CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2014

Contents

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Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (open joint-stock company)

We have audited the accompanying consolidated financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Credit Bank of Moscow (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No.1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Report of findings from procedures performed in accordance with the requirements of Article 42 of the Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of the Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2015 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2015 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2014, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2014, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2014, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2014, the Supervisory Board and executive management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2014 the Supervisory Board and executive management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

Malyutina M.S.

Director

Power of attorney dated 16 March 2015 No. 16/15

JSC KPMG

Moscow, Russian Federation

27 April 2015

	Notes	31 December 2014 RUB'000	31 December 2013 RUB'000
Interest income	4	58 108 542	42 012 905
Interest expense	4	(32 300 883)	(24 632 660)
Net interest income	4	**25 807 659**	**17 380 245**
Provision for impairment of loans	13	(11 645 153)	(5 498 815)
Net interest income after provision for impairment of loans		**14 162 506**	**11 881 430**
Fee and commission income	5	9 102 058	7 205 235
Fee and commission expense	5	(1 817 535)	(779 625)
Net (loss) gain on financial instruments at fair value through profit or loss		(2 109 641)	59 075
Net realized (loss) gain on available-for-sale assets		(188 767)	18 686
Net foreign exchange (losses) gains		(2 485 718)	407 456
State deposit insurance scheme contributions		(567 995)	(490 583)
Other operating income, net		468 218	738 629
Non-interest income		**2 400 620**	**7 158 873**
Operating income		**16 563 126**	**19 040 303**
Salaries and employment benefits	6	(5 335 148)	(4 468 191)
Administrative expenses	6	(3 637 770)	(2 723 215)
Depreciation of property and equipment	14	(529 725)	(470 891)
Other provisions	7	(42 945)	(184 177)
Operating expense		**(9 545 588)**	**(7 846 474)**
Profit before income taxes		**7 017 538**	**11 193 829**
Income tax	8	(1 448 205)	(2 313 766)
Profit for the period		**5 569 333**	**8 880 063**
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale securities			
- Net change in fair value		(1 528 714)	(44 329)
- Net change in fair value transferred to profit or loss		(21 148)	(22 796)
Income tax related to other comprehensive loss		309 972	13 425
Other comprehensive loss for the year, net of tax		**(1 239 890)**	**(53 700)**
Total comprehensive income for the year		**4 329 443**	**8 826 363**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

27 April 2015

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

	Notes	31 December 2014 RUB'000	31 December 2013 RUB'000
ASSETS			
Cash and cash equivalents	9	118 696 921	67 064 920
Obligatory reserves with the Central Bank of the Russian Federation		3 360 070	2 798 987
Due from credit institutions	10	6 880 576	10 466 017
Financial instruments at fair value through profit or loss	11	49 864 611	37 412 185
Available-for-sale securities	12	11 111 625	18 533 564
Loans to customers	13	378 014 328	308 940 610
Property and equipment	14	7 399 340	6 079 029
Goodwill		301 089	301 089
Other assets	15	9 210 432	2 605 717
Total assets		**584 838 992**	**454 202 118**
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	11 594 431	14 566 171
Deposits by credit institutions	17	54 302 953	24 398 112
Deposits by customers	18	334 852 198	274 872 004
Debt securities issued	19	118 621 304	84 553 516
Deferred tax liability	8	2 196 335	1 880 127
Current tax liability		13 720	196 917
Other liabilities	20	3 270 561	3 077 224
Total liabilities		**524 851 502**	**403 544 071**
Equity			
Share capital	21	15 329 692	15 329 692
Additional paid-in capital		9 768 757	9 768 757
Shares in the process of issue	21	5 000 000	-
Revaluation surplus for buildings		1 115 928	1 115 928
Revaluation reserve for available-for-sale securities		(1 277 529)	(37 639)
Retained earnings		30 050 642	24 481 309
Total equity		**59 987 490**	**50 658 047**
Total liabilities and equity		**584 838 992**	**454 202 118**

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Chairman of the Management Board Vladimir A. Chubar

Chief Accountant Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

	Notes	31 December 2014 RUB'000	31 December 2013 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		55 752 518	41 103 313
Interest payments		(31 091 218)	(22 448 314)
Fees and commission receipts		8 705 726	7 187 186
Fees and commission payments		(1 817 535)	(777 125)
Net payments from operations with securities		(1 321 414)	(24 667)
Net receipts from foreign exchange		5 643 301	875 714
State deposit insurance scheme contributions payments		(547 564)	(458 313)
Net other operating income receipts		593 889	168 392
Salaries and employment benefits paid		(5 375 435)	(4 331 910)
Administrative expenses paid		(3 116 554)	(2 722 765)
Income tax paid		(1 920 608)	(1 707 078)
Operating cash flows before changes in operating assets and liabilities		**25 505 106**	**16 864 433**
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(561 083)	(253 215)
Due from credit institutions		5 810 951	2 041 014
Financial instruments at fair value through profit or loss		(12 504 902)	(5 390 966)
Loans to customers		(47 873 795)	(110 006 159)
Other assets		(1 293 289)	(994 428)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		(2 990 217)	14 566 171
Deposits by credit institutions		(774 033)	(1 489 466)
Deposits by customers		38 781 923	84 633 748
Promissory notes		(1 899 846)	(1 497 313)
Other liabilities		38 875	422 476
Net cash from (used in) operations		**2 239 690**	**(1 103 705)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net sale (purchase) of available-for-sale securities		10 911 611	(13 010 970)
Net purchase of property and equipment		(1 408 768)	(572 730)
Net payment on acquisition of subsidiary		-	(99 180)
Net cash from (used in) investing activities		**9 502 843**	**(13 682 880)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		-	7 535 600
Proceeds from subordinated deposits		5 000 000	-
Repayment of subordinated deposits		-	(7 393 842)
Proceeds from syndicated borrowings		14 194 180	-
Repayment of syndicated borrowings		(544 980)	(9 580 768)

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

	Notes	31 December 2014 RUB'000	31 December 2013 RUB'000
Proceeds from issuance of subordinated bonds		5 000 000	17 722 171
Proceeds from issuance of other bonds		25 497 030	26 071 484
Repayment of other bonds		(19 409 155)	(856 101)
Net cash from financing activities		**29 737 075**	**33 498 544**
Effect of exchange rates changes on cash and cash equivalents		10 152 393	893 886
Change in cash and cash equivalents		**51 632 001**	**19 605 845**
Cash and cash equivalents, beginning of the period		67 064 920	47 459 075
Cash and cash equivalents, end of the period	9	**118 696 921**	**67 064 920**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

	Share capital RUB'000	Additional paid-in capital RUB'000	Shares in the process of issue RUB'000	Revaluation surplus for buildings RUB'000	Revaluation reserve for available-for-sale securities RUB'000	Retained earnings RUB'000	Total equity RUB'000
1 January 2013	**13 539 763**	**9 019 295**	-	**1 115 928**	**16 061**	**15 601 246**	**39 292 293**
Total comprehensive income for the year	-	-	-	-	**(53 700)**	**8 880 063**	**8 826 363**
Transactions with owners, recorded directly in equity							
Shares issued	1 789 929	5 745 671	-	-	-	-	**7 535 600**
Repayment of subordinated loans to the majority shareholder (net of deferred tax of RUB 1 249 052 thousand)	-	(4 996 209)	-	-	-	-	**(4 996 209)**
Total transactions with owners, recorded directly in equity	**1 789 929**	**749 462**	-	-	-	-	**2 539 391**
31 December 2013	**15 329 692**	**9 768 757**	-	**1 115 928**	**(37 639)**	**24 481 309**	**50 658 047**
Total comprehensive income for the year	-	-	-	-	**(1 239 890)**	**5 569 333**	**4 329 443**
Transactions with owners, recorded directly in equity							
Shares in the process of issue (note 21)	-	-	5 000 000	-	-	-	**5 000 000**
Total transactions with owners, recorded directly in equity	-	-	**5 000 000**	-	-	-	**5 000 000**
31 December 2014	**15 329 692**	**9 768 757**	**5 000 000**	**1 115 928**	**(1 277 529)**	**30 050 642**	**59 987 490**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 15 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 58 branches, 841 ATMs and 5 683 payment terminals.

The principal subsidiaries of the Group are as follows:

			Degree of control, %	
Name	**Country of incorporation**	**Principal activities**	**31 December 2014**	**31 December 2013**
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Invest	Russia	Transactions with securities	100%	100%
MKB-Leasing	Russia	Finance leasing	100%	100%
M-Leasing	Russia	Finance leasing	100%	100%
CJSC Mortgage Agent MKB	Russia	Raising finance	100%	-

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", "MKB-Invest" and CJSC "Mortgage Agent MKB". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. MKB-Invest is controlled by the Group through an option agreement. Mortgage Agent MKB was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014.

Shareholders

In 2014 the Bank commenced its share capital increase by placement of 1 272 264 631 additional ordinary shares. The new shares were acquired by the current majority shareholder Concern Rossium, LLC through placement of a subordinated loan in the Bank in December 2014 that was subsequently used for purchase of shares upon completion of their registration. As at 31 December 2014 the share issue was in the process of registration. In February 2015 the CBR registered the Bank's share capital increase (note 21).

The Bank's shareholders as at 31 December 2014 are:

Concern Rossium, LLC – 85.00%

European Bank for Reconstruction and Development (EBRD) – 7.50%

RBOF Holding Company I Ltd. – 4.61%

International Finance Corporation (IFC) – 2.89%.

The sole shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

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

Functional and presentation currency

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

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

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

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 31 in respect of estimates of fair values of financial assets and liabilities.

Significant accounting judgments include classification of a subordinated debt received from the current majority shareholder as equity based on the contractual arrangement that established the unconditional right for the Bank to repay the subordinated debt by issuance of fixed number of additional ordinary shares to the majority shareholder.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements except changes which are described at the end of this note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss or qualifying cash flow hedges, which are recognized in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amotised cosr in the consolidated statement of financial position.

Financial instruments

Classification

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

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

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

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

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

- held-to-maturity investments which are measured at amortized cost using the effective interest method

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

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

Amortized cost

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

Fair value measurement principles

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

When available, the Group 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 Group 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 Group 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 recognized 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.

Gains and losses on subsequent measurement

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

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

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

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.

