OOO HSBC Bank (RR)

Financial Statements

for the Year Ended 31 December 2013

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Board of Directors and the Sole Participant of OOO HSBC Bank (RR)

We have audited the accompanying financial statements of OOO HSBC Bank (RR) (the "Bank"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The 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 entity's 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, 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 express an opinion on the fair presentation of these financial statements.

Audited entity: OOO HSBC Bank (RR).

Registered by the Central Bank of the Russian Federation on 23 April 1996, Registration No. 3290.

Entered in the Unified State Register of Legal Entities on 2 September 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739139075, Certificate series 77 No. 007811782.

Address of the audited entity: Bld. 2, 2, Paveletskaya sq., Moscow, Russian Federation, 115054.

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

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

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

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

Opinion

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

Malyutina M.S.
Director,
power of attorney dated 1 October 2013 No. 77/13
ZAO KPMG
Moscow, Russian Federation
23 April 2014

	Notes	2013 RUB'000	2012 RUB'000
Interest income	4	2 175 929	2 685 656
Interest expense	4	(1 699 987)	(1 697 095)
Net interest income		**475 942**	**988 561**
Fee and commission income	5	655 024	616 677
Fee and commission expense	5	(215 937)	(267 499)
Net fee and commission income		**439 087**	**349 178**
Net gain on securities held for trading		126 657	190 270
Net gain from foreign exchange and derivative trading		1 459 383	802 922
Net gain on available-for-sale assets		1 176	7 964
Other operating income		241 083	199 345
Operating income		**2 743 328**	**2 538 240**
Impairment losses		(151)	(1 628)
Personnel expenses	6	(791 506)	(958 779)
General administrative expenses	7	(588 217)	(532 324)
Profit before income tax		**1 363 454**	**1 045 509**
Income tax expense	8	(288 914)	(217 453)
Profit for the year		**1 074 540**	**828 056**
Other comprehensive (loss) income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale assets:			
- Net change in fair value of available-for-sale assets		(5 612)	68 303
- Net change in fair value of available-for-sale assets transferred to profit or loss		(941)	(6 371)
Total items that are or may be reclassified subsequently to profit or loss		*(6 553)*	*61 932*
Other comprehensive (loss) income for the year, net of income tax		**(6 553)**	**61 932**
Total comprehensive income for the year		**1 067 987**	**889 988**

The financial statements were approved by management on 23 April 2014 and were signed on its behalf by:

Dmitry Chekalkin
Acting Chief Executive Officer

Elena Koneva
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
ASSETS			
Cash and cash equivalents	9	5 980 776	5 197 334
Due from the Central Bank of the Russian Federation	10	2 431 110	2 452 044
Placements with banks and other financial institutions	11	23 779 561	40 225 763
Derivative financial instruments	12	3 230 575	2 678 090
Securities held for trading			
- Held by the Bank	13	1 787 551	3 925 312
- Pledged under repurchase agreements	13	3 807 552	12 851 390
Available-for-sale assets			
- Held by the Bank	14	263 352	4 076 567
- Pledged under repurchase agreements	14	3 692 417	2 397 194
Loans to customers	15	14 013 090	16 452 580
Current tax asset		166	217
Property, equipment and intangible assets	17	120 128	166 464
Deferred tax asset	8	127 885	331 122
Other assets	18	223 403	509 650
Total assets		**59 457 566**	**91 263 727**
LIABILITIES			
Derivative financial instruments	12	3 448 071	2 242 328
Trading liabilities	13	399 348	-
Deposits and balances from banks	19	12 694 999	41 664 170
Current accounts and deposits from customers	20	32 501 735	37 601 851
Other liabilities	21	336 678	580 008
Total liabilities		**49 380 831**	**82 088 357**
EQUITY			
Charter capital	22	9 249 232	9 249 232
Additional paid-in capital		3 017 061	3 017 061
Revaluation reserve for available-for-sale assets		(3 958)	2 595
Accumulated losses		(2 185 600)	(3 093 518)
Total equity		**10 076 735**	**9 175 370**
Total liabilities and equity		**59 457 566**	**91 263 727**

Dmitry Chekalkin
Acting Chief Executive Officer

Elena Koneva
Chief Accountant

The statement of financial position is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Notes	2013 RUB'000	2012 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2 517 359	2 257 278
Interest payments		(1 727 817)	(1 626 387)
Fee and commission receipts		661 063	577 964
Fee and commission payments		(223 861)	(282 683)
Net receipts from securities held for trading		185 736	136 587
Net receipts from foreign exchange and derivative trading		454 120	1 523 638
Other income receipts		373 383	9 345
Employee compensation and payroll paid		(967 084)	(970 893)
General administrative expenses paid		(515 798)	(575 009)
(Increase) decrease in operating assets			
Due from the Central Bank of the Russian Federation		20 628	910 739
Placements with banks and other financial institutions		17 791 896	(28 245 200)
Securities held for trading		11 288 468	(7 159 714)
Available-for-sale assets		2 414 482	1 230 929
Loans to customers		3 061 920	1 582 899
Other assets		117 520	(50 945)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(29 144 795)	21 415 519
Current accounts and deposits from customers		(5 455 182)	10 011 257
Other liabilities		(49 469)	11 298
Net cash from operating activities before income tax paid		**802 569**	**756 622**
Income tax paid		(89 504)	(114 086)
Cash flows from operating activities		**713 065**	**642 536**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property, equipment and intangible assets		(8 354)	(112 821)
Cash flows used in investing activities		**(8 354)**	**(112 821)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions paid		(166 622)	-
Cash flows used in financing activities		**(166 622)**	**-**
Effect of changes in exchange rates on cash and cash equivalents		245 353	(88 175)
Net increase in cash and cash equivalents		**783 442**	**441 540**
Cash and cash equivalents as at the beginning of the year		5 197 334	4 755 794
Cash and cash equivalents as at the end of the year	9	**5 980 776**	**5 197 334**

Dmitry Chekalkin
Acting Chief Executive Officer

Elena Koneva
Chief Accountant

The statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the financial statements.

	Charter capital RUB'000	Additional paid-in-capital RUB'000	Revaluation reserve for available-for-sale assets RUB'000	Accumulated losses RUB'000	Total RUB'000
Balance as at 1 January 2012	**9 249 232**	**3 017 061**	**(59 337)**	**(3 921 574)**	**8 285 38**
Total comprehensive income					
Profit for the year	-	-	-	828 056	**828 056**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale assets, net of deferred tax	-	-	68 303	-	**68 303**
Net change in fair value of available-for-sale assets transferred to profit or loss, net of deferred tax	-	-	(6 371)	-	**(6 371)**
Total items that are or may be reclassified subsequently to profit or loss	-	-	*61 932*	-	*61 932*
Total other comprehensive income	-	-	61 932	-	**61 932**
Total comprehensive income for the year	-	-	**61 932**	**828 056**	**889 988**
Balance as at 31 December 2012	**9 249 232**	**3 017 061**	**2 595**	**(3 093 518)**	**9 175 370**
Balance as at 1 January 2013	**9 249 232**	**3 017 061**	**2 595**	**(3 093 518)**	**9 175 370**
Total comprehensive income					
Profit for the year	-	-	-	1 074 540	**1 074 540**
Other comprehensive loss					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale assets, net of deferred tax	-	-	(5 612)	-	**(5 612)**
Net change in fair value of available-for-sale assets transferred to profit or loss, net of deferred tax	-	-	(941)	-	**(941)**
Total items that are or may be reclassified subsequently to profit or loss	-	-	*(6 553)*	-	*(6 553)*
Total other comprehensive loss	-	-	(6 553)	-	**(6 553)**
Total comprehensive income for the year	-	-	**(6 553)**	**1 074 540**	**1 067 987**
Transactions with owners, recorded directly in equity					
Distributions paid to the sole participant	-	-	-	(166 622)	**(166 622)**
Balance as at 31 December 2013	**9 249 232**	**3 017 061**	**(3 958)**	**(2 185 600)**	**10 076 735**

Dmitry Chekalkin
Acting Chief Executive Officer

Elena Koneva
Chief Accountant

The statement of changes in equity is to be read in conjunction with the Notes to, and forming part of, the financial statements.

1. Background

Principal activities

These financial statements include the financial statements of OOO HSBC Bank (RR).

OOO HSBC Bank (RR) (the "Bank") was registered in the Russian Federation on 23 April 1996 as a limited liability company. The Bank operates under general banking license № 3290 issued by the Central Bank of the Russian Federation (the "CBR"). The Bank has licenses for operations in securities markets as a broker and a dealer, and it is licensed to provide custody services. The Bank has a license for transactions with precious metals. In 2007 the Bank received a license for taking deposits from individuals. The Bank is a member of a state deposit insurance scheme.

The Bank provides settlement services, takes corporate deposits, issues loans to large corporate clients, provides trade finance, foreign exchange and other services to its customers. The Bank also operates in the money market, invests in government debt and corporate debt.

The legal address of the Bank is: Bld. 2, 2, Paveletskaya sq., Moscow, Russian Federation, 115054.

The number of people employed by the Bank as at 31 December 2013 is 269 (31 December 2012: 256).

The sole participant

The Bank is 100% owned by HSBC Europe B.V. (Holland). The Bank is a wholly-owned subsidiary of HSBC Bank plc, and it belongs to the HSBC Group. The activities of the Bank are coordinated by the requirements of the HSBC Group. As such the Bank is economically dependent on the HSBC Group. Information on related party transactions is disclosed in Note 27 of the financial statements.

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The political and economic instability witnessed in Ukraine has had and may continue to have a negative impact on the Russian economy. Certain sanctions were implemented by EU and USA against Russian officials and businessmen. So far, these events have not had a significant impact on the Bank's operations and financial position. However the impact on financial statements of future instability in Ukraine, should it continue, and/or additional sanctions against Russia, if they are implemented, is at this stage difficult to determine. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

The financial statements of OOO HSBC Bank (RR) have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains accounting records in accordance with the legislation of the Russian Federation (Russian GAAP). In addition, in accordance with the requirements of the HSBC Group, the Bank maintains accounting records in accordance with instructions received from the HSBC Group, which are based on the IFRS requirements. These financial statements were prepared based on the accounting records maintained by the Bank in accordance with instructions received from the HSBC Group.

Basis of measurement

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

Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The RUB is also the presentation currency for the purposes of these financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 15 relating to impairment allowance of loans to customers.

