LLC MEDICAL INSURANCE COMPANY "RESO-MED"

Financial Statements
For the Year Ended 31 December 2013

LIMITED LIABILITY COMPANY
MEDICAL INSURANCE COMPANY "RESO-MED"

TABLE OF CONTENTS

LIMITED LIABILITY COMPANY
MEDICAL INSURANCE COMPANY "RESO-MED"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management of Limited Liability Company Medical Insurance Company "RESO-MED" ("Company") is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2013, its financial results, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2013 were authorized for issue by the Management of Medical Insurance Company "RESO-MED" on 15 April 2014.

On behalf of the Management:

Anatoly Petrovich Sandimirov	Vladimir Octyabrevich Shingurov
Chief Executive Officer	Chief Financial Officer
15 April 2014	15 April 2014
Moscow	Moscow

INDEPENDENT AUDITORS' REPORT

To the Owners
of Limited Liability Company Medical Insurance Company "RESO-MED"
and other users

AUDITED ENTITY:

The name of audited entity: Limited Liability Company Medical Insurance Company "RESO-MED"

Short name of audited entity: LLC "RESO-MED"

Address: 142500, 26, Uritskiy str. Pavlovskiy Posad city, Moscow region, Russia

State Registration Certificate 1025004642519

AUDIT FIRM: Limited Liability Company audit firm "Urinform-audit"

Address: 125195, 61 str.1, Leningradskoye shosse, Moscow, Russia

State Registration Certificate 1027739190467

LLC audit firm "Urinform-audit" is the member of "Non-Commercial Partnership "Audit Chamber of Moscow", the entry in the Register of auditors and audit companies made 28.12.2009 with the registration number 10203000131 (certificate dated 15.02.2010)

We have audited the accompanying financial statements of Limited Liability Company Medical Insurance Company "RESO-MED", which comprise the statement of financial position as at 31 December 2013, the statement of profit or losses and other comprehensive income, statement of changes in equity and cash flows for the year then ended, and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Limited Liability Company Medical Insurance Company "RESO-MED" as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

Financial statements of Limited Liability Company Medical Insurance Company "RESO-MED" for the year ended 31 December 2012 was audited by another auditor, whose auditor's report is dated 15 April 2013 and contains unqualified opinion on the stated financial statements.

The auditor L.L.Feduleeva
Acting on the basis of power of attorney No 1 dated 10.01.14
Order No10-01/14 dated 10 January 2014

15 April 2014
Moscow, Russian Federation

LLC SMK"RESO-MED"

STATEMENT OF PROFIT OR LOSSES AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Income from obligatory medical insurance	4	605 746	427 870
Net investment income and interest expenses	5	12 213	2 174
Administrative expenses	6	(491 342)	(365 268)
Other operating income		(2 616)	975
Profit before income tax		**124 001**	**65 751**
Income tax expense	7	(25 745)	(15 670)
Net profit of the year		**98 256**	**50 081**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Change in revaluation reserve for property, net of tax		1 997	3 472
Total comprehensive income		**100 253**	**53 553**

On behalf of the Management:

Anatoly Petrovich Sandimirov
Chief Executive Officer

15 April 2014
Moscow

Vladimir Octyabrevich Shingurov
Chief Financial Officer

15 April 2014
Moscow

The notes on pages 8-31 form an integral part of these financial statements.

LLC SMK"RESO-MED"

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
ASSETS			
Cash and cash equivalents	8	158 120	148 874
Placements with banks	9	106 421	100 918
Loans issued		276	457
Receivables from obligatory medical insurance	10	2 241 886	1 240 665
Current income tax		875	-
Property and equipment	11	21 096	12 311
Deferred tax assets	7	7 409	3 233
Other assets	12	16 062	13 848
Total assets		**2 552 145**	**1 520 306**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities on obligatory medical insurance	13	2 282 288	1 299 069
Other liabilities	14	53 124	34 134
Total liabilities		**2 335 412**	**1 333 203**
Equity			
Charter capital	15	157 071	157 071
Revaluation reserve for property		5 469	3 472
Retained earnings		54 193	26 560
Total equity		**216 733**	**187 103**
Total liabilities and equity		**2 552 145**	**1 520 306**

On behalf of the Management:

Anatoly Petrovich Sandimirov
Chief Executive Officer

15 April 2014
Moscow

Vladimir Octyabrevich Shingurov
Chief Financial Officer

15 April 2014
Moscow

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LLC SMK"RESO-MED"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interests received	5	6 374	7 193
Service fees	4	605 746	427 870
Other income		(3 201)	975
Administrative expenses		(468 839)	(357,378))
Income tax paid		(31 295)	(16 654)
Cash flows from operating activities before changes in operating assets and liabilities		**108 785**	**62 006**
Net (decrease)/increase in operating assets and liabilities:			
Cash receipts on obligatory medical insurance		44 736 354	28 336 133
Cash transferred for obligatory medical insurance		(44 754 356)	(29 269 450)
Net cash generated from/(used in) operating activities		**90,783**	**(871 311)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(10,079)	(4 236)
Proceed from disposal of property and equipment		573	-
Proceed from bank placements		30,000	-
Transferred to bank placements		(30,000)	(30,802)
Repayment of loans issued		181	196
Net cash used in investing activities		**(9,325)**	**(34,842)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Profit distribution to the Company's participant	22	(70,623)	(39,164)
Borrowings on finance lease		1,167	3,980
Payments on finance lease liabilities		(3,490)	(4,446)
Net cash used in financing activities		**(72,946)**	**(39 630)**
Net increase/(decrease) in cash and cash equivalents		**8,512**	**(945,783)**
Cash and cash equivalents at beginning of year	8	148,874	1 094 149
Effect of exchange rate changes on cash and cash equivalents		734	508
Cash and cash equivalents at the end of the year	8	**158,120**	**148 874**

On behalf of the Management:

Anatoly Petrovich Sandimirov
Chief Executive Officer

15 April 2014
Moscow

Vladimir Octyabrevich Shingurov
Chief Financial Officer

15 April 2014
Moscow

The notes on pages 8-31 form an integral part of these financial statements.

LLC SMK“RESO-MED”

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Charter capital	Revaluation reserve for property	Retained earnings/ (Accumulated deficit)	Total equity
Balance at 1 January 2012	15	**157 051**	-	**15 643**	**172 714**
Net profit of the year		-	-	50 081	50 081
Revaluation of property		-	3 472	-	3 472
Profit distribution to the Company's participant	21	-	-	(39 164)	(39 164)
Balance at 31 December 2012	15	**157 051**	**3 472**	**26 560**	**187 103**
Net profit of the year		-	-	98 256	98 256
Revaluation of property	11	-	1 997		1 997
Profit distribution to the Company's participant	21	-	-	(70 623)	(70 623)
Balance at 31 December 2013	15	**157 071**	**5 469**	**54 193**	**216 733**

On behalf of the Management:

Anatoly Petrovich Sandimirov
Chief Executive Officer

15 April 2014
Moscow

Vladimir Oktyabrevich Shingurov
Chief Financial Officer

15 April 2014
Moscow

The notes on pages 8-31 form an integral part of these financial statements.

1. BACKGROUND

Principal activities

Limited Liability Company Medical Insurance Company "Reso-Med" (SMK"RESO-Med" or the "Company") was established in 2002 as a result of renaming of Limited Liability Company "Medical Insurance Company AKOS-Med" registered in 1992. Registered address of the Company is 124500, Russian Federation, Pavlovsky Posad, Uritskogo St., bldg 8.

The main activity of the Company is provision of obligatory medical insurance (OMI) in the Russian Federation. The Company operates on the basis of license No. C 0879 50 dated 29 September 2008. The Company also has the right to provide voluntary medical insurance services.

As at 31 December 2013 the shares are allotted between participants as follows: 60% owns to ZAO "RESO Investments", 28.5% to ZAO "RESO Financial Markets", 11.5% to OSAO "Reso-Garantia". In 2014 ZAO "RESO Financial Markets" acquires the remaining part from OSAO "Reso-Garantia".

As at 31 December 2012 SMK"RESO-Med" was a 100% subsidiary of Astroway Limited.

As at 31 December 2013 the Company had 12 branches that operated on the territory of the Russian Federation (31 December 2012: 11 branches). As at 31 December 2012 the Company employed 640 full time employees (31 December 2012: 539 full time employees).

As at 31 December 2013 the number of insured comprised 6 108 755 individuals (unaudited) (31 December 2012: 5 994 927 individuals (unaudited)).

2. BASIS OF PRESENTATION

Statement of Compliance

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

Other basis of presentation criteria

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

These financial statements are presented in thousands of Russian Rubles ("RUB thousand"), unless otherwise indicated.

These financial statements of the Company have been prepared on the historical cost basis except for property that are measured at revalued amounts. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 16.

2. BASIS OF PRESENTATION (CONTINUED)

Functional currency

The financial statements are presented in Russian Rubles. The Russian Ruble is the functional currency of the Company.

All data of the financial statements has been rounded off to the nearest RUB thousand.

Use of estimates and judgments

In the application of the Company's accounting policies the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Further information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following Notes:

- Property and equipment – Note 11;

Changes in accounting policies and presentation

The Company 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 Presentation of Financial Statements) (see (ii));
- Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (see (iii)).

(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 IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures (see note 15).

As a result, the Company adopted a new definition of fair value, as set out in note 3(g)(iv). The change had no significant impact on the measurements of assets and liabilities. However, the Company included new disclosures in the financial statements that are required under IFRS 13, (comparatives not restated).

2. BASIS OF PRESENTATION (CONTINUED)

Changes in accounting policies and presentation (continued)

(ii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Company 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.