Derecognition

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

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

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

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

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments (“net investment in leases”) is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

Leased assets

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

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

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

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

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

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

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

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

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

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

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

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

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank’s contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer’s decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

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

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

Segment reporting

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

Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2014:

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32 Financial Instruments: Presentation)

Amendments to IAS 32 Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

These amendments do not have an impact on its financial statements as the Group does present financial assets and financial liabilities on net basis in the consolidated statement of financial position.

- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36 Impairment of Assets)

Amendment requires detailed disclosure of how fair value less cost of disposal has been measured when an impairment loss has been recognized or reversed, including key assumptions and the level of fair value hierarchy for which the fair value measurement is categorized. At the same time the amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of new standards on its financial position or performance.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2014 RUB'000	31 December 2013 RUB'000
Interest income		
Loans to customers	50 741 052	37 055 112
Financial instruments at fair value through profit or loss and available-for-sale securities	5 272 563	3 837 720
Due from credit institutions and the Central Bank of the Russian Federation	2 094 927	1 120 073
	58 108 542	**42 012 905**
Interest expense		
Deposits by customers	(21 151 465)	(16 810 152)
Debt securities issued	(7 754 569)	(6 116 438)
Deposits by credit institutions and the Central Bank of the Russian Federation	(3 394 849)	(1 706 070)
	(32 300 883)	**(24 632 660)**
Net interest income	**25 807 659**	**17 380 245**

5 Net fee and commission income

	31 December 2014 RUB'000	31 December 2013 RUB'000
Fee and commission income		
Insurance contracts processing	2 047 498	2 319 732
Guarantees and letters of credit	1 715 822	1 154 130
Plastic cards	1 631 646	671 001
Settlements and wire transfers	1 613 713	1 211 626
Cash handling	1 247 386	1 183 623
Other cash operations	344 384	229 213
Currency exchange commission	220 613	219 208
Other	280 996	216 702
	9 102 058	**7 205 235**
Fee and commission expense		
Settlements and wire transfers	(1 522 351)	(550 314)
Other	(295 184)	(229 311)
	(1 817 535)	**(779 625)**
Net fee and commission income	**7 284 523**	**6 425 610**

6 Salaries, employment benefits and administrative expenses

	31 December 2014 RUB'000	31 December 2013 RUB'000
Salaries	4 263 245	3 530 518
Social security costs	953 730	843 989
Other	118 173	93 684
Salaries and employment benefits	**5 335 148**	**4 468 191**
Occupancy	944 099	755 171
Advertising and business development	840 848	570 957
Operating taxes	573 843	351 782
Property maintenance	357 596	245 214
Security	299 589	262 392
Write-off of low-value fixed assets	173 663	213 896
Computer maintenance and software expenses	109 339	71 860
Communications	101 044	57 149
Transport	97 982	64 277
Other	139 767	130 517
Administrative expenses	**3 637 770**	**2 723 215**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	31 December 2014 RUB'000	31 December 2013 RUB'000
Provision for impairment of credit related commitments	(187 311)	12 900
Provision for impairment of other assets	230 256	171 277
Other provisions	**42 945**	**184 177**

8 Income tax

	31 December 2014 RUB'000	31 December 2013 RUB'000
Current tax charge	822 025	1 779 756
Deferred taxation	626 180	534 010
Income tax expense	**1 448 205**	**2 313 766**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2014 and 2013.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2014 RUB'000	%	31 December 2013 RUB'000	%
Income before tax	7 017 538		11 193 829	
Income tax using the applicable tax rate	1 403 508	20.0%	2 238 766	20.0%
Income taxed at lower rates	(41 067)	(0.6%)	(33 059)	(0.3%)
Net non-deductible costs	85 764	1.2%	108 059	1.0%
Income tax expense	**1 448 205**	**20.6%**	**2 313 766**	**20.7%**

Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows.

RUB'000	Balance 1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income and equity	Balance 31 December 2014
Due from credit institutions	13 569	(10 733)	-	2 836
Financial instruments at fair value through profit or loss	70 510	(72 710)	-	(2 200)
Available-for-sale securities	(13 614)	658 426	(309 972)	334 840
Loans to customers	1 633 528	(102 384)	-	1 531 144
Property and equipment	425 200	50 877	-	476 077
Other assets	(39 457)	(9 284)	-	(48 741)
Deposits by credit institutions	2 278	17 640	-	19 918
Deposits by customers	-	390	-	390
Debt securities issued	46 395	(560)	-	45 835
Other liabilities	(258 282)	94 518	-	(163 764)
Total deferred tax liability (deferred tax asset)	**1 880 127**	**626 180**	**(309 972)**	**2 196 335**

RUB'000	Balance 1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income and equity	Balance 31 December 2013
Due from credit institutions	2 100	11 469	-	13 569
Financial instruments at fair value through profit or loss	17 059	53 451	-	70 510
Available-for-sale securities	(5 171)	4 982	(13 425)	(13 614)
Loans to customers	958 180	675 348	-	1 633 528
Property and equipment	406 641	18 559	-	425 200
Other assets	(49 498)	10 041	-	(39 457)
Deposits by credit institutions	34 809	(32 531)	-	2 278
Deposits by customers	1 215 249	33 803	(1 249 052)	-
Debt securities issued	14 015	32 380	-	46 395
Other liabilities	15 210	(273 492)	-	(258 282)
Total deferred tax liability (deferred tax asset)	**2 608 594**	**534 010**	**(1 262 477)**	**1 880 127**

Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

	2014			2013		
RUB'000	Amount before tax	Tax benefit	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Revaluation reserve for available-for-sale securities	(1 549 862)	309 972	(1 239 890)	(67 125)	13 425	(53 700)
Other comprehensive income	**(1 549 862)**	**309 972**	**(1 239 890)**	**(67 125)**	**13 425**	**(53 700)**

9 Cash and cash equivalents

	31 December 2014 RUB'000	31 December 2013 RUB'000
Cash on hand	12 529 291	10 312 841
Correspondent account with the Central Bank of the Russian Federation	8 522 827	13 719 643
Nostro accounts with other banks		
rated from AA+ to AA-	11 851 004	721 960
rated from A+ to A-	7 233 613	3 168 085
rated from BBB+ to BBB-	3 986 168	1 548 056
rated from BB+ to BB-	4 084 581	1 412 775
rated from B+ to B-	75 452	58 601
not rated	423 064	478 463
Total nostro accounts with other banks	**27 653 882**	**7 387 940**

	31 December 2014 RUB'000	31 December 2013 RUB'000
Due from credit institutions with maturity of less than 1 month		
Deposits with the Central Bank of the Russian Federation	36 600 000	12 000 000
rated from A+ to A-	8 392 430	6 689 761
rated from BBB+ to BBB-	2 000 287	2 500 437
rated from BB+ to BB-	292 413	-
rated from B+ to B-	16 655 517	11 441 144
not rated	6 050 274	3 013 154
Total due from credit institutions with maturity of less than 1 month	**69 990 921**	**35 644 496**
Total cash and cash equivalents	**118 696 921**	**67 064 920**

Ratings are based on Standard & Poor's rating system.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2014 receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 14 785 302 thousand (31 December 2013: RUB 13 876 923 thousand).

As at 31 December 2014, not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 6 041 252 thousand (31 December 2013: RUB 3 013 154 thousand).

As at 31 December 2014, the Group has no counterparties except for the CBR (31 December 2013: one counterparty) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2014 is nil (31 December 2013: RUB 25 719 643 thousand).

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit institutions

	31 December 2014 RUB'000	31 December 2013 RUB'000
Term deposits		
rated from BBB+ to BBB-	88 000	-
rated from B+ to B-	6 792 576	9 134 652
not rated	-	1 331 365
Total due from credit institutions	**6 880 576**	**10 466 017**

No amounts due from credit institutions are impaired or past due.

As at 31 December 2014, the Group has four counterparties (31 December 2013: two counterparties) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these balances as at 31 December 2014 is RUB 6 792 576 thousand (31 December 2013: RUB 7 036 270 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2014 RUB'000	31 December 2013 RUB'000
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	697 718
Moscow Government bonds	115 020	529 188
Regional authorities and municipal bonds	7 244 254	6 883 716
Corporate bonds		
rated AAA	842 067	152 669
from BBB+ to BBB-	9 907 665	5 003 704
from BB+ to BB-	15 233 908	1 974 860
from B+ to B-	8 081 725	9 812 311
from CCC+ to CCC-	47 184	-
not rated	7 238 900	4 606 902
Derivative financial instruments	1 015 387	197 313
Total held by the Group	**49 726 110**	**29 858 381**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Regional authorities and municipal bonds	138 501	2 228 405
Corporate bonds		
from BBB+ to BBB-	-	2 974 542
from BB+ to BB-	-	2 142 751
not rated	-	208 106
Total pledged under sale and repurchase agreements	**138 501**	**7 553 804**
Total financial instruments at fair value through profit or loss	**49 864 611**	**37 412 185**

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2014, debt instruments in the amount of RUB 43 154 979 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2013: RUB 25 583 495 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2014 and 2013 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognized in profit or loss and in financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2014 RUB'000	**2013 RUB'000**	**2014**	**2013**
Buy USD sell RUB				
Less than 3 months	11 876 712	4 058 439	55.8263	32.1414
Buy RUB sell USD				
Less than 3 months	6 385 328	2 120 852	56.6864	32.8823
Buy RUB sell EUR				
Less than 3 months	-	16 864	-	44.8600
Between 3 months and 6 months	5 809 130	-	76.2319	-
Buy EUR sell RUB				
Less than 3 months	-	15 339	-	45.1134
Between 3 months and 6 months	5 758 920	-	67.7520	-
Buy CNY sell RUB				
Less than 3 months	5 110	-	9.3247	-
Buy EUR sell USD				
Less than 3 months	-	674	-	1.3743

12 Available-for-sale securities

	31 December 2014 RUB'000	**31 December 2013 RUB'000**
Held by the Group		
Corporate bonds		
from BBB+ to BBB-	5 337 406	915 894
from BB+ to BB-	3 968 073	815 781
from B+ to B-	1 613 542	1 483 679
not rated	-	60 385
Promissory notes		
from BBB+ to BBB-	-	1 404 848
from BB+ to BB-	-	3 208 017
from B+ to B-	-	1 723 193
not rated	192 549	941 440
Equity investments	55	4 661
Total held by the Group	**11 111 625**	**10 557 898**
Pledged under sale and repurchase agreements		
Corporate bonds		
from BBB+ to BBB-	-	5 842 803
from BB+ to BB-	-	1 159 761
from B+ to B-	-	504 820
Total pledged under sale and repurchase agreements	**-**	**7 507 384**

	31 December 2014 RUB'000	31 December 2013 RUB'000
Pledged as collateral for interbank and other loans		
Promissory notes		
from BBB+ to BBB-	-	468 282
Total pledged as collateral for interbank and other loans	**-**	**468 282**
Total available-for-sale securities	**11 111 625**	**18 533 564**

No available-for-sale securities are past due.