Changes in accounting policies and presentation

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

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of items of other comprehensive income (Amendments to IAS 1)* (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* (see (iii))

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

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS. In particular, it unifies the definition of fair value as the prices at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS, including IFRS 7 *Financial Instruments: Disclosures* (see Note 26).

As a result, the Bank adopted a new definition of fair value, as set out in Note 3. The change had no significant impact on the measurements of assets and liabilities.

(ii) Presentation of items of other comprehensive income

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

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

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

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

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

3. Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements.

Foreign currency

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Cash and cash equivalents

The Bank includes cash, nostro accounts with banks and other financial institutions and nostro accounts with the CBR in cash and cash equivalents. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term,

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,

- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated as effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments that are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

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

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

Derecognition

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

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

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

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

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repurchase agreements within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase agreements within placements with banks and other financial institutions or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

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

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement ("host contract"). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank may trade in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

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

Equipment	2 to 25 years;
Leasehold improvements	2 to 20 years;
Vehicles	7 years;
Furniture	5 to 10 years.

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with the production of identifiable and unique software products controlled by the Bank are capitalised and an internally generated intangible asset is recognised only if it is probable that it will generate economic benefits exceeding costs beyond one year and the development costs can be measured reliably. An internally generated intangible asset is recognised only if the Bank has the technical feasibility, resources and intention to complete the development and to use the product. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 5 years.

Impairment

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

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

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

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

Financial assets carried at amortised cost

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

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale assets

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

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

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring provision

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument.

- commitments to provide a loan at a below-market interest rate.

Equity

Under current Russian legislation a sole participant in a limited liability company does not have the unilateral right to withdraw from the company. Accordingly, charter capital is classified as equity.

Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss and available-for-sale assets are recognised in interest income.

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

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

Gains and losses from derivative financial instruments are included in net gain from foreign exchange and derivative trading.

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Segment reporting

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

New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* - effective date of this standard is not determined. The new standard is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The new standard will be effective not earlier than 1 January 2018.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Bank has not yet analysed the likely impact of the amendments on its financial position or performance.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4. Interest income and interest expense

	2013 RUB'000	2012 RUB'000
Interest income		
Loans to customers	898 382	963 229
Securities held for trading	441 420	736 209
Placements with banks and other financial institutions	391 324	380 473
Available-for-sale assets	257 611	414 892
Reverse repurchase agreements	187 192	190 853
	2 175 929	**2 685 656**
Interest expense		
Current accounts and deposits from customers	(1 081 394)	(895 132)
Repurchase agreements	(390 392)	(409 039)
Deposits and balances from banks	(228 201)	(392 924)
	(1 699 987)	**(1 697 095)**
	475 942	**988 561**

5. Fee and commission income and expense

	2013 RUB'000	2012 RUB'000
Commission income		
Guarantee and letter of credit issuance	343 610	304 881
Account servicing and cash collection	239 456	238 146
Underwriting and corporate finance	45 898	50 775
Trust, custodian and other fiduciary services	4 359	5 004
Brokerage services	2 553	1 918
Other	19 148	15 953
	655 024	**616 677**
Commission expense		
Account servicing and cash collection	(76 304)	(111 174)
Guarantees receipt	(41 933)	(35 947)
Brokerage services	(72 824)	(80 862)
Commitment fee for credit lines receipt	(23 825)	(36 471)
Other	(1 051)	(3 045)
	(215 937)	**(267 499)**
	439 087	**349 178**

6. Personnel expenses

	2013 RUB'000	2012 RUB'000
Employee compensation	(699 657)	(878 947)
Payroll taxes	(91 849)	(79 832)
	(791 506)	**(958 779)**

Information on management remuneration is disclosed in related party transactions. Please, refer to Note 27.

7. General administrative expenses

	2013 RUB'000	2012 RUB'000
Rent	(136 091)	(131 881)
Professional fees	(96 926)	(45 977)
Information and telecommunication services	(65 876)	(66 368)
IT systems development	(61 310)	(67 232)
Depreciation and amortisation	(54 574)	(40 772)
Repair and maintenance	(35 087)	(41 027)
Travel	(34 197)	(29 185)
Tax other than income tax	(28 483)	(32 817)
Marketing	(22 575)	(19 764)
Office supplies	(22 552)	(26 606)
Security	(8 801)	(9 412)
Charity and donations	(4 151)	(3 325)
Other	(17 594)	(17 958)
	(588 217)	**(532 324)**

8. Income tax expense

	2013 RUB'000	2012 RUB'000
Current tax expense	(84 039)	(194 847)
Deferred tax movement	(204 875)	(22 606)
Total income tax expense	**(288 914)**	**(217 453)**

In 2013, the applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate for the year ended 31 December 2013:

	2013 RUB'000	2012 RUB'000
Profit before income tax	**1 363 454**	**1 045 509**
Income tax at the applicable tax rate	(272 691)	(209 102)
Income taxed at lower tax rates	28 106	63 571
Non-deductible costs	(44 329)	(71 922)
	(288 914)	**(217 453)**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2013 and 2012. These deferred tax assets have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards will expire in 2021.

Movements in temporary differences for the year ended 31 December 2013:

RUB'000	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2013
Derivative financial instruments	(87 152)	130 652	-	43 500
Securities held for trading	4 163	15 793	-	19 956
Available-for-sale assets	(650)	-	1 638	988
Loans to customers	175 192	(184 309)	-	(9 117)
Property, equipment and intangible assets	(5 860)	(6 821)	-	(12 681)
Other assets	(54 922)	28 564	-	(26 358)
Other liabilities	70 089	(10 753)	-	59 336
Tax loss carry-forwards	230 262	(178 001)	-	52 261
	331 122	**(204 875)**	**1 638**	**127 885**

Movements in temporary differences for the year ended 31 December 2012:

RUB'000	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Derivative financial instruments	46 707	(133 859)	-	(87 152)
Securities held for trading	(21 498)	25 661	-	4 163
Available-for-sale assets	14 833	-	(15 483)	(650)
Loans to customers	172 088	3 104	-	175 192
Property, equipment and intangible assets	32 445	(38 305)	-	(5 860)
Other assets	(6 523)	(48 399)	-	(54 922)
Other liabilities	70 597	(508)	-	70 089
Tax loss carry-forwards	60 562	169 700	-	230 262
	369 211	**(22 606)**	**(15 483)**	**331 122**

Income tax recognised in other comprehensive (loss) income

The tax effects relating to components of other comprehensive (loss) income for the years ended 31 December 2013 and 2012 comprise the following:

	2013			2012		
RUB'000	**Amount before tax**	**Tax benefit (expense)**	**Amount net of tax**	**Amount before tax**	**Tax benefit (expense)**	**Amount net of tax**
Net change in fair value of available-for-sale assets	(7 015)	1 403	(5 612)	85 379	(17 076)	68 303
Net change in fair value of available-for-sale assets transferred to profit or loss	(1 176)	235	(941)	(7 964)	1 593	(6 371)
Other comprehensive (loss) income	**(8 191)**	**1 638**	**(6 553)**	**77 415**	**(15 483)**	**61 932**

9. Cash and cash equivalents

	2013 RUB'000	**2012 RUB'000**
Cash	58 673	56 126
Due from the Central Bank of the Russian Federation – nostro accounts	3 658 649	2 174 167
Due from banks and other financial institutions – nostro accounts	2 263 454	2 967 041
	5 980 776	**5 197 334**

10. Due from the Central Bank of the Russian Federation

	2013 RUB'000	**2012 RUB'000**
Deposits	2 000 000	1 500 000
Mandatory reserves	430 863	951 491
Interest receivable	247	553
	2 431 110	**2 452 044**

The mandatory reserves are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro accounts represent balances with the CBR related to settlement activity and are available for withdrawal at year end. As at 31 December 2013, RUB 2 000 000 thousand deposit is placed in the CBR (31 December 2012: RUB 1 500 000 thousand) at an annual interest rate of 4.50% (31 December 2012: 4.50%).

11. Placements with banks and other financial institutions

	2013 RUB'000	**2012 RUB'000**
Loans and deposits	19 050 769	26 918 507
Reverse repurchase agreements	4 672 574	13 223 733
Interest receivable	56 218	83 523
	23 779 561	**40 225 763**

As at 31 December 2013, the Bank has placements with one bank, HSBC Bank plc, (31 December 2012: the Bank has placements with one bank, HSBC Bank plc) whose balance exceeds 10% of placements with banks and other financial institutions. The gross value of this exposure as at 31 December 2013 is RUB 14 829 476 thousand (31 December 2012: RUB 31 593 987 thousand).

All placements with banks and other financial institutions as at 31 December 2013 and 2012 are represented by placements with top 20 Russian banks or Russian subsidiaries of large international financial institutions, or large international financial institutions.

At 31 December 2013, the fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is RUB 4 574 185 thousand (31 December 2012: RUB 13 175 694 thousand).

12. Derivative financial instruments

	2013 RUB'000	2012 RUB'000
Derivative financial instruments – assets		
Foreign currency contracts	1 824 694	2 462 428
Cross-currency interest rate swaps	1 243 264	17 602
Options	120 683	13 289
Interest rate swaps	41 934	184 771
Total derivative financial instruments – assets	**3 230 575**	**2 678 090**

	2013 RUB'000	2012 RUB'000
Derivative financial instruments – liabilities		
Foreign currency contracts	(1 991 105)	(1 772 184)
Cross-currency interest rate swaps	(1 297 443)	(276 893)
Options	(122 565)	(13 289)
Interest rate swaps	(36 958)	(179 962)
Total derivative financial instruments – liabilities	**(3 448 071)**	**(2 242 328)**

Interest rate swaps

The table below summarises the contractual amounts of the Bank's interest rate swap contracts outstanding as at 31 December 2013 and 2012 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts have been recognised in the profit and loss and in derivative financial instruments, as appropriate.

	Fair value		Notional amount	
	2013 RUB'000	2012 RUB'000	2013 RUB'000	2012 RUB'000
Pay floating in RUB, receive fixed in RUB	(3 057)	(2 473)	1 320 750	600 000
Pay fixed in RUB, receive floating in RUB	7 775	3 018	1 320 750	600 000
Pay floating in USD, receive fixed in USD	31 835	177 893	1 412 795	5 916 897
Pay fixed in USD, receive floating in USD	(31 577)	(173 629)	1 412 795	5 916 897
Pay floating in EUR, receive fixed in EUR	-	3 140	-	139 364
Pay fixed in EUR, receive floating in EUR	-	(3 140)	-	139 364
Total	**4 976**	**4 809**	**5 467 090**	**13 312 522**

Initial contractual maturity of interest rate swap contracts outstanding as at 31 December 2013 varies from three years to less than seven years (31 December 2012: from one year to less than seven years); remaining maturity of interest rate swap contracts outstanding as at 31 December 2013 varies from less than one year to four years (31 December 2012: from less than one year to three years).