(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.

Due to the fact that the Company does not offset the financial instruments in accordance with IAS 32 "Financial Instruments: Presentation" and does not have the relative offsetting agreements, the amendment does not have any impact to the financial statement of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The provisions of accounting policies set forth below have been applied consistently throughout all reporting periods represented in these financial statements.

3.1. Obligatory medical insurance

The obligatory medical insurance system is designed to ensure access of Russian citizens to free medical aid. The system is administered by the Federal Fund for Obligatory Medical Insurance (FFOMI) and its Territorial (regional) Funds for Obligatory Medical Insurance (TFOMI).

LLC SMK "RESO-Med" is licensed to provide account management, claims handling, quality control and similar administrative services under the OMI program. To this end the Company distributes OMI policies to the insured, arranges payment for medical aid to public hospitals using allocated special purpose funds and organizes control of the scope, terms, quality and conditions for providing medical aid to the insured. The Company does not undertake insurance risk within the scope of performance of the obligatory medical insurance program.

The Company separately records transactions with obligatory medical insurance funds and voluntary medical insurance funds. The funds intended for payment for medical aid and received by the public hospitals represent allocated special purpose funds.

Income from obligatory medical insurance and special-purpose funds formed from obligatory medical insurance and their use

Income from obligatory medical insurance includes:

1. Service fees per insured paid by the TFOMI.. This income is recognized upon the receipt of the financing from the TFOMI;
2. Certain share of fines and penalties charged to public hospitals for breaches of their service duties revealed by the Company. This income is recognized when the relevant fine or penalty is acknowledged by the TFOMI;
3. A share of savings of public funds allocated to the medical insurance organization. This income is recognized upon the receipt of the financing from the TFOMI;
4. Compensations received from legal entities and individuals that have caused damage to the health of the insured, in excess of the amount paid for medical aid. This income is recognized upon the receipt of the funds from legal entities and individuals.

(in thousands of Russian Rubles, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Obligatory medical insurance (continued)

The special purpose funds and income are formed within the framework of obligatory medical insurance operations and are used on the basis of Financial Security Agreements for Obligatory Medical Insurance concluded between the Company and TFOMI.

The special purpose funds are the funds allocated for payment for medical aid rendered to the insured according to the conditions set forth by the territorial obligatory medical insurance program.

The fact that the Company receives funds allocated for obligatory medical insurance does not imply that these funds are passed into ownership of the Company, save where explicitly specified by the legislation. The special purpose funds transferred to medical institutions to pay for medical aid within the scope and on conditions established by the territorial obligatory medical insurance program are recognized in the Company's accounts as use of allocated special purpose funds.

The Company separately records income from obligatory medical insurance operations and special purpose funds formed from operations under obligatory medical insurance.

3.2. Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency at the foreign currency exchange rate effective as at the transaction date. Monetary assets and liabilities denominated in foreign currency as at the reporting date are translated into the functional currency at the foreign currency exchange rate effective as at the reporting date. Non-monetary assets and liabilities denominated in foreign currency and recognized at actual cost are translated into the functional currency at the foreign currency exchange rate effective as at the transaction date. Foreign currency differences arising from translation into a foreign currency are recorded as income and expenses.

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

	31 December 2013	31 December 2012
RUB/USD	32.7292	30.3727
RUB/EUR	44.9699	40.2286

3.3. Cash and cash equivalents

The Company recognizes cash and balances on current bank accounts, as well as balances on deposits accounts with original maturity of up to three months from the date of placement as cash and cash equivalents.

3.4. Financial instruments

a) Classification of financial instruments

Loans issued are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, excluding those that the Company:

- Intends to sell immediately or in the near future;
- Has designated at initial recognition as at fair value through profit and loss or;
- Has designated at initial recognition as investments available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Financial instruments (continued)

b) Recognition of financial instruments in the financial statements

Financial assets and liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments. All regular way purchases of financial assets are recorded at the settlement date.

c) Measurement of financial instrument

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

Subsequent to initial recognition financial assets are measured at their fair values including any transactional cots that might have been incurred on sale or other disposal, except for loans and receivables which are measured at amortized cost using the effective interest rate method.

d) Fair value measurement basis

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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company 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 Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company 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 the asset or liability measured at fair value has the bid and ask price, assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price.

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

e) Gains and losses arising from subsequent measurement

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Financial instruments (continued)

f) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Company transfers substantially all risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. Liabilities are derecognized upon their settlement.

