Novosibirsk Social Commercial Bank "Levoberezhny"
(Open Joint Stock Company)

Financial Statements and Independent Auditors' Report

31 December 2014

This is a translation of Russian original. In case of disputes, prevails the Russian version of financial statements

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of the Novosibirsk Social Commercial Bank "Levoberezhny" OJSC ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Approved on behalf of the Board of Directors on 30 April 2015

Shaporenko V.V.
General Director

Kolesnikova S. V.
Chief Accountant

MOORE STEPHENS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Novosibirsk Social Commercial Bank "Levoberezhny" (Open Joint Stock Company)

Audited entity: Novosibirsk Social Commercial Bank "Levoberezhny" (Open Joint Stock Company), OGRN 1025400000010, 25/1 Plakhotnogo Street, Novosibirsk, 630054, Russian Federation.

Auditor: OOO "Moore Stephens", OGRN 1027739140857, bld. 38, Stremyanny per., 4 floor. Moscow 115054, Russia, (membership in SRO–Non-profit Partnership "Institute of Professional Auditors", registration number 11002000522)

We have audited the annual financial statements of Novosibirsk Social Commercial Bank "Levoberezhny" (OJSC) ("the Bank"), which comprise the Statement of Financial Position as at 31 December 2014, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for 2014, together with a summary of significant accounting policies and other explanatory information.

Management's responsibility for the annual financial statements

Management of the Bank is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards ('IFRS') and for such internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's responsibility

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

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the entity's preparation and fair presentation of the annual 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 included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Bank, as well as evaluating the overall presentation of the annual financial statements.

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Novosibirsk Social Commercial Bank "Levoberezhny" (Open Joint Stock Company) as at 31 December 2014, its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Bank is responsible for compliance of the Bank with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (the "Federal Law") in the course of our audit of the Bank's financial statements for 2014 we performed procedures in respect of the following:

- the Bank's compliance with the obligatory ratios as at 1 January 2015 and;
- compliance of the Bank's internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

Based on the results of the procedures performed by us we have found the following:

1) with respect to the Bank's compliance with the obligatory ratios:

   - the obligatory ratios as at 1 January 2015 were within the limits established by the CBRF.

   - we have not performed any procedures with respect to the Bank's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

2) with respect to compliance of the Bank's internal control and risk management systems with the CBRF requirements:

   a) in accordance with the CBRF requirements and recommendations as at 31 December 2014 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   b) as at 31 December 2014, the Bank had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   c) as at 31 December 2014, the Bank had a reporting system with regard to the Bank's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Bank's capital;

   d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2014 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;

   e) as at 31 December 2014, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control effectiveness and consistency of application of the Bank's risk management policies, during 2014 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Bank's internal control and risk management systems solely to report on the findings related to compliance of the Bank's internal control and risk management systems with the CBRF requirement.

General Director
OOO "Moore Stephens" — Gorbunova M.A.

30 April 2015

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Novosibirsk Social Commercial Bank "Levoberezhny" (OJSC)
Statement of Financial Position as at 31 December 2014
In thousands of Russian Roubles

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	5,931,787	3,863,999
Mandatory cash balances with the CBRF	6	261,427	289,174
Financial assets at fair value through profit or loss	7	4,067,087	3,259,586
Due from financial institutions	8	424,258	338,204
Financial assets held to maturity	9	20,604	30,389
Loans and advances to customers	10	20,835,809	23,047,622
Other assets	11	354,565	102,616
Investment property	12	-	3,142
Property, plant and equipment	13	1,415,765	1,421,018
Deferred tax assets	27	73,922	110,845
Total assets		**33,385,224**	**32,466,595**
Liabilities			
Due to financial institutions	14	854,366	36,562
Customer accounts	15	27,209,334	27,551,112
Debt securities issued	16	398,917	74,518
Other liabilities	17	123,445	112,403
Subordinated debt	18	505,000	505,000
Deferred tax liabilities	27	224,718	236,432
Total liabilities		**29,315,780**	**28,516,027**
Equity			
Share capital	19	549,956	549,956
Premises revaluation reserve		215,561	221,806
Retained earnings		3,303,927	3,178,806
Total equity		**4,069,444**	**3,950,568**
Total liabilities and equity		**33,385,224**	**32,466,595**

Approved on behalf of the Board of Directors on 30 April 2015

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

In thousands of Russian Roubles

	Notes	2014	2013
Interest income	20	4,444,905	4,923,950
Interest expense	20	(2,010,768)	(2,252,830)
Net interest income		**2,434,137**	**2,671,120**
Allowance for impairment of interest bearing assets	10	(1,354,023)	(724,221)
Net interest income after allowance for impairment of interest bearing assets		**1,080,114**	**1,946,899**
Net losses from dealing with securities	21	(62,179)	(2,086)
Net gains from operations with foreign currencies	22	338,473	134,180
Net (losses) / gains from revaluation of assets/ liabilities denominated in foreign currencies		(94,077)	5,449
Commission income	23	841,884	959,137
Commission expense	23	(170,729)	(149,194)
Net gains arising from sales of mortgage loans		33,118	25,071
Other operating income	24	113,181	204,488
Net operating income		**2,079,785**	**3,123,944**
Staff costs	25	(975,442)	(988,248)
Operating expenses	26	(655,046)	(852,195)
Movement on allowance for other assets	11	(29,129)	(2,057)
Profit before taxation		**420,168**	**1,281,444**
Income tax	27	(129,600)	(272,669)
Net profit		**290,568**	**1,008,775**
Other comprehensive income			
Gains on revaluation of premises		-	12,310
Profit tax component of other comprehensive income	27	-	(2,462)
Other comprehensive income, net of tax		-	**9,848**
Total comprehensive income		**290,568**	**1,018,623**

Approved on behalf of the Board of Directors on 30 April 2015

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

In thousands of Russian Roubles

	Notes	2014	2013
Cash flow from operating activities			
Interest received		3,586,329	4,328,289
Interest paid		(1,850,980)	(2,069,061)
Commissions received		849,994	963,713
Commissions paid		(170,729)	(149,194)
Net (losses) / gains from dealing with securities		(4,334)	2,284
Gains from dealing with foreign currency		352,508	134,558
Other operating income		146,299	229,559
Operating expenses		(1,566,967)	(1,776,322)
Income tax paid		(94,364)	(246,637)
Operating profit before changes in operating assets and liabilities		**1,247,756**	**1,417,189**
Cash flows from changes in operating assets and liabilities			
Net (increase) / decrease in assets:			
Mandatory cash balances with the CBRF		27,747	(5,970)
Due from financial institutions		(929,158)	(788,987)
Financial assets at fair value through profit or loss		(86,054)	1,544,389
Loans and advances to customers		1,780,179	(2,801,917)
Other assets		(295,113)	(23,051)
Net (decrease) / increase in liabilities:			
Due to financial institutions		817,804	(99,434)
Customer accounts		(501,566)	743,398
Debt securities issued		324,399	(79,275)
Other liabilities		(16,275)	(43,088)
Net cash generated from / (used in) operating activities		**2,369,719**	**(136,746)**
Cash flow from investing activities			
Proceeds from redemption of financial assets held to maturity		9,784	46,312
Proceeds from sale of investment property	12	3,142	-
Proceeds from sale of premises and equipment	13	9,470	2,392
Purchase of premises and equipment	13	(58,558)	(313,400)
Net cash used in investing activities		**(36,162)**	**(264,696)**
Cash flow from financing activities			
Dividends paid	19	(171,692)	(167,138)
Net cash used in financing activities		**(171,692)**	**(167,138)**
Effect of foreign exchange movements on cash and cash equivalents		(94,077)	5,449
Net (decrease) / increase in cash and cash equivalents		**2,067,788**	**(563,131)**
Cash and cash equivalents at the beginning of the year		**3,863,999**	**4,427,130**
Cash and cash equivalents at the end of the year	5	**5,931,787**	**3,863,999**

Approved on behalf of the Board of Directors on 30 April 2015

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

In thousands of Russian Roubles

	Notes	Share capital	Premises revaluation reserve	Retained earnings	Total equity
31 December 2012		**549,956**	**217,959**	**2,331,168**	**3,099,083**
Total comprehensive income		-	9,848	1,008,775	1,018,623
Transfer of annual release from premises revaluation reserve		-	(6,001)	6,001	-
Dividends proposed	19	-	-	(167,138)	(167,138)
31 December 2013		**549,956**	**221,806**	**3,178,806**	**3,950,568**
Total comprehensive income		-	-	290,568	290,568
Transfer of annual release from premises revaluation reserve		-	(6,245)	6,245	-
Dividends proposed	19	-	-	(171,692)	(171,692)
31 December 2014		**549,956**	**215,561**	**3,303,927**	**4,069,444**

Approved on behalf of the Board of Directors on 30 April 2015

Shaporenko V.V.
General Director

Kolesnikova S.V.
Chief Accountant

In thousands of Russian Roubles

1. Principal Activities

Novosibirsk Social Commercial Bank "Levoberezhny" (Open Joint-Stock Company) was registered as a commercial bank with the Central Bank of the Russian Federation ("CBRF") in 1991. The Bank is a commercial bank owned by shareholders whose liability is limited.

The main activities of the Bank include cash services, lending transactions, dealing with securities, attraction of deposits, and dealing in foreign currencies. The main locations where the Bank actively operates are Novosibirsk city and Novosibirsk region. The headquarters of the Bank is situated at 25/1 Plakhotnogo Street, Novosibirsk, 630054, Russian Federation. The Bank also has 45 additional offices, 11 credit – cash offices and 10 operational outlets.

As at 31 December 2014, the Bank held the following licenses:

- License № 1343 dated 09 June 2012 (no expiry date) to carry out banking and foreign exchange activities (excluding receipt of deposits of individuals); issued by the CBRF.
- License № 1343 dated 09 June 2012 (no expiry date) to carry out activities on receiving deposits from individuals in Russian Roubles ("RUB") and foreign currency; issued by the CBRF.
- License as professional participant of the securities' stock exchange №054-02932-100000 dated 27 November 2000 to carry out broker activity; issued by the Federal Commission for the Securities' Stock Exchange.
- License as professional participant of the securities' stock exchange №054-03039-010000 dated 27 November 2000 to carry out dealing activity; issued by the Federal Commission for the Securities' Stock Exchange.
- License of professional participant of the securities' stock exchange №054-03158-000100 dated 4 December 2000 to carry out deposit activity; issued by the Federal Commission for the Securities' Stock Exchange.

The General Director of the Bank is Mr. Vladimir Viktorovich Shaporenko and the Board of Directors is headed by Mr. Dmitriy Borisovich Yarovoy.

The major shareholders of the Bank as at 31 December 2014 and 31 December 2013 were as follows:

Shareholder	31 December 2014 %	31 December 2013 %
Dmitriy Borisovich Yarovoy	61.81	61.81
Ratto Holdings Limited	10.00	10.00
Alexander Dmitrievich Yarovoy	7.84	7.84
Primorsk Social Company (LLC)	5.35	5.35
Vyacheslav Mikhailovich Pertsev	5.00	5.00
Mikhail Fyodorovich Robkanov	5.00	5.00
Others (less than 5% - 17 shareholders)	5.00	5.00
	100.00	**100.00**

Mr. Dmitriy Borisovich Yarovoy is the ultimate controlling party by virtue of his shareholding. In accordance with the Russian legislation Dmitriy Borisovich Yarovoy is deemed to be a beneficial owner of the Bank because he controls over 61% of the Bank's share capital.

In 2014 the average number of employees of the Bank was 1,481 (2013: 1,426). As at 31 December 2014 the Bank employed 1,494 members of staff (31 December 2013: 1,496).

