LLC MEDICAL INSURANCE COMPANY “RESO-MED”

Financial Statements
For the Year Ended 31 December 2012

LIMITED LIABILITY COMPANY
MEDICAL INSURANCE COMPANY "RESO-MED"

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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 2012

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 2012, 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 2012 were authorized for issue by the Management of Medical Insurance Company “RESO-MED” on 15 April 2013.

On behalf of the Management:

Anatoly Sandimirov
Chief Executive Officer

15 April 2013
Moscow

Vladimir Shingurov
Chief Financial Officer

15 April 2013
Moscow

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

To the Management and the owners of Limited Liability Company Medical Insurance Company “RESO-MED”:

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 2012, the statement of 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 2012, 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 2011 was audited by another auditor, whose auditor's report is dated 03 July 2012 and contains unqualified opinion on the stated financial statements.

Deloitte & Touche

15 April 2013
Moscow, Russian Federation

Svetlana Ploutalova, Partner
Qualification certificate No. 01-000596 of 19 March 2012

ZAO Deloitte & Touche CIS

AUDITED ENTITY: Limited Liability Company Medical Insurance Company “RESO-MED”

State Registration Certificate No.1025004642519.
Issued by the State Registration Chamber under the Ministry of Economy of the Russian Federation on 22 November 2002

Certificate of registration in the Unified State Register of Legal Entities as a legal entity registered before 1 July 2002. Series 50 No 001865150, issued by MNS of Russia Ministry on Pavlovskiy Posad city in the Moscow region on 22 November 2002.

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

AUDIT FIRM: ZAO DELOITTE & TOUCHE CIS

State Registration Certificate No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Certificate of registration in the Unified State Register of Legal Entities No. 1027700425444 issued by Interregional Inspectorate of the Russian Ministry of Taxation No.39 for Moscow on 13 November 2002.

Certificate of membership in self-regulated organization "Non-Commercial Partnership “Audit Chamber of Russia” No. 3026 dated 20 May 2009; main registration number 10201017407.

Tel: +7 (495) 787 0600

LLC SMK“RESO-MED”

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Income from obligatory medical insurance	4	427 870	312 015
Net investment income and interest expenses	5	2 174	9 429
Net income from insurance operations		-	877
Other operating income		975	17 062
Administrative expenses	6	(365 268)	(283 637)
Profit before income tax		**65 751**	**55 746**
Income tax expense	7	(15 670)	(9 182)
Net profit of the year		**50 081**	**46 564**
Total comprehensive income		**50 081**	**46 564**

On behalf of the Management:

Anatoly Sardimirov
Chief Executive Officer

15 April 2013
Moscow

Vladimir Shingurov
Chief Financial Officer

15 April 2013
Moscow

The notes on pages 8-28 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
ASSETS			
Cash and cash equivalents	8	148 874	1 094 149
Placements with banks	9	100 918	75 176
Loans issued		457	653
Receivables from obligatory medical insurance	10	1 240 665	1 176 192
Property and equipment	11	12 311	7 415
Deferred tax assets	7	3 233	2 249
Other assets	12	13 848	15 794
Total assets		**1 520 306**	**2 371 628**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities on obligatory medical insurance	13	1 299 069	2 167 913
Other liabilities	14	34 134	31 001
Total liabilities		**1 333 203**	**2 198 914**
Equity			
Charter capital	15	157 071	157 071
Revaluation reserve for property	11	3 472	-
Retained earnings		26 560	15 643
Total equity		**187 103**	**172 714**
Total liabilities and equity		**1 520 306**	**2 371 628**

On behalf of the Management:

Anatoly Sandimirov
Chief Executive Officer

15 April 2013
Moscow

Общество с ограниченной ответственностью * ОГРН 1025004642519 * г. Павловский Посад Московской области * Страховая медицинская компания * РЕСО-МЕД *

Vladimir Shingarov
Chief Financial Officer

15 April 2013
Moscow

The notes on pages 8-28 form an integral part of these financial statements.