3.5. Offsetting of assets and liabilities

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

3.6. Property and equipment

a) Owned assets

Items of property and equipment are stated in the financial statements at cost net of accumulated depreciation and impairment loss excluding buildings that are revalued as set forth in paragraph 3.6 (d) Revaluation.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

b) Lease

Any lease under which all risks and rewards are transferred to the Company is classified as finance lease. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial expenses are recognized in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Property and equipment (continued)

c) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognized as in profit or loss in the period when they are incurred.

d) Revaluation

The Company's buildings are revalued on a regular basis. The frequency of revaluation depends on changes in the fair value of the buildings subject to revaluation. An increase in the value of the buildings resulting from revaluation is reported within other comprehensive income directly in equity, except where it reverses previous decrease resulting from revaluation of the same items and recognized in profit or loss. In the latter case the result of revaluation is reported in profit or loss. Decrease in the value of the buildings resulting from revaluation is reported in profit or loss, except where the Company writes off a previous increase resulting revaluation of the same items and recognized within other comprehensive income directly in equity. In this case the result of revaluation is reported as equity.

e) 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 of an item. The estimated useful lives are as follows:

Buildings	40 years
Equipment and other tools	5 years
Motor vehicles	5 years

3.8. Impairment of assets

a) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans issued ("Loans Issued"). The Company reviews its financial instruments carried at amortized cost on a regular basis to assess impairment. Financial instrument carried at amortized cost is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial instrument carried at amortized cost and that event (or events) has (have) had an impact on the estimated future cash flows of the financial instrument carried at amortized cost that can be reliably estimated.

If there is objective evidence that an impairment loss on the financial instrument carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial instrument carried at amortized cost and the present value of estimated future cash flows. Contractual cash flows adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

The Company reviews its loans issued to assess impairment on a regular basis. A loan issued 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 specified loan and that event (or events) has (have) had an impact on the estimated future cash flows of the loan that can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Impairment of assets (continued)

If there is objective evidence that an impairment loss on the loan has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan issued and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the original effective interest rate of the loan issued. 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.

b) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indicators of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell or 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 flows 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 recognized if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

All impairment losses on non-financial assets are recognized in profit and loss and can be reversed only if the estimates used while determining the recoverable amount have changed. Any impairment loss on an asset can be reversed to the extent that the carrying amount of the asset does not exceed such carrying amount of the asset (net of amortization and depreciation) that would be recorded if the impairment loss had not been recognized in the financial statements.

3.9. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.10. Profit distribution

Profit distribution to the Company's participant is reported in the period when such allocation was reported.

3.11. Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Taxation (continued)

Deferred tax is provided using the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: differences related to assets and liabilities if their initial recognition does not affect accounting or taxable income; temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of reversal of the temporary difference and its probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.12. Obligations with regard to retirement and other benefits

The Company does not have any pension arrangements other than the state pension system of the Russian Federation, which provides for calculating current contributions by the employer to the pension fund as a percentage of current total payments to staff. These expenses are recognized in the same reporting period as the payments to which they relate. In addition, the Company does not have any pension schemes requiring contributions or any other significant benefits for employees.

3.13. Recognition of interest income and expenses

Interest income and expenses are recognized in profit or loss as they accrue taking into account the effective interest rate of asset/liability. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income and expenses includes the amortization of the discount or premium or other differences between the initial carrying amount of a financial instrument and its amount at maturity calculated on an effective interest rate basis.

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

3.14. Accounting for the effects of hyperinflation

In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since January 1, 2003, the economy of the Russian Federation ceased to be hyperinflationary and the costs of non-monetary assets, liabilities and equity as stated in measuring units as at December 31, 2002 was used to form the beginning balances as at January 1, 2003.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. New standards and interpretations in issue but not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not yet effective as at 31 December 2013 and have not been applied in preparing these financial statements. From these pronouncements the standards, amendments and interpretations below can potentially have an impact on the Company's operations. The Company plans to adopt these standards, amendments and interpretations when they become effective.

- IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

  The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

- "Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. [The Group is considering the implications of the amendment and its impact on the Group.]

(in thousands of Russian Rubles, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. New standards and interpretations in issue but not yet effective (continued)

- IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. [The Group is currently assessing the impact of the amendments on its financial statements.]

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All Amendments which result in changes in presentation, recognition and measurement come into effect not earlier than 1 January 2014. The Company didn't analyze possible impact of the improvements on its financial position or performance.

4. INCOME FROM OBLIGATORY MEDICAL INSURANCE

	Year ended 31 December 2013	Year ended 31 December 2012
Service fees	443 670	330 834
Fines and penalties from public hospitals	137 986	97 036
Share in savings of medical organisations	24 090	-
Total income from obligatory medical insurance	**605 746**	**427 870**

5. NET INVESTMENT INCOME AND INTEREST EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income		
Deposits and current accounts	6 353	7 161
Loans issued	22	33
	6 375	**7 193**
Interest expense		
Finance lease	(398)	(467)
	(398)	**(467)**
Other investment (loss)/income		
Foreign exchange gains, net of losses	6 236	(4 552)
	6 236	**(4 552)**
	12 213	**2 174**

From 1 January 2012 due to the change in the legislation all special purpose funds transferred by TFOMI to the Company and not paid by the Company to public hospitals are returned back to TFOMI within three business days and may not be invested. Accordingly, interest income on deposits for the year ended 31 December 2013 and 31 December 2012 includes income from placement of the Company's funds other than TFOMI funds.