2. Operating Environment of the Bank

The year of 2014 was a difficult one for Russian economy of Russia mostly due to the geopolitical risks caused by the Ukrainian crisis, accession of the Crimea to Russia, introduction of the sanctions and cooling of the relations between Russia and the countries of the West.

In 2014, the development of the Russian banking industry was affected by a number of unfavorable factors including the slowing of the economic growth, the reduction of credit activity of the population, growth in the proportion of overdue loans within loan portfolios of banks, the decline of the foreign currency liquidity in the banking sector.

The volume of Russia's GDP in 2014 in current prices amounted to RUB 70 976 billion. In 2014 GDP grew by 0.6% compared with 2013 (in 2013: 1.3%). Thus, the growth rate of the economy slowed down by more than 50%. Index-deflator of GDP in 2014 relative to 2013 prices amounted to 106.6%.

The economic instability caused by the influence of external factors, changes in exchange rates, the increased volatility in the financial markets have resulted in the profit of the banks declining throughout the whole of 2014.

In previous year the Russian credit institutions earned a profit of RUB 589 billion. Compared to the result of 2013 (RUB 994 billion) this indicator has decreased by 40.7%

The last month of 2014 turned out to be the most difficult for the banking sector. The loss received by Russian banks in December amounted to over RUB 190 billion thus beating the previous anti-record of an absolute negative result of October 2008 when the loss made by the Russian banks amounted to RUB 40 billion).

During 2014 total banking assets went up by 35.2% compared to the growth of 16.0% in 2013. The absolute value of the assets as at 01 January 2015 amounted to RUB 77.7 trillion. The significant increase in assets was due to the growth in corporate lending.

By the end of 2014 retail loans went up by 13.8% compared to 28.7% a year earlier. The growth of the corporate loan portfolio in 2014 increased by 2.5 times and amounted to 31.3% compared to 12.7% in 2013.

The situation with overdue loans was different in various segments of lending. Whilst in the corporate sector there was just a slight increase in the proportion of overdue debt from 4.1% to 4.2% in 2014, for loans to individuals this indicator increased by 1.5 percentage points and amounted to 5.9% as at 01 January 2015.

The growth rate of deposits in 2014 decreased significantly compared to the results of the previous year and amounted to 9.4% (for 2013 - 19.0%).

In contrast, the rate of growth of funds attracted from legal entities turned out to be higher than in previous year (for 2014 – 40.6%, in 2013 - 13.7%).

Further development of the Russian banking sector in 2015 will reflect the state of the Russian economy as a whole, taking into account the impact of macroeconomic factors and the political situation in the world.

Although, at the date of signing these financial statements, Management cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management's assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management's assessment. In order to assess the impact of possible events on the financial position of the Bank Management uses the modelling of negative scenarios. At the same time, they are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) Basis of Presentation

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing Interpretations Committee Interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

These financial statements are based on the Bank's RAS records adjusted and reclassified in order to comply with IFRS.

The Bank does not have any subsidiary companies and therefore does not prepare consolidated financial statements.

b) Use of estimates

In these financial statements, the Bank uses a number of different methods of estimation:

§ Cost method (actual cost of purchase). Assets are recorded at the amount of cash paid or their current cost set by mutual agreements between parties. Liabilities are recorded at the amount of assets or rights received in return of an obligation or in some circumstances at the amount of cash that will be necessary to repay the obligations in the normal course of business.

§ Current cost (recovery cost). Assets are recorded at the amount of cash that would need to be paid if these assets were purchased at the present date. Liabilities are recorded at the amount of non-discounted cash that will be required to settle the liability.

§ Realisable value (possible selling / repurchase price (fair value)). Assets are recorded at the amount of cash that can be received from sale. Liabilities are recorded at settlement value, which is the undiscounted amount of cash required for settling the liabilities.

§ Amortised cost / (expenses), assets / (liabilities) are recorded at the current estimate of future net receipt (disposals) of cash in the normal course of business according to market interest rates effective at the moment of transaction.

§ Book value. This is the value of assets and liabilities recorded in the statement of financial position at the reporting date.

It is assumed that the future cash flows and the term of a pool of similar financial instruments can be reliably estimated. However, when cash flows or the term of a financial instrument is impossible to estimate, the Bank uses the contractual estimated cash flows under the term determined by the agreement.

In the opinion of the Bank, the market interest rate is defined as the "best" interest rate (the highest interest rate for financial assets and the lowest one for financial liabilities) between the two following rates:

§ Interest rate on similar financial instruments operating in an active markets

§ Interest rate on similar financial instruments in the portfolio of the Bank at the reporting date or transactions performed during the reporting period.

Under similar financial instruments stand financial instruments which have similar conditions including borrowing capacity of a debtor, remaining maturity period, currency of repayment and so on.

c) Impairment of assets

The Bank creates allowance for possible impairment for all types of financial assets, except for financial assets at fair value through profit or loss.

Financial assets are considered impaired and losses from the impairment occur if objective factors of impairment occurred as a result of one or more events taking place after the initial recognition of assets ("loss event"); and the event can impact the expected future cash flows of the financial assets and its effect can be reliably estimated.

3. Basis of Presentation (continued)

The main factors according to which the Bank considers a financial asset to be impaired or not are the existence of overdue amounts and, eventually, the possibility of realisation of the corresponding collateral. A financial asset is considered overdue if the counterparty did not fulfil its payment obligations at the date stated in the contract.

Among other main factors of determination of objective evidence of impairment ("loss event") are the following:

- Delinquency in contractual payments of principal or interest not related to technical problems in the payment system;
- A borrower or an issuer has serious financial problems that can be evident from their financial statements received by the Bank;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of the collateral;
- An active market for the particular financial asset has disappeared as a result of financial difficulties of an issuer (not due to the fact that the asset does not operate on the market any more);
- There is information that an issuer or a borrower has a tendency to violate the conditions of contracts on similar financial assets.

Losses from impairment of financial assets carried at amortised cost are recognised in the statement of comprehensive income as they occur because of one or more events ("loss event") taking place after the original recognition of an asset. The Bank does not recognise losses from impairment at initial recognition.

Subsequently, the Bank assesses whether objective evidence of impairment exists individually for financial assets which are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The current methodology for assessing the impairment of financial assets is to combine them into groups of financial assets based on indicators of credit risk. The estimated future cash flows of each group are subject to changes depending on the risk factors that could reduce the capacity of the customers to repay the debts under the contractual terms.

3. Basis of Presentation (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for the assets with credit risks characteristics similar to those in the group. They can also be determined on the basis of Management's statistics about the volumes of overdue debts that can occur as result of loss events and also about the possibility of recovery of overdue debts. Previous year's statistics are adjusted on the basis of current observable data to reflect the effects of current conditions that did not influence the previous periods as well to eliminate the effect of previous events that do not currently exist.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's payment ability), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income as part of the movement in impairment charge for credit losses.

Uncollectible financial assets in respect of which all necessary procedures are finished for the purpose of full or partial recovery and the final amount of loss is defined, are written off against the allowance for impairment created in the statement of financial position.

Losses from impairment of financial assets available for sale are recognised in the statement of comprehensive income as they occur as a result of one or more events ("loss event") taking place after the initial recognition of assets available for sale.

The Bank assesses at least at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets classified as available for sale is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised as profit or loss – is removed from equity and recognised in the statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

In respect of debt instruments classified as available for sale, evidence of impairment is estimated in accordance with the same criteria ("loss events") as in respect of financial assets at amortised cost. The amount of loss that is to be transferred to statement of comprehensive income is equal to the difference between initial cost of the asset (less repayments of principal debt and adjusted for amortisation on assets estimated with the use of effective interest rate method) and the current fair value less losses from impairment on the asset, recognised earlier in the statement of comprehensive income. Interest income on impaired assets is charged according to amortised expenses taking into account recognition of loss from impairment with the interest rate used for discounting of future cash flows to evaluate losses from impairment.

Interest income is reflected within "Interest income" in the statement of comprehensive income. When in the next reporting period the fair value of a debt instrument classified as available for sale increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3. Basis of Presentation (continued)

d) Functional and presentation currency

The Bank considers the Russian Rouble (“RUB”) to be its functional currency given the fact that all operations of the Bank are carried out in the Russian Federation and significant part of them and its cash flows are denominated in Russian Roubles. Management of the Bank believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank.

The RUB has been selected as the presentation currency for the financial statements of the Bank and amounts have been rounded to the nearest thousand.

e) Adoption of new or revised standards and Interpretations

A number of new standards and interpretations have been issued, some of which became effective for the period starting from 1 January 2014 or after that date. A description of new standards and interpretations that are relevant to the Bank is presented below:

“Offsetting Financial Assets and Financial Liabilities” - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances:(a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amended standards did not have any material impact on the Bank’s financial statements.

f) New accounting pronouncements

A description of new standards and interpretations relevant to the Bank that have been issued and are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Bank has not early adopted, is presented below:

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

§ Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

§ Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

§ Investments in equity instruments are always measured at fair value. However, Management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

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

3. Basis of Presentation (continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a “three stage” approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Bank is currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (“the management entity”), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Bank is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Bank is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendment on its financial statements.

3. Basis of Presentation (continued)

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The Bank is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

The Bank is currently assessing the impact of the amendments on its financial statements.

Unless stated otherwise, it is expected that the new standards and interpretations will not have a significant impact on the financial statements of the Bank.

g) Foreign currency translation

Transactions denominated in currencies other than Russian Roubles are recorded at the exchange rate prevailing at the date of transaction. Translation differences occurring as a result of transactions performed in foreign currencies are recorded in the statement of comprehensive income at the exchange rate prevailing on that date.

The official CBRF exchange rates at 31 December 2014 were 56.2584 (not thousands) RUB per 1 USD (31 December 2013: 32.7292 (not thousands) RUB per 1 USD) and 68.3427 (not thousands) RUB per 1 EUR (31 December 2013: 44.9699 (not thousands) RUB per 1 EUR).

Translation differences related to debt securities and other monetary financial assets denominated in foreign currencies recorded at fair value are included in the statement of comprehensive income in the line of gains less losses arising from revaluation of assets / liabilities denominated in foreign currencies. Translation differences related to non-monetary items such as equity securities, included in financial assets carried at fair value through profit or loss are recorded as part of gains less losses from revaluation at fair value. Translation differences on non-monetary financial assets available for sale are recorded in equity through revaluation reserve of financial assets available for sale.

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash in one day. They include cash balances, non-mandatory cash balances with the CBRF, cash in correspondent accounts with banks of high reliability and non-bank credit institutions, as well as deposits in other banks with maturity date not later than the first working day following the reporting date. All other inter-bank deposits are disclosed as due from financial institutions. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

b) Mandatory cash balances with the CBRF

Mandatory balances with the CBRF represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

c) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if its acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. The Bank classifies financial assets as trading in cases where it aims to sell them in less than 180 days from the moment of purchase.

Trading financial assets that operate on the Moscow Interbank Currency Exchange ("MICEX") and the Siberian Interbank Currency Exchange ("SICEX") apart from those mentioned in the paragraph below are measured on the basis of market prices set by MICEX or SICEX.

Trading financial assets whose nominal value is denominated in foreign currency, operating on the currency exchanges of European countries (financial assets of the Russian Federation, of entities of the Russian Federation, other Russian issuers, or financial assets issued under the guarantee of the above mentioned entities), are measured on the basis of sale prices, quoted by Reuters or (if these data are unavailable) on the basis of other information agencies or leading market operators that publish their information on sale and purchase rates daily.