LLC SMK“RESO-MED”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interests received	5	7 193	6 339
Service fees	4	427 870	312 015
Other income		975	17 062
Administrative expenses		(366 174)	(278 932)
Income tax paid		(16 654)	(14 952)
Cash flows from operating activities before changes in operating assets and liabilities		**53 210**	**41 532**
Net (decrease)/increase in operating assets and liabilities:			
Other assets		1 946	(5)
Receivables from obligatory medical insurance		(64 473)	50 877
Liabilities on obligatory medical insurance		(868 844)	(185 780)
Other liabilities		6 850	12 806
Net cash used in operating activities		**(871 311)**	**(80 570)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(4 236)	(539)
Placements with banks		(30 294)	894 357
Repayment of loans issued		196	1 489
Net cash (used in)/generated from investing activities		**(34 334)**	**895 307**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Profit distribution to the Company's participant	22	(39 163)	(29 375)
Payments on finance lease liabilities		(467)	(474)
Net cash used in financing activities		**(39 630)**	**(29 849)**
Net (decrease)/increase in cash and cash equivalents		**(945 275)**	**784 888**
Cash and cash equivalents at beginning of year	8	1 094 149	309 261
Cash and cash equivalents at the end of the year	8	**148 874**	**1 094 149**

On behalf of the Management:

Anatoly Sandimirov
Chief Executive Officer

15 April 2013
Moscow

Vladimir Shingurov
Chief Financial Officer

15 April 2013
Moscow

The notes on pages 8-28 form an integral part of these financial statements.

LLC SMK“RESO-MED”

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Charter capital	Revaluation reserve for property	Retained earnings/ (Accumulated deficit)	Total equity
Balance at 31 December 2010	15	**157 051**	**-**	**(1 546)**	**155 525**
Net profit of the year		-		46 564	46 564
Profit distribution to the Company's participant	21	-	-	(29 375)	(29 375)
Balance at 31 December 2011	15	**157 051**	**-**	**15 643**	**172 714**
Net profit of the year		-	-	50 081	50 081
Revaluation of property	11	-	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**

On behalf of the Management:

Anatoly Sandimirov
Chief Executive Officer

15 April 2013
Moscow

Vladimir Shingurov
Chief Financial Officer

15 April 2013
Moscow

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 2012 and 31 December 2011 SMK“RESO-Med” was a 100% subsidiary of Astroway Limited (the “Participant”). The ultimate beneficial owners of the Company as at 31 December 2012 and 2011 are Mr. Sergey Sarkisov (50%) and Mr. Nikolay Sarkisov (50%).

As at 31 December 2012 the Company had 11 branches that operated on the territory of the Russian Federation (31 December 2011: 11 branches). As at 31 December 2012 the Company employed 539 full time employees (31 December 2011: 577 full time employees).

As at 31 December 2012 the number of insured comprised 5 994 927 individuals (unaudited) (31 December 2011: 4 923 832 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.

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.

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.

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.

(in thousands of Russian Rubles, unless otherwise indicated)

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 2012	31 December 2011
RUB/USD	30.3727	32.1961
RUB/EUR	40.2286	41.6714

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.

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

The fair value of financial instruments is based on their quoted market price at the reporting date including any transaction costs. Where a quoted market price is not available, the fair value is estimated using pricing models or discounted cash flow techniques.

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

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.

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.

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.

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.

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.

3.15. 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 2012 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.