As at 31 December 2014, debt instruments in the amount of RUB 9 707 306 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2013: RUB 4 230 210 thousand).

13 Loans to customers

	31 December 2014 RUB'000	31 December 2014 RUB'000	31 December 2013 RUB'000	31 December 2013 RUB'000
	Loans	**Impairment allowance**	**Loans**	**Impairment allowance**
Loans to corporate clients	**265 917 879**	**(8 366 428)**	**220 010 070**	**(4 453 275)**
Loans to individuals				
Auto loans	8 493 575	(120 461)	10 305 656	(111 366)
Mortgage loans	19 665 252	(305 563)	15 677 650	(186 329)
Credit card loans	5 163 899	(618 437)	3 680 456	(309 052)
Other loans to individuals	94 949 919	(6 765 307)	68 185 781	(3 858 981)
Total loans to individuals	**128 272 645**	**(7 809 768)**	**97 849 543**	**(4 465 728)**
Gross loans to customers	**394 190 524**	**(16 176 196)**	**317 859 613**	**(8 919 003)**
Net loans to customers	**378 014 328**		**308 940 610**	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2014 and 2013:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Loans to customers		
- Not past due	361 562 775	303 860 751
- Not past due but impaired	18 074 192	6 161 291
- Overdue less than 31 days	3 341 060	2 138 075
- Overdue 31-60 days	1 263 771	832 030
- Overdue 61-90 days	881 005	673 036
- Overdue 91-180 days	2 558 685	1 576 806
- Overdue 181-360 days	4 614 081	1 765 664
- Overdue more than 360 days	1 894 955	851 960
Total gross loans to customers	**394 190 524**	**317 859 613**
Impairment allowance	**(16 176 196)**	**(8 919 003)**
Total net loans to customers	**378 014 328**	**308 940 610**

As at 31 December 2014, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 14 553 557 thousand, which represents 3.7% of the gross loan portfolio (31 December 2013: RUB 7 837 571 thousand and 2.5% respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 9 067 721 thousand or 2.3% of the gross loan portfolio (31 December 2013: RUB 4 194 430 thousand and 1.3%, respectively).

NPLs together with restructured loans amount to RUB 16 798 454 thousand or 4.3% of the gross loan portfolio (31 December 2013: RUB 4 955 223 thousand and 1.6%, respectively).

As at 31 December 2014, the ratio of total impairment allowance to overdue loans equals 111.2%, the ratio of total impairment allowance to NPLs equals 178.4 % and the ratio of total impairment allowance to NPLs together with restructured loans equals 96.3% (31 December 2013: 113.8%, 212.6% and 180.0%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2014 and 31 December 2013 are as follows:

	2014 RUB'000	2013 RUB'000
Balance at the beginning of the period	**8 919 003**	**4 698 726**
Net charge	11 645 153	5 498 815
Net write-offs	(4 387 960)	(1 278 538)
Balance at the end of the period	**16 176 196**	**8 919 003**

As at 31 December 2014, interest accrued on overdue and impaired loans amounts to RUB 802 934 thousand (31 December 2013: RUB 547 321 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2014 and 31 December 2013:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Loans to corporate clients		
- Not past due	244 633 302	213 315 950
- Not past due but impaired	18 074 192	6 161 291
- Overdue less than 31 days	1 755 632	120 135
- Overdue 31-60 days	337 509	24 475
- Overdue 61-90 days	107 039	29 566
- Overdue 91-180 days	386 288	239 256
- Overdue 181-360 days	607 032	96 508
- Overdue more than 360 days	16 885	22 889
Total gross loans to corporate clients	**265 917 879**	**220 010 070**
Impairment allowance	**(8 366 428)**	**(4 453 275)**
Total net loans to corporate clients	**257 551 451**	**215 556 795**

Included in not past due loans to corporate clients as at 31 December 2014 are loans in the amount of RUB 7 386 443 thousand (31 December 2013: RUB 6 472 157 thousand) against which impairment allowance of RUB 295 458 thousand was recognised (31 December 2013: RUB 258 886 thousand). Financial standing of these borrowers showed negative developments in 2014. Management monitors the situation and based on the understanding of the current developments, analysis of collateral and other factors, believes that impairment allowance is appropriate. The Group is the largest lender to these companies, as such, the Group has the ability to monitor operating activities of these borrowers in order to protect its rights as a lender.

As at 31 December 2014, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent (31 December 2013: one percent), the impairment allowance as at 31 December 2014 would decrease/increase by RUB 5 151 029 thousand (31 December 2013: RUB 2 155 568 thousand).

The following table represents information about concentration of loans to corporate clients as at 31 December 2014 and 31 December 2013:

	31 December 2014		**31 December 2013**	
	RUB’000	**% of total loan portfolio**	**RUB’000**	**% of total loan portfolio**
Top 5 clients	44 086 955	11.2	30 093 795	9.5
Top 10 clients	77 848 603	19.7	53 166 671	16.7
Top 20 clients	118 347 021	30.0	87 790 694	27.6

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate (manufacturing premises, warehouses), equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2014 and 31 December 2013:

	31 December 2014	**31 December 2013**
	RUB’000	**RUB’000**
Real estate	67 975 785	36 255 555
Securities	31 324 899	30 487 469
Goods in turnover	24 369 121	29 305 369
Claims for contract receivables	11 495 806	16 822 515
Equipment and motor vehicles	11 157 034	8 374 778
Bank’s own debt securities	182 726	1 787 670
Corporate guarantees and no collateral	111 046 080	92 523 439
	257 551 451	**215 556 795**

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

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

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

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 3 019 988 thousand higher without any collateral as at 31 December 2014.

Collateral obtained

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2014, the carrying amount of such assets was RUB 3 525 081 thousand (31 December 2013: RUB 2 996 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2014 and 31 December 2013 are as follows:

	2014 RUB'000	2013 RUB'000
Balance at the beginning of the period	4 453 275	3 058 623
Net charge	4 811 710	1 804 774
Net write-offs	(898 557)	(410 122)
Balance at the end of the period	**8 366 428**	**4 453 275**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2014:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	8 231 688	18 613 314	4 285 871	85 798 600	116 929 473
- Overdue less than 31 days	38 895	196 019	1 521	1 348 993	1 585 428
- Overdue 31-60 days	23 094	112 733	81 393	709 042	926 262
- Overdue 61-90 days	17 596	42 209	71 866	642 295	773 966
- Overdue 91-180 days	44 461	160 623	178 233	1 789 080	2 172 397
- Overdue 181-360 days	93 655	164 958	391 589	3 356 847	4 007 049
- Overdue more than 360 days	44 186	375 396	153 426	1 305 062	1 878 070
Gross loans	**8 493 575**	**19 665 252**	**5 163 899**	**94 949 919**	**128 272 645**
Impairment allowance	**(120 461)**	**(305 563)**	**(618 437)**	**(6 765 307)**	**(7 809 768)**
Net loans	**8 373 114**	**19 359 689**	**4 545 462**	**88 184 612**	**120 462 877**

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

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	10 004 501	15 096 667	2 637 275	62 806 358	90 544 801
- Overdue less than 31 days	63 942	114 877	620 353	1 218 768	2 017 940
- Overdue 31-60 days	23 243	34 942	92 872	656 498	807 555
- Overdue 61-90 days	27 721	32 312	55 190	528 247	643 470
- Overdue 91-180 days	45 339	19 383	141 249	1 131 579	1 337 550
- Overdue 181-360 days	97 141	45 867	110 698	1 415 450	1 669 156
- Overdue more than 360 days	43 769	333 602	22 819	428 881	829 071
Gross loans	**10 305 656**	**15 677 650**	**3 680 456**	**68 185 781**	**97 849 543**
Impairment allowance	**(111 366)**	**(186 329)**	**(309 052)**	**(3 858 981)**	**(4 465 728)**
Net loans	**10 194 290**	**15 491 321**	**3 371 404**	**64 326 800**	**93 383 815**

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months and the fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past 24 months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent (31 December 2013: one percent), the impairment allowance as at 31 December 2014 would increase/decrease by RUB 3 613 886 thousand (31 December 2013: RUB 933 838 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2014, impaired mortgage loans in the gross amount of RUB 1 051 939 thousand are secured by collateral with a fair value of RUB 800 317 thousand (31 December 2013: RUB 580 983 thousand and RUB 484 151 thousand, respectively). As at 31 December 2014, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 332 234 thousand (31 December 2013: RUB 113 342 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2014 are as follows:

	Auto loans RUB'000	Mortgage loans RUB'000	Credit card loans RUB'000	Consumer loans RUB'000	Total RUB'000
Balance at the beginning of the period	111 366	186 329	309 052	3 858 981	4 465 728
Net charge	153 371	122 259	555 935	6 001 878	6 833 443
Net write-offs	(144 276)	(3 025)	(246 550)	(3 095 552)	(3 489 403)
Balance at the end of the period	**120 461**	**305 563**	**618 437**	**6 765 307**	**7 809 768**

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2013 are as follows:

	Auto loans RUB'000	Mortgage loans RUB'000	Credit card loans RUB'000	Consumer loans RUB'000	Total RUB'000
Balance at the beginning of the period	56 800	219 648	81 576	1 282 079	1 640 103
Net charge (recovery)	99 125	(33 319)	281 106	3 347 129	3 694 041
Net write-offs	(44 559)	-	(53 630)	(770 227)	(868 416)
Balance at the end of the period	**111 366**	**186 329**	**309 052**	**3 858 981**	**4 465 728**