Trading financial assets which are recognised as debt instruments and are not mentioned above are measured according to market conditions current on the date of their acquisition and using the interest rates set by the Bank or by leading participants of the market for similar debt instruments and which are published by these participants daily. Subsequently if the credit risk of the debtor remains the same the estimation of the current market interest rate is made based on a benchmark interest rate.

The benchmark interest rate records the yield of debt instruments measured using similar instruments (with similar maturity dates, schedule of cash payments, currency of payments etc.) but with a higher level of borrowing capacity. The current level of the benchmark interest rate on the date of estimation is set based on objective data from independent sources. The interest rate that is used for calculating the fair value of a financial asset is measured by summarising the current benchmark interest rate and the spread between the rate at which this financial asset was purchased and the benchmark interest rate which was effective on the date of the asset's acquisition. Costs of acquisition of financial instruments at fair value through profit or loss are not added to the fair value of the respective financial instruments at their initial recognition.

Changes in fair value are recognised in the statement of comprehensive income in the period when they occurred as net gains or losses from transactions with trading financial assets. Coupon and interest income on trading financial assets are recorded in the statement of comprehensive income as interest income on financial assets. Dividends received are recorded as other operating income.

4. Significant Accounting Policies (continued)

Sale and purchase of trading financial assets whose delivery is to be performed in terms set by the legislation or by rules of the current market are recorded on the date of transaction, which is considered for the Bank the date of recognition of its obligations on asset's sale or purchase. In all other cases, such transactions are recorded as derivative financial instruments until the moment of settling the accounts.

The Bank's Management, using its professional judgement and based on reliable objective information of specific operations and transactions, decided to refer all debt and equity securities to the category of financial assets and liabilities at the fair value through profit or loss except those investments into equity securities which have no market prices and are not quoted in active markets, loans granted and instruments held to maturity. Assets are allocated into this category on the date of initial recognition and then are re-measured at fair value based on market value. For determining its market value, all financial assets at fair value through profit or loss are measured according to the latest bid price.

At initial recognition a financial asset or liability is classified by the Bank as at fair value through profit or loss if the economical specifications of any embedded derivative are not connected to the economical specifications and risks of the principal agreement.

Financial assets classified into this category cannot be reclassified.

Financial assets at fair value through profit or loss include mortgage loans designated to be sold to other financial institutions under specific existing agreements.

The fair value of these loans is estimated based on the discounted anticipated sale price less the discounted value of the guarantee that would be given plus or minus the present value of any cash flows anticipated to occur between the current time and the anticipated sale date.

The gain or loss from the sale of these mortgage loans is equal to the received cash funds less the fair value of the guarantee and the present value of the loans.

d) Sale and purchase agreements and borrowing of debt securities

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. When these securities are sold to third parties the financial result from purchase and resale is recorded in "Net gains from dealing with securities". Liabilities on repurchase of securities are recorded at fair value as trading liabilities.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Securities provided by the Bank as loans to counterparties continue to be treated as securities in the financial statements of the Bank. Securities received as loans are not recorded in the financial statements apart from the case when these securities are sold to third parties. In this case the financial result from purchase and resell of securities is recorded in the statement of comprehensive income as part of net gains from dealing with trading securities. Liabilities on repurchase of these securities are recorded at fair value as trading financial liabilities.

4. Significant Accounting Policies (continued)

e) Amounts due from financial institutions

In the normal course of business, the Bank maintains current accounts or deposits for various terms in other credit institutions. Amounts granted are recorded from the moment of granting funds to a borrower. Initially items with a fixed maturity term are measured at fair value calculated based on the amount of discounted cash flows using market interest rates for instruments with similar level of credit risk and maturity term. Subsequently these loans are measured at amortised cost less allowance for impairment. Amortised cost is measured based on the yield to maturity calculated using the effective interest rate method.

Those loans that do not have fixed maturities (granted according to their agreements "on demand" or as a credit line) are carried at cost, which is considered a reasonable approximation to their fair value.

The amounts outstanding from credit institutions are carried less the allowance for impairment, calculated in accordance with the internal documents regulating the creation of impairment allowances for loans and other similar debts according to IAS 39.

f) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable schedule of payments that are not quoted in an active market apart from those:

§ Intended for sale directly or in the near future and which should be recognised as trading measured at initial recognition at fair value through profit or loss;

§ That after initial recognition are classified as available for sale;

§ For which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

The Bank's approach to creation of impairment allowances is addressed in Note 3 (c).

g) Promissory notes purchased

The Bank also purchases promissory notes from its customers and on the stock exchange. These promissory notes are included in either of the following categories: loans and receivables, financial assets carried at fair value through profit or loss, investments held to maturity or available-for-sale securities, depending on their substance. Subsequently they are re-measured and accounted for in accordance with the accounting policies of the respective categories.

h) Financial assets held to maturity

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition these securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

The amount of the loss is measured as the difference between the carrying amount of the security held to maturity and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of comprehensive income for the period.

i) Financial guarantee contracts and other credit related commitments

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

4. Significant Accounting Policies (continued)

These financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the Management's judgment.

Any increase in the liability relating to guarantees is taken to the statement of comprehensive income within other operating expenses.

In the normal course of business, the Bank enters into other credit related commitments including loan commitments.

j) Property, plant and equipment

Land and buildings comprise mainly branches and offices. Property, plant and equipment are recorded at purchase cost adjusted (where appropriate) to the equivalent of the purchase power of the Russian Rouble as at 31 December 2002 (starting from that date the Russian economy has ceased to be hyperinflationary) or at revalued cost less accumulated depreciation and allowance for impairment. Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down to its recoverable amount and the difference after eliminating any revaluation reserve balances, is charged to the statement of comprehensive income.

The estimated recoverable amount is the higher of the assets' net realisable value and its value in use.

An independent appraiser regularly values the premises of the Bank. The frequency of revaluations depends on changes of the estimated fair value of the revalued items. The balance of revaluation reserve included in equity is transferred directly to retained earnings on the date of assets' disposals or realisation. The amount of realised gain arising from revaluation is the difference between the depreciation calculated based on the revalued cost of the asset and the depreciation calculated based on its historical cost. If an individual item is revalued the entire group of property and equipment to which it relates is also revalued.

At the end of construction, assets are transferred into premises and are recognised at their carrying value at the date of transfer. Construction in progress is not depreciated until introduction into use of respective assets.

Gains and losses arising as a result of disposal or sale of fixed assets are determined by comparing proceeds with the carrying amount. Repair and maintenance cost are charged to other operating expenses when the expenditure is incurred.

k) Depreciation

Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following number of years:

Premises	50
Improvement of rented premises	10
Intangible assets	10
Motor vehicles	6
Office and computer equipment	3 to 6
Other	5 to 20

Land and assets under construction are not depreciated.

4. Significant Accounting Policies (continued)

Depreciation is charged from the month following the month of introduction into service of a fixed or intangible asset.

Depreciation charge is recorded in the statement of comprehensive income within Operating expenses.

l) Investment property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is recognised in the statement of financial position at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of comprehensive income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

m) Subordinated loans

Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank. Subordinated loans are included in the calculation of capital in accordance with the Russian Accounting Standards.

n) Borrowed funds

Borrowed funds include amounts due to customers, due to other financial institutions and other borrowed funds. Borrowed funds are initially carried at fair value, which includes the amount of received funds less transaction costs.

Subsequently borrowed funds are recorded at amortised cost and the difference between the amount of received funds and the amount of repayments is charged to the statement of comprehensive income during the period of borrowing using the effective interest method. Fair value of borrowed funds with interest rate different from market interest rates is estimated at the date of inception, with reference to future interest payments and principal discounted at market interest rates for similar borrowings. The difference between fair value and nominal cost at the date of inception is recorded in the statement of comprehensive income as gain from attracting borrowed funds at rates less than commercial or as losses from attracting borrowed funds at rates higher than commercial. Subsequently the carrying value of borrowed funds is adjusted for the amortisation of their initial gain or loss and the corresponding expenses are recorded as interest expenses in the statement of comprehensive income using the effective interest rate method.

o) Debt securities issued

The Bank issues promissory notes and deposit certificates to its customers. Debt securities issued by the Bank are recognised initially at sale cost that includes proceeds from selling those securities (fair value of the consideration received) less transaction costs. Subsequently debt securities are carried at amortised cost, and the difference between the consideration received from the sale of those debt securities and their redemption amount is recorded in the statement of comprehensive income along its term, using the effective interest rate method.

When the Bank repurchases its own debt securities issued before their maturity date, the income received is recorded as commission income in the statement of comprehensive income.

p) Share capital

Share capital is recorded at the adjusted value taking into account the purchasing power of the Russian Rouble as at 31 December 2002.

4. Significant Accounting Policies (continued)

q) Dividends

When dividends are declared after the reporting date but before the approval of the financial statements, the information on dividends is disclosed in the notes to the financial statements. Outstanding dividends are recorded in the statements of changes in equity in the period when they were approved by the general shareholders' meeting.

r) Operating leases

An operating lease is defined as one where the lessor retains all risks and rewards of ownership of the asset. Where the Bank is the lessee under operating lease agreements, the total cost of the contract is charged against income in equal instalments 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 recognised as an expense in the period in which termination takes place.

s) Taxes

Taxation is recorded in the financial statements in accordance with the Russian legislation currently in force. Tax charges in the statement of comprehensive income of the period comprise current profit tax and changes in deferred tax. Current profit tax is calculated on the basis of expected taxable profit for the year, using the tax rates enacted at the statement of financial position date. Taxes, other than profit tax, are recorded in operating expenses in the statement of comprehensive income.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the value of taxable assets and liabilities and their carrying values according to these financial statements. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised in full. Deferred tax assets and liabilities are determined at tax rates that are expected to be applied in the period when the assets would be realised or the liabilities settled, based on tax rates that would be effective in that period.

Deferred tax liabilities arising from revaluation of premises are recorded directly to the premises revaluation reserve within equity. Changes of deferred tax arising as a result of decreasing the amount of revaluation reserve are recorded against retained earnings. Changes of deferred tax occurring due to reasons other than changes of the revaluation reserve are recorded in the statement of comprehensive income.

Deferred tax arising from revaluation of available for sale securities to their fair value by recording it as decrease or increase of equity is also recognised in the equity. When realising such securities the corresponding amounts of deferred tax are recorded in the statement of comprehensive income.

t) Income and expense recognition

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

4. Significant Accounting Policies (continued)

This calculation includes all commissions and fees paid or received by the parties according to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for third parties, such as the arrangement for the acquisition of loans, shares or other securities or sell or purchase of businesses- are recognised on completion of the underlying transaction.

Commission and fee income from management of investment portfolio and from other managing and consulting services is recognised based on the applicable service contracts, usually on a time-proportional basis.

Fee income arising from services related to management of assets and investment funds is recognised in accordance with the agreement at the date when the Bank receives the right on receipt of income and the amount of income can be reliably determined. Income from rendering long term services is recognised in each reporting period proportionally to the volume of services rendered.

Accrued interest income and expenses including accrued coupon and discount are included in the carrying value of corresponding assets and liabilities.

Expenses on audit services and payments for the deposit insurance scheme are recognised when incurred on accrual basis.

Supplies are accounted as they acquired and are included in operating expenses.

u) Offsetting

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

v) Staff costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and medical insurance funds in respect of its employees. These costs are expensed as incurred and are included in staff costs.

w) Net gains arising on mortgage loans sold

The Bank periodically sells portfolios of mortgages that it has written, to third parties, simultaneously providing a guarantee on the credit risk of the mortgages sold for a limited, defined period of time. The gain or loss arising on sale is defined as the fair value of consideration received for the mortgages less the amortised cost of the mortgage portfolio less the fair value of the guarantee it has written on the sold mortgages. The nominal value of the amounts under guarantee is disclosed under credit related commitments and the fair value of the guarantee is treated in accordance with Note 4 (i).