(in thousands of Russian Rubles, unless otherwise indicated)

6. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Employee compensation	279 973	210 085
Taxes other than on income	74 707	51 115
Operating lease expenses	34 774	30 412
Advertising	22 898	13 535
Maintenance	19 677	2 513
Stationery and general expenses	15 957	14 838
Communication services	12 823	10 836
Transport and travel	7 804	5 347
Security	7 184	3 516
Audit, consulting and information services	5 340	9 535
Depreciation	3 802	3 396
Business development	3 196	3 196
Other administrative expenses	3 207	6 944
	491 342	**365 268**

7. INCOME TAX

The Company provides estimates for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation, which may differ from IFRS.

The Company is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2013 and 2012 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits (as defined) under tax law in that jurisdiction.

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax expense		
Current year income tax	30 420	15 784
Penalties	-	870
Deferred income tax expense		
Origination and reversal of temporary differences	(4 675)	(984)
	25 745	**15 670**

(in thousands of Russian Rubles, unless otherwise indicated)

7. INCOME TAX (continued)

Recalculation of effective tax rate:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	124 001	65 751
Income tax at the applicable tax rate	24 800	13 150
Penalties	-	870
Non-deductible expenses	945	1 650
	25 745	15 670
Effective income tax rate	**20.8%**	**23.9%**

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 deferred tax assets and liabilities. The term of realization of deductible temporary differences do not expire under current tax legislation of the Russian Federation. Movements in temporary differences during 2013 and 2012 are presented as follows:

	1 January 2013	Credited/ (charged) to profit or loss	Credited/ (charged) to equity	31 December 2013
Tax effects of deductible temporary differences:				
Accrued expenses	3 961	2 655	-	6 616
Other	196	(196)	-	-
Gross deferred tax asset	**4 157**	**2 459**	-	**6 616**
Property and equipment	(924)	2 216	(499)	793
Gross deferred tax liability	**(924)**	**2 216**	**(499)**	**793**
Net deferred tax assets	**3 233**	**4 675**	**(499)**	**7 409**

	1 January 2012	Credited/ (charged) to profit or loss	Credited/ (charged) to equity	31 December 2012
Tax effects of deductible temporary differences:				
Depreciation	3	(3)	-	-
Accrued expenses	3 331	630	-	3 961
Other	-	196	-	196
Gross deferred tax asset	**3 334**	**823**	-	**4 157**
Property and equipment	-	(924)	-	(924)
Other	(1 085)	1 085	-	-
Gross deferred tax liability	**(1 085)**	**161**	-	**(924)**
Net deferred tax assets	**2 249**	**984**	-	**3 233**

(in thousands of Russian Rubles, unless otherwise indicated)

8. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash on hand	144	103
Current accounts with banks		
-Rated from BBB- and higher	14 799	68 135
-Not rated	143 177	80 636
	158 120	**148 874**

Concentration of cash and cash equivalents

As at 31 December 2013 and 31 December 2012 balances of cash and cash equivalents are presented as follows:

	31 December 2013	31 December 2012
Bank RESO Credit	143 142	80 618
Sberbank	5 687	55 991
VTB	4 712	-
Alfa Bank	4 118	-
	157 659	**136 609**

As at 31 December 2013 balances of cash and cash equivalents included balances on current accounts in which special purpose OMI funds were placed in amount of RUB 41 058 thousand (31 December 2012: RUB 60 610 thousand).

9. PLACEMENTS WITH BANKS

	31 December 2013	31 December 2012
Not rated	106 421	100 918
	106 421	**100 918**

As at 31 December 2013 and 31 December 2012 the Company placed all deposits in one bank, Bank RESO Credit, which is a related party of the Company.

10. RECEIVABLES FROM OBLIGATORY MEDICAL INSURANCE

	31 December 2013	31 December 2012
Advances paid to public hospitals	2 202 309	1 145 022
TFOMI accounts receivable	39 577	95 643
	2 241 886	**1 240 665**

As at 31 December 2013 and 31 December 2012 accounts receivable from TFOMI represents the cost of services provided by public hospitals that are subject to financing by TFOMI under the obligatory medical insurance program.