- IAS 19 Employee benefits (revised 2011) introduces a number of significant changes into IAS 19. First, the "corridor rule" is excluded, so all changes of the amount of defined benefit liability will be recognized immediately as they occur. Secondly, the amendment eliminates the option for companies to record all changes of defined benefit liability and plan assets in profit or loss. Thirdly, expected returns on plan assets recorded in profit or loss will be calculated on the basis of the rate used for discounting the defined benefit liability. The revised standard is effective for annual periods beginning on or after 1 January 2013, early adoption is permitted. The revised standard is usually applied retrospectively.
- IAS 27 Separate Financial Statements (revised 2011) is effective for annual periods beginning on or after 1 January 2013. The revised standard retains current requirements of IAS 27 (revised 2008) on recognition and disclosure in separate financial statements with a number of clarifications. The requirements of IAS 28 (revised 2008) and IAS 31 for separate financial statements have been included in IAS 27 (revised 2011). Early adoption of IAS 27 (revised 2011) is permitted if the Company has also adopted early IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised 2011).
- Amendments to IFRS 7 Financial instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities introduce new disclosure requirements for assets and liabilities that are offset in the Statement of financial position or are the subject of Master netting arrangement or other arrangements. The amendments are to be applied retrospectively for reporting periods beginning on or after 1 January 2013.
- IFRS 9 Financial instruments is effective for annual reporting periods beginning on or after 1 January 2015. The new standard is issued in several steps and will finally substitute IAS 39 Financial instruments: Recognition and Measurement. The first part of IFRS 9 was issued in November 2009 and applies to classification and measurement of financial assets. The second part that applies to classification and measurement of financial assets was issued in October 2010. It is expected that other parts of the standard will be issued during 2013. The Company recognizes that the new standard introduces significant changes in the process of financial instrument recognition and is likely to affect significantly the financial statements. The impact of these changes will be analyzed during the work on the project as the next parts of the Standard are issued. The Company is not going to adopt the Standard early.
- IFRS 13 Fair Value Measurement is effective for annual periods beginning on or after 1 January 2013. The new standard replaces fair value measurement guidance contained in individual IFRSs with a single source on Fair value measurement guidance. The Standard provides a revised definition of fair value, establishes the framework for fair value measurement and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets and liabilities at fair value and doesn't eliminate the practicability exceptions to fair value measurement exemptions that currently exist in certain Standards. The Standard is applied prospectively, early adoption is permitted. Comparative disclosures for periods before the date of initial adoption of IFRS 13 is not required.

(in thousands of Russian Rubles, unless otherwise indicated)

- Amendment of IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The Amendment requires the Company to present Items of other comprehensive Income that may subsequently be reclassified to profit or loss separately from those items that will never be reclassified to profit or loss. Additionally, the Amendment changes the title of the statement of comprehensive income to statement of profit and loss and other comprehensive income. However the use of other titles is permitted. The Amendment shall be applied retrospectively for reporting periods beginning on or after 1 January 2012, with earlier application permitted.
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities don't introduce new rules on offsetting financial assets and liabilities, but clarify existing application issues relating to the offset criteria in order to prevent inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to offset if this right doesn't depend on future events and is enforceable for current business activities and in the event of default, insolvency or bankruptcy of the entity and all of its counterparties. The amendments are to be applied retrospectively for reporting periods beginning on or after 1 January 2014.

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 2013. 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 2012	Year ended 31 December 2011
Service fees	330 834	285 085
Fines and penalties from public hospitals	97 036	26 930
Total income from obligatory medical insurance	**870**	**312 015**

5. NET INVESTMENT INCOME AND INTEREST EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income		
Deposits and current accounts	7 161	22 333
Loans issued	33	100
TFOMI's share in interest income on deposits and current accounts	-	(16,093)
	7 193	**6 340**
Interest expense		
Finance lease	(467)	(474)
	(467)	**(474)**
Other investment (loss)/income		
Foreign exchange gains, net of losses	(4 552)	3 563
	(4 552)	**3 563**
	2 174	**9 429**

(in thousands of Russian Rubles, unless otherwise indicated)

In 2011 surplus funds of TFOMI transferred to the Company were placed by the Company on deposit accounts with banks. The Company earned 30% of the investment income from the placement, with the remaining share due to TFOMI.

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 2012 includes income from placement of the Company’s funds other than TFOMI funds.

6. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Employee compensation	210 085	160 916
Taxes other than on income	51 115	42 142
Operating lease expenses	30 412	25 859
Stationery and general expenses	13 808	11 616
Advertising	13 535	4 425
Communication services	10 836	7 442
Audit, consulting and information services	9 535	4 700
Transport and travel	5 347	3 285
Depreciation	4 426	2 462
Security	3 516	621
Business development	3 196	3 195
Maintenance	2 513	4 069
Other administrative expenses	6 944	12 905
	365 268	**283 637**

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 December 31, 2012 and 2011 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 2012	Year ended 31 December 2011
Current income tax expense		
Current year income tax	15 784	10 982
Penalties	870	-
Deferred income tax expense		
Origination and reversal of temporary differences	(984)	(1 800)
	15 670	**9 182**

(in thousands of Russian Rubles, unless otherwise indicated)

Recalculation of effective tax rate:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before tax	65 751	39 029
Income tax at the applicable tax rate	13 150	7 806
Penalties	870	-
Non-deductible expenses	1 650	1 376
	15 670	**9 182**
Effective income tax rate	**23.9%**	**23.6%**

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 as at 31 December 2012 and 31 December 2011. The term of realization of deductible temporary differences do not expire under current tax legislation of the Russian Federation. Movements in temporary differences during 2012 and 2011 are presented as follows:

	Assets		Liabilities		Net position	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Assets						
Property and equipment	-	3	(924)	-	(924)	3
Receivables from obligatory medical insurance	-	400	-	-	-	400
Loans issued	-		-	-	-	
Other assets	196	-	-	(1 085)	196	(1 085)
Liabilities						
Liabilities on obligatory medical insurance	-	-	-	(400)	-	(400)
Other liabilities	3 971	3 331	-	-	3 971	3 331
Net deferred tax asset/(liability)	**4 157**	**3 734**	**(924)**	**(1 485)**	**3 233**	**2 249**

The tax rate applicable for deferred taxes is 20% (2011: 20%)

Movements in temporary differences during 2012:

	31 December 2011	Recognized in profit or loss	31 December 2012
Assets			
Property and equipment	3	(927)	(924)
Other assets	(1 085)	1 281	196
Liabilities			
Other liabilities	3 331	630	3 961
Net deferred tax asset	**2 249**	**984**	**3 233**

(in thousands of Russian Rubles, unless otherwise indicated)

Movements in temporary differences during 2011:

	31 December 2010	Recognized in profit or loss	31 December 2011
Assets			
Property and equipment	(292)	295	3
Other assets	(1 025)	(60)	(1 085)
Liabilities			
Other liabilities	1 766	1 565	3 331
Net deferred tax asset/(liability)	**449**	**1 800**	**2 249**

8. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash on hand	103	109
Current accounts with banks		
-Rated from BBB- and higher	68 135	522 489
-Rated from BB+ and lower	-	171 441
-Not rated	80 636	400 110
	148 874	**1 094 149**

Concentration of cash and cash equivalents

As at 31 December 2012 and 31 December 2011 balances of cash and cash equivalents are presented as follows:

	31 December 2012	31 December 2011
Bank RESO Credit	80 618	400 108
Sberbank	55 991	484 592
Gazprombank	-	171 410
	136 609	**1 056 110**

As at 31 December 2012 balances of cash and cash equivalents included balances on current accounts in which special purpose OMI funds were placed in amount of RUB 60 610 thousand (31 December 2011: RUB 974 920 thousand).

9. PLACEMENTS WITH BANKS

	31 December 2012	31 December 2011
Not rated	100 918	75 176
	100 918	**75 176**

As at 31 December 2012 and 31 December 2011 the Company placed all deposits in one bank, Bank RESO Credit, which is a related party of the Company.

(in thousands of Russian Rubles, unless otherwise indicated)

10. RECEIVABLES FROM OBLIGATORY MEDICAL INSURANCE

	31 December 2012	31 December 2011
Advances paid to public hospitals	1 145 022	1 176 192
TFOMI accounts receivable	95 645	-
	1 240 667	**1 176 192**

As at 31 December 2012 accounts receivable from TFOMI of 95 645 thousand RUR represents the cost of services provided by public hospitals that are subject to financing by TFOMI under the obligatory medical insurance program.