In thousands of Russian Roubles

5. Cash and Cash Equivalents

	31 December 2014	31 December 2013
Cash on hand	2,726,586	2,121,408
Deposits placed with the CBRF	1,200,000	-
Cash balances with the CBRF (other than mandatory reserve deposits)	1,412,712	1,560,861
Other market placements	389,683	107,350
Correspondent accounts and overnight deposits with other banks:		
- Russian Federation	65,398	37,029
- Other countries	137,408	37,351
	202,806	74,380
	5,931,787	**3,863,999**

As at 31 December 2014 deposits were placed with the CBRF on the following terms:

	Maturity date	Interest rate (%)	31 December 2014
CBRF	12.01.2015	16.0	1,200,000
			1,200,000

As at 31 December 2013 no deposits were placed with the CBRF.

Information about credit quality of correspondent accounts and overnight deposits with other banks (based on Fitch ratings) included in cash and cash equivalents is presented below:

	31 December 2014	31 December 2013
AA- to AA+ rated	20,544	21,150
A- to A+ rated	110,912	16,137
BBB- to BBB+ rated	37,593	13,364
BB- to BB+ rated	13,610	307
B- to B+ rated	17,286	14,090
Other (including banks that do not have a credit rating)	2,861	9,332
	202,806	**74,380**

Transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

	31 December 2014	31 December 2013
Non-cash operation activities		
Other assets received by the Bank in settlement of overdue loans and advances to customers (Note 30)	11,253	1,385
Repayment of loans and advances to customers by non-monetary assets	(11,253)	(1,385)
	-	**-**

Geographical, currency, maturity and interest rate analysis on cash and cash equivalents are disclosed in Note 29. Information on balances with related parties is disclosed in Note 32.

In thousands of Russian Roubles

6. Mandatory Balances with the CBRF

Mandatory balances represent amounts deposited with the CBRF and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposits is significantly restricted by the Russian legislation.

7. Financial Assets at Fair Value through Profit or Loss

	31 December 2014	31 December 2013
Bonds of Russian banks	2,682,405	1,694,523
Mortgage loan portfolio for sale	771,075	837,857
Corporate bonds of foreign companies	213,749	-
Bonds of foreign banks	200,588	-
Corporate bonds	199,270	546,664
Municipal debt securities	-	139,959
Corporate shares	-	40,583
	4,067,087	**3,259,586**

Bonds of Russian banks comprise RUB denominated interest bearing securities issued in Russia. The issuers of these bonds are leading Russian banks that have a credit rating between BBB and B based on Fitch rating scale.

Mortgage loan portfolio for sale comprises RUB denominated mortgages of individuals that the Bank has the intent and ability to sell in the foreseeable future.

Corporate bonds of foreign companies comprise EUR denominated interest bearing securities issued by non-financial companies.

Bonds of foreign banks comprise RUB denominated interest bearing securities issued in Russia. The issuers of these bonds have a credit rating not lower than BBB based on Fitch rating scale.

Corporate bonds comprise RUB denominated interest bearing securities issued by non-financial companies.

As at 31 December 2013 municipal debt securities comprised bonds issued in Russia and denominated in RUB.

As at 31 December 2013 corporate shares comprise unquoted shares of Russian companies.

The following table provides details of the Bank’s financial assets at fair value though profit or loss as at 31 December 2014:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Bonds of Russian banks	01.02.2015	11.10.2022	7.65	12.0	10.53	21.76
Bonds of foreign banks	21.02.2019	21.02.2019	8.5	8.5	12.2	12.2
Corporate bonds	07.04.2015	19.10.2021	7.8	11.5	13.39	15.49
Corporate bonds of foreign companies	04.02.2015	01.06.2015	5.89	8.13	6.37	7.94

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss (continued)

The following table provides details of the Bank's financial assets at fair value though profit or loss as at 31 December 2013:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Bonds of Russian banks	19.12.2014	11.10.2022	7.65	11.35	2.13	13.81
Corporate bonds	06.03.2014	27.11.2023	8.5	15.0	5.92	7.46
Municipal debt securities	16.04.2014	16.04.2014	8.0	8.0	7.66	7.66

Information about credit quality of financial assets at fair value though profit or loss (based on Fitch ratings) is presented below:

	31 December 2014	31 December 2013
BBB- to BBB+ rated	3,125,711	2,170,061
BB- to BB+ rated	100,597	139,959
B- to B+ rated	69,704	71,126
Other (including entities that do not have a credit rating)	771,075	878,440
	4,067,087	**3,259,586**

Following the amendments to IAS 39 and IFRS 7, the Bank in 2008 reclassified certain trading securities into investment securities held-to-maturity as the Bank no longer held these securities for the purpose of selling or repurchasing in the near term. These financial assets were reclassified upon occurrence of "rare circumstances".

Financial Committee of the Bank acknowledged the occurrence of "rare circumstances" due to the crisis in the international financial markets. The declines in market prices that occurred in the third quarter of 2008 represented a rare event, as they significantly exceeded historical volatilities observed in financial markets. Therefore the Bank made reclassification effective from 1 July 2008.

The table below shows interest income as well as revaluation gains or losses from the reclassified financial assets as at 31 December 2014, that would be recognised had the financial assets not been reclassified (from financial assets at fair value though profit or loss ("FVPL") to financial assets held to maturity ("HTM"):

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation loss that would have been recognised if not reclassified	Effective interest rate (%)
FVPL to HTM	Mikhailovsky Broiler (CJSC)	20,604	20,337	2,966	(228)	12.0

The table below shows interest income as well as revaluation gains or losses from the reclassified financial assets as at 31 December 2013, that would be recognised had the financial assets not been reclassified (from financial assets at fair value though profit or loss to financial assets held to maturity):

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation gain that would have been recognised if not reclassified	Effective interest rate (%)
FVPL to HTM	Mikhailovsky Broiler (CJSC)	30,389	30,333	4,117	920	12.6

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets at fair value though profit or loss are disclosed in Note 29.

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss (continued)

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The hierarchy is as follows:

- § Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- § Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- § Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The following table provides information on the classification of financial assets at fair value through profit or loss as at 31 December 2014 based on data obtained from the sources of information about their fair values:

	Level 1	Level 2	Level 3	Total
Bonds of other banks	2,682,405	-	-	2,682,405
Corporate bonds of foreign companies	213,749	-	-	213,749
Bonds of foreign banks	200,588	-	-	200,588
Corporate bonds	199,270	-	-	199,270
Mortgage loan portfolio for sale	-	-	771,075	771,075
	3,296,012	**-**	**771,075**	**4,067,087**

Reconciliation of Level 3 items in 2014 is presented below:

	Corporate shares	Mortgage loan portfolio for sale	Total
At 1 January	**40,583**	**837,857**	**878,440**
Gains recognised in profit or loss for the year	-	33,118	33,118
Purchases and additions	-	2,853,544	2,853,544
Settlements and disposals	(40,583)	(2,953,444)	(2,994,027)
At 31 December	**-**	**771,075**	**771,075**
Total losses from financial assets at fair value through profit or loss held at 31 December 2014	**-**	**-**	**-**

The following table provides information on the classification of financial assets at fair value through profit or loss as at 31 December 2013 based on data obtained from the sources of information about their fair values:

In thousands of Russian Roubles

7. Financial Assets at Fair Value through Profit or Loss (continued)

	Level 1	Level 2	Level 3	Total
Municipal debt securities	139,959	-	-	139,959
Bonds of other banks	1,694,523	-	-	1,694,523
Corporate bonds	546,664	-	-	546,664
Corporate shares	-	-	40,583	40,583
Mortgage loan portfolio for sale	-	-	837,857	837,857
	2,381,146	**-**	**878,440**	**3,259,586**

Reconciliation of Level 3 items in 2013 is presented below:

	Corporate shares	Mortgage loan portfolio for sale	Total
At 1 January	**40,583**	**440,083**	**480,666**
Gains recognised in profit or loss for the year	-	25,071	25,071
Purchases and additions	-	2,627,914	2,627,914
Settlements and disposals	-	(2,255,211)	(2,255,211)
At 31 December	**40,583**	**837,857**	**878,440**
Total losses from financial assets at fair value through profit or loss held at 31 December 2013	**-**	**-**	**-**

8. Due from Financial Institutions

	31 December 2014	31 December 2013
Term deposits in other banks	-	150,000
Other funds:		
CJSC AKB “NKC”	320,416	63,999
Uralsib Bank (OJSC)	50,416	118,299
Credit Union "Payment Center" Ltd.	41,384	-
Western Union	9,201	2,491
Delta Credit Bank (CJSC)	2,407	3,115
National Settlement Depository	434	300
	424,258	**338,204**

As at 31 December 2014 the Bank did not place term deposits with other financial institutions.

As at 31 December 2013 term deposits in other banks were placed on the following conditions:

	Original maturity date	Interest rate (%)	31 December 2013
Sberbank of Russia	09.01.2014	3.0	150,000
			150,000

In thousands of Russian Roubles

8. Due from Financial Institutions (continued)

Information about credit quality of banks-counterparties (based on Fitch ratings) is as follows:

	31 December 2014	31 December 2013
A- to A+ rated	9,201	2,491
BBB- to BBB+ rated	322,823	217,114
BB- to BB+ rated	41,384	-
B- to B+ rated	50,416	118,299
Other (including banks that do not have a credit rating)	434	300
	424,258	**338,204**

Geographical analysis, currency and maturity analyses as well as interest rate analysis of amounts due from financial institutions are disclosed in Note 29. The information on related party balances and transactions is disclosed in Note 32.

9. Financial Assets Held to Maturity

	31 December 2014	31 December 2013
Corporate bonds	20,604	30,389
	20,604	**30,389**

Corporate bonds comprise RUB denominated interest bearing securities issued by non-financial companies.

The following table provides details of the Bank's financial assets held to maturity as at 31 December 2014 as at 31 December 2013:

	Maturity		Coupon rate per annum (%)	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Corporate bonds	15.07.2015	15.07.2015	12.0	12.0

As at 31 December 2014 as at 31 December 2013 financial assets held to maturity were current and not impaired.

Geographical analysis, currency and maturity analyses as well as interest rate analysis of financial assets held to maturity are disclosed in Note 29.

10. Loans and Advances to Customers

	31 December 2014	31 December 2013
Current loans	22,537,043	24,033,016
Overdue loans	1,105,004	782,352
	23,642,047	24,815,368
Less: Allowance for impairment of loan portfolio	(2,806,238)	(1,767,746)
	20,835,809	**23,047,622**

Overdue loans represent the portion of principal and interest accrued in arrears at the reporting date.

In thousands of Russian Roubles

10. Loans and Advances to Customers (continued)

The table below shows the movement in allowance for impairment of the loan portfolio:

	2014	2013
Balance as at 1 January	**(1,767,746)**	**(1,198,887)**
Charge of allowance for impairment of loan portfolio	(1,354,023)	(724,221)
Loans and advances to customers written-off during the year as uncollectable	315,531	155,362
Balance as at 31 December	**(2,806,238)**	**(1,767,746)**

In the year of 2014 the Bank wrote-off against the existing allowance for impairment consumer loans for a total of 259,595 and 34 loans to legal entities for a total of 55,936.

In the year of 2013 the Bank wrote-off against the existing allowance for impairment consumer loans for a total of 131,293 and 3 loans to legal entities for a total of 24,069.

