claims	**Gross liabilities**	**Net amount presented in financial statements**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets						
CCP financial assets (repo transactions)	44 706 755	-	44 706 755	(44 706 755)	-	-
CCP financial assets (currency transactions)	2 607 544	(305 763)	2 301 781	-	(2 301 781)	-
Total financial assets	**47 314 299**	**(305 763)**	**47 008 536**	**(44 706 755)**	**(2 301 781)**	**-**
Financial liabilities						
CCP financial liabilities (repo transactions)	-	(44 706 755)	(44 706 755)	44 706 755	-	-
CCP financial liabilities (currency transactions)	345 871	(2 647 652)	(2 301 781)	-	-	(2 301 781)
Total financial liabilities	**345 871**	**(47 354 407)**	**(47 008 536)**	**44 706 755**	**-**	**(2 301 781)**

25. Offsetting of financial instruments (continued)

	2 012			Related amounts not set off in the statement of the financial position		
	Gross claims	Gross liabilities	Net amount presented in financial statements	Financial instruments	Cash collateral received	Net amount
Financial assets						
CCP financial assets (repo transactions)	2 178 432	-	2 178 432	(2 178 432)	-	-
CCP financial assets (currency transactions)	767 595	(128 481)	639 114	-	(639 114)	-
Total financial assets	**2 946 027**	**(128 481)**	**2 817 546**	**(2 178 432)**	**(639 114)**	**-**
Financial liabilities						
CCP financial liabilities (repo transactions)	-	(2 178 432)	(2 178 432)	2 178 432	-	-
CCP financial liabilities (currency transactions)	253 379	(892 493)	(639 114)	-	-	(639 114)
Total financial liabilities	**253 379**	**(3 070 925)**	**(2 817 546)**	**2 178 432**	**-**	**(639 114)**