(in thousands of Russian Rubles, unless otherwise indicated)

11. PROPERTY AND EQUIPMENT

Movements of property and equipment for 2013:

	Buildings	Equipment and other inventory	Motor vehicles	Total
Cost/Revalued				
At 1 January 2013	6 800	8 286	12 358	27 444
Additions	2 333	4 909	2 837	10 079
Revaluation	2 297	-	-	2 297
Disposals	-	(1 357)	(411)	(1 768)
At 31 December 2013	**11 430**	**11 838**	**14 784**	**38 052**
Depreciation				
At 1 January 2013	-	(7 314)	(7 819)	(15 133)
Accruals	(199)	(774)	(2 829)	(3 802)
Write-down of amortization on revaluation	199	-	-	199
Disposals	-	1 692	88	1 780
At 31 December 2013	**-**	**(6 396)**	**(10 560)**	**(16 956)**
Net book value at 31 December 2013	**11 430**	**5 442**	**4 224**	**21 096**

Movements of property and equipment for 2012:

	Buildings	Equipment and other inventory	Motor vehicles	Total
Cost/Revalued				
At 1 January 2012	3 900	8 506	7 332	19 738
Additions	-	1 122	5 026	6 148
Revaluation	2 900			2 900
Disposals	-	(1 342)	-	(1 342)
At 31 December 2012	**6 800**	**8 286**	**12 358**	**27 444**
Depreciation				
At 1 January 2012	(474)	(6 164)	(5 685)	(12 323)
Accruals	(98)	(1 164)	(2 134)	(3 396)
Write-down of amortization on revaluation	572	-	-	572
Disposals	-	14	-	14
At 31 December 2012	**-**	**(7 314)**	**(7 819)**	**(15 133)**
Net book value: At 31 December 2012	**6 800**	**972**	**4 539**	**12 311**

(in thousands of Russian Rubles, unless otherwise indicated)

11. PROPERTY AND EQUIPMENT (continued)

As at 31 December 2013 buildings were revaluated by Management based on the results of an external appraisal (31 December 2012: no revaluation was performed). A comparative transactions approach and the direct capitalization approach were used for revaluation. If the buildings were carried at historical cost net of accumulated depreciation and impairment losses, their carrying amount would be RUB 3 230 thousand as at 31 December 2013 (RUB 3 328 thousand as at 31 December 2012).

The following key assumptions were used in the applying the direct capitalization approach:

Gross operating income was estimated using the market rental rates of USD 265 per square metre per annum (31 December 2012: USD 250 per square metre per annum).

In order to estimate net operating income (NOI), gross income was adjusted for a vacancy rate of 3–5%, non-collectability rate of 1–3% from potential gross income and operational expenses of 5–12% out of market rental rates (31 December 2012: gross income was adjusted for a vacancy rate of 3–8%, non-collectability rate of 2–3% from potential gross income and operational expenses of 4–15% out of market rental rates).

A Terminal Capitalization rate (TCR) of 13% per annum was applied to estimate the market value of the property.

As a result of the revaluation:

- In 2013 an increase in the revaluation reserve of RUB 1 977 thousand, net of deferred tax, has been recorded in other comprehensive income;
- In 2012 an increase in the revaluation reserve of RUB 3 472 thousand, net of deferred tax, has been recorded in other comprehensive income.

As at 31 December 2013 and 2012 motor vehicles purchased on finance lease contracts were recorded in Property and equipment. Their carrying amount as at the specified dates was RUB 2 643 thousand and RUB 3 636 thousand, respectively.

As at 31 December 2013 the Company has the contractual purchase commitments for the acquisition of equipment, software, technical support (certificates) and related services for the total amount of RUB 11 849 thousand, where RUB 4 085 thousand was paid as at 31 December 2013 (31 December 2012 – nil). The software is designed for the processing of personal data of insured individuals. The Company acquires non-exclusive license for the software.

12. OTHER ASSETS

	31 December 2013	31 December 2012
Advance payments for services and materials	5 888	8 103
Prepayments for operating lease	808	1 509
Taxes other than on income	1 052	850
Deferred expenses	5 967	3 196
Other	2 346	190
	16 062	**13 848**

(in thousands of Russian Rubles, unless otherwise indicated)

13. LIABILITIES ON OBLIGATORY MEDICAL INSURANCE

Funds received from territorial funds for obligatory medical insurance and not transferred by the Company to public hospitals are presented as accounts payable of the Company to TFOMI on allocated special purpose financing.

As at 31 December 2013 accounts payable to TFOMI on allocated special purpose financing under the OMI program amounted to RUB 2 282 288 thousand (31 December 2012: RUB 1 299 069 thousand).

14. OTHER LIABILITIES

	31 December 2013	31 December 2012
Payables to employees	36 136	21 582
Non-profit taxes payables	7 944	5 118
Finance lease liabilities	848	3 331
Settlements with suppliers and contractors	4 882	3 112
Other	3 314	991
	53 124	**34 134**

15. CHARTER CAPITAL

As at 31 December 2013 and 31 December 2012 the fully paid charter capital for Russian statutory purposes amounted to RUB 150 000.

For IFRS purposes the amount of the charter capital is RUB 157 071 thousand. The difference in the accounting for charter capital for Russian statutory purposes and IFRS results from application of IAS 29 Financial Reporting in Hyperinflationary Economies under which contributions to charter capital of RUB 30 000 thousand, made prior to 1 January 2003, have been restated to RUB 37 070 thousand to account for changes in the general purchasing power of the RUB.