Geographical analysis, currency, maturity analyses and interest rate analyses on loans and advances to customers as well as information about fair value of collateral are disclosed in Note 29. Information about loans granted to related parties is disclosed in Note 32.

11. Other Assets

	31 December 2014	31 December 2013
Other financial assets		
Settlements for conversion operations	248,837	-
Settlements in transit	32,947	1,188
Claims on other transactions	15,111	11,989
Fair value of derivative financial instruments	14,035	378
Letters of credit	-	8,873
	310,930	22,428
Other non-financial assets		
Debtors and prepayments	61,114	48,400
Repossessed collateral	8,090	34,613
Tax prepayments	11	14
Others	459	460
	69,674	83,487
Other assets, gross	380,604	105,915
Less: Allowance for impairment of other assets	(26,039)	(3,299)
Total other assets	**354,565**	**102,616**

The movement of repossessed collateral in 2014 and 2013 is presented in Note 29.

The table below shows the movement of allowance for impairment of other assets:

	2014	2013
At 1 January	**(3,299)**	**(2,143)**
Movement on allowance for impairment of other assets during the year	(29,129)	(2,057)
Other assets written off during the year as unrecoverable	6,389	901
At 31 December	**(26,039)**	**(3,299)**

In thousands of Russian Roubles

11. Other Assets (continued)

In 2014 the Bank wrote-off against the existing allowance receivables in respect of state duties and settlement services for a total of 6,389 (2013: 901).

Geographical analysis, currency and maturity analyses on other assets are disclosed in Note 29.

12. Investment Property

	2014	2013
At 1 January	**3,142**	**3,142**
Additions	-	-
Disposals	3,142	-
At 31 December	**-**	**3,142**

As at 31 December 2013 investment property comprised assets repossessed by the Bank in respect of making recoveries on its lending operations. The Bank held those assets for the purpose of capital appreciation. In 2014 and 2013 the Bank did not incur direct operating expenses in relation to investment properties.

13. Property and Equipment

	Land and premises	Leasehold improve-ments	Office and computer equipment	Vehicles	Assets under constru-ction	Other	Total
Cost or valuation							
31 December 2012	**622,998**	**36,271**	**246,242**	**13,397**	**559,417**	**58,334**	**1,536,659**
Additions	60,345	1,135	25,511	2,697	216,955	6,757	313,400
Revaluation	15,273	-	-	-	-	-	15,273
Disposals	-	(4,849)	(10,079)	(1,004)	(109)	(674)	(16,715)
31 December 2013	**698,616**	**32,557**	**261,674**	**15,090**	**776,263**	**64,417**	**1,848,617**
Additions	16,876	347	31,807	5,047	-	4,481	58,558
Disposals	(8,758)	(1,901)	(16,121)	(1,407)	-	(5,564)	(33,751)
31 December 2014	**706,734**	**31,003**	**277,360**	**18,730**	**776,263**	**63,334**	**1,873,424**
Accumulated depreciation							
31 December 2012	**(184,218)**	**(25,728)**	**(138,269)**	**(5,754)**	**-**	**(29,947)**	**(383,916)**
Charge	(15,024)	(3,405)	(30,484)	(1,962)	-	(4,168)	(55,043)
Revaluation	(2,963)	-	-	-	-	-	(2,963)
Disposals	-	3,011	9,761	877	-	674	14,323
31 December 2013	**(202,205)**	**(26,122)**	**(158,992)**	**(6,839)**	**-**	**(33,441)**	**(427,599)**
Charge	(14,038)	(2,325)	(30,485)	(2,739)	-	(4,754)	(54,341)
Disposals	1,092	1,864	15,373	1,407	-	4,545	24,281
31 December 2013	**(215,151)**	**(26,583)**	**(174,104)**	**(8,171)**	**-**	**(33,650)**	**(457,659)**
Net book values							
31 December 2014	**491,583**	**4,420**	**103,256**	**10,559**	**776,263**	**29,684**	**1,415,765**
31 December 2013	**496,411**	**6,435**	**102,682**	**8,251**	**776,263**	**30,976**	**1,421,018**

Leasehold improvements comprise capital repairs of premises rented by the Bank under operating lease agreements.

In thousands of Russian Roubles

13. Property and Equipment (continued)

As at 31 December 2014 the Bank had insurance in place for its offices and premises for up to 397,185, rented premises for 2,250 and equipment for 107,399.

As at 31 December 2013 the Bank had insurance in place for its offices and premises for up to 383,192, rented premises for 2,176 and equipment for 94,526.

No independent valuation was carried out as at 31 December 2014. In the opinion of Management at the reporting date carrying value of premises did not materially differ from their fair value.

As at 31 December 2013 the Bank's management revalued the buildings based on the results of an independent evaluation conducted by an independent company of professional valuers, LLC "Business Expert" (Novosibirsk). As a result of the revaluation the value of the buildings increased by 15,273.

As at 31 December 2014 net book value ("NBV") of premises included in category 'land and premises' amounted to 490,592 (31 December 2013: 495,420). If the premises were stated at historical cost, their NBV would have been 224,858 at 31 December 2014 (31 December 2013: 215,466).

If premises were recorded in the statement of financial position on historical cost basis, the amounts would have been as follows:

	31 December 2014	31 December 2013
Historical cost	276,156	261,767
Accumulated depreciation	(51,298)	(46,301)
Net book value	**224,858**	**215,466**

14. Due to Financial Institutions

	31 December 2014	31 December 2013
VOSTRO accounts		
Tomskpromstroybank (OJSC)	5,317	359
Bank "Kuzbasschimbank" (OJSC)	2,969	2,601
Commercial Bank "Taidon" (OJSC)	1,191	693
Bank of CHINA	1,015	-
Commercial Bank "FORBANK" (OJSC)	988	31
Sibsots Bank (LLC)	953	402
STANDARD CHARTERED BANK	763	475
Commercial Bank "Talmenka-Bank" (LLC)	518	84
AGRICULTURAL BANK OF CHINA	255	148
Delta Credit Bank (CJSC)	167	64
RNKO Payment Centre (LLC)	125	1,313
RNKO Traditsiya	-	96
Term deposits of other banks		
SME Bank (OJSC)	488,944	30,228
Bank of Russia	351,161	-
Bank "National Clearing Centre" (CJSC)	-	68
	854,366	**36,562**

In thousands of Russian Roubles

14. Due to Financial Institutions (continued)

As at 31 December 2014 term deposits of other banks were attracted under the following conditions:

	Maturity date	Interest rate,	31 December
Bank of Russia	14.01.2015	17.3	351,161
SME Bank (OJSC)	31.07.2019	8.3	248,690
SME Bank (OJSC)	29.11.2019	10.3	100,000
SME Bank (OJSC)	10.12.2021	6.4	62,200
SME Bank (OJSC)	24.11.2017	9.8	30,000
SME Bank (OJSC)	20.12.2019	9.3	24,000
SME Bank (OJSC)	17.06.2016	7.8	14,054
SME Bank (OJSC)	21.12.2017	9.8	10,000
			840,105

As at 31 December 2013 term deposits of other banks were attracted under the following conditions:

	Maturity date	Interest rate, (%)	31 December 2013
Bank "National Clearing Centre" (CJSC)	09.01.2014	-	68
SME Bank (OJSC)	17.06.2016	7.8	30,228
			30,296

Geographical, currency, maturity and interest rate analysis of amounts due to financial institutions are disclosed in Note 29.

15. Customer Accounts

	31 December 2014	31 December 2013
Individuals		
Current and on demand accounts	3,050,136	3,116,761
Term deposits	16,239,850	17,099,347
	19,289,986	20,216,108
State organisations		
Current and settlement accounts	157,403	242,086
Term deposits	141,819	60,907
	299,222	302,993
Legal entities		
Current and settlement accounts	3,128,744	3,880,544
Term deposits	4,491,368	3,151,400
	7,620,112	7,031,944
Other customer accounts	14	67
	27,209,334	**27,551,112**

As at 31 December 2014 as at 31 December 2013 other customer accounts comprised settlements in transit.

In thousands of Russian Roubles

15. Customer Accounts (continued)

The table below shows the analysis per economic sector of customer accounts:

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
Individuals	19,289,986	70.9	20,216,108	73.4
Trade	2,347,449	8.6	2,018,515	7.3
Construction	1,164,674	4.3	709,622	2.6
Manufacturing	865,661	3.2	998,025	3.6
Financial services	832,235	3.1	1,734,546	6.3
Social services	728,022	2.7	673,525	2.4
Extraction of natural resources	670,816	2.5	-	-
Transaction with property, rent and services	493,910	1.8	510,151	1.8
Transport and telecommunications	268,622	1.0	295,991	1.1
Agriculture, hunting, forestry and fishing	237,881	0.9	237,260	0.9
Heating and power production	209,130	0.8	54,008	0.2
Hotels and restaurants	75,504	0.3	74,804	0.3
State organisations	24,792	0.1	25,955	0.1
Other	652	0.0	2,602	0.0
	27,209,334	**100.0**	**27,551,112**	**100.0**

As at 31 December 2014 deposits and current accounts of the Bank's ten largest customers amounted to 2,855,446 or 10.5% of the total customer accounts (31 December 2013: 2,348,103 or 8.5%).

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. Information about customer accounts of related parties is disclosed in Note 32.

16. Debt Securities Issued

The table below contains information about promissory notes issued by the Bank as at 31 December 2014:

	Maturity date		Interest rate	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Promissory notes issued	28.01.2015	12.10.2017	3.5	17.25

The table below contains information about promissory notes issued by the Bank as at 31 December 2013:

	Maturity date		Interest rate	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Promissory notes issued	31.12.2013	10.10.2014	0.00	11.00

Geographical, currency and maturity analyses as well as interest rate analysis of debt securities issued are disclosed in Note 29.

In thousands of Russian Roubles

17. Other Liabilities

	31 December 2014	31 December 2013
Other financial liabilities		
Settlements with suppliers	33,794	31,581
Letters of credit	5,827	4,270
Transit accounts	3,104	9,313
Other liabilities	16,222	10,647
	58,947	55,811
Other non-financial liabilities		
Taxes payable	33,715	21,271
Salaries payable	30,783	35,321
	123,445	**112,403**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 29.

18. Subordinated Debt

	31 December 2014	31 December 2013
Subordinated loans from Primorsk Social Company (LLC)	505,000	505,000
	505,000	**505,000**

As at 31 December 2014 and 31 December 2013 subordinated debt represent long-term loans received under the following conditions:

	Maturity date	Interest rate	31 December 2012
Primorsk Social Company (LLC)	10.08.2021	9.5%	160,000
Primorsk Social Company (LLC)	15.09.2021	11.0%	95,000
Primorsk Social Company (LLC)	10.04.2022	11.95%	250,000
			505,000

The subordinated debt ranks after all other creditors in case of the Bank's liquidation.

Geographical, currency and maturity analyses as well as interest rate analysis on subordinated loans are disclosed in Note 29. Information on transactions with related parties is disclosed in Note 32.

19. Share Capital

The share capital of the Bank has been contributed by shareholders in Russian Roubles. Shareholders are entitled to dividends and any capital distribution. As at 31 December 2014 and 31 December 2013, share capital of the Bank consisted of 350,250 authorised, issued and fully paid ordinary shares with a fixed nominal value of 1 each.

Ordinary shares carry the right to vote at annual general and extraordinary meetings as well as the right to receive dividends. All ordinary shares provide equal rights to their owners.

In thousands of Russian Roubles

19. Share Capital (continued)

The maximum amount of dividends that can be paid to the Bank's shareholders is restricted by the amount of retained earnings of the Bank which are determined in accordance with legislation of the Russian Federation. As at 31 December 2014 the Bank's reserves available for distribution amounted to 2,855,784 (31 December 2013: 2,597,259).