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Loans to individuals	128 272 645	97 849 543
Residential and commercial construction and development	32 896 516	23 347 068
Services	29 283 288	12 589 630
Automotive, motorcycles and spare parts	26 525 458	19 114 136
Food and farm products	24 130 079	28 148 042
Oil and industrial chemicals	21 780 382	14 935 835
Metallurgical	20 644 628	20 133 322
Financial	16 207 141	6 245 239
Clothing, shoes, textiles and sporting goods	15 805 953	11 121 156
Consumer electronics, appliances and computers	14 531 414	26 902 297
Industrial and infrastructure construction	12 990 509	8 342 728
Property rental	11 878 567	5 545 992
Industrial equipment and machinery	9 189 011	6 341 601
Pharmaceutical and medical products	8 456 534	11 774 075
Construction and decorative materials, furniture	6 082 450	6 581 178
Telecommunications	2 725 139	1 241 131
Paper, stationery and packaging products	2 052 741	7 692 161
Consumer chemicals, perfumes and hygiene products	1 904 249	2 235 989
Electric utility	1 686 105	1 310 007
Equipment leasing	1 310 709	1 748 930
Gardening and pet products	911 264	970 578
Products for home, gifts, jewelry and business accessories	344 065	560 088
Books, video, print and copy	308 363	282 476
Other	4 273 314	2 846 411
	394 190 524	**317 859 613**
Impairment allowance	(16 176 196)	(8 919 003)
	378 014 328	**308 940 610**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Gross investment in finance lease	9 563 693	7 843 462
Unearned interest income	(1 927 568)	(1 803 523)
Net investment in finance lease before allowance	**7 636 125**	**6 039 939**
Impairment allowance	(162 527)	(319 888)
Net investment in finance lease	**7 473 598**	**5 720 051**

The contractual maturity of the net investment in leases is as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Less than 1 year	4 143 406	2 911 102
Between 1 and 5 years	3 155 946	2 483 340
More than 5 years	174 246	325 609
	7 473 598	**5 720 051**

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2014 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2014	**4 770 815**	**457 241**	**260 798**	**1 656 076**	**106 403**	**7 251 333**
Additions	1 420 259	57 504	82 985	298 742	21 278	1 880 768
Disposals	-	(27 629)	(14 695)	(78 380)	(4 967)	(125 671)
Transfers	-	-	-	52 376	(52 376)	-
At 31 December 2014	**6 191 074**	**487 116**	**329 088**	**1 928 814**	**70 338**	**9 006 430**
Accumulated depreciation						
At 1 January 2014	**103 623**	**177 993**	**154 267**	**736 421**	**-**	**1 172 304**
Depreciation charge	108 770	91 089	53 694	276 172	-	529 725
Disposals	-	(24 904)	(14 695)	(55 340)	-	(94 939)
At 31 December 2014	**212 393**	**244 178**	**193 266**	**957 253**	**-**	**1 607 090**
Carrying value						
At 31 December 2014	**5 978 681**	**242 938**	**135 822**	**971 561**	**70 338**	**7 399 340**

The movement in property and equipment for the year ended 31 December 2013 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2013	**4 755 123**	**369 460**	**341 639**	**1 321 655**	**62 716**	**6 850 593**
Additions	15 692	106 714	45 008	230 433	99 115	496 962
Disposals	-	(21 431)	(13 463)	(59 820)	(1 508)	(96 222)
Transfers	-	2 498	(112 386)	163 808	(53 920)	-
At 31 December 2013	**4 770 815**	**457 241**	**260 798**	**1 656 076**	**106 403**	**7 251 333**
Accumulated depreciation						
At 1 January 2013	**-**	**112 198**	**137 930**	**520 845**	**-**	**770 973**
Depreciation charge	103 623	82 204	45 345	239 719	-	470 891
Disposals	-	(17 460)	(13 421)	(38 679)	-	(69 560)
Transfers	-	1 051	(15 587)	14 536	-	-
At 31 December 2013	**103 623**	**177 993**	**154 267**	**736 421**	**-**	**1 172 304**
Carrying value						
At 31 December 2013	**4 667 192**	**279 248**	**106 531**	**919 655**	**106 403**	**6 079 029**

Revalued assets

The fair value of buildings is categorised within Level 3 of the fair value hierarchy.

At 31 December 2012 buildings were revalued based on the results of an independent appraisal performed by OOO “MEF-Audit”. The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. As at 31 December 2014 the management did not perform revaluation of buildings. The management believes that carrying amount of buildings as at 31 December 2014 is not significantly different from their fair value as there were no significant changes in market value of similar real estate during 2014. The carrying value of buildings as of 31 December 2014, if the buildings would not have been revalued, would be RUB 4 659 074 thousand (31 December 2013: RUB 3 272 281 thousand).

15 Other assets

	31 December 2014 RUB`000	31 December 2013 RUB`000
Receivables under cession agreements	1 053 760	-
Funds deposited in National Settlement Depository	1 029 650	-
Receivables and settlements with suppliers	1 019 750	1 306 302
Receivables for commissions	674 303	415 232
Impairment allowance	(189 549)	(102 445)
Total other financial assets	**3 587 914**	**1 619 089**
Real estate held for sale	3 712 809	187 728
Profit tax receivable	1 311 489	29 709
Intangible assets	141 564	150 680
Deferred expenses	130 509	84 003

	31 December 2014 RUB`000	31 December 2013 RUB`000
Advance for purchase of building	-	472 000
Other	326 147	62 508
Total other non-financial assets	**5 622 518**	**986 628**
Total other assets	**9 210 432**	**2 605 717**

Included in real estate held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans in 2014.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2014 and 31 December 2013 are as follows:

	2014 RUB'000	2013 RUB'000
Balance at the beginning of the year	**102 445**	**56 983**
Net charge	230 256	171 277
Write-offs	(143 152)	(125 815)
Balance at the end of the year	**189 549**	**102 445**

16 Deposits by the Central Bank of the Russian Federation

	31 December 2014 RUB'000	31 December 2013 RUB'000
Term deposits	11 499 196	8 513 459
Payables under repurchase agreements or collateralized loans	95 235	6 052 712
Total deposits by the Central Bank of the Russian Federation	**11 594 431**	**14 566 171**

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of the Russian Federation is presented in note 29.

17 Deposits by credit institutions

	31 December 2014 RUB'000	31 December 2013 RUB'000
Demand deposits	772 086	335 793
Term deposits	29 908 945	15 832 104
Payables under repurchase agreements or collateralized loans	-	6 909 639
Syndicated loans	22 471 131	650 756
Subordinated debt	1 150 791	669 820
Total deposits by credit institutions	**54 302 953**	**24 398 112**

Syndicated loans represent loans denominated in USD with an effective interest rate from 2.07% to 5.04% and EUR of 1.93% (31 December 2013: in USD 5.1%) and maturity in 2015 (31 December 2013: from 2014 to 2015).

Subordinated debt represents loans denominated in USD with an effective interest rate of 6.8% (31 December 2013: 7.0%) and maturity in 2017 (31 December 2013: in 2017).

The Group is required to meet certain covenants attached to syndicated loans, subordinated debt and bilateral loans from the IFC, EBRD and the Black Sea Trade And Development Bank. As at 31 December 2014 and 2013, the Group fully meets all covenants of the loan agreements.

As at 31 December 2014, the Group has no counterparties (31 December 2013: two counterparties) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of this balance as at 31 December 2014 is nil (31 December 2013: RUB 7 036 270 thousand).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

18 Deposits by customers

		31 December 2014 RUB'000	**31 December 2013 RUB'000**
Corporate customers	Demand	19 023 561	42 456 110
	Term	152 095 958	96 342 152
	Term notes	332 709	1 607 146
Total corporate customers		**171 452 228**	**140 405 408**
Individuals	Demand	10 786 340	9 682 192
	Term	152 613 630	124 784 404
Total individuals		**163 399 970**	**134 466 596**
Total deposits by customers		**334 852 198**	**274 872 004**

As at 31 December 2014 and 31 December 2013, there are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2014 RUB'000	**31 December 2013 RUB'000**
Promissory notes issued at nominal value	5 025 999	6 925 845
Accrued interest	19 874	7 118
Unamortized discount	(79 913)	(274 384)
Total promissory notes issued	**4 965 960**	**6 658 579**
Subordinated bonds	36 952 827	21 562 286
Bonds	76 702 517	56 332 651
Total bonds issued	**113 655 344**	**77 894 937**
Total debt securities issued	**118 621 304**	**84 553 516**

The table below provides a summary of bonds issued as at 31 December 2014 and 2013:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding				
		31 December 2014 RUB'000	31 December 2013 RUB'000	Issue date	Maturity date	Coupon rate
RUB denominated bonds issue 07	2 000 000	2 031 324	2 077 196	20.07.2010	14.07.2015	9.3%
RUB denominated bonds issue 08	3 000 000	3 053 007	2 908 262	14.04.2010	08.04.2015	8.65%
RUB denominated subordinated bonds issue 11	3 000 000	3 018 900	3 016 965	11.12.2012	05.06.2018	12.25%*
RUB denominated bonds issue BO-01	3 000 000	-	3 073 630	22.02.2011	22.02.2014	9.5%
RUB denominated bonds issue BO-02	3 000 000	3 013 996	2 615 549	25.09.2012	25.09.2015	8.85%
RUB denominated bonds issue BO-03	4 000 000	4 059 421	3 696 947	27.04.2012	27.04.2015	9.4%
RUB denominated bonds issue BO-04	5 000 000	-	4 800 584	15.04.2011	15.04.2014	10.25%
RUB denominated bonds issue BO-05	5 000 000	-	4 973 059	23.06.2011	23.06.2014	9.2%
RUB denominated bonds issue BO-06	5 000 000	5 061 010	5 049 858	24.10.2013	24.10.2018	8.95%
RUB denominated bonds issue BO-07	7 000 000	6 790 403	4 991 669	30.10.2013	30.10.2018	9.1%
RUB denominated subordinated bonds issue 12	2 000 000	2 084 580	2 083 900	27.02.2013	22.08.2018	12.25%*
USD denominated Eurobonds issue	200 000	-	5 959 479	28.07.2011	05.08.2014	8.25%*
USD denominated Eurobonds issue	500 000	27 377 848	16 186 418	01.02.2013	01.02.2018	7.7%*
USD denominated subordinated Eurobonds issue	500 000	28 380 937	16 461 421	13.05.2013	13.11.2018	8.7%*
RUB denominated bonds issue BO-10	5 000 000	5 143 050	-	10.07.2014	10.07.2019	10.5%
RUB denominated bonds issue BO-11	15 000 000	15 507 162	-	10.07.2014	10.07.2019	10.9%
RUB denominated subordinated Eurobonds issue	5 000 000	5 050 530	-	26.11.2014	26.05.2025	16.5%
Mortgage-backed bonds	3 702 139	3 083 176	-	11.06.2014	07.06.2039	10.7%
		113 655 344	**77 894 937**			