Cross-currency interest rate swaps

The table below summarises the contractual amounts of the Bank's cross-currency interest rate swap contracts outstanding as at 31 December 2013 and 2012 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts have been recognised in the profit or loss and in derivative financial instruments, as appropriate.

	Fair value		Notional amount	
	2013 RUB'000	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**
Pay floating in USD, receive fixed in RUB	(5 679)	17 602	3 273 348	1 914 388
Pay fixed in RUB, receive floating in USD	(48 500)	(276 893)	3 209 614	5 966 064
Pay fixed in EUR, receive floating in USD	(20 050)	-	348 016	-
Pay floating in USD, receive fixed in EUR	20 050	-	328 508	-
Pay floating in RUB, receive floating in EUR	1 095 638	-	9 824 400	-
Pay floating in EUR, receive floating in RUB	(1 095 638)	-	10 858 109	-
Pay floating in USD, receive floating in EUR	(54 852)	-	1 314 032	-
Pay floating in EUR, receive floating in USD	54 852	-	1 340 309	-
Total	**(54 179)**	**(259 291)**	**30 496 336**	**7 880 452**

Initial contractual maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2013 varies from one to seven years (31 December 2012: from more than one year to seven years); remaining maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2013 varies from two to six years (31 December 2012: from less than one year to seven years). As at 31 December 2013 and 31 December 2012, all cross-currency interest rate swap contracts are with HSBC Bank plc and top Russian banks and corporates.

Options

During 2013 and 2012 the Bank entered into currency exchange options with third parties which were fully matched by back-to-back options with HSBC Plc.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2013 and 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Fair value		Notional amount		Weighted average exchange rates	
	2013 RUB'000	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**
Buy RUB sell USD						
Spot contracts	(83 037)	15 366	17 609 963	14 221 897	32,70	30,47
Less than three months	113 912	313 007	33 927 239	20 015 310	33,16	31,13
Three months to one year	28 653	1 098 347	7 131 784	17 540 626	34,26	33,65
More than one year	(773 251)	(205 086)	19 348 398	17 237 851	36,62	36,56
Buy USD sell RUB						
Spot contracts	28 375	(3 564)	8 976 251	2 467 658	32,75	30,48
Less than three months	(57 592)	(74 259)	39 380 238	11 648 622	33,07	30,86
Three months to one year	(305 034)	(285 586)	9 757 423	6 378 259	34,94	32,71
More than one year	905 170	(81 563)	17 591 421	17 903 196	36,06	36,28

	Fair value		Notional amount		Weighted average exchange rates	
	2013 RUB'000	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**
Buy RUB sell EUR						
Spot contracts	(3 147)	104	720 698	17 018	45,04	40,52
Less than three months	(155 376)	90 860	11 755 220	6 749 296	44,92	40,99
Three months to one year	(85 460)	127 353	5 218 904	7 350 399	45,84	42,32
More than one year	(10 238)	(1)	843 656	15 643	51,83	42,73
Buy EUR sell RUB						
Spot contracts	1 423	(3 643)	550 144	647 929	45,12	40,50
Less than three months	53 474	(11 960)	4 136 062	5 463 784	44,90	40,64
Three months to one year	27 514	(161 272)	2 132 539	10 948 816	46,10	42,48
More than one year	14 901	-	1 194 507	-	50,14	-
Buy USD sell EUR						
Spot contracts	(24)	(14 812)	389 013	6 216 855	1,38	1,32
Less than three months	(4 618)	-	3 767 808	-	1,38	-
Three months to one year	(7 846)	(114 783)	1 479 023	3 262 855	1,37	1,28
More than one year	3 044	-	465 498	-	1,39	-
Buy EUR sell USD						
Spot contracts	(42)	(877)	106 907	3 298 189	1,38	1,32
Less than three months	90 546	-	11 658 655	-	1,37	-
Three months to one year	56 294	25 598	3 899 871	1 610 837	1,36	1,30
More than one year	3 510	-	226 211	-	1,36	-
Buy SEK sell RUB						
Less than three months	(51)	1 063	117 571	131 725	5,16	4,66
Three months to one year	3 820	(13 343)	1 269 292	1 410 762	5,26	4,85
Buy RUB sell SEK						
Less than three months	(1 248)	478	58 551	187 315	5,03	4,70
Three months to one year	1 109	4 699	432 751	362 795	5,27	4,87
Buy USD sell SEK						
Spot contracts	-	(258)	-	129 329	-	6,51
Less than three months	(1 142)	(276)	114 249	15 604	6,51	6,63
Three months to one year	(13 506)	(31 210)	1 220 051	1 536 602	6,54	6,73
Buy JPY sell USD						
Less than three months	(29 644)	(338)	471 507	3 314	98,69	78,15
Buy USD sell JPY						
Spot contracts	-	(8)	-	3 177	-	86,22
Less than three months	-	228	4 425	11 993	103,93	83,57
Buy USD sell GBP						
Spot contracts	-	43	-	105 644	-	1,61
Three months to one year	(1 368)	-	61 900	-	1,61	-
Buy RUB sell GBP						
Less than three months	(12 843)	9 059	1 181 298	505 967	54,05	50,47
Three months to one year	(1 553)	6 187	168 914	197 948	55,21	51,95
Buy GBP sell RUB						
Less than three months	4 949	74	651 609	73 169	54,13	50,09
Three months to one year	1 739	-	145 120	-	55,05	-
Buy GBP sell USD						
Spot contracts	-	76	-	625 548	-	1,61
Three months to one year	8 385	-	486 552	-	1,62	-

	Fair value		Notional amount		Weighted average exchange rates	
	2013 RUB'000	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**	**2013 RUB'000**	**2012 RUB'000**
Buy AUD sell USD						
Less than three months	-	295	-	15 451	-	1,01
Three months to one year	-	(9)	-	4 589	-	1,03
Buy KZT sell RUB						
Less than three months	7 419	(12 756)	630 242	755 655	0,21	0,21
Buy RUB sell JPY						
Less than three months	31 563	533	507 356	3 853	0,34	0,41
Buy RUB sell CHF						
Less than three months	(382)	6 229	17 104	290 752	36,57	34,38
Three months to one year	-	403	-	15 879	-	35,05
Buy RUB sell AUD						
Less than three months	-	285	-	15 792	-	32,31
Three months to one year	-	230	-	4 863	-	33,50
Buy CHF sell USD						
Less than three months	396	13 968	8 625	281 962	0,93	0,96
Three months to one year	182	989	8 625	15 105	0,91	0,98
Buy KZT sell USD						
Less than three months	(719)	-	255 648	-	153,75	-
Three months to one year	-	(12 500)	-	600 729	-	150,10
Buy USD sell KZT						
Less than three months	(6 153)	(3 322)	619 711	1 355 220	156,79	151,40
Buy CNY sell USD						
Less than three months	-	(7)	-	678	-	6,22
Buy EUR sell SEK						
Less than three months	730	-	72 182	-	8,78	-
Three months to one year	(2 109)	(1 762)	45 242	26 982	9,32	9,23
More than one year	(190)	(3 507)	30 889	70 474	9,07	9,14
Buy EUR sell TRY						
Three months to one year	-	1 023	-	89 142	-	2,44
More than one year	19 590	-	94 466	-	2,59	-
Buy SEK sell EUR						
Less than three months	(787)	-	71 492	-	8,78	-
Three months to one year	2 154	1 778	47 590	28 982	9,33	9,24
More than one year	182	3 573	31 585	74 958	9,07	9,15
Buy SEK sell USD						
Spot contracts	-	(80)	-	58 534	-	6,49
Less than three months	989	2 546	59 443	172 326	6,57	6,58
Three months to one year	(230)	726	373 011	484 368	6,46	6,74
Buy TRY sell EUR						
Three months to one year	-	(807)	-	91 992	-	2,45
More than one year	(18 844)	-	82 778	-	2,61	-
Buy USD sell CNY						
Spot contracts	-	2 713	-	273 053	-	6,23
	(166 411)	**690 244**				

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2013 RUB'000	2012 RUB'000
Banks		
Large OECD banks	740 582	1 538 808
Top 30 Russian banks	32 827	83 222
Other Russian banks	32 904	13 972
Other foreign banks	-	18 427
	806 313	**1 654 429**
Corporates		
Large Russian corporate	1 018 381	766 316
Other corporates	-	41 683
	1 018 381	**807 999**
	1 824 694	**2 462 428**

13. Securities held for trading and Trading liabilities

	2013 RUB'000	2012 RUB'000
Securities held for trading - asset		
Debt and other fixed income instruments		
- Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1 582 208	2 221 945
Moscow Government bonds	-	37 765
Total government and municipal bonds	**1 582 208**	**2 259 710**
Corporate bonds		
Rated BBB	172 566	1 513 705
Rated from BB to BB+	-	99 869
Total corporate bonds	**172 566**	**1 613 574**
Accrued interest	32 777	52 028
Total held by the Bank	**1 787 551**	**3 925 312**
- Pledged under repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	3 442 250	11 605 430
Total government and municipal bonds	**3 442 250**	**11 605 430**
Corporate bonds		
Rated BBB	101 000	822 080
Rated from BB to BB+	202 000	200 300
Total corporate bonds	**303 000**	**1 022 380**
Accrued interest	62 302	223 580
Total pledged under repurchase agreements	**3 807 552**	**12 851 390**
Total debt and other fixed income instruments - assets	**5 595 103**	**16 776 702**

	2013 RUB'000	2012 RUB'000
Trading liabilities		
Debt and other fixed income instruments		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	(388 074)	-
Total government and municipal bonds	**(388 074)**	**-**
Accrued interest	(11 274)	-
Total debt and other fixed income instruments - liabilities	**(399 348)**	**-**

The table above is based on Standard and Poor's agency ratings.

Information on transferred financial assets is presented in Note 16.