In 2014 the Bank declared and paid dividends in the amount of 171,692 (RUB 490.20 (not thousands) per each ordinary share). In 2013 the Bank declared and paid dividends in the amount of 167,138 (RUB 477.20 (not thousands) per each ordinary share).

As at 31 December 2014 and 31 December 2013 share capital of the Bank comprised the following elements:

	Nominal value	Inflation adjustment	Total share capital
Ordinary shares	350,250	199,706	549,956
	350,250	**199,706**	**549,956**

20. Net Interest Income

	2014	2013
Interest income		
Interest income on assets carried at amortised cost		
Loans and advances to customers	4,003,031	4,535,663
Due from financial institutions	149,013	164,585
Financial assets held to maturity	2,969	4,366
	4,155,013	4,704,614
Interest income on assets carried at fair value through profit or loss	289,892	219,336
	4,444,905	**4,923,950**
Interest expense		
Interest expense on liabilities carried at amortised cost		
Customer accounts	(1,916,981)	(2,181,786)
Due to financial institutions	(55,525)	(55,525)
Subordinated loans	(29,477)	(5,391)
Debt securities issued	(8,785)	(10,128)
	(2,010,768)	**(2,252,830)**
Net interest income	**2,434,137**	**2,671,120**

21. Net Losses from Dealing with Securities

	2014			2013		
	Fair value adjustments	Losses realised on disposal	Total	Fair value adjustments	Losses realised on disposal	Total
Financial assets at fair value through profit or loss	(56,715)	(5,444)	(62,159)	(1,647)	5	(1,642)
Other	-	(20)	(20)	-	(444)	(444)
	(56,715)	**(5,464)**	**(62,179)**	**(1,647)**	**(439)**	**(2,086)**

In thousands of Russian Roubles

22. Net Gains from Operations with Foreign Currencies

	2014	2013
Currency exchange operations	324,438	133,802
Term deals	14,035	378
	338,473	**134,180**

23. Net Commission Income

	2014	2013
Commission income		
Cash transactions	538,380	663,254
Settlement transactions	120,999	136,189
Transactions with plastic cards	117,003	100,092
Guarantees issued	14,957	11,053
Dealing with securities	10,808	8,744
Dealing with foreign currency	5,930	4,390
Premature redemption of promissory notes	2,698	4,422
Other transactions	31,109	30,993
	841,884	**959,137**
Commission expenses		
Transactions with plastic cards	(59,965)	(59,529)
Services of cash settlement centre in the CBRF	(28,578)	(29,356)
Dealing with foreign currency	(30,992)	(19,258)
Settlement transactions	(17,235)	(13,738)
Cash transactions	(12,747)	(13,472)
Dealing with securities	(6,496)	(4,906)
Other commissions	(14,716)	(8,935)
	(170,729)	**(149,194)**
Net commission income	**671,155**	**809,943**

Other commission expenses mostly comprise commission expenses for money transfers in foreign currencies by individuals and legal entities.

24. Other Operating Income

	2014	2013
Commission income received from insurance companies	69,738	173,126
Fines, penalties and other charges	21,655	19,743
Gains from disposals of other assets	4,556	1,673
Other	17,232	9,946
	113,181	**204,488**

The “Other” category mostly comprises income arising from repayment of interest accrued on deposits in case of early termination of contracts in the Zolotaya Corona system.

In thousands of Russian Roubles

25. Staff Costs

	2014	2013
Salaries and bonuses	(778,442)	(798,810)
Statutory contributions to non-budget funds	(193,824)	(188,798)
Staff training	(334)	(286)
Other staff payments	(2,842)	(354)
	(975,442)	**(988,248)**

26. Operating Expenses

	2014	2013
Operating leases	(115,127)	(107,795)
Other expenses related to fixed assets	(109,470)	(77,860)
Insurance	(81,225)	(81,832)
Taxes other than on income	(66,370)	(62,027)
Communication and other information services	(58,464)	(77,425)
Depreciation of fixed assets (Note 13)	(54,341)	(55,043)
Security expenses	(40,432)	(39,774)
Advertising and marketing	(38,598)	(50,766)
Issue of plastic cards	(16,190)	(17,775)
Professional services	(14,498)	(8,561)
Materials written-off	(9,723)	(22,840)
Business trips	(9,414)	(10,138)
Losses from disposals of assets	(6,195)	(182,292)
Social events	(5,686)	(7,511)
Charity	(5,427)	(11,921)
Reimbursement of commissions to borrowers	(3,543)	(22,231)
Representation	(781)	(670)
Other	(19,562)	(15,734)
	(655,046)	**(852,195)**

In 2013 losses from disposals of assets for a total of 182,292 include losses incurred by the Bank under an agreement on cession of loans to LLC "Investcapital" in the amount of 172,400. At the same time there was a release of previously created allowance for impairment of those loans.

Taxes other than income tax include the following:

	2014	2013
Irrecoverable VAT	(46,367)	(44,505)
Property tax	(15,100)	(14,839)
Other taxes	(4,903)	(2,683)
	(66,370)	**(62,027)**

27. Income Tax

Income tax expense comprises the following components:

	2014	2013
Current income tax	(104,391)	(247,658)
Deferred taxation movement due to the origination and reversal of temporary differences	(25,209)	(25,011)
	(129,600)	**(272,669)**

In thousands of Russian Roubles

27. Income Tax (continued)

The income tax for banks except for the income arising from dealing with state securities was charged at the rate of 20% (2013: 20%). The income tax rate on income arising from transactions with state securities is 15% (2013: 15%).

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

The effective income tax rate differs from the rates determined by the Russian tax legislation. The effective income tax may be reconciled to the income tax calculated based on the rate determined by the legislation as follows:

	2014	2013
Profit according to IFRS before tax	**420,168**	**1,281,444**
Applicable statutory rate of income tax	20%	20%
Theoretical tax charge at statutory rate	(84,034)	(256,289)
Income and expenses not recognised for tax purposes:		
Income on state securities taxed at different rates	-	(35)
Not taxable income	(82,489)	(52,837)
Not allowable expenses	36,923	36,492
	(129,600)	**(272,669)**

The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	2014	2013
IFRS profit before tax	**420,168**	**1,281,444**
Adjustments to comply with IFRS including:		
Transfer value recognition	-	(59,891)
Allowance for impairment of financial assets	206,145	(34,383)
Depreciation	8,821	9,054
Revaluation of financial assets	35,357	1,910
Accrued interest income / expenses	(192,577)	(73,551)
Accrued other income/ expenses	(14,014)	(18,496)
Other	(4,363)	30
	39,369	(175,327)
Accounting profit under RAS	**459,537**	**1,106,117**
Adjustments for disallowable items	62,418	132,173
Taxable profit	521,955	1,238,290
Profit tax charge at 20% (2013: 20%)	**(104,391)**	**(247,658)**

Differences between IFRS and the Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

In thousands of Russian Roubles

27. Income Tax (continued)

At 31 December 2014 major components that comprised deferred tax assets and liabilities were as follows:

	1 January 2014	Movement charged/ (credited) to comprehensive income	Recorded directly to equity	31 December 2014
Tax effect of deductible temporary differences				
Property, plant and equipment	60,800	(110)	-	60,690
Other	50,045	(36,813)	-	13,232
Total deferred tax asset	**110,845**	**(36,923)**	**-**	**73,922**
Tax effect of taxable temporary differences				
Allowance for impairment	(69,394)	37,050	-	(32,344)
Property, plant and equipment	(48,316)	-	-	(48,316)
Accrued income and expenses	(80,199)	(61,820)	-	(142,019)
Other	(38,523)	36,483	-	(2,040)
Total deferred tax liability	**(236,432)**	**11,714**	**-**	**(224,718)**

At 31 December 2013 major components that comprised deferred tax assets and liabilities are calculated as follows:

	1 January 2013	Movement charged/ (credited) to comprehensive income	Recorded directly to equity	31 December 2013
Tax effect of deductible temporary differences				
Property, plant and equipment	63,574	(2,774)	-	60,800
Other	15,428	34,617	-	50,045
Total deferred tax assets	**79,002**	**31,843**		**110,845**
Tax effect of taxable temporary differences				
Allowance for impairment	(74,935)	5,541	-	(69,394)
Property, plant and equipment	(45,854)	-	(2,462)	(48,316)
Accrued income and expenses	(38,760)	(41,439)	-	(80,199)
Other	(17,567)	(20,956)	-	(38,523)
Total deferred tax liability	**(177,116)**	**(56,854)**	**(2,462)**	**(236,432)**

In thousands of Russian Roubles

27. Income Tax (continued)

Major components making up the deferred tax assets and liabilities at the end of 31 December 2014 were calculated as follows:

	Temporary differences	Tax rate (%)	Deferred tax asset	Deferred tax liability
Allowance for impairment of assets	161,720	20	-	(32,344)
Accrued income and expenses	710,093	20	-	(142,019)
Property and equipment	(303,450)	20	60,690	-
Other working capital items	(57,606)	20	13,232	(2,040)
	510,757		73,922	(176,402)
Revaluation of fixed assets	241,580	20	-	(48,316)
	752,337		**73,922**	**(224,718)**

Major components making up the deferred tax assets and liabilities at the end of 31 December 2013 were calculated as follows:

	Temporary differences	Tax rate (%)	Deferred tax asset	Deferred tax liability
Allowance for impairment of assets	346,970	20	-	(69,394)
Accrued income and expenses	400,995	20	-	(80,199)
Property and equipment	(304,000)	20	60,800	-
Other working capital items	(57,610)	20	50,045	(38,523)
	386,355		110,845	(188,116)
Revaluation of fixed assets	241,580	20	-	(48,316)
	627,935		**110,845**	**(236,432)**

28. Segment Reporting

The Bank’s operations are organised in accordance with two basic business-segments:

- Services to individuals – this business segment includes bank services to individual customers – opening and holding bank (settlement) accounts, acceptance of deposits, safekeeping services, management of investments, debit and credit card services, services on consumer and mortgage loans.
- Services to organisations – this business segment includes services on running settlement and current accounts of organisations, acceptance of deposits, granting of credit lines, granting of loans and operations in foreign currency and derivative financial instruments.

The Bank has not made the relevant disclosures required under IFRS 8 ‘*Operating Segments*’ as it does not have securities listed on a recognised stock exchange.

29. Financial Risk Management

The activities carried out by the Bank expose it to a variety of financial risks and performing those activities include analysing, evaluating, accepting and managing some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

29. Financial Risk Management (continued)

The Bank's aim is therefore to achieve an adequate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance, through a set of risk management policies. These policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products, to adhere to changes in the normative issued by the CBRF and ultimately to follow emerging best practice.

The Board of Directors approves the credit policy and the Policy of risk management, sets basic characteristics of loan portfolio of the Bank and limits the risks upon the factors, among which are:

- Loan portfolio diversification by industries;
- Loan terms depending on the quality of collateral;
- Limitations on granting loans to related parties;
- Quality criteria of collateral;
- Borrowers' risk assessment principles.

In addition to this, the credit policy determines the functions of separate bodies of the Bank, including:

- Executive Board (issue of regulatory documents related to risk management procedures including credit, currency and interest risks, and financial instruments' risks on the development of the Bank's business, Interest policy);
- Finance committee (determination of limits on all Bank's activities and by categories of financial instruments) and;
- Credit committee / Small credit committee / Retail credit committee (decisions on issues such as granting, prolonging or changing conditions of loan agreements, portfolio structure). The credit committees are responsible for the overall quality of the loan portfolio.