* *Fixed coupon rate*

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

All coupon payments are made semi-annually, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2014 RUB'000	31 December 2013 RUB'000
Payables to suppliers	1 013 333	688 584
Derivative financial instruments	229 696	3 514
Cash collection payables	190 671	317 843
Other liabilities	134 359	111 484
Total other financial liabilities	**1 568 059**	**1 121 425**
Deferred income	526 683	536 118
Allowance for credit related commitments	513 043	700 354
Payable to employees	282 714	323 001
Taxes payable	211 073	263 768
Payables to Deposit Insurance Agency	152 625	132 194
Other liabilities	16 364	364
Total other non-financial liabilities	**1 702 502**	**1 955 799**
Total other liabilities	**3 270 561**	**3 077 224**

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 14 467 761 735 shares (31 December 2013: 14 467 761 735 shares) with par value of 1 RUB per share. In addition, at 31 December 2014 the Bank has 21 808 396 273 authorized but unissued ordinary shares with an aggregate nominal value of RUB 21 808 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

In 2014 the Bank commenced its share capital increase by placement of 1 272 264 631 additional ordinary shares with a par value of 1 RUB per share. The new shares were acquired , at a price above par value by the current majority shareholder Concern Rossium, LLC for RUB 5 000 million through a placement of a RUB 5 000 million subordinated loan in the Bank in December 2014 that was subsequently used for purchase of shares upon completion of their registration. The Bank and the majority shareholder entered into a contractual arrangement that established the unconditional right for the Bank to repay the subordinated debt by issuance of fixed number of additional ordinary shares to the majority shareholder. As such, this amount was presented as equity in these consolidated financial statements as at 31 December 2014. As at 31 December 2014 the share issue was in the process of registration. In February 2015 the CBR registered the Bank's share capital increase in the amount of RUB 5 000 million.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

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

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

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

	31 December 2014 RUB'000	31 December 2013 RUB'000
Guarantees and letters of credit	67 723 944	70 165 586
Undrawn loan commitments	6 312 891	5 745 077
Other contingent liabilities	326 790	225 573
	74 363 625	**76 136 236**

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

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Less than 1 year	532 510	496 963
Between 1 and 5 years	851 308	754 773
More than 5 years	38 538	86 011
	1 422 356	**1 337 747**

During the year ended 31 December 2014 RUB 944 099 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2013: RUB 755 171 thousand).

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

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

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

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

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

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2014 and 2013 are as follows:

	31 December 2014		31 December 2013	
	Amount RUB’000	**Average effective interest rate**	**Amount RUB’000**	**Average effective interest rate**
Loans to customers				
Under control of majority shareholder	518 437	16.7%	713 175	13.6%
Management	22 478	14.9%	187 581	14.0%
Total loans	**540 915**		**900 756**	
Deposits by customers				
Majority shareholder	268 073	4.0%	3 773 757	8.2%

	31 December 2014		31 December 2013	
	Amount RUB'000	**Average effective interest rate**	**Amount RUB'000**	**Average effective interest rate**
Management	156 043	8.6%	167 823	7.1%
Under control of majority shareholder	62 405	8.4%	18 838	14.8%
Parent company	24 366	7.8%	41 350	11.0%
Total deposits	**510 887**		**4 001 768**	
Guarantees issued				
Under control of majority shareholder	-		4 606 435	
Total guarantees	**-**		**4 606 435**	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2014 and 2013 in relation to transactions with related parties are as follows:

	31 December 2014 RUB'000	**31 December 2013 RUB'000**
Interest income on loans to customers		
Under control of majority shareholder	80 280	68 922
Management	7 404	8 025
Majority shareholder	737	8 926
Total interest income	**88 421**	**85 873**
Interest expense on deposits by customers		
Majority shareholder	67 163	33 304
Parent company	13 608	36 017
Management	10 113	9 336
Under control of majority shareholder	1 450	60 796
Total interest expense	**92 334**	**139 453**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2014 and 2013 (refer to note 6) is as follows:

	31 December 2014 RUB'000	**31 December 2013 RUB'000**
Members of the Supervisory Board	52 569	76 735
Members of the Management Board	228 035	154 407
	280 604	**231 142**

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Till 31 December 2013 the Group calculated amount of capital in accordance with Provision of the CBR dated 10 February 2003 No 215-P *On methodology of calculation of own funds (capital) of the credit organisaitons* (Provision of the CBR No 215-P) and since 1 January 2014 – in accordance with Provision of the CBR dated 28 December 2012 No 395-P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)* (Provision of the CBR No 395-P).

As at 31 December 2013 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 10%. As at 31 December 2014 minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 5.0%, 5.5% and 10.0%, accordingly. Since 1 January 2015 minimum level of ratio N20.2 is 6.0%.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form. Accounting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to set limits set by the CBR and Group's internal policy this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2014 and 2013.

As per the Basel III requirements as adopted in the Russian Federation, the capital adequacy ratio of the Group based on IFRS financial statements as at 31 December is as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	25 098 449	25 098 449
Shares in the process of issue	5 000 000	-
Retained earnings	30 050 642	24 481 310
Goodwill	(301 089)	(301 089)
Intangible assets	(141 564)	(150 680)
Core tier 1	**59 706 438**	**49 127 990**
Additional capital	-	-
Total tier 1 capital	**59 706 438**	**49 127 990**
Tier 2 capital		
Revaluation surplus for buildings	1 115 928	1 115 928
Revaluation reserve for investments available-for-sale	(1 277 529)	(37 639)
Subordinated loans		
Subordinated loans from Black Sea Trade And Development Bank	360 054	353 475
Subordinated bonds	30 433 890	20 504 600
Total tier 2 capital	**30 632 343**	**21 936 365**
Total capital	**90 338 781**	**71 064 355**
Risk-weighted assets		
Banking book	459 721 138	383 956 170
Trading book	67 317 145	65 310 150
Operational risk	43 073 457	32 943 246
Total risk weighted assets	**570 111 740**	**482 209 566**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	**15.8**	**14.8**
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	**10.5**	**10.2**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	**10.5**	**10.2**

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 27 553 890 thousand (31 December 2013: RUB 16 461 421 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization beginning in April 2013, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2014 RUB'000	**31 December 2013 RUB'000**
Tier 1 capital		
Share capital and additional paid-in capital	25 098 449	25 098 449
Shares in the process of issue	5 000 000	-
Retained earnings	30 050 642	24 481 309
Goodwill	(301 089)	(301 089)
Total tier 1 capital	**59 848 002**	**49 278 669**
Tier 2 capital		
Revaluation surplus for buildings	1 115 928	1 115 928
Revaluation reserve for investments available-for-sale	(1 277 529)	(37 639)
Subordinated loans		
Subordinated loans from Black Sea Trade And Development Bank	450 067	392 750
Subordinated bonds	31 431 944	21 156 395
Total tier 2 capital	**31 720 410**	**22 627 434**
Total capital	**91 568 412**	**71 906 103**
Risk-weighted assets		
Banking book	459 721 138	383 956 170
Trading book	67 317 145	65 310 150
Total risk weighted assets	**527 038 283**	**449 266 320**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	**17.4**	**16.0**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	**11.4**	**11.0**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with Basel I established by covenants in borrowing agreements. The Group complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

28 Analysis by segment

The Group has four reportable segments (31 December 2013: five), as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Information as at 31 December 2013 an for the year then ended presented below is reclassified following the change in composition of reportable segments for consistency of presentation.

The segment breakdown of assets and liabilities is set out below:

	31 December 2014 RUB'000	31 December 2013 RUB'000
ASSETS		
Corporate banking	259 263 051	217 129 590
Retail banking	122 111 347	94 755 319
Treasury	174 024 442	123 163 845
Cash operations	12 529 291	10 312 841
Unallocated assets	16 910 861	8 840 523
Total assets	**584 838 992**	**454 202 118**
LIABILITIES		
Corporate banking	171 452 227	140 405 408
Retail banking	163 399 970	134 466 596
Treasury	184 518 688	123 517 799
Unallocated liabilities	5 480 617	5 154 268
Total liabilities	**524 851 502**	**403 544 071**

Segment information for the main reportable segments for the year ended 31 December 2014 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	30 979 213	19 761 839	7 367 490	-	-	58 108 542
Fee and commission income	3 601 122	3 752 800	156 366	1 591 770	-	9 102 058
Net loss on securities	-	-	(2 298 408)	-	-	(2 298 408)
Net foreign exchange losses	(887 260)	(283 382)	(1 315 076)	-	-	(2 485 718)
Other operating income, net	(24 013)	264 993	227 238	-	-	468 218
(Expenses) revenue from other segments	(11 741 327)	2 380 160	9 161 392	199 775	-	-
Revenue	**21 927 735**	**25 876 410**	**13 299 002**	**1 791 545**	**-**	**62 894 692**
Impairment losses on loans	(4 811 710)	(6 833 443)	-	-	-	(11 645 153)
Interest expense	(9 497 168)	(11 654 297)	(11 149 418)	-	-	(32 300 883)
Fee and commission expense	(1 526 033)	(195 831)	(94 713)	(958)	-	(1 817 535)
General administrative and other expenses	(1 321 655)	(4 192 784)	(155 534)	(1 442 738)	(3 000 872)	(10 113 583)
Expense	**(17 156 566)**	**(22 876 355)**	**(11 399 665)**	**(1 443 696)**	**(3 000 872)**	**(55 877 154)**
Segment result	**4 771 169**	**3 000 055**	**1 899 337**	**347 849**	**(3 000 872)**	**7 017 538**

Segment information for the main reportable segments for the year ended 31 December 2013 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	25 180 471	11 874 640	4 957 794	-	-	42 012 905
Fee and commission income	2 053 608	3 683 815	54 587	1 413 225	-	7 205 235
Net gain on securities	-	-	77 761	-	-	77 761
Net foreign exchange gains	192 223	40 034	175 199	-	-	407 456
Other operating income	227 887	445 215	65 527	-	-	738 629
(Expenses) revenue from other segments	(9 742 512)	5 012 552	4 566 419	163 541	-	-
Revenue	**17 911 677**	**21 056 256**	**9 897 287**	**1 576 766**	**-**	**50 441 986**
Impairment losses on loans	(1 804 774)	(3 694 041)	-	-	-	(5 498 815)
Interest expense	(5 513 172)	(11 296 980)	(7 822 508)	-	-	(24 632 660)
Fee and commission expense	(583 251)	(160 126)	(35 569)	(679)	-	(779 625)
General administrative and other expenses	(924 938)	(3 548 580)	(142 803)	(1 240 738)	(2 479 998)	(8 337 057)
Expense	**(8 826 135)**	**(18 699 727)**	**(8 000 880)**	**(1 241 417)**	**(2 479 998)**	**(39 248 157)**
Segment result	**9 085 542**	**2 356 529**	**1 896 407**	**335 349**	**(2 479 998)**	**11 193 829**