14. Available-for-sale assets

	2013 RUB'000	2012 RUB'000
Debt and other fixed income instruments		
- Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	256 944	3 951 453
Moscow Government bonds	263	32 062
Total government and municipal bonds	**257 207**	**3 983 515**
Accrued interest	6 145	93 052
Total held by the Bank	**263 352**	**4 076 567**
- Pledged under repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	2 685 389	1 000 439
Moscow Government bonds	936 094	1 341 467
Total government and municipal bonds	**3 621 483**	**2 341 906**
Accrued interest	70 934	55 288
Total pledged under repurchase agreements	**3 692 417**	**2 397 194**
Total debt and other fixed income instruments	**3 955 769**	**6 473 761**

Information on transferred financial assets are presented in Note 16.

15. Loans to customers

	2013 RUB'000	2012 RUB'000
Loans to legal entities	13 837 268	16 272 018
Loans to individuals	91 378	103 250
Interest receivable	92 921	85 846
Gross loans and advances to customers	**14 021 567**	**16 461 114**
Impairment allowance	(8 477)	(8 534)
Net loans to customers	**14 013 090**	**16 452 580**

Credit quality of loans to legal entities

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans %
Loans to legal entities				
Loans to large corporates				
Loans without individual signs of impairment	4 857 802	-	4 857 802	0%
Total loans to large corporates	**4 857 802**	**-**	**4 857 802**	**0%**
Loans to small and medium size companies				
Loans without individual signs of impairment	9 065 360	(1 590)	9 063 770	0,02%
Loans with individual signs of impairment	6 887	(6 887)	-	100%
Total loans to small and medium size companies	**9 072 247**	**(8 477)**	**9 063 770**	**0,09%**
Total loans to legal entities	**13 930 049**	**(8 477)**	**13 921 572**	**0,06%**

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans %
Loans to legal entities				
Loans to large corporates				
Loans without individual signs of impairment	6 519 647	-	6 519 647	0%
Total loans to large corporates	**6 519 647**	**-**	**6 519 647**	**0%**
Loans to small and medium size companies				
Loans without individual signs of impairment	9 831 576	(2 052)	9 829 524	0,02%
Loans with individual signs of impairment	6 482	(6 482)	-	100%
Total loans to small and medium size companies	**9 838 058**	**(8 534)**	**9 829 524**	**0,09%**
Total loans to legal entities	**16 357 705**	**(8 534)**	**16 349 171**	**0,05%**

The Bank estimates loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified. The calculation method for loan impairment allowance takes into account the appropriate ratios depending on borrower rating and type of collateral. All loans to legal entities without individual signs of impairment as at 31 December 2013 are loans with satisfactory risk, which were classified in grades 1-6 according to the internal grading model applied within the HSBC Group (refer Note 23). Based on historic losses the Bank recognised collective impairment allowance for loans issued to legal entities in the amount of RUB 1 590 thousand as at 31 December 2013 (31 December 2012: RUB 2 052 thousand).

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2013 would be RUB 139 216 thousand higher (31 December 2012: RUB 163 492 thousand).

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2013 are as follows:

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Loans to individuals RUB'000	Total RUB'000
Balance at the beginning of the year	-	(8 534)	-	(8 534)
Net recovery	-	57	-	57
Balance at the end of the year	**-**	**(8 477)**	**-**	**(8 477)**

As at 31 December 2013 the Bank has one loan to individual, including accrued interest, of RUB 91 518 thousand for which no impairment allowance is recognised.

Movements in the impairment allowance for the year ended 31 December 2012 are as follows:

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Loans to individuals RUB'000	Total RUB'000
Balance at the beginning of the year	-	(9 537)	-	(9 537)
Net recovery	-	1 003	-	1 003
Balance at the end of the year	**-**	**(8 534)**	**-**	**(8 534)**

As at 31 December 2012 the Bank has one loan to individual, including accrued interest, of RUB 103 409 thousand for which no impairment allowance is recognised.

Analysis of collateral and other credit enhancements

As at 31 December 2013 and 2012, the majority of loans to customers are collateralised by guarantees issued by HSBC Bank plc, fellow subsidiaries within the HSBC Group and major Russian and foreign corporations. As at 31 December 2013, loans guaranteed by HSBC Bank plc and fellow subsidiaries within the HSBC Group amounted to RUB 10 016 209 thousand (31 December 2012: RUB 7 446 460 thousand).

Further analysis of collateral and other credit enhancements for loans to legal entities and individuals is presented below.

Loans to legal entities

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2013 RUB'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral - for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Guarantees from HSBC Bank plc	2 575 275	-	-	2 575 275
Guarantees from multinational corporations	6 118 892	-	-	6 118 892
Guarantees from other entities of HSBC Group	117 355	-	-	117 355
Non-traded securities	279 805	279 805	-	-
No collateral or other credit enhancement	4 830 245	-	-	-
Total loans to corporate customers	**13 921 572**	**279 805**	**-**	**8 811 522**

31 December 2012 RUB'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral - for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Guarantees from HSBC Bank plc	5 324 221	-	-	5 324 221
Guarantees from multinational corporations	6 151 153	-	-	6 151 153
Guarantees from other entities of HSBC Group	129 249	-	-	129 249
Non-traded securities	1 220 828	1 220 828	-	-
Real estate	286 726	286 726	-	-
PPE and inventories	1 178 621	1 178 621	-	-
No collateral or other credit enhancement	2 058 373	-	-	-
Total loans to corporate customers	**16 349 171**	**2 686 175**	**-**	**11 604 623**

The tables above are presented on the basis of excluding overcollateralisation.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance as at 31 December 2013 and 31 December 2012 on loans to corporate customers secured by guarantees would be unchanged without the respective guarantees.

Loans to individuals

Loans to individuals, including accrued interest, relate to one mortgage loan with a net carrying amount of RUB 91 518 thousand (31 December 2012: RUB 103 409 thousand) that is secured by the underlying housing real estate. Management believes that the fair value of collateral is at least equal to the carrying amount of individual loan at the reporting date. The Bank updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Bank obtains a specific individual valuation of the collateral at each reporting date in case there are indications of impairment.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation and operating in the following economic sectors:

	2013 RUB'000	2012 RUB'000
Loans to individuals	**91 378**	**103 250**
Corporate loans		
Trade	5 753 875	6 077 778
Food and agricultural	4 247 171	4 234 497
Manufacturing	2 874 669	3 010 728
Logistics	748 594	1 461 447
Consulting	212 959	1 085 121
Mining/metallurgy	-	402 447
Total corporate loans	**13 837 268**	**16 272 018**
Interest receivable	92 921	85 846
Total gross loans to customers	**14 021 567**	**16 461 114**
Impairment allowance	(8 477)	(8 534)
Net loans to customers	**14 013 090**	**16 452 580**

Significant credit exposures

As at 31 December 2013, the Bank has two borrowers or groups of connected borrowers, whose loan balances exceed 10% of loans to customers (31 December 2012: one borrower). The gross value of these loans as at 31 December 2013 is RUB 3 126 516 thousand (31 December 2012: RUB 2 059 899 thousand).

Loan maturities

The maturity of the loan portfolio is presented in Note 23, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

16. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

	2013 RUB'000	2012 RUB'000
Carrying amount of own financial assets at fair value through profit or loss transferred and pledged under repurchase agreements	3 807 552	12 851 390
Carrying amount of own financial assets available-for-sale transferred and pledged under repurchase agreements	3 692 417	2 397 194
Fair value of repledged assets that were received as collateral for reverse repurchase agreements	-	11 068 053
Total financial assets transferred and pledged under repurchase agreements	**7 499 969**	**26 316 637**
Carrying amount of associated liabilities	**7 291 990**	**25 627 777**

The Bank has transactions under repurchase or reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

At 31 December 2013, the fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is RUB 4 574 185 thousand (31 December 2012: RUB 13 175 694 thousand). At 31 December 2013, the fair value of financial assets collateralizing reverse repurchase agreements that have been sold is RUB 399 348 thousand. At 31 December 2012 the fair value of financial assets collateralizing reverse repurchase agreements that have been repledged is RUB 11 068 053 thousand. The Bank is obliged to return equivalent securities.

At 31 December 2013, carrying amount of liabilities associated with transfer and pledge of financial assets under repurchase agreements for RUB 7 291 990 thousand (31 December 2012: RUB 25 627 777 thousand) include interest accrued in the amount of RUB 2 217 thousand (31 December 2012: RUB 22 700 thousand).

17. Property, equipment and intangible assets

The movement in property, equipment and intangible assets from 1 January 2013 to 31 December 2013 is presented below:

RUB'000	Leasehold improvements	Equipment	Furniture	Vehicles	Computer software	Total
Cost						
1 January 2013	**115 575**	**87 443**	**26 837**	**3 327**	**175 430**	**408 612**
Additions	54	1 658	382	-	6 260	8 354
Disposals and write offs	-	(6 652)	(177)	-	(29 017)	(35 846)
31 December 2013	**115 629**	**82 449**	**27 042**	**3 327**	**152 673**	**381 120**
Depreciation/amortisation						
1 January 2013	**21 963**	**87 014**	**18 544**	**1 996**	**112 631**	**242 148**
Depreciation/amortisation charge	21 380	354	4 423	470	27 947	54 574
Disposals and write offs	-	(6 538)	(175)	-	(29 017)	(35 730)
31 December 2013	**43 343**	**80 830**	**22 792**	**2 466**	**111 561**	**260 992**
Net carrying value						
31 December 2013	**72 286**	**1 619**	**4 250**	**861**	**41 112**	**120 128**

The movement in property, equipment and intangible assets from 1 January 2012 to 31 December 2012 is presented below:

RUB'000	Leasehold improvements	Equipment	Furniture	Vehicles	Computer software	Total
Cost						
1 January 2012	**73 013**	**109 690**	**43 521**	**3 887**	**171 652**	**401 763**
Additions	99 653	2 527	2 170	-	8 471	112 821
Disposals and write offs	(57 091)	(24 774)	(18 854)	(560)	(4 693)	(105 972)
31 December 2012	**115 575**	**87 443**	**26 837**	**3 327**	**175 430**	**408 612**
Depreciation/amortisation						
1 January 2012	**70 900**	**100 095**	**35 803**	**1 753**	**89 585**	**298 136**
Depreciation/amortisation charge	8 115	7 681	1 189	527	23 260	40 772
Disposals and write offs	(57 052)	(20 762)	(18 448)	(284)	(214)	(96 760)
31 December 2012	**21 963**	**87 014**	**18 544**	**1 996**	**112 631**	**242 148**
Net carrying value						
31 December 2012	**93 612**	**429**	**8 293**	**1 331**	**62 799**	**166 464**

18. Other assets

	2013 RUB'000	2012 RUB'000
Receivable from HSBC Bank plc	106 448	266 762
Other receivables	21 851	144 994
Accrued income	7 780	11 807
Total other financial assets	**136 079**	**423 563**
Prepayments	87 324	86 087
Total other non-financial assets	**87 324**	**86 087**
Total other assets	**223 403**	**509 650**

During the year ended 31 December 2013 the Bank recognised income of RUB 240 872 thousand (2012: RUB 190 092 thousand) for services provided to HSBC Bank plc under various service agreements.