To minimise the risks, the Bank's departments, which are involved in lending, operate within the scope of their competence, and each department is included into the system of risk management and control, among them are:

- Business departments (collecting updated information of the client during the effective period of the contracts, monitoring of the clients' financial position, control of clients' repayment record, performing of scheduled and non-scheduled visits to clients);
- Credit officers perform evaluations of proposed collaterals, their conditions, fair value assessments along with analysis of terms of contracts and decisions upon changes of collateral;
- Department of banking risks assessment (business risk evaluation, monitoring of risk categories of loans, advances and other financial instruments, calculation of allowance considering the provided collateral, suggestions for improvement of the existing risk assessment methodologies, operational and legal risk assessment);
- Economic security department and legal department (legal review of documents provided by borrowers, evaluation of borrowers' business reputation, debt collection in case of default on obligations, participation in realisation of pledged collateral);
- Internal control department (subsequent inspection of lending procedures for their compliance with internal and external requirements).

Credit risk
The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to fulfil their obligations. Credit risk is the most important risk for the Bank's business and therefore Management carefully monitors it. Credit exposures arise mainly from lending activities as well as from investing activities that bring debt securities and other instruments into the Bank's assets portfolio.

There is also credit risk arising from off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Department of banking risks assessment and reported to the Credit Committee on a regular basis.

29. Financial Risk Management (continued)

Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank takes into account the following three components:

(a) the "probability of default" by the client or counterparty on its contractual obligations;

(b) current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and

(c) the likely recovery ratio on the defaulted obligations (the "loss given default").

These credit risk measurements, which reflect expected losses (the "expected loss model") and are required by the CBRF, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the statement of financial position date (the "incurred loss model") rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty.

They have been developed internally, based on the regulations issued by the CBRF and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data. For this purpose the loan portfolio of the Bank is classified into five risk categories:

§ I (the highest quality - standard loans) – with absence of credit risk (possibility of losses as result of default or improper fulfilment of liabilities on loans is nil);

§ II (non-standard loans) - medium credit risk (possibility of losses as result of default determines their impairment on a variable rate between 1 to 20%)

§ III (doubtful loans) – significant credit risk (possibility of losses as result of default determines their impairment on a variable rate between 21 to 50%)

§ IV (problematic loans) - high credit risk (possibility of losses as result of default determines their impairment on a variable rate between 51 to 100%)

§ V the lowest quality (bad loans) – absence of repayment possibility of a loan due to the inability or unwillingness of a borrower to fulfil his credit obligations, determines the full impairment of a loan (100%)

In order to achieve a more representative classification of borrowers, each category (apart from the lowest one) includes subcategories that characterise more specifically the capability of a borrower to repay a loan.

The analysis of debt securities and other liabilities does not differ from the analyses of the Bank's borrowers and is performed with the use of similar models, although, taking into account that not all financial information is reliable or readily available from all issuers.

For that purpose, the Department of banking risks assessment applies additional methods to assess the financial position of the issuers based on fundamental and technical analysis of the stock market. The department also uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and on over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor's, Moody's or Fitch Ratings. Investments in those securities are considered as a means to improve the credit quality profile of the Bank's assets and, at the same time, a tool for liquidity management.

29. Financial Risk Management (continued)

Risk limit control and mitigation policies

The Bank manages, sets limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, economic groups and industries, through its loan granting policies and regulations. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored through regular review (quarterly and annual inspections as well as inspection arising from impairment evidence). Risk limits are updated once a quarter, and for risk factors changing more frequently (e.g. market risks, debts of credit institutions) – once a month. The limits are subject to approval by the Finance committee.

The Bank has a differential approach for the assessment of different groups of borrowers (taking into consideration the activity or industry they belong to and the specifics of the preparation of their financial statements). In particular, the Bank has specific exposure evaluation models used for:

§ industrial and agricultural entities;
§ trade organisations;
§ construction companies;
§ state organisations;
§ small business;
§ individuals.

The exposure to any borrower or economic group, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for loans, which is a common practice. The Bank has set guidelines on the acceptability of specific types of collateral for credit risk mitigation. The main collateral types for loans and advances include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equity instruments.

Long term finance and lending to corporate entities are generally secured; consumer individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, promissory notes and similar instruments are generally unsecured.

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate, or by additional collateral and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies
The internal rating described above in this note is used for regulatory purposes as per the instructions of the CBRF and focuses more on credit-quality mapping from the inception of the lending and investment activities. By contrast, impairment allowances that are created for financial reporting purposes under IFRS take into account only those losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the statement of financial position under IFRS at the year-end is derived from each of the five statutory risk categories. The majority of the impairment allowance comes from the last grading, in direct correlation to the impaired loans, and from the second category corresponding to loans assessed on a pool basis. The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories.

The Bank's rating, determined based on regulations issued by the CBRF, was as follows:

Risk category	Loans and advances at 31 December 2014, (%)	Impairment allowance at 31 December 2014, (%)	Loans and advances at 31 December 2013, (%)	Impairment allowance at 31 December 2013, (%)
I	36.2	-	35.8	-
II	48.6	6.3	55.9	11.9
III	3.0	3.8	2.0	5.7
IV	1.5	1.8	0.7	6.1
V	10.7	88.1	5.6	76.3
	100.0	**100.0**	**100.0**	**100.0**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral
- Downgrading below category II

The Bank's policy requires performing a review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogenous assets that are individually below materiality thresholds; and
- Losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting-off of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities. Providing monitoring of credit risk the specialists of the Department of banking risks assessment present regular reports based on structured analysis of business and financial results of clients. All information on significant risks in respect of client's creditworthiness is received and reviewed by the Credit committee of the Bank. The Credit committee performs maturity analysis, monitoring and control of overdue loans.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to statement of financial position financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

In accordance with the results of stress testing which is performed twice a year to assess the Bank's sensitivity to changes in the structure of the loan portfolio, the Bank develops contingency plans and takes measures in order to limit the riskiest scenarios and lending schemes.

Loans and advances to customers include the following portfolios:

	31 December 2014	31 December 2013
Loans and advances to customers		
Individuals (retail customers)		
Consumer loans	9,985,826	11,207,361
Overdrafts	951,849	809,483
Auto loans	464,696	657,315
Mortgages	1,203,004	1,398,092
Legal entities		
Large corporate customers	4,284,739	3,685,255
Small and medium enterprises ("SMEs")	6,218,078	6,859,910
Federal, state and public organisations	533,855	197,952
Loans and advances to customers, gross	**23,642,047**	**24,815,368**
Less: Allowance for impairment	(2,806,238)	(1,767,746)
Loans and advances to customers, net	**20,835,809**	**23,047,622**

The loan portfolio of the Bank is summarised as follows:

	31 December 2014		31 December 2013	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	19,734,274	424,258	22,407,953	338,204
Past due but not impaired	329,916	-	385,263	-
Individually impaired	3,577,857	-	2,022,152	-
	23,642,047	424,258	24,815,368	338,204
Less: Allowance for impairment	(2,806,238)	-	(1,767,746)	-
	20,835,809	**424,258**	**23,047,622**	**338,204**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Loans and advances neither past due nor impaired

As at 31 December 2014, loans and advances neither past due nor impaired to individuals comprised:

Risk category	Overdrafts	Consumer loans	Auto loans	Mortgages	Total
I	-	562,345	-	-	562,345
II	857,706	7,245,982	274,872	1,059,159	9,437,719
Total	**857,706**	**7,808,327**	**274,872**	**1,282,427**	**10,000,064**

As at 31 December 2014, loans and advances neither past due nor impaired to legal entities were:

Risk category	Large corporate customers	SMEs	Federal, state and public	Total
I	3,578,420	3,836,343	529,758	7,944,521
II	937	1,784,655	4,097	1,789,689
Total	**3,579,357**	**5,620,998**	**533,855**	**9,734,210**

Summarising, the credit quality of the loan portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	562,345	7,944,521	8,506,866
II	9,437,719	1,789,689	11,227,408
Total	**10,000,604**	**9,734,210**	**19,734,274**

As at 31 December 2013, loans and advances neither past due nor impaired to individuals comprised:

Risk category	Overdrafts	Consumer loans	Auto loans	Mortgages	Total
I	-	685,062	-	22,574	707,636
II	749,411	8,835,299	521,761	1,259,852	11,366,323
Total	**749,411**	**9,520,361**	**521,761**	**1,282,427**	**12,073,959**

As at 31 December 2013, loans and advances neither past due nor impaired to legal entities were:

Risk category	Large corporate customers	SMEs	Federal, state and public	Total
I	3,682,912	4,295,209	194,275	8,172,396
II	2,343	2,157,031	2,223	2,161,597
Total	**3,685,255**	**6,452,240**	**196,498**	**10,333,993**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Summarizing, at 31 December 2013 the credit quality of the loan portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	707,636	8,172,396	8,880,032
II	11,366,324	2,161,597	13,527,921
Total	**12,073,960**	**10,333,993**	**22,407,953**

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired as at 31 December 2014 were as follows:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total	Fair value of collateral
Individuals (retail clients)						
Overdrafts	13,682	-	-	-	13,682	-
Consumer loans	134,990	2,221	1,419	134	138,764	32,051
Auto loans	10,146	-	-	-	10,146	2,627
Mortgages	49,705	3,771	8,804	40,572	102,852	181,711
Legal entities						
SMEs	45,436	8,185	5,096	5,755	64,472	180,375
Total	**253,959**	**14,177**	**15,319**	**46,461**	**329,916**	**396,764**

As at 31 December 2013 the gross amount of loans and advances past due but not impaired was as follows:

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total	Fair value of collateral
Individuals (retail clients)						
Overdrafts	12,602	-	-	-	12,602	-
Consumer loans	188,057	-	412	-	188,469	15,298
Auto loans	17,483	-	-	-	17,483	600
Mortgages	42,707	2,051	4,083	44,439	93,280	176,414
Legal entities						
SMEs	29,367	19,075	8,274	16,713	73,429	224,924
Total	**290,216**	**21,126**	**12,769**	**61,152**	**385,263**	**417,236**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2014		2013	
	Balance (gross)	**Fair value of collateral**	**Balance (gross)**	**Fair value of collateral**
Individuals (retail customers)				
Overdrafts	80,460	-	47,470	-
Consumer loans	2,038,736	22,879	1,498,532	16,062
Auto loans	179,678	9,845	118,072	5,360
Mortgages	40,993	36,187	22,386	15,766
Legal entities				
Large corporate customers	705,382	1,033,986	-	-
SMEs	532,608	456,889	335,238	424,879
Federal, state and public organisations	-	-	454	-
Total	**3,577,857**	**1,559,786**	**2,022,152**	**462,067**

In 2014 the movement of the allowance for impairment of loans and advances to individuals and legal entities was as follows:

	Individuals	Legal entities	Total
1 January 2014	**1,508,375**	**259,371**	**1,767,746**
Charge of allowance in the period	942,658	411,365	1,354,023
Loans written-off as uncollectable	(259,595)	(55,936)	(315,531)
31 December 2014	**2,191,438**	**614,800**	**2,806,238**

In 2013 the movement of the allowance for impairment of loans and advances to individuals and legal entities was as follows:

	Individuals	Legal entities	Total
1 January 2013	**798,194**	**400,693**	**1,198,887**
Charge / (release) of allowance in the period	840,474	(117,253)	724,221
Loans written-off as uncollectable	(131,293)	(24,069)	(155,362)
31 December 2013	**1,508,375**	**259,371**	**1,767,746**

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following the restructuring, a previously overdue customer account is reset to a normal status and managed together with similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Renegotiated loans that would otherwise be past due or impaired comprised:

	31 December 2014	31 December 2013
Individuals (retail customers)		
Consumer loans	93,117	19,642
Mortgages	99,275	47,003
Legal entities		
Federal, state and public organisations	-	34,883
Large corporate customers	431,988	353,371
SMEs	433,395	604,251
Total	**1,057,775**	**1,059,150**

Included in loans neither past due nor impaired as at 31 December 2014 were 499 renegotiated loans with the total value of 170,972 which would otherwise be past due or impaired (31 December 2013: 128 loans with the total value of 238,151).