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

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

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2014, the Supervisory Board includes:

William F. Owens – Chairman

Members:

Andrew S. Gazitua

Roman I. Avdeev

Alexander N. Nikolashin

Vladimir A. Chubar

Mikhail E. Kuznetsov

Nicholas D. Haag

Thomas G. Grasse

Bernard D. Sucher

Alexey A. Stepanenko

During the year ended 31 December 2014 the following changes occurred in the composition of the Supervisory Board:

Richard D. Glasspool - resigned

Genadi Lewinski - resigned

Vadim N. Sorokin - resigned

Anton R. Avdeev - resigned

Nikolay V. Kosarev - resigned

Thomas G. Grasse – new member

Bernard D. Sucher – new member

Alexey A. Stepanenko – new member

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2014, the Management Board includes:

Vladimir A. Chubar – Chairman of the Management Board

Dmitry A. Eremin – First Deputy Chairman of the Management Board

Yury A. Ubeev – Deputy Chairman of the Management Board

Alexey V. Kosyakov – Deputy Chairman of the Management Board

Daria A. Galkina – Deputy Chairperson of the Management Board

Svetlana Sass – Chief Accountant, Member of the Management Board

During the year ended 31 December 2014 the following changes occurred in composition of the Management Board:

Yulia B. Podobrazhnykh - resigned

Marina M. Nastashkina - resigned

Evgeny V. Sandler - resigned

Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

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

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action

- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of the Regulations of the Central Bank of Russia dated 16 December 2003 No 242-P *On the organisation of internal control in credit organisations and banking groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the credit organisation's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of internal control service and risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of internal control (compliance) service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its’ consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients’ complaints
- analysis of economic reasonableness of agreements with suppliers

- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by internal audit service. The internal audit function is independent from management and reports directly to the Supervisory Board. The results of internal audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity,* Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

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

The credit policy establishes:

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

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at 31 December 2014 and 2013 is as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
ASSETS		
Cash and cash equivalents	106 167 630	56 752 079
Obligatory reserves with the Central Bank of the Russian Federation	3 360 070	2 798 987
Due from credit institutions	6 880 576	10 466 017
Financial instruments at fair value through profit or loss	49 864 611	37 214 872
Available-for-sale securities	11 111 570	18 528 903
Loans to customers	378 014 328	308 940 610
Other financial assets	3 587 914	1 619 089
Total maximum exposure to credit risk on statement of financial position	**558 986 699**	**436 320 557**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital) (see note 27). As at 31 December 2014 and 31 December 2013, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2014 and 2013.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates (mitigates) the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital) (see note 27).

N22 ratio regulates (mitigates) the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital) (see note 27).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 25 October 2013 No. 3090-U "Calculation of own funds (capital), mandatory ratios and open currency position limits for banking groups" and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2014 and 31 December 2013.

Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

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

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

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

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The tables below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014 and 2013:

31 December 2014

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability RUB'000	Gross amount of recognized financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions: Financial instruments RUB'000	Related amounts subject to offset under specific conditions: Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	19 383 683	-	19 383 683	19 383 683	-	-
Total financial assets	**19 383 683**	**-**	**19 383 683**	**19 383 683**	**-**	**-**
Sale and repurchase agreements	95 235	-	95 235	95 235	-	-
Total financial liabilities	**95 235**	**-**	**95 235**	**95 235**	**-**	**-**

31 December 2013

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability RUB'000	Gross amount of recognized financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions: Financial instruments RUB'000	Related amounts subject to offset under specific conditions: Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	15 757 655	-	15 757 655	15 757 655	-	-
Derivative financial instruments - assets	197 313	-	197 313	3 514	-	193 799
Total financial assets	**15 954 968**	**-**	**15 954 968**	**15 761 169**	**-**	**193 799**
Sale and repurchase agreements	12 962 351	-	12 962 351	12 962 351	-	-
Derivative financial instruments - liabilities	3 514	-	3 514	3 514	-	-
Total financial liabilities	**12 965 865**	**-**	**12 965 865**	**12 965 865**	**-**	**-**

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

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

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2014.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial asset/liability not in the scope of offsetting disclosure RUB'000	Note
	14 785 302	Cash and cash equivalents	118 696 921	103 911 619	9
Reverse sale and repurchase agreements	4 598 381	Due from credit institutions	6 880 576	2 282 195	10
Sale and repurchase agreements	95 235	Deposits by the Central Bank of the Russian Federation	11 594 431	11 499 196	16

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2013.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial asset/liability not in the scope of offsetting disclosure RUB'000	Note
	13 876 923	Cash and cash equivalents	67 064 920	53 187 997	9
Reverse sale and repurchase agreements	1 880 732	Due from credit institutions	10 466 017	8 585 285	10
	6 052 712	Deposits by the Central Bank of the Russian Federation	14 566 171	8 513 459	16
Sale and repurchase agreements	6 909 639	Deposits by credit institutions	24 398 112	17 488 473	17
Derivative financial instruments - assets	197 313	Financial instruments at fair value through profit or loss	37 412 185	37 214 872	11
Derivative financial instruments - liabilities	3 514	Other liabilities	3 077 224	3 073 709	20

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Division on important developments and issues. The Head of Internal Control Division reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group 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 Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Group was in compliance with these ratios as at 31 December 2014 and 2013.

The following tables as at 31 December 2014 and 2013 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2014	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES						
Deposits by the CBR	5 219 450	6 487 655	96 965	-	**11 804 070**	**11 594 431**
Deposits by credit institutions	7 938 559	31 751 202	7 159 674	9 180 940	**56 030 375**	**54 302 953**
Deposits by customers	111 410 664	104 727 101	68 452 686	74 065 848	**358 656 299**	**334 852 198**
Debt securities issued	2 552 445	13 499 922	19 570 101	109 910 990	**145 533 458**	**118 621 304**
Other financial liabilities	512 156	590 679	465 224	-	**1 568 059**	**1 568 059**
Total contractual future payments for financial obligations as at 31 December 2014	**127 633 274**	**157 056 559**	**95 744 650**	**193 157 778**	**573 592 261**	**520 938 945**
Guarantees and letters of credit	67 723 944	-	-	-	**67 723 944**	
Credit related commitments	6 312 891	-	-	-	**6 312 891**	

31 December 2013	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**	**Carrying value**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
LIABILITIES						
Deposits by the CBR	6 066 569	3 558 323	5 195 115	-	**14 820 007**	**14 566 171**
Deposits by credit institutions	4 933 634	5 014 512	9 629 839	6 701 733	**26 279 718**	**24 398 112**
Deposits by customers	85 899 016	58 409 609	74 006 663	75 915 235	**294 230 523**	**274 872 004**
Debt securities issued	625 501	18 870 039	13 078 087	73 093 306	**105 666 933**	**84 553 516**
Other financial liabilities	1 001 143	81 185	39 097	-	**1 121 425**	**1 121 425**
Total contractual future payments for financial obligations as at 31 December 2013	**98 525 863**	**85 933 668**	**101 948 801**	**155 710 274**	**442 118 606**	**399 511 228**
Guarantees and letters of credit	70 165 586	-	-	-	**70 165 586**	
Credit related commitments	5 745 077	-	-	-	**5 745 077**	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifiing them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2014 RUB'000	31 December 2013 RUB'000
Demand and less than 1 month	8 146 506	9 861 156
From 1 to 6 months	59 995 356	31 588 153
From 6 to 12 months	30 759 951	32 086 641
More than 1 year	53 711 817	51 248 454
	152 613 630	**124 784 404**

In accordance with terms of issuance of bonds and promissory notes the holders are entitled to demand early redemption of bonds and promissory notes at their nominal value at certain dates. Management believes debt securities issued to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. Maturity based on early redemption dates for 31 December 2014 and 2013 is shown in the tables below:

31 December 2014	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	Total RUB'000
Promissory notes issued	2 246 174	2 719 786	-	-	-	-	**4 965 960**
Bonds issued	-	7 112 428	10 105 773	6 790 403	81 512 476	8 134 264	**113 655 344**

31 December 2013	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	Total RUB'000
Promissory notes issued	530 932	2 790 331	3 337 316	-	-	-	**6 658 579**
Bonds issued	2 077 196	12 847 273	5 959 479	19 262 285	37 748 704	-	**77 894 937**

The following tables show all assets and liabilities as at 31 December 2014 and 2013 by their remaining contractual maturities, including term deposits with individuals and debt securities issued, with the exception of securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly in response to liquidity needs, if necessary. The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2014 and 2013 the contractual maturities of all securities included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2014	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	1 477 498	11 376 681	17 829 788	13 315 217	5 306 671	558 756	-	**49 864 611**
Available-for-sale securities	104 868	464 984	3 355 503	3 503 524	3 304 900	377 791	55	**11 111 625**

31 December 2013	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	766 131	3 169 199	5 890 731	12 499 667	13 807 416	1 279 041	-	**37 412 185**
Available-for-sale securities	1 990 647	3 452 409	3 414 644	3 204 647	5 155 984	1 310 572	4 661	**18 533 564**