11. PROPERTY AND EQUIPMENT

Movements of property and equipment for 2012:

	Buildings	Equipment and other inventory	Motor vehicles	Total
Cost/Revalued				
At 31 December 2011	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 31 December 2011	(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**
At 31 December 2011	**3 426**	**2 342**	**1 647**	**7 415**

(in thousands of Russian Rubles, unless otherwise indicated)

Movements of property and equipment for 2011:

	Buildings	Equipment and other inventory	Motor vehicles	Total
Cost				
At 31 December 2010	3 900	7 967	7 332	19 199
Additions	-	622	-	622
Disposals	-	(83)	-	(83)
At 31 December 2011	**3 900**	**8 506**	**7 332**	**19 738**
Depreciation				
At 31 December 2010	(376)	(5 152)	(4 361)	(9 889)
Accruals	(98)	(1 040)	(1 324)	(2 462)
Disposals	-	28	-	28
At 31 December 2011	**(474)**	**(6 164)**	**(5 685)**	**(12 323)**
Net book value:				
At 31 December 2011	**3 426**	**2 342**	**1 647**	**7 415**
At 31 December 2010	**3 524**	**2 815**	**2 971**	**9 310**

As at 31 December 2012 buildings were revaluated by Management based on the results of an internal appraisal (31 December 2011: 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 3 328 thousand as at 31 December 2012.

As at 31 December 2012 and 2011 motor vehicles purchased on finance lease contracts were recorded in Property and equipment. Their carrying amount as at the specified dates was RUB 3 636 thousand and RUB 1 615 thousand, respectively.

12. OTHER ASSETS

	31 December 2012	31 December 2011
Advance payments for services and materials	8 103	3 960
Deferred expenses	3 196	6 392
Prepayments for operating lease	1 509	847
Taxes other than on income	850	3 604
Other	190	991
	13 848	**15 794**

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 2012 accounts payable to TFOMI on allocated special purpose financing under the OMI program amounted to RUB 1 299 069 thousand (31 December 2011: RUB 2 167 913 thousand).

(in thousands of Russian Rubles, unless otherwise indicated)

14. OTHER LIABILITIES

	31 December 2012	31 December 2011
Payables to employees	21 582	21 550
Non-profit taxes payables	5 118	3 798
Finance lease liabilities	3 331	1,412
Settlements with suppliers and contractors	3 112	3 097
Other	991	1 144
	34 134	**31 001**

15. CHARTER CAPITAL

Under current Russian legislation a sole participant in a limited liability company may not withdraw from the company.

As at 31 December 2012 and 31 December 2011 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.

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.

(in thousands of Russian Rubles, unless otherwise indicated)

Interest rate risk

The table below presents the Company's interest bearing assets as at 31 December 2012 and 31 December 2011 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 2012 Amount	2012 Average effective interest rate	31 December 2011 Amount	2011 Average effective interest rate
Financial assets				
Loans issued				
-RUB	457	6.00%	653	6.00%
Placements with banks				
-RUB	30,000	5.65%	-	-
-USD	70 918	3.00%	75 176	6.20%
Cash and cash equivalents				
-RUB	141 232	0.89%	1 090 637	1.53%
-USD	7 642	-	3 512	-

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.

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 2012 and 31 December 2011) is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
100 bp parallel rise	233	16
100 bp parallel fall	(233)	(16)

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.