16. FINANCIAL RISK MANAGEMENT

Management of risk is the basis of an insurance company activity and an essential element of the Company's operations. Market risk that includes exchange rate risk, interest rate risk and currency risk, credit risk, liquidity risk are major financial risks the Company faces in its business activity.

Risk management policies and procedures

The Company's risk management policies aim to identify, analyze and manage the risks faced by the Company, 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.

Participants of the Company have overall responsibility for the oversight of the risk management framework. The Participants of the Company are responsible for the management of key risks, designing and implementing risk management and control procedures as well as approving large exposures.

(in thousands of Russian Rubles, unless otherwise indicated)

16. FINANCIAL RISK MANAGEMENT (continued)

Risk management policies and procedures (continued)

Russian legislation, including Law No. 4015-1 of 27 November 1992 "On Organization of Insurance in the Russian Federation" sets out requirements to professional qualification, business reputation as well as other requirements to members of the Board, of Directors, Management Board, Head of the internal audit function and other key management personnel. All members of the Company's governing and managing bodies are in compliance with the above mentioned requirements.

Management believes the Company is in compliance with the legislative requirements to internal controls including the requirements to the internal audit function, and the Company's internal control system is appropriate for the size, nature and complexity of the Company's operations.

Market risk

Market risk is the risk that movements in market prices will affect movements in financial instrument fair value or future cash flows on the financial instrument. Market risks comprise currency risk, interest rate risk and other price risk. 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.

Interest rate risk

The table below presents the Company's interest bearing assets as at 31 December 2013 and 31 December 2012 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2013 Amount	2013 Average effective interest rate	31 December 2012 Amount	2012 Average effective interest rate
Financial assets				
Loans issued				
-RUB	276	6.00%	457	6.00%
Placements with banks				
-RUB	30 000	8.50%	30,000	5.65%
-USD	76 421	3.00%	70 918	3.00%
Cash and cash equivalents				
-RUB	102 055	2.0%	141 232	0.89%
-USD	-	-	7 642	-

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

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.

(in thousands of Russian Rubles, unless otherwise indicated)

16. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

An analysis of sensitivity of the Company's projected net interest margin for the year and equity to interest rate 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 31 December 2012) is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
100 bp parallel rise	15	233
100 bp parallel fall	(15)	(233)

Credit risk

The Company's bank accounts, placements with banks and loans issued are subject to credit risk. This risk is defined as potential loss in value resulting from adverse changes in the counterparties' ability to repay the debt.

To mitigate the credit risk of bank accounts and placements with banks the Company invests its funds generally in highly rated Russian banks and Bank RESO Credit, which is a related party.

The Company's exposure to credit risk is monitored on an ongoing basis.

Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The following table shows the currency structure of financial assets and liabilities as at 31 December 2013 and 31 December 2012:

	RUB	USD	Total
31 December 2013			
Assets			
Cash and cash equivalents	147 593	10 527	158 120
Placements with banks	30 000	76 421	106 421
Loans issued	276	-	276
Total assets	**177 869**	**86 948**	**264 817**
Liabilities	-	-	-
Net position as at 31 December 2013	**177 869**	**86 948**	**264 817**
31 December 2012			
Assets			
Cash and cash equivalents	141 232	7 642	148 874
Placements with banks	30 000	70 918	100 918
Loans issued	457	-	457
Total assets	**171 689**	**78 560**	**250 249**
Liabilities	-	-	-
Net position as at 31 December 2012	**171 689**	**78 560**	**250 249**

(in thousands of Russian Rubles, unless otherwise indicated)

16. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

An analysis of sensitivity of the Company's net income for the year and equity to changes in the foreign currency exchange rates (based on positions existing as at 31 December 2013 and 31 December 2012 and a simplified scenario of a 10% change in USD to RUB) is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
10% appreciation of USD against RUB	6 956	6 284
10% depreciation of USD against RUB	(6 956)	(6 284)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. 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 the management of financial institutions, including the Company. 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 Company 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 Company's liquidity policy is reviewed and approved by the management.

The following table shows financial assets and liabilities of the Company by their remaining contractual maturity as at 31 December 2013 and 31 December 2012. The undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity do not differ from the analysis below.

	Less than 1 year	From 1 year to 5 years	Total as at 31 December 2013
31 December 2013			
Assets			
Cash and cash equivalents	158 120	-	158 120
Placements with banks	76 421	30 000	106 421
Loans issued	1	275	276
Total assets	**234 542**	**30 275**	**264 817**
Liabilities	-	-	-
Net position as at 31 December 2013	**234 542**	**30 275**	**264 817**
31 December 2012			
Assets			
Cash and cash equivalents	148 874	-	148 874
Placements with banks	30 000	70 918	100 918
Loans issued	1	456	457
Total assets	**178 875**	**71 374**	**250 249**
Liabilities	-	-	-
Net position as at 31 December 2012	**178 875**	**71 374**	**250 249**

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

At 31 December 2013 and 31 December 2012 the Company does not have financial assets for trading or financial assets held to maturity.