31 December 2014	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 to 9 months RUB'000	9 months to 1 year RUB'000	1 to 2 years RUB'000	2 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS												
Cash and cash equivalents	118 696 921	-	-	-	-	-	-	-	-	-	-	**118 696 921**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	3 360 070	-	**3 360 070**
Due from credit institutions	1 145 728	5 734 848	-	-	-	-	-	-	-	-	-	**6 880 576**
Financial instruments at fair value through profit or loss	43 595 418	-	2 762 742	-	1 512 042	503 535	-	1 490 874	-	-	-	**49 864 611**
Available-for-sale securities	9 804 644	51 923	35 760	313 150	-	760 512	-	63 634	81 947	55	-	**11 111 625**
Loans to customers	22 725 911	61 782 830	36 896 767	22 575 440	24 931 404	55 085 438	38 367 556	58 690 448	50 459 492	-	6 499 042	**378 014 328**
Property and equipment	-	-	-	-	-	-	-	-	-	7 399 340	-	**7 399 340**
Goodwill	-	-	-	-	-	-	-	-	-	301 089	-	**301 089**
Other assets	1 846 341	535 476	1 561 277	940 869	403 641	85 500	446	-	-	3 836 882	-	**9 210 432**
	197 814 963	**68 105 077**	**41 256 546**	**23 829 459**	**26 847 087**	**56 434 985**	**38 368 002**	**60 244 956**	**50 541 439**	**14 897 436**	**6 499 042**	**584 838 992**
LIABILITIES												
Deposits by the CBR	5 182 534	4 662 899	1 653 763	-	95 235	-	-	-	-	-	-	**11 594 431**
Deposits by credit institutions	7 930 108	27 859 288	3 744 917	5 722 025	1 216 375	2 787 002	3 332 260	784 412	926 566	-	-	**54 302 953**
Deposits by customers	110 934 205	68 535 075	32 432 520	35 147 077	27 854 352	14 802 607	37 019 766	8 126 596	-	-	-	**334 852 198**
Debt securities issued	2 246 173	1 768 795	8 063 419	5 044 763	-	-	-	93 363 890	8 134 264	-	-	**118 621 304**
Income tax liability	-	-	-	-	-	-	-	-	-	2 210 055	-	**2 210 055**
Other liabilities	801 841	561 087	350 054	343 792	344 766	23 695	16 604	24 713	25 211	778 798	-	**3 270 561**
	127 094 861	**103 387 144**	**46 244 673**	**46 257 657**	**29 510 728**	**17 613 304**	**40 368 630**	**102 299 611**	**9 086 041**	**2 988 853**	**-**	**524 851 502**
Net position	**70 720 102**	**(35 282 067)**	**(4 988 127)**	**(22 428 198)**	**(2 663 641)**	**38 821 681**	**(2 000 628)**	**(42 054 655)**	**41 455 398**	**11 908 583**	**6 499 042**	**59 987 490**
Cumulative position	**70 720 102**	**35 438 035**	**30 449 908**	**8 021 710**	**5 358 069**	**44 179 750**	**42 179 122**	**124 467**	**41 579 865**	**53 488 448**	**59 987 490**	

31 December 2013	**Less than 1 month RUB'000**	**1 to 3 months RUB'000**	**3 to 6 months RUB'000**	**6 to 9 months RUB'000**	**9 months to 1 year RUB'000**	**1 to 2 years RUB'000**	**2 to 3 years RUB'000**	**3 to 5 years RUB'000**	**Over 5 years RUB'000**	**No maturity RUB'000**	**Overdue RUB'000**	**Total RUB'000**
ASSETS												
Cash and cash equivalents	67 064 920	-	-	-	-	-	-	-	-	-	-	**67 064 920**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2 798 987	-	**2 798 987**
Due from credit institutions	2 521 799	7 841 121	103 097	-	-	-	-	-	-	-	-	**10 466 017**
Financial instruments at fair value through profit or loss	25 593 349	477 336	401 986	187 460	-	2 028 775	352 951	8 370 328	-	-	-	**37 412 185**
Available-for-sale securities	6 220 857	1 492 740	1 570 102	134 896	2 617 780	141 245	1 669 164	3 584 180	1 097 939	4 661		**18 533 564**
Loans to customers	14 809 970	58 596 040	47 411 689	24 999 029	15 418 199	42 652 781	26 951 612	40 867 026	33 447 427	-	3 786 837	**308 940 610**
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 029	-	**6 079 029**
Goodwill	-	-	-	-	-	-	-	-	-	301 089	-	**301 089**
Other assets	773 813	249 535	847 417	336 284	398 668	-	-	-	-	-	-	**2 605 717**
	116 984 708	**68 656 772**	**50 334 291**	**25 657 669**	**18 434 647**	**44 822 801**	**28 973 727**	**52 821 534**	**34 545 366**	**9 183 766**	**3 786 837**	**454 202 118**
LIABILITIES												
Deposits by the CBR	6 052 712	3 504 531	-	4 507 798	501 130	-	-	-	-	-	-	**14 566 171**
Deposits by credit institutions	4 930 001	3 775 209	1 189 886	1 795 745	7 216 320	1 468 023	788 646	2 619 368	614 914	-	-	**24 398 112**
Deposits by customers	85 800 492	21 367 042	35 574 530	35 830 042	33 800 466	20 831 174	32 225 438	9 442 820	-	-	-	**274 872 004**
Debt securities issued	530 933	4 261 993	11 375 612	7 987 198	1 309 599	11 297 954		47 790 227	-	-	-	**84 553 516**
Income tax liability	-	196 917	-	-	-	-	-	-	-	1 880 127	-	**2 077 044**
Other liabilities	1 441 375	222 680	162 713	162 713	162 514	-	-	-	-	925 229	-	**3 077 224**
	98 755 513	**33 328 372**	**48 302 741**	**50 283 496**	**42 990 029**	**33 597 151**	**33 014 084**	**59 852 415**	**614 914**	**2 805 356**	**-**	**403 544 071**
Net position	**18 229 195**	**35 328 400**	**2 031 550**	**(24 625 827)**	**(24 555 382)**	**11 225 650**	**(4 040 357)**	**(7 030 881)**	**33 930 452**	**6 378 410**	**3 786 837**	**50 658 047**
Cumulative position	**18 229 195**	**53 557 595**	**55 589 145**	**30 963 318**	**6 407 936**	**17 633 586**	**13 593 229**	**6 562 348**	**40 492 800**	**46 871 210**	**50 658 047**	

Market risk

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

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

Overall authority for market risk is vested in ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

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

Interest rate risk

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

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

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

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
31 December 2014						
Interest-bearing assets	95 372 382	116 256 110	68 692 135	232 329 863	6 499 042	**519 149 532**
Interest-bearing liabilities	95 667 791	148 720 676	80 140 838	164 229 392	-	**488 758 697**
Net interest sensitivity gap as at 31 December 2014	**(295 409)**	**(32 464 566)**	**(11 448 703)**	**68 100 471**	**6 499 042**	**30 390 835**
31 December 2013						
Interest-bearing assets	47 009 850	120 085 189	49 525 290	181 176 172	3 786 837	**401 583 338**
Interest-bearing liabilities	44 512 830	79 857 920	92 594 137	126 984 425	-	**343 949 312**
Net interest sensitivity gap as at 31 December 2013	**2 497 020**	**40 227 269**	**(43 068 847)**	**54 191 747**	**3 786 837**	**57 634 026**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp (31 December 2013: 100 bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
200 (100) bp parallel rise	(578 763)	(578 763)	102 073	102 073
200 (100) bp parallel fall	578 763	578 763	(102 073)	(102 073)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 200 bp (31 December 2013: 100 bp) symmetrical fall or rise in all yield curves is as follows:

	2014		2013	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
200 (100) bp parallel rise	(885 452)	(1 215 950)	(740 293)	(875 522)
200 (100) bp parallel fall	885 452	1 215 950	740 293	875 522

Currency risk

The Group 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.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 20% (31 December 2013: 10%) change in USD to RUB exchange rates is as follows:

	2014		2013	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
20% (10%) appreciation of USD against RUB	(104 804)	(104 804)	81 544	81 544
20% (10%) depreciation of USD against RUB	104 804	104 804	(81 544)	(81 544)

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2014			31 December 2013		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	2.2%	17.2%	4.9%	0.4%	6.6%	-
Due from credit institutions	-	15.3%	6.4%	3.7%	9.2%	-
Financial instruments at fair value through profit or loss						
– government and municipal bonds	-	13.7%	-	-	8.4%	-
– corporate bonds	11.3%	18.0%	-	3.3%	10.8%	-
Available-for-sale securities						
– corporate bonds	15.5%	19.1%	-	5.7%	8.9%	-
– promissory notes	-	9.8%	-	-	9.0%	4.5%
Loans to customers	10.1%	17.8%	9.7%	8.7%	14.6%	9.9%
Interest bearing liabilities						
Deposits by the CBR	2.1%	10.3%	-	-	6.0%	-
Deposits by credit institutions						
– term deposits	1.8%	12.2%	2.1%	2.6%	8.3%	2.6%
– syndicated loans	2.2%	-	1.9%	5.1%	-	-
– subordinated debt	6.8%	-	-	7.0%	-	-
Term deposits by customers	4.6%	14.9%	5.4%	3.8%	9.5%	4.3%
Debt securities issued	8.2%	10.7%	-	8.2%	9.5%	4.0%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2014				31 December 2013			
	USD	RUB	Other currencies	Total	USD	RUB	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	41 451 810	66 576 897	10 668 214	**118 696 921**	10 356 327	54 061 089	2 647 504	**67 064 920**
Obligatory reserves with the Central Bank of the Russian Federation	-	3 360 070	-	**3 360 070**	-	2 798 987	-	**2 798 987**
Due from credit institutions	-	5 832 109	1 048 467	**6 880 576**	4 018 358	6 447 659	-	**10 466 017**
Financial instruments at fair value through profit or loss	977 039	48 214 550	673 022	**49 864 611**	563 620	36 848 565	-	**37 412 185**
Available-for-sale securities	7 891 691	3 219 934	-	**11 111 625**	4 681 234	12 956 148	896 182	**18 533 564**
Loans to customers	78 156 198	293 000 004	6 858 126	**378 014 328**	50 834 296	253 305 358	4 800 956	**308 940 610**
Property and equipment	-	7 399 340	-	**7 399 340**	-	6 079 029	-	**6 079 029**
Goodwill	-	301 089	-	**301 089**	-	301 089	-	**301 089**
Other assets	149 215	9 042 503	18 714	**9 210 432**	32 957	2 527 328	45 432	**2 605 717**
	128 625 953	**436 946 496**	**19 266 543**	**584 838 992**	**70 486 792**	**375 325 252**	**8 390 074**	**454 202 118**
LIABILITIES								
Deposits by the CBR	95 235	11 499 196	-	**11 594 431**	-	14 566 171	-	**14 566 171**
Deposits by credit institutions	40 952 764	7 797 466	5 552 723	**54 302 953**	9 076 297	13 053 025	2 268 790	**24 398 112**
Deposits by customers	37 635 265	283 532 572	13 684 361	**334 852 198**	23 386 492	244 810 247	6 675 265	**274 872 004**
Debt securities issued	55 758 785	62 862 519	-	**118 621 304**	38 697 552	45 846 249	9 715	**84 553 516**
Income tax liability	-	2 210 055	-	**2 210 055**	-	2 077 044	-	**2 077 044**
Other liabilities	330 314	2 861 808	78 439	**3 270 561**	244 066	2 795 001	38 157	**3 077 224**
	134 772 363	**370 763 616**	**19 315 523**	**524 851 502**	**71 404 407**	**323 147 737**	**8 991 927**	**403 544 071**
Net position before hedging	**(6 146 410)**	**66 182 880**	**(48 980)**	**59 987 490**	**(917 615)**	**52 177 515**	**(601 853)**	**50 658 047**
Derivative financial instruments	**5 491 384**	**(5 446 284)**	**(45 100)**	**-**	**1 936 913**	**(1 936 062)**	**(851)**	**-**
Net position	**(655 026)**	**60 736 596**	**(94 080)**	**59 987 490**	**1 019 298**	**50 241 453**	**(602 704)**	**50 658 047**