(in thousands of Russian Rubles, unless otherwise indicated)

The following table shows the currency structure of financial assets and liabilities as at 31 December 2012 and 31 December 2011:

31 December 2012	**RUB**	**USD**	**Total**
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**

31 December 2011	**RUB**	**USD**	**Total**
Assets			
Cash and cash equivalents	1 090 637	3 512	1 094 149
Placements with banks	-	75 176	75 176
Loans issued	653	-	653
Total assets	**1 091 290**	**78 688**	**1 169 978**
Liabilities	**-**	**-**	**-**
Net position as at 31 December 2011	**1 091 290**	**78 688**	**1 169 978**

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 2011 and a simplified scenario of a 5% change in USD to RUB) is as follows:

	Year ended 31 December 2012	**Year ended 31 December 2011**
5% appreciation of USD against RUB	3 142	3 148
5% depreciation of USD against RUB	(3 142)	(3 148)

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.

(in thousands of Russian Rubles, unless otherwise indicated)

The following table shows financial assets and liabilities of the Company by their remaining contractual maturity as at 31 December 2012 and 31 December 2011. 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 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**

	Less than 1 year	From 1 year to 5 years	Total as at 31 December 2011
Assets			
Cash and cash equivalents	1 094 149	-	1 094 149
Placements with banks	75 176	-	75 176
Loans issued	26	627	653
Total assets	**1 169 351**	**627**	**1 169 978**
Liabilities	**-**	**-**	**-**
Net position as at 31 December 2011	**1 169 351**	**627**	**1 169 978**

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(in thousands of Russian Rubles, unless otherwise indicated)

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 02 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 2012 and 2011 the Company was in compliance with the statutory capital requirements.

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 2012	31 December 2011
During 1 year	21 885	20 025
From 1 year to 5 years	42 999	40 445
	64 884	**60 470**

In 2012 RUB 30 412 thousand of lease payments was included in profit and loss (in 2011: RUB 25 859 thousand).

20. COMMITMENTS AND CONTINGENCIES

Economic environment – Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and the Russia’s economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the country is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The year 2012 was marked by the continued economic growth in the Russian Federation. The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has significantly receded. Improved macroeconomic environment in Russia in 2012 resulted in increased demand on loans coming from entities and individuals.

(in thousands of Russian Rubles, unless otherwise indicated)

At the same time, being a part of the global economy, Russia is exposed to systematic risks existing in global economy and finance. In particular, uncertainty remains as to the financial sector, liquidity as well as oil and gas prices, therefore, the risk of significant fluctuations in Russian financial market still remains.

The management of the Company is constantly monitoring the macroeconomic and market environment within the country and in the world to react effective and prompt to the ongoing changes and to adjust their actions to the competitive environment. The Company's management believes that in these circumstances they have taken all the necessary measures to ensure stable development and growth of the Company.

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.

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 2012	**Year ended 31 December 2011**
Senior management compensation	17 514	12 658
Payroll related taxes	1 217	315
	17 524	**12 973**

As at 31 December 2012 and 31 December 2011 the results of transactions with senior management are as follows:

Statement of financial position	**31 December 2012**	**31 December 2011**
Other liabilities	7 489	5 124

(in thousands of Russian Rubles, unless otherwise indicated)

(b) Transactions with the Participant of the Company

In 2012 the Company made profit distribution to the Participant totaling RUB 39 163 thousand (in the year 2011: RUB 29 375 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 2012 and 31 December 2011 the balances with other related parties are as follows:

Statement of financial position	31 December 2012	31 December 2012
Assets		
Placements with banks	100 918	75 176
Cash and cash equivalents	80 618	400 108
Other assets	563	-
Liabilities		
Other liabilities	1 223	1 412

The results of transactions with other related parties for the year ended 31 December 2012 and 31 December 2011 are as follows:

Statement of comprehensive income	Year ended 31 December 2012	Year ended 31 December 2011
Net investment income	5 854	14 296
Administrative expenses	(2 342)	(902)

22. SUBSEQUENT EVENTS

In April 2013 the decision was made to distribute prior years’ retained earnings to the Participant of the Company totaling of RUB 34 459 thousand.

In April 2013 the decision was made to distribute profit for 2012 at RUB 36 164 thousand and prior years’ retained earnings at RUB 34 459 thousand to the Participant of the Company. Amounts for distribution were calculated based on the financial statements prepared under Russian accounting principles.