The remaining financial assets are loans issued and accounts receivable which are measured at amortized cost using the effective interest rate method.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

18. CAPITAL RISK MANAGEMENT

The Federal Financial Markets Service of the Russian Federation sets and monitors capital requirements for the Company.

The Company defines as capital those items that are defined by statutory regulation of the Russian Federation as capital (equity) component for financial institutions.

Capital management of the Company has the following objectives:

- To comply with the capital requirements set by the legislation of the Russian Federation and established by an insurance regulator; and
- To ensure that the Company is able to operate as a going concern

The Company is obligated to comply with the following capital regulatory requirements (based on the financial statements prepared in accordance with the legislation of the Russian Federation):

- Excess of net assets over the charter capital (in accordance with Federal Law No. 14-FZ dated 8 February 1998 "On limited liability companies");
- Compliance with requirements to the structure and composition of assets eligible to cover insurers' own funds (in accordance with Order of the Ministry of Finance No. 101n dated 2 July 2012 "On approval of requirements for the structure and composition of assets eligible to cover insurers' own funds");
- Compliance of a minimum charter capital amount with the requirements of Law No. 4015-1 dated 27 November 1992 "On organization of insurance in the Russian Federation". Currently, according to the legislation insurance companies providing only medical insurance services have to maintain a charter capital of at least RUB 60 000 thousand.

During 2013 and 2012 the Company was in compliance with the statutory capital requirements.

(in thousands of Russian Rubles, unless otherwise indicated)

19. OPERATING LEASES

The Company leases a number of premises and equipment under operating leases. The leases typically run for one year with an option to renew the lease after that date. Lease payments are usually increased annually to reflect the market rentals.

Operating lease payments are payable as follows:

	31 December 2013	31 December 2012
During 1 year	22 531	21 885
From 1 year to 5 years	36 992	42 999
	59 523	**64 884**

In 2013 RUB 34 774 thousand of lease payments was included in profit and loss (in 2012: RUB 30 412 thousand).

20. COMMITMENTS AND CONTINGENCIES

Economic environment – Emerging markets, including Russia, are subject to economic, political, social, legal, and legislative risks which differ from the risks affecting more developed markets. Laws and regulations affecting businesses in RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Because RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014 the U.S. and the EU imposed sanctions on a number of Russian officials, businessmen and entities. These, especially in the event of their further escalation, may inhibit access to international money and export markets and cause capital drain, depreciation of the Russian ruble and other negative economic implications. The impact of these events on the Company's future performance and financial position is currently hard to assess.

Legal proceedings – From time to time and in the normal course of business, claims against the Company are received from clients and counterparties. Management is of the opinion that no material losses will be incurred by the Company and, accordingly, no provision has been made in these financial statements.

Taxation – Tax legislation of the RF may allow more than one interpretation.In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Company's business activities, was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Company believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

(in thousands of Russian Rubles, unless otherwise indicated)

21. TRANSACTIONS WITH RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related party disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(a) Transactions with senior management

Total remuneration of the senior management included in administrative expenses (see Note 6) is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Senior management compensation	19 807	17 514
Payroll related taxes	2 401	1 217
	22 208	**17 524**

As at 31 December 2013 and 31 December 2012 the results of transactions with senior management are as follows:

Statement of financial position	31 December 2013	31 December 2012
Other liabilities	15 374	7 489

(b) Transactions with the Participant of the Company

In 2013 the Company made profit distribution to the Participant totaling RUB 70 623 thousand (in the year 2012: RUB 39 163 thousand).

(c) Transactions with other related parties

Transactions with other related parties include transactions with companies related to the owners and senior management of the Company.

As at 31 December 2013 and 31 December 2012 the balances with other related parties are as follows:

Statement of financial position	31 December 2013	31 December 2012
Assets		
Placements with banks	106 421	100 918
Cash and cash equivalents	143 142	80 618
Other assets	1 113	563
Liabilities		
Other liabilities	325	1 223

(in thousands of Russian Rubles, unless otherwise indicated)

21. TRANSACTIONS WITH RELATED PARTIES (continued)

(c) Transactions with other related parties (continued)

The results of transactions with other related parties for the year ended 31 December 2013 and 31 December 2012 are as follows:

Statement of comprehensive income	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Net investment income	6 353	5 854
Administrative expenses	(2 010)	(2 342)

22. SUBSEQUENT EVENTS

In 2014 ZAO "RESO Financial Markets" acquires the share of 11,5% from OSAO "Reso-Garantia". As a result of acquisition the share of ZAO "RESO Financial Markets" in charter capital of the Company increased up to 40%.