19. Deposits and balances from banks

	2013 RUB'000	2012 RUB'000
Repurchase agreements	7 289 773	25 605 077
Deposits	4 188 818	15 143 465
Vostro accounts	1 202 371	850 182
Accrued interest	14 037	65 446
	12 694 999	**41 664 170**

As at 31 December 2013, the carrying amount of financial assets that the Bank has pledged as collateral for liabilities for repurchase agreements is RUB 7 499 969 thousand (31 December 2012: RUB 15 248 584 thousand). As at 31 December 2012, in relation to liabilities for repurchase agreements, the Bank has also repledged collateral with a fair value of RUB 11 068 053 thousand that were received under reverse repurchase agreements.

Concentration of deposits and balances from banks

As at 31 December 2013, the Bank has two banks, the Central Bank of Russian Federation and HSBC Bank plc, whose balances exceed 10% of total deposits and balances from banks (31 December 2012: one bank, the Central Bank of Russian Federation). The total value of these balances as at 31 December 2013 is RUB 11 544 044 thousand (31 December 2012: RUB 25 627 777 thousand).

20. Current accounts and deposits from customers

	2013 RUB'000	2012 RUB'000
Current accounts and demand deposits		
Corporate	11 656 091	10 850 136
Retail	191	545
Total current accounts and demand deposits	**11 656 282**	**10 850 681**
Term deposits		
Corporate	20 730 094	26 648 119
Total term deposits	**20 730 094**	**26 648 119**
Accrued interest	115 359	103 051
	32 501 735	**37 601 851**

As at 31 December 2013, the Bank maintains customer deposit balances of RUB 1 699 492 thousand (31 December 2012: RUB 906 033 thousand) that serve as collateral for unrecognised credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2013 and 2012, the Bank has one customer, whose balances exceed 5% (31 December 2012: 10%) of total customer accounts and deposits from customers. These balances as at 31 December 2013 are RUB 6 241 233 thousand (31 December 2012: RUB 4 641 603 thousand).

21. Other liabilities

	2013 RUB'000	2012 RUB'000
Payables to employees	230 892	385 259
Accrued expenses	36 216	49 023
Software accruals	5 811	3 439
Other financial liabilities	3 500	48 686
Total other financial liabilities	**276 419**	**486 407**
Taxes other than income tax	16 961	19 293
Restructuring provision	16 229	37 440
Current tax liability	6 526	12 042
Other non-financial liabilities	20 543	24 826
Total other non-financial liabilities	**60 259**	**93 601**
Total other liabilities	**336 678**	**580 008**

Current taxes paid during 2013 were RUB 89 504 thousand (2012: RUB 114 086 thousand). During 2013 taxes other than tax income were not set off against current tax assets held as at 31 December 2012. During 2012 taxes other than tax income in the amount of RUB 65 462 thousand were set off against current tax assets held as at 31 December 2011.

22. Charter capital

The composition of the charter capital is as follows:

	2013 RUB'000	2012 RUB'000
Statutory charter capital at nominal amount	6 888 000	6 888 000
Foreign currency translation differences	2 361 232	2 361 232
Total charter capital	**9 249 232**	**9 249 232**

The sole participant of the Bank is entitled to receive distributions from retained earnings and is entitled to vote at annual and general participant's meetings.

During 2013 distributions in the amount of RUB 166 622 thousand were paid to the sole participant of the Bank.

23. Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as a limited liability company in accordance with Russian law. The supreme governing body of the Bank is the general meeting of participants that is called for annual or extraordinary meetings. The general meeting of participants makes strategic decisions on the Bank's operations.

Decisions on matters pertaining to the competence of the general meeting of participants are adopted by the Bank's Sole Participant unilaterally and drawn up in writing.

The general meeting of participants elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general meeting of participants and that are approved by the Board of Directors.

As at 31 December 2013, the Board of Directors includes:

Christopher Peter Davies – Chairman of the Board of Directors

Philippe Jean Gerard Henry – member of the Board of Directors

Kevin Peter Sawle – member of the Board of Directors

Jonathan James Calladine – member of the Board of Directors

Nigel Grant Hinshelwood – member of the Board of Directors

Philip Antony Alvey - member of the Board of Directors

Mark Robert Stadler - member of the Board of Directors.

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

27 June 2013 – authorities of a member of the Board of Directors John Patrick Armstrong were terminated. Nigel Grant Hinshelwood was elected as a member of the Board of Directors.

17 December 2013 - authorities of the Chairman of the Board of Directors John Paul Casey were terminated. Christopher Peter Davies was elected as the Chairman of the Board of Directors. Authorities of a member of the Board of Directors Alexandre Charles Emmanuel Macaire were terminated. Philip Antony Alvey and Mark Robert Stadler were elected as members of the Board of Directors.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Committee) and collective executive body of the Bank (Management Committee). The general meeting of participants elects the Chairman of the Management Committee. Members of the Management Committee are elected by the Board of Directors of the Bank. The executive bodies of the Bank are responsible for implementation of decisions of the general meeting of participants and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general meeting of participants.

As at 31 December 2013, the Management Committee includes:

Mark Robert Stadler – Chairman of the Management Committee

Dmitry Chekalkin - member of the Management Committee, Head of the Treasury Department, Deputy Chairman of the Management Committee

Elena Rogova - member of the Management Committee, Deputy Chairman of the Management Committee, Head of the Finance Department

Elena Eremenko - member of the Management Committee, Deputy Chairman of the Management Committee, Head of the Compliance Department

Julia Shadrina - member of the Management Committee, Head of the Financial Institutions and Public Sector Department, Deputy Head of the Global Banking Department.

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

28 August 2013 - authorities of Elena Rogova as the Temporary Acting Chairman of the Management Committee were terminated. Mark Robert Stadler was appointed to the position of the Chairman of the Management Committee of the Bank with the right of the first signature.

Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

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

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

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

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

Compliance with law and HSBC Group standards is supported by a program of periodic reviews and control testing undertaken by Business Risk Control Managers, responsible functions and the independent Internal Control. The Internal Control is independent from management and reports directly to the Board of Directors. The results of the Internal Control reviews are discussed with relevant business process managers, with summaries submitted to the Board of Directors and senior management of the Bank.

The internal control system in the Bank comprises:

- the Board of Directors
- the Chairman of the Management Committee and the Management Committee
- the Chief Accountant
- the Risk Department
- the compliance officer and the compliance function, including the division responsible for compliance with anti-money laundering requirements and regulatory compliance

- professional securities market participant controller – an office responsible for compliance with the requirements for securities market participants
- the legal function
- the information security function
- the human resources function
- the Internal Control
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
    - head of the branch and heads of business-units;
    - business processes managers;
    - other employees/divisions with control responsibilities.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, the Chief Risk Officer, the Head of the Internal Control and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, fair value interest rate and currency risk, credit risk and liquidity risk. These risks are managed in the following manner.

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board of the HSBC Group formulates high level HSBC Group risk management policy under the authority delegated by the Board of Directors. A separately convened Risk Management Meeting of the HSBC Group Management Board monitors risk and receives reports which allow it to review the effectiveness of HSBC's risk management policies, which are delegated to the HSBC entities.

The Board of Directors has overall responsibility for the oversight of the risk management framework delegated from the HSBC Group, overseeing the management of key risks and reviewing its risk management policies and procedures in accordance with the HSBC Group's requirements.

The Management Committee of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports to the CEO, the Board of Directors and to the Regional (European) Chief Risk Officer.

Market, credit and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of the Credit Committees, a Risk Management Committee and an Asset and Liability Management Committee (the "ALCO").

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios of financial instruments. Market risk comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions.

The Bank has an established market risk control function within treasury control function which is responsible for measuring market risk exposures in accordance with policies authorised by the HSBC Group's Traded Credit and Market Risk function and monitoring and reporting these exposures against the prescribed limits on a daily basis. Overall authority for market risk is vested in the ALCO, risk limits are approved by the ALCO.

The Bank separates exposures to market risk into either trading or non-trading portfolios.

Trading portfolios

The Bank's control of market risk is based on a policy of restricting individual operations to trading within a list of permissible instruments authorised by the HSBC Group's Traded Credit and Market Risk function, enforcing rigorous new product approval procedures, and allowing trading in complex derivative products only if appropriate level of product expertise and robust control systems exists.

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques. These include VAR and, for interest rate risk, present value of a basis point ("PVBP") movement in interest rates analysis, together with stress testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. This statistical method allows to compare market risk for different portfolios.

PVBP is one of the most widely used methods for quantifying outright interest rate risk. PVBP is used to calculate the sensitivity of trading positions to movements in the underlying interest rate curve across time buckets and expresses the impact on the present value of a position of a one basis point (1 bp) change in the interest rate used to calculate the present value. Management's interest rate sensitivity analysis is provided further in this note.

Non-trading portfolios

Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. It is unusual for financial institutions to take actual or forecasted assets of a given maturity period which are completely matched with the actual or forecasted liabilities in that maturity period. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Market risk in non-trading portfolios is transferred to trading portfolio via internal transactions supervised by the ALCO.

Interest rate risk

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

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on 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 occur.

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.