Geographical risk

The geographical risk is the risk due to political economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2014 and 2013 is disclosed in the table below:

	31 December 2014				31 December 2013			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	75 603 830	30 075 851	13 017 240	**118 696 921**	55 958 355	10 369 448	737 117	**67 064 920**
Obligatory reserves with the Central Bank of the Russian Federation	3 360 070	-	-	**3 360 070**	2 798 987	-	-	**2 798 987**
Due from credit institutions	4 591 209	-	2 289 367	**6 880 576**	8 678 154	822 412	965 451	**10 466 017**
Financial instruments at fair value through profit or loss	48 035 786	1 128 178	700 647	**49 864 611**	37 412 185	-	-	**37 412 185**
Available-for-sale securities	991 506	10 120 119	-	**11 111 625**	18 533 564	-	-	**18 533 564**
Loans to customers	355 501 263	11 091 144	11 421 921	**378 014 328**	294 449 218	4 417 611	10 073 781	**308 940 610**
	488 083 664	**52 415 292**	**27 429 175**	**567 928 131**	**417 830 463**	**15 609 471**	**11 776 349**	**445 216 283**
LIABILITIES								
Deposits by the CBR	11 594 431	-	-	**11 594 431**	14 566 171	-	-	**14 566 171**
Deposits by credit institutions	19 836 114	34 432 588	34 251	**54 302 953**	14 710 970	9 665 933	21 209	**24 398 112**
Deposits by customers	333 873 149	128 224	850 825	**334 852 198**	271 431 196	459 722	2 981 086	**274 872 004**
Debt securities issued	57 811 990	60 809 314	-	**118 621 304**	45 946 198	38 607 318	-	**84 553 516**
	423 115 684	**95 370 126**	**885 076**	**519 370 886**	**346 654 535**	**48 732 973**	**3 002 295**	**398 389 803**
Net position	**64 967 980**	**(42 954 834)**	**26 544 099**	**48 557 245**	**71 175 928**	**(33 123 502)**	**8 774 054**	**46 826 480**

The majority of non-financial assets and liabilities is located in Russia.

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

RUB'000	Financial assets at fair value through profit or loss	Financial assets available for sale
2014		
Carrying amount of assets	138 501	-
Carrying amount of associated liabilities	95 235	-
2013		
Carrying amount of assets	7 553 804	7 507 384
Carrying amount of associated liabilities	7 276 108	4 959 865

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date.

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of Russian Federation (note 16) and deposits by credit institutions (note 17). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	118 696 921	-	-	118 696 921	118 696 921
Obligatory reserves with the CBR	-	3 360 070	-	-	3 360 070	3 360 070
Due from credit institutions	-	6 880 576	-	-	6 880 576	6 880 576
Financial instruments at fair value through profit or loss	49 864 611	-	-	-	49 864 611	49 864 611
Available-for-sale financial assets	-	-	11 111 625	-	11 111 625	11 111 625
Loans to customers	-	378 014 328	-	-	378 014 328	371 724 419
Other financial assets	-	3 587 914	-	-	3 587 914	3 587 914
	49 864 611	**510 539 809**	**11 111 625**	**-**	**571 516 045**	**565 226 136**
Deposits by the CBR	-	-	-	11 594 431	11 594 431	11 594 431
Deposits by credit institutions	-	-	-	54 302 953	54 302 953	54 302 953
Deposits by customers	-	-	-	334 852 198	334 852 198	326 611 827
Debt securities issued	-	-	-	118 621 304	118 621 304	93 113 981
Other financial liabilities	229 696	-	-	1 338 363	1 568 059	1 568 059
	229 696	**-**	**-**	**520 709 249**	**520 938 945**	**487 191 251**

The main assumptions are used by management to estimate the fair values of financial instruments as at 31 December 2014:

- discount rates from 18.3 to 22.1% (roubles) and from 5.4% to 11.1% (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates from 14.7% to 22.5% (roubles) and from 6.2% to 20.0% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates from 16.9% to 28.7% (roubles) and from 7.2% to 8.0% (foreign currency) are used for discounting future cash flows from retail deposits
- discount rates from 9.0% to 18.9% (roubles) and from 1.0% to 5.4% (foreign currency) are used for discounting future cash flows from corporate deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	67 064 920	-	-	67 064 920	67 064 920
Obligatory reserves with the CBR	-	2 798 987	-	-	2 798 987	2 798 987
Due from credit institutions	-	10 466 017	-	-	10 466 017	10 466 017
Financial instruments at fair value through profit or loss	37 412 185	-	-	-	37 412 185	37 412 185
Available-for-sale financial assets	-	-	18 533 564	-	18 533 564	18 533 564
Loans to customers	-	308 940 610	-	-	308 940 610	313 331 013
Other financial assets	-	1 619 089	-	-	1 619 089	1 619 089
	37 412 185	**390 889 623**	**18 533 564**	**-**	**446 835 372**	**451 225 775**
Deposits by the CBR	-	-	-	14 566 171	14 566 171	14 566 171
Deposits by credit institutions	-	-	-	24 398 112	24 398 112	24 398 112
Deposits by customers	-	-	-	274 872 004	274 872 004	275 378 789
Debt securities issued	-	-	-	84 553 516	84 553 516	86 022 257
Other financial liabilities	-	-	-	1 121 425	1 121 425	1 121 425
	-	**-**	**-**	**399 511 228**	**399 511 228**	**401 486 754**

The main assumptions are used by management to estimate the fair values of financial instruments as 31 December 2013:

- discount rates of 12.0% (roubles) and 7.4% (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 9.8% (roubles) and 3.7% (foreign currency) are used for discounting future cash flows from retail deposits.

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

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

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 55 thousand (31 December 2013: RUB 4 661 thousand) cannot be determined.

Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The tables below analyze financial assets measured at fair value on recurring basis as at 31 December 2014 and 2013, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the consolidated statement of financial position.

31 December 2014	Level 1 RUB'000	Level 2 RUB'000	Valuation technique used for Level 2	Total RUB'000
Financial assets at fair value through profit or loss	48 849 224	1 015 387	Discounted cash flows	**49 864 611**
Available-for-sale securities	10 919 021	192 549	Discounted cash flows	**11 111 570**

31 December 2013	Level 1 RUB'000	Level 2 RUB'000	Valuation technique used for Level 2	Total RUB'000
Financial assets at fair value through profit or loss	37 214 872	197 313	Discounted cash flows	**37 412 185**
Available-for-sale securities	10 783 123	7 745 780	Discounted cash flows	**18 528 903**

During 2014 and 2013 there were no transfers of assets between Level 1 and Level 2.

The following tables analyze the fair value of financial assets and liabilities not measured at fair value and for which the carrying value does not approximate fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2014 and 2013:

2014 RUB'000	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Loans to customers	-	-	371 724 419	371 724 419	378 014 328
	-	**-**	**371 724 419**	**371 724 419**	**378 014 328**
Deposits by customers	-	326 611 827	-	326 611 827	334 852 198
Debt securities issued	88 148 021	4 965 960	-	93 113 981	118 621 304
	88 148 021	**331 577 787**	**-**	**419 725 808**	**453 473 502**

2013 RUB'000	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Loans to customers	-	-	313 331 013	313 331 013	308 940 610
	-	**-**	**313 331 013**	**313 331 013**	**308 940 610**
Deposits by customers	-	275 378 789	-	275 378 789	274 872 004
Debt securities issued	79 363 678	6 658 579	-	86 022 257	84 553 516
	79 363 678	**282 037 368**	**-**	**361 401 046**	**359 425 520**

Based on the assessment made, management concluded that the fair value of all other financial assets and liabilities approximates their carrying amount.

32 Events subsequent to the reporting date

In January 2015 the Bank paid out the first coupon in the amount of RUB 264.65 million or RUB 52.93 per bond on domestic bonds series BO-10. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with a maturity of 5 years.

In January 2015 the Bank paid out the first coupon in the amount of RUB 824.25 million or RUB 54.95 per bond on domestic bonds series BO-11. The issue was originally placed on 10 July 2014 with a maturity of 5 years, the nominal value of the issue amounts to RUB 15 billion.

In January 2015 the Bank paid out the ninth coupon in the amount of RUB 92.74 million or RUB 46.37 per bond on domestic bonds series 07. The issue was originally placed on 20 July 2010 in the amount of RUB 2 billion with a maturity of 5 years.

In February 2015 CBOM Finance p.l.c. paid out the fourth coupon in the amount of USD 19.75 million on senior Loan Participation Notes issue placed in February 2013 in the amount of USD 500 million with a maturity of 5 years.

In February 2015 the Bank paid out the fourth coupon in the amount of RUB 122.16 million or RUB 61.08 per bond on domestic bonds series 12. The issue was originally placed on 27 February 2013 in the amount of RUB 2 billion with a maturity of 5.5 years.

In March 2015 the Bank repaid the USD300 mln /EUR20 mln 1-year tranche of the dual currency syndicated loan raised in March 2014, rate of interest paid amounted to 6-month LIBOR/EURIBOR + 1.75%.

In March 2015 the Bank paid out the fifth coupon in the amount of RUB 131.63 million or RUB 43.89 per bond on domestic bonds series BO-02. The issue was originally placed on 25 September 2012 in the amount of RUB 3 billion with a maturity of 3 years.

In March 2015 the Bank placed its domestic exchange bond issue series BO-09 with a nominal value of RUB 3 billion with a 5-year maturity at MICEX with a fixed coupon rate of 15.0% for the first year of floatation.

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

27 April 2015