The following table shows the Bank's exposure to interest rate risk as at 31 December 2013. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates:

ASSETS	**On demand RUB'000**	**Less than 1 month RUB'000**	**1 to 3 months RUB'000**	**3 to 12 months RUB'000**	**More than 1 year RUB'000**	**Non-interest bearing RUB'000**	**Total RUB'000**
Cash and cash equivalents	5 922 103	-	-	-	-	58 673	5 980 776
Due from the Central Bank of the Russian Federation	-	2 000 247	-	-	-	430 863	2 431 110
Placements with banks and other financial institutions	-	17 435 120	3 988 371	1 789 125	566 945	-	23 779 561
Derivative financial instruments	-	5 585	1 152 525	86 837	40 251	1 945 377	3 230 575
Securities held for trading	-	-	-	-	5 595 103	-	5 595 103
Available-for-sale assets	-	-	2 059 805	-	1 895 964	-	3 955 769
Loans to customers	-	5 790 268	5 125 524	908 584	2 188 714	-	14 013 090
Current tax asset	-	-	-	-	-	166	166
Property, equipment and intangible assets	-	-	-	-	-	120 128	120 128
Deferred tax asset	-	-	-	-	-	127 885	127 885
Other financial assets	-	-	-	-	-	136 079	136 079
Other non-financial assets	-	-	-	-	-	87 324	87 324
Total assets	**5 922 103**	**25 231 220**	**12 326 225**	**2 784 546**	**10 286 977**	**2 906 495**	**59 457 566**
LIABILITIES							
Derivative financial instruments	-	7 703	1 149 181	112 804	64 713	2 113 670	3 448 071
Trading liabilities	-	399 348	-	-	-	-	399 348
Deposits and balances from banks	1 202 371	9 824 167	1 656 298	12 163	-	-	12 694 999
Current accounts and deposits from customers	11 656 282	17 175 465	1 928 154	302 967	1 438 867		32 501 735
Other financial liabilities	-	-	-	-	-	276 419	276 419
Other non-financial liabilities	-	-	-	-	-	60 259	60 259
Total liabilities	**12 858 653**	**27 406 683**	**4 733 633**	**427 934**	**1 503 580**	**2 450 348**	**49 380 831**
Net position	**(6 936 550)**	**(2 175 463)**	**7 592 592**	**2 356 612**	**8 783 397**	**456 147**	**10 076 735**

The following table shows the Bank's exposure to interest rate risk as at 31 December 2012. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual re pricing or maturity dates:

ASSETS	On demand RUB'000	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 12 months RUB'000	More than 1 year RUB'000	Non-interest bearing RUB'000	Total RUB'000
Cash and cash equivalents	5 141 208	-	-	-	-	56 126	5 197 334
Due from the Central Bank of the Russian Federation	-	1 500 553	-	-	-	951 491	2 452 044
Placements with banks and other financial institutions	-	36 416 250	1 839 343	1 485 606	484 564	-	40 225 763
Derivative financial instruments	-	50 733	97 873	19 599	34 169	2 475 716	2 678 090
Securities held for trading	-	1 600 439	3 467 146	544 853	11 164 264	-	16 776 702
Available-for-sale assets	-	-	3 031 438	1 402 475	2 039 848	-	6 473 761
Loans to customers	329 283	4 407 723	9 223 074	2 397 625	94 875	-	16 452 580
Current tax asset	-	-	-	-	-	217	217
Property, equipment and intangible assets	-	-	-	-	-	166 464	166 464
Deferred tax asset	-	-	-	-	-	331 122	331 122
Other financial assets	-	-	-	-	-	423 563	423 563
Other non-financial assets	-	-	-	-	-	86 087	86 087
Total assets	**5 470 491**	**43 975 698**	**17 658 874**	**5 850 158**	**13 817 720**	**4 490 786**	**91 263 727**
LIABILITIES							
Derivative financial instruments	-	171 773	98 335	186 748	-	1 785 472	2 242 328
Deposits and balances from banks	850 750	40 803 413	10 007	-	-	-	41 664 170
Current accounts and deposits from customers	10 850 681	19 732 245	6 058 989	133 740	826 196	-	37 601 851
Other financial liabilities	-	-	-	-	-	486 407	486 407
Other non-financial liabilities	-	-	-	-	-	93 601	93 601
Total liabilities	**11 701 431**	**60 707 431**	**6 167 331**	**320 488**	**826 196**	**2 365 480**	**82 088 357**
Net position	**(6 230 940)**	**(16 731 733)**	**11 491 543**	**5 529 670**	**12 991 524**	**2 125 306**	**9 175 370**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities. Information on derivative financial instruments is presented in Note 12.

	31 December 2013			31 December 2012		
	RUB	US Dollars	Other currencies	RUB	US Dollars	Other currencies
ASSETS						
Due from the Central Bank of the Russian Federation	4,50%	-	-	4,50%	-	-
Placements with banks and other financial institutions	6,84%	0,38%	1,05%	6,12%	0,35%	2,47%
Securities held for trading	6,73%	-	-	8,52%	-	-
Available-for-sale assets	6,60%	-	-	7,04%	-	-
Loans to customers	8,53%	3,42%	3,86%	9,71%	3,36%	4,18%
LIABILITIES						
Trading liabilities	8,02%	-	-	-	-	-
Deposits and balances from banks	5,53%	2,63%	4,00%	5,42%	2,49%	0,40%
Current accounts from customers	1,15%	-	-	1,53%	0,003%	-
Deposits from customers	5,27%	0,11%	-	5,78%	0,64%	0,01%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013 RUB'000	2012 RUB'000
100 bp parallel fall	(48 839)	29 765
100 bp parallel rise	48 839	(29 765)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel fall	114 287	149 313	160 136	183 893
100 bp parallel rise	(114 287)	(149 313)	(160 136)	(183 893)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The Bank manages its market risk by setting open position limits in relation to financial instruments, and currency positions limits which are monitored on a regular basis and reviewed by the Finance Department and approved by the Market Risk Department of the HSBC Group.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2013:

	RUB **RUB'000**	**USD** **RUB'000**	**Other currencies** **RUB'000**	**Total** **RUB'000**
ASSETS				
Cash and cash equivalents	3 821 369	274 668	1 884 739	5 980 776
Due from the Central Bank of the Russian Federation	2 431 110	-	-	2 431 110
Placements with banks and other financial institutions	7 985 239	14 608 169	1 186 153	23 779 561
Securities held for trading	5 595 103	-	-	5 595 103
Available-for-sale assets	3 955 769	-	-	3 955 769
Loans to customers	11 101 235	2 852 225	59 630	14 013 090
Other financial assets	24 129	53 528	58 422	136 079
Total financial assets	**34 913 954**	**17 788 590**	**3 188 944**	**55 891 488**
LIABILITIES				
Trading liabilities	399 348	-	-	399 348
Deposits and balances from banks	9 139 509	3 299 784	255 706	12 694 999
Current accounts and deposits from customers	24 424 663	5 466 606	2 610 466	32 501 735
Other financial liabilities	243 407	2 542	30 470	276 419
Total financial liabilities	**34 206 927**	**8 768 932**	**2 896 642**	**45 872 501**
Net position before effect of derivatives	**707 027**	**9 019 658**	**292 302**	**10 018 987**
Net effect of derivatives	**9 582 839**	**(9 238 565)**	**(561 770)**	**(217 496)**
Net positions after derivatives	**10 289 866**	**(218 907)**	**(269 468)**	**9 801 491**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	RUB RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS				
Cash and cash equivalents	2 268 107	975 045	1 954 182	5 197 334
Due from the Central Bank of the Russian Federation	2 452 044	-	-	2 452 044
Placements with banks and other financial institutions	19 492 118	19 843 885	889 760	40 225 763
Securities held for trading	16 776 702	-	-	16 776 702
Available-for-sale assets	6 473 761	-	-	6 473 761
Loans to customers	7 127 019	8 634 349	691 212	16 452 580
Other financial assets	7 754	269 877	145 932	423 563
Total financial assets	**54 597 505**	**29 723 156**	**3 681 086**	**88 001 747**
LIABILITIES				
Deposits and balances from banks	33 044 056	8 570 959	49 155	41 664 170
Current accounts and deposits from customers	30 339 349	5 346 450	1 916 052	37 601 851
Other financial liabilities	452 588	14 364	19 455	486 407
Total financial liabilities	**63 835 993**	**13 931 773**	**1 984 662**	**79 752 428**
Net position before effect of derivatives	**(9 238 488)**	**15 791 383**	**1 696 424**	**8 249 319**
Net effect of derivatives	**17 872 748**	**(15 751 504)**	**(1 685 482)**	**435 762**
Net positions after derivatives	**8 634 260**	**39 879**	**10 942**	**8 685 081**

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 5% change in USD to Russian Rouble exchange rates is as follows:

	2013 RUB'000	2012 RUB'000
5% appreciation of USD against RUB	(8 756)	1 595
5% depreciation of USD against RUB	8 756	(1 595)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Head of the Credit and Risk Management and the CEO.

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Bank's credit risk rating systems are an integral part of a sound management of risk. The Bank assigns to customers risk ratings developed in accordance with HSBC Group standards which are continuously enhanced. The HSBC Group's 10-points (for mid-sized corporates) or 22-points (for large corporations) Customer Risk Rating system is currently used by the Bank. Each debtor rating category is assigned a specific degree of creditworthiness. CRRs 1.0 (1.1) - 4.0 (4.3) reflect financial condition, risk factors and capacity to repay that are excellent/strong /very good. CRR 5.0 (5.1 - 5.3) represents satisfactory risk; CRR 6.0 (6.1 - 6.2) includes corporate facilities that require closer monitoring without being impaired. CRRs 7.0 (7.1) - 8.0 (8.3) include facilities that require varying degrees of special attention, remedial management and possibly impairment reserves creation. CRRs 9.0 (9.0) - 10.0 (10.0) relate to impaired (thus reserves are obligatory) and written-off loans.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. Concentrations of credit risk exist when a number of counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The Bank's maximum exposure to balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position.

The Bank's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Bank's repurchase, reverse repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

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

RUB'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts subject to offset in the event of default		Net amount
				Financial instruments	Cash collateral (received) pledged	
Derivatives	3 230 575	-	3 230 575	(1 552 287)	-	1 678 288
Reverse repurchase agreements	4 672 574	-	4 672 574	(4 574 185)	-	98 389
Total financial assets	**7 903 149**	**-**	**7 903 149**	**(6 126 472)**	**-**	**1 776 677**
Derivatives	3 448 071	-	3 448 071	(1 552 287)	-	1 895 784
Repurchase agreements	7 291 990	-	7 291 990	(7 291 990)	-	-
Total financial liabilities	**10 740 061**	**-**	**10 740 061**	**(8 844 277)**	**-**	**1 895 784**

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

RUB'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts subject to offset in the event of default		Net amount
				Financial instruments	Cash collateral (received) pledged	
Derivatives	2 678 090	-	2 678 090	(1 534 992)	-	1 143 098
Reverse repurchase agreements	13 223 733	-	13 223 733	(13 175 694)	-	48 039
Total financial assets	**15 901 823**	**-**	**15 901 823**	**(14 710 686)**	**-**	**1 191 137**
Derivatives	2 242 328	-	2 242 328	(1 534 992)	-	707 336
Repurchase agreements	25 627 777	-	25 627 777	(25 627 777)	-	-
Total financial liabilities	**27 870 105**	**-**	**27 870 105**	**(27 162 769)**	**-**	**707 336**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Committee of the Bank. It is the Bank's objective to maintain a diversified and stable funding base comprising core corporate customer deposits and long-term and short-term loans from banks and other financial institutions, including banks within the HSBC Group, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. Decisions on the Bank's liquidity management are made by the ALCO and implemented by the Treasury Department. The Bank applied and obtained regulator's approval for issuance of corporate bonds for a total of RUB 10 billion. As at the date of issuance of these financial statements no such issue was made. Decisions on the Bank's issuance of bonds will be made based on the Bank's strategic and operational funding base requirements.

The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments with the objective of ensuring that cash flows are appropriately balanced and all obligations are met when due. The management of liquidity and funding is carried out in accordance with both practices and limits set by the HSBC Group Management Board and Russian legislation including control over compliance with prudential ratios set by the CBR.

The Bank's liquidity and funding management process includes:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- monitoring balance sheet liquidity ratios against internal and regulatory requirements
- maintaining a diverse range of funding sources with adequate backup facilities
- managing the concentration and profile of debt maturities
- maintaining debt financing plans
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimizing adverse long-term implications for the business.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. The Bank was in compliance with these ratios as at 31 December 2013 and 2012.

The following tables show the undiscounted cash flows on the Bank's financial assets and liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial assets, liabilities or credit related commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. The Bank's actual cash flows on these financial assets and liabilities and unrecognised credit related commitments may vary significantly from this analysis.

The maturity analysis for financial assets and liabilities as at 31 December 2013 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	5 980 776	-	-	-	5 980 776	5 980 776
Due from the Central Bank of the Russian Federation	2 002 466	-	-	-	2 002 466	2 431 110
Placements with banks and other financial institutions	17 448 197	4 032 205	1 827 962	605 858	23 914 222	23 779 561
Securities held for trading	7 959	93 305	298 739	6 733 854	7 133 857	5 595 103
Available-for-sale assets	-	2 105 456	83 374	2 260 354	4 449 184	3 955 769
Loans to customers	4 343 930	3 639 560	2 730 490	4 093 541	14 807 521	14 013 090
Other financial assets	37 040	10 553	88 486	-	136 079	136 079
Total financial assets	**29 820 368**	**9 881 079**	**5 029 051**	**13 693 607**	**58 424 105**	**55 891 488**
Non-derivative financial liabilities						
Trading liabilities	-	(400 186)	-	-	(400 186)	(399 348)
Deposits and balances from banks	(9 387 747)	(10 307)	(12 361)	(3 436 513)	(12 846 928)	(12 694 999)
Current accounts and deposits from customers	(28 852 124)	(1 939 429)	(309 746)	(1 459 911)	(32 561 210)	(32 501 735)
Other financial liabilities	(22 232)	(214 949)	(23 525)	(15 713)	(276 419)	(276 419)
Total financial liabilities	**(38 262 103)**	**(2 564 871)**	**(345 632)**	**(4 912 137)**	**(46 084 743)**	**(45 872 501)**
Derivative financial instruments						
Inflow	92 048 642	47 134 756	35 419 457	70 863 780	245 466 635	3 230 575
Outflow	(92 230 573)	(46 932 492)	(35 722 492)	(70 722 027)	(245 607 584)	(3 448 071)
Net liquidity gap on recognised financial assets and liabilities	**(8 623 666)**	**7 518 472**	**4 380 384**	**8 923 223**	**12 198 413**	**9 801 491**
Credit related commitments	**(49 049 870)**	**-**	**-**	**-**	**(49 049 870)**	**(49 049 870)**

The maturity analysis for financial assets and liabilities as at 31 December 2012 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	5 197 334	-	-	-	5 197 334	5 197 334
Due from the Central Bank of the Russian Federation	1 502 033	-	-	-	1 502 033	2 452 044
Placements with banks and other financial institutions	36 380 682	1 774 877	1 124 926	1 090 058	40 370 543	40 225 763
Securities held for trading	1 641 385	3 727 820	933 978	14 109 863	20 413 046	16 776 702
Available-for-sale assets	-	3 160 505	969 725	2 800 955	6 931 185	6 473 761
Loans to customers	2 314 253	7 273 336	5 569 641	1 718 962	16 876 192	16 452 580
Other financial assets	182 110	49 742	191 711	-	423 563	423 563
Total financial assets	**47 217 797**	**15 986 280**	**8 789 981**	**19 719 838**	**91 713 896**	**88 001 747**
Non-derivative financial liabilities						
Deposits and balances from banks	(38 648 669)	(10 007)	-	(3 054 672)	(41 713 348)	(41 664 170)
Current accounts and deposits from customers	(30 619 663)	(6 113 336)	(135 024)	(859 608)	(37 727 631)	(37 601 851)
Other financial liabilities	(95 781)	(291 358)	(17 700)	(81 568)	(486 407)	(486 407)
Total financial liabilities	**(69 364 113)**	**(6 414 701)**	**(152 724)**	**(3 995 848)**	**(79 927 386)**	**(79 752 428)**
Derivative financial instruments						
Inflow	54 013 676	25 137 590	63 707 170	44 965 022	187 823 458	2 678 090
Outflow	(53 822 958)	(24 925 384)	(63 126 968)	(46 247 987)	(188 123 297)	(2 242 328)
Net liquidity gap on recognised financial assets and liabilities	**(21 955 598)**	**9 783 785**	**9 217 459**	**14 441 025**	**11 486 671**	**8 685 081**
Credit related commitments	**(40 343 489)**	**-**	**-**	**-**	**(40 343 489)**	**(40 343 489)**

The gross nominal inflow (outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

The following tables provide an analysis, by expected maturities, of amounts recognised in the statement of financial position.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows.

Available-for-sale assets and securities held for trading: management holds a portfolio of securities that are liquid and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale assets and held for trading securities, totalling RUB 9 550 872 thousand (2012: RUB 23 250 463 thousand) are included in the demand and less than 1 month category.

The table below shows an analysis, by expected maturities (except securities held for trading and available-for-sale assets, that are used to meet outflows of financial liabilities), of the amounts recognised in the statement of financial position as at 31 December 2013:

	On demand RUB'000	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 12 months RUB'000	More than 1 year RUB'000	No maturity RUB'000	Total RUB'000
ASSETS							
Cash and cash equivalents	5 980 776	-	-	-	-	-	5 980 776
Due from the Central Bank of the Russian Federation	-	2 000 247	-	-	-	430 863	2 431 110
Placements with banks and other financial institutions	-	17 395 750	3 822 055	1 860 505	701 251	-	23 779 561
Derivative financial instruments	-	354 864	363 977	249 129	2 262 605	-	3 230 575
Securities held for trading	5 595 103	-	-	-	-	-	5 595 103
Available-for-sale assets	3 955 769	-	-	-	-	-	3 955 769
Loans to customers	-	4 307 228	3 486 867	2 484 859	3 734 136	-	14 013 090
Current tax asset	-	-	-	166	-	-	166
Property, equipment and intangible assets	-	-	-	-	-	120 128	120 128
Deferred tax asset	-	-	-	-	-	127 885	127 885
Other financial assets	-	37 040	10 553	88 486	-	-	136 079
Other non-financial assets	-	-	-	87 324	-	-	87 324
Total assets	**15 531 648**	**24 095 129**	**7 683 452**	**4 770 469**	**6 697 992**	**678 876**	**59 457 566**
LIABILITIES							
Derivative financial instruments	-	482 631	250 527	545 851	2 169 062	-	3 448 071
Trading liabilities	399 348	-	-	-	-	-	399 348
Deposits and balances from banks	1 202 371	8 174 165	10 162	12 164	3 296 137	-	12 694 999
Current accounts and deposits from customers	11 656 282	17 175 465	1 928 154	302 967	1 438 867	-	32 501 735
Other financial liabilities	-	22 232	214 949	23 525	15 713	-	276 419
Other non-financial liabilities	-	44 030	-	16 229	-	-	60 259
Total liabilities	**13 258 001**	**25 898 523**	**2 403 792**	**900 736**	**6 919 779**	**-**	**49 380 831**
Net position	**2 273 647**	**(1 803 394)**	**5 279 660**	**3 869 733**	**(221 787)**	**678 876**	**10 076 735**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

	On demand RUB'000	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 12 months RUB'000	More than 1 year RUB'000	No maturity RUB'000	Total RUB'000
ASSETS							
Cash and cash equivalents	5 197 334	-	-	-	-	-	5 197 334
Due from the Central Bank of the Russian Federation	-	1 500 553	-	-	-	951 491	2 452 044
Placements with banks and other financial institutions	-	36 352 785	1 754 995	1 107 745	1 010 238	-	40 225 763
Derivative financial instruments	-	242 539	252 655	1 447 679	735 217	-	2 678 090
Securities held for trading	16 776 702	-	-	-	-	-	16 776 702
Available-for-sale assets	6 473 761	-	-	-	-	-	6 473 761
Loans to customers	329 283	1 972 415	7 127 797	5 437 008	1 586 077	-	16 452 580
Current tax asset	-	-	-	217	-	-	217
Property, equipment and intangible assets	-	-	-	-	-	166 464	166 464
Deferred tax asset	-	-	-	-	-	331 122	331 122
Other financial assets	-	182 110	49 742	191 711	-	-	423 563
Other non-financial assets	-	-	-	86 087	-	-	86 087
Total assets	**28 777 080**	**40 250 402**	**9 185 189**	**8 270 447**	**3 331 532**	**1 449 077**	**91 263 727**
LIABILITIES							
Derivative financial instruments	-	53 343	99 981	782 857	1 306 147	-	2 242 328
Deposits and balances from banks	850 750	37 748 742	10 007	-	3 054 671	-	41 664 170
Current accounts and deposits from customers	10 850 681	19 732 245	6 058 989	133 740	826 196	-	37 601 851
Other financial liabilities	-	95 781	291 358	17 700	81 568	-	486 407
Other non-financial liabilities	-	56 161	2 374	35 066	-	-	93 601
Total liabilities	**11 701 431**	**57 686 272**	**6 462 709**	**969 363**	**5 268 582**	**-**	**82 088 357**
Net position	**17 075 649**	**(17 435 870)**	**2 722 480**	**7 301 084**	**(1 937 050)**	**1 449 077**	**9 175 370**

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to the equity and liabilities maturing after one year.

The Bank was in compliance with these ratios as at 31 December 2013 and 2012.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

24. Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, 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 is 10%. The Bank was in compliance with the statutory capital ratio as at 31 December 2013 and 2012.

Starting from the 1 April 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with CBR requirements based on Basel III requirements. The amount of capital and capital adequacy ratios were used by the CBR in 2013 for information purposes and not for supervision purposes.

Beginning 1 January 2014, the CBR will use the new capital adequacy rules for supervision purposes. Management believes it will be in compliance with these new rules in 2014.

The calculation of capital adequacy based on requirements set by the CBR as at 31 December is as follows:

	2013 RUB'000	**2012 RUB'000**
Primary capital	9 074 202	8 829 483
Additional capital	822 934	(215 333)
Total capital	**9 897 136**	**8 614 150**
Risk-weighted assets	**48 730 287**	**53 838 438**
Capital adequacy ratio	**20,3%**	**16,0%**

25. Credit related commitments and contingent liabilities

Credit related commitments to extend loans

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit related commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2013 RUB'000	2012 RUB'000
Contracted amount		
Undrawn credit line commitments	32 061 220	24 783 745
Letters of credit	8 412 032	7 950 874
Guarantees	8 576 618	7 608 870
	49 049 870	**40 343 489**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

Litigation

The management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012, new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

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

Operating leases

Non-cancellable operating lease rentals as at 31 December 2013 and 2012 are payable as follows:

	2013 RUB'000	**2012 RUB'000**
Less than 1 year	111 715	128 475
Between 1 and 5 years	359 157	350 283
	470 872	**478 758**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2013 RUB 136 091 thousand was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2012: RUB 131 881 thousand).

26. Fair value of financial instruments

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The Bank performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair values of all financial instruments approximate their carrying values.

The Bank measures fair values for financial instruments recorded at fair value in the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices (Level 1) or calculated using valuation techniques where all the model inputs are observable in the market (Level 2) as at 31 December 2013. The amounts are based on the values recognised in the statement of financial position:

	Quoted market prices (Level 1) RUB'000	**Valuation techniques based on market observable inputs (Level 2) RUB'000**	**Total RUB'000**
Financial assets			
Derivative financial instruments	-	3 230 575	3 230 575
Securities held for trading	5 595 103	-	5 595 103
Available-for-sale assets	3 955 769	-	3 955 769
	9 550 872	**3 230 575**	**12 781 447**
Financial liabilities			
Derivative financial instruments	-	(3 448 071)	(3 448 071)
Trading liabilities	(399 348)	-	(399 348)
	(399 348)	**(3 448 071)**	**(3 847 419)**

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices (Level 1) or calculated using valuation techniques where all the model inputs are observable in the market (Level 2) as at 31 December 2012. The amounts are based on the values recognised in the statement of financial position:

	Quoted market prices (Level 1) RUB'000	**Valuation techniques based on market observable inputs (Level 2) RUB'000**	**Total RUB'000**
Financial assets			
Derivative financial instruments	-	2 678 090	2 678 090
Securities held for trading	16 776 702	-	16 776 702
Available-for-sale assets	6 473 761	-	6 473 761
	23 250 463	**2 678 090**	**25 928 553**
Financial liabilities			
Derivative financial instruments	-	(2 242 328)	(2 242 328)
	-	**(2 242 328)**	**(2 242 328)**

27. Related party transactions

Control relationships

The parent company of the Bank is HSBC Europe BV, the Netherlands, which is 100% owned by HSBC Bank plc, the United Kingdom. The ultimate controlling party of the Bank is HSBC Holdings plc, the United Kingdom. Consolidated financial statements of HSBC Holdings plc (HSBC Group) are publicly available.

The outstanding balances and the related average interest rates as at 31 December 2013 and 2012 with HSBC Bank plc are as follows:

	2013		2012	
	RUB'000	**Average interest rate**	**RUB'000**	**Average interest rate**
Statement of financial position				
ASSETS				
Nostro accounts with banks and other financial institutions	50 202	-	76 720	-
Loans and deposits with banks and other financial institutions	14 829 476	0,8%	31 593 987	2,40%
Derivative financial instruments	1 935 621	-	1 601 226	-
Other financial assets	106 448	-	266 762	-
LIABILITIES				
Vostro accounts from banks	955 877		490 116	-
Deposits from banks	3 296 137	2,6%	3 054 674	2,71%
Derivative financial instruments	1 227 229	-	1 214 816	-
Other financial liabilities	23 370	-	18 901	-
Items that are not recognised in the statement of financial position				
Guarantees received	15 011 863		13 002 372	
Overdraft limit on Vostro account	2 000 000	-	2 000 000	-
Guarantees issued	264 653	-	-	-

Guarantees received of RUB 15 011 863 thousand (2012: RUB 13 002 372 thousand) include guarantees received for loans to customers in the amount of RUB 10 016 209 thousand (2012: RUB 7 446 460 thousand), with the remaining balance relating to guarantees received for credit lines, letters of credit and other related arrangements.

The outstanding balances and the related average interest rates as at 31 December 2013 and 2012 with fellow subsidiaries within the HSBC Group are as follows:

	2013		2012	
	RUB'000	**Average interest rate**	**RUB'000**	**Average interest rate**
Statement of financial position				
ASSETS				
Nostro accounts with banks and other financial institutions	242 305	-	1 221 869	-
Derivative financial instruments	-	-	26 962	-
LIABILITIES				
Vostro accounts from banks	245 888	-	359 957	-
Deposits from banks	582 758	4,4%	5 609 138	2,41%
Derivative financial instruments	-	-	6 396	-
Other financial liabilities	3 290	-	620	-
Items that are not recognised in the statement of financial position				
Guarantees received	341 648	-	136 976	-
Overdraft limit on Vostro account	1 100 000	-	-	-
LC received	53 850	-	19 900	-
Guarantees issued	343 840	-	-	-
LC issued	24 276	-	-	-

Amounts included in the statement of profit or loss and other comprehensive income on transactions with HSBC Bank plc for the year ended 31 December 2013 and 2012 are as follows:

	2013 RUB'000	**2012 RUB'000**
Statement of profit or loss and other comprehensive income		
Interest income	203 767	207 559
Interest expense	(86 321)	(45 423)
Fee and commission income	122 246	126 971
Commission expense on guarantees treated as direct costs on loans issuance	(170 014)	(131 348)
Fee and commission expense	(826)	(1 024)
Net (loss) gain from foreign exchange and derivative trading	(2 587 927)	2 072 556
Other operating income	240 872	190 092
Administrative expenses	(86 779)	(44 571)
Commitment fee for credit lines received	(23 825)	(36 471)

Amounts included in the statement of profit or loss and other comprehensive income on transactions with fellow subsidiaries within the HSBC Group for the year ended 31 December 2013 and 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Statement of profit or loss and other comprehensive income		
Interest income	415	730
Interest expense	(18 751)	(220 759)
Fee and commission income	7 395	-
Fee and commission expense	(284)	(91)
Net gain from foreign exchange and derivative trading	16 355	39 313
Administrative expenses	(28 315)	(30 715)

During the year ended 31 December 2013 the remuneration of the members of the Board of Directors and the Management Committee, comprising salaries, bonuses, other short term benefits and discretionary compensation, amounted to RUB 233 995 thousand (2012: RUB 205 000 thousand). The Bank does not provide post-employment or other long term benefits to the members of the Board of Directors and the Management Committee.

28. Segment analysis

In the following segmental analysis, the benefit of the sole participant's funds impacts the analysis only to the extent that these funds are actually allocated to businesses in the segment by way of intra-Group capital and funding structures.

By customer group

The Bank has two reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services and are managed separately because they require different market strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the reportable segments:

- Commercial Banking – lending, international trade and receivables finance, payment and cash management.
- Global Banking and Markets – treasury and capital markets services, financing, advisory and transaction services.

Information regarding the results of each reportable segment is included below.

The Bank's operations include a number of shared support services and functions. The costs of these functions are allocated to customer groups, where appropriate, on a systematic and consistent basis. The following analysis includes inter-segment amounts within each customer group with the elimination shown in a separate column.

Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of each segment.

Segment information for the reportable segments as at and for the years ended 31 December is set out below:

	Commercial Banking		Global Banking and Markets		Total	
	2013 RUB'000	2012 RUB'000	2013 RUB'000	2012 RUB'000	2013 RUB'000	2012 RUB'000
Interest income						
External	445 757	536 729	1 730 172	2 148 927	**2 175 929**	**2 685 656**
Inter-segment	392 506	291 976	587 221	1 244 164	**979 727**	**1 536 140**
Interest expense						
External	(19 950)	(8 439)	(1 680 037)	(1 688 656)	**(1 699 987)**	**(1 697 095)**
Inter-segment	(229 530)	(253 691)	(750 197)	(1 282 449)	**(979 727)**	**(1 536 140)**
Net fee and commission income	165 892	131 037	273 195	218 141	**439 087**	**349 178**
Net gain from foreign exchange and derivative trading, gain on securities held for trading and available-for-sale assets	57 668	48 154	1 529 548	953 002	**1 587 216**	**1 001 156**
Other operating income	303	380	240 780	198 965	**241 083**	**199 345**
Total operating income	**812 646**	**746 146**	**1 930 682**	**1 792 094**	**2 743 328**	**2 538 240**
Impairment losses	(54)	(1 052)	(97)	(576)	**(151)**	**(1 628)**
Personnel expenses	(253 218)	(249 974)	(538 288)	(708 805)	**(791 506)**	**(958 779)**
General administrative expenses	(168 309)	(190 629)	(419 908)	(341 695)	**(588 217)**	**(532 324)**
Total expenses	**(421 581)**	**(441 655)**	**(958 293)**	**(1 051 076)**	**(1 379 874)**	**(1 492 731)**
Profit before taxes	**391 065**	**304 491**	**972 389**	**741 018**	**1 363 454**	**1 045 509**
Total assets for reportable segments:	**5 043 173**	**9 963 722**	**54 239 989**	**81 081 451**	**59 283 162**	**91 045 173**
Unallocated					**174 404**	**218 554**
Total assets					**59 457 566**	**91 263 727**
Total liabilities for reportable segments:	**10 986 313**	**11 731 002**	**37 998 269**	**69 789 854**	**48 984 582**	**81 520 856**
Unallocated					**396 249**	**567 501**
Total liabilities					**49 380 831**	**82 088 357**

Dmitry Chekalkin
Acting Chief Executive Officer

Elena Koneva
Chief Accountant