Repossessed collateral
During 2014 the Bank took possession of collateral held as security in amount of 1,994 (2013: total amount of 35,565). The following table provides details of assets repossessed by the Bank in 2014:

	Residential property	Commercial property	Total
1 January 2014	**32,659**	**1,954**	**34,613**
Additions	4,669	6,584	11,253
Valuation adjustment	7,001	-	7,001
Disposals	(40,470)	(3,402)	(43,872)
31 December 2014	**3,859**	**5,136**	**8,995**

The following table provides details of assets repossessed by the Bank in 2013:

	Residential property	Commercial property	Total
1 January 2013	**32,148**	**4,380**	**36,528**
Additions	6,573	40	6,613
Adjustment for impairment	(952)	-	(952)
Disposals	(5,110)	(2,466)	(7,576)
31 December 2013	**32,659**	**1,954**	**34,613**

At 31 December 2014 and 31 December 2013 all repossessed collateral was shown within Other assets (Note 11).

Repossessed properties may be sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness or utilised by the Bank where they feel appropriate. Repossessed property to be sold is classified in the statement of financial position within other assets, and property to be utilised by the Bank is capitalised under property, plant and equipment.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Industry analysis of loans and advances to customers

The structure of the Bank's loan portfolio per economic sector is presented below:

	31 December 2014	%	31 December 2013	%
Individuals	12,605,375	53.3	14,072,251	56.7
Trade	5,245,465	22.2	6,191,928	25.0
Manufacturing	2,327,057	9.8	1,868,509	7.5
Transport and telecommunication	1,048,571	4.5	546,654	2.2
Construction	693,104	2.9	878,909	3.5
Transaction with property, rent and services	526,490	2.2	463,051	1.9
State organisations	449,378	1.9	111,706	0.5
Agriculture, hunting, forestry and fishing	342,738	1.5	430,734	1.7
Hotels and restaurants	220,790	0.9	42,871	0.2
Social services	118,500	0.5	157,751	0.6
Heating and power production	64,274	0.3	50,943	0.2
Extraction of natural resources	305	-	-	-
Financial services	-	-	61	-
	23,642,047	**100.0**	**24,815,368**	**100.0**

Concentration of loans and advances to customers

In terms of size and number of loans, the structure of the Bank's loan portfolio is as follows:

	31 December 2014			31 December 2013		
Amount	**Number of loans**	**Total debt**	**%**	**Number of loans**	**Total debt**	**%**
More than 60,001	38	4,287,727	18.1	37	3,528,974	14.2
From 30,001 to 60,000	42	1,736,117	7.3	40	1,614,501	6.5
From 15,001 to 30,000	74	1,527,277	6.5	72	1,471,441	5.9
From 7,501 to 15,000	101	972,894	4.1	128	1,292,902	5.2
From 3,001 to 7,500	456	1,693,772	7.2	431	1,655,300	6.7
From 1,501 to 3,000	916	1,513,516	6.4	1 037	1,791,541	7.2
From 601 to 1,500	2,162	1,689,347	7.1	2 287	1,893,661	7.6
From 301 to 600	4,879	1,238,476	5.2	4 754	1,104,297	4.5
From 151 to 300	23,826	2,967,632	12.6	29 653	4,004,828	16.1
From 31 to 150	95,019	5,500,366	23.3	93 513	5,922,353	23.9
From 16 to 30	19,976	404,399	1.7	20 376	412,918	1.7
From 0 to 15	13,014	110,524	0.5	14 166	122,652	0.5
Total	**160,503**	**23,642,047**	**100.0**	**166,494**	**24,815,368**	**100.0**

As at 31 December 2014 the twenty largest borrowers had an outstanding debt totalling 4,989,715 that represented 21.1% of the total loan portfolio (31 December 2013: 4,796,833 and 19.3%, respectively).

As at 31 December 2014 the largest borrower has a total debt of 474,760 that represented 2.0% of the total loan portfolio (31 December 2013: 489,865 and 2.0%, respectively).

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other type of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Bank for its loan portfolio by type of collateral and its estimated fair value:

	31 December 2014	31 December 2013
Real estate	12,660,296	14,434,537
Cession rights	2,013,123	2,419,363
Motor vehicles	1,916,550	1,901,019
Fixed assets and equipment	1,617,576	1,605,816
Goods in turnover	1,523,997	1,746,072
Securities	177,743	173,201
Total amount of collateral	**19,909,285**	**22,280,008**

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity instruments which are exposed to general and specific market movements. The Financial Committee sets limits on the volume of risk exposure. However, the use of this approach does not prevent losses outside of those limits in the event of more significant market movements.

The method of evaluation of market risks has developed significantly. In 2006 the Bank started evaluating the market risks related to its debt securities portfolio using the “Value at Risk” methodology (“VaR”) currently accepted as best practice. As the range of financial instruments the Bank dealt with widened the Bank has developed and introduced certain rules relating to calculation of limits on groups of securities combined into pools in accordance with their specific risk features as well as the rules for obligatory closing of positions on specific types of securities.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the ‘maximum’ amount the Bank might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain ‘holding period’ until positions can be closed (1 day). It also assumes that market movements occurring over one day will follow a similar pattern to those that have occurred over the periods in the past. The Bank’s assessment of past movements is based on data for the past 365 days. The Bank applies these historical changes in rates, prices, indices, and so on directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/ factors used in the VaR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Bank’s market risk control regime, VaR limits are established by the Financial Committee on a monthly basis. Actual exposure against limits, together with a consolidated Bank-wide VaR, is reviewed daily by the Department of banking risks assessment. Average daily VaR for the Bank in 2014 was 17,687 in 2014 (2013: 13,843).

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading portfolios. All back-testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated, and all back-testing results are reported to the Board of Directors.

Financial instruments sensitive to the market risk include state securities, corporate securities, and foreign currencies.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

State bonds and a portion of corporate bonds were included into financial assets held to maturity. As such, no VaR was calculated for them. Risk assessment for these securities was performed through review for impairment.

Corporate bonds sensitive to market risk:

Rate	1 January 2014	31 March 2014	30 June 2014	30 September 2014	31 December 2014
Fair value of the portfolio, in RUB (*)	2,326,675	2,700,798	3,174,887	3,482,216	3,233,796
Possible losses, in RUB (**)	20,877	19,854	16,776	15,317	18,800
Possible losses, in % from fair value of the portfolio	0.90	0.74	0.53	0.44	0.58

(*) Fair value of the portfolio was calculated according to daily prices of Moscow Interbank Currency Exchange

(**) To evaluate 'possible losses' VaR has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day).

Results of VaR calculations for foreign currencies for the years 2014 and 2013 indicate that their share of potential losses does not exceed 1% of total amount. Due to this fact, amount of potential losses on foreign currencies is accepted as 1% of total amount on the remaining financial instruments sensitive to market risk.

The sensitivity of the Bank to total market risk is presented below:

Rate	1 January 2014	31 March 2014	30 June 2014	30 September 2014	31 December 2014
Equity, in RUB (*)	3,865,914	3,889,519	3,739,011	3,929,802	3,941,947
Possible losses, in RUB (**)	21,086	20,053	16,974	15,470	18,988
Possible losses, in % from the equity (share)	0.54	0.54	0.45	0.40	0.47

(*) Equity was calculated in accordance with methodology set by the CBRF

(**) 'Possible losses' were calculated by summarizing the rates of possible losses presented in the tables at corresponding dates. This method of calculating does not fully correspond to portfolio's approach of value-at-risk calculation as it is supposed that there is no correlation between the risk factors of separate portfolios. In relation to this, the calculation gives higher estimate of the Bank's sensitivity to the market risk factors.

The Bank has not performed the analyses on sensitivity of the portfolio of financial instruments to the changes of general level of interest rates as the Bank does not have financial instruments with variable interest rates related to the refinance rate of the CBRF, LIBOR, market indexes or any other general economic indicators. In 2014 and 2013 the Bank operated only with debt securities with fixed interest rates.

Financial instruments denominated in foreign currency were taken into consideration in calculation of currency position and their sensitivity to currency risk was accounted for in computation of amount of potential losses on foreign currencies.

Geographical risk / country risk
Country risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore - as shown in the table below - it has a significant concentration of Russia exposure.

The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible. Operations of the Bank beyond the Russian Federation are represented predominantly by operations with OECD countries.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

A geographical analysis of Bank's assets and liabilities as at 31 December 2014 is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	5,794,379	101,359	36,049	5,931,787
Mandatory cash balances with the CBRF	261,427	-	-	261,427
Financial assets at fair value through profit or loss	3,853,338	213,749	-	4,067,087
Due from financial institutions	415,056	9,202	-	424,258
Financial assets held to maturity	20,604	-	-	20,604
Loans and advances to customers	20,835,809	-	-	20,834,809
Other assets	354,565	-	-	354,565
Property, plant and equipment	1,415,765	-	-	1,415,765
Deferred tax assets	73,922	-	-	73,922
Total assets	**33,024,865**	**324,310**	**36,049**	**33,385,224**
Liabilities				
Due to financial institutions	852,333	763	1,270	854,366
Customer accounts	27,207,880	914	540	27,209,334
Debt securities issued	398,917	-	-	398,917
Other liabilities	123,445	-	-	123,445
Subordinated debt	505,000	-	-	505,000
Deferred tax liabilities	224,718	-	-	224,718
Total liabilities	**29,312,293**	**1,677**	**1,810**	**29,315,780**
Net balance sheet position	**3,712,572**	**322,633**	**34,239**	**4,069,444**
Credit related commitments (Note 30)	**2,470,325**	**-**	**-**	**2,470,325**

Geographical analysis of the Bank's assets and liabilities as of 31 December 2013 is set out below:

	Russia	OECD	Non-OECD	Total
Net balance sheet position	**3,749,337**	**27,743**	**173,488**	**3,950,568**
Credit related commitments (Note 30)	**2,992,904**	**-**	**-**	**2,992,904**

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in exchange rates. The Financial Committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Transactions are generally performed in three major currencies: the RUB, USD and EUR.

In thousands of Russian Roubles

29. Financial Risk Management (continued)

As at 31 December 2014 the Bank had the following positions in different currencies:

	RUB	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	4,559,166	1,119,773	178,093	74,755	5,931,787
Mandatory cash balances with the CBRF	261,427	-	-	-	261,427
Financial assets at fair value through profit or loss	3,853,338	-	213,749	-	4,067,087
Due from financial institutions	64,078	132,005	219,195	8,980	424,258
Financial assets held to maturity	20,604			-	20,604
Loans and advances to customers	20,564,658	266,445	4,706	-	20,835,809
Other assets	95,820	256,885	1,823	37	354,565
Total monetary financial assets	**29,419,091**	**1,775,108**	**617,566**	**83,772**	**31,895,537**
Monetary financial liabilities					
Due to financial institutions	837,941	8,195	1,912	6,318	854,366
Customer accounts	24,896,413	1,655,809	639,108	18,004	27,209,334
Debt securities issued	344,486	-	54,431	-	398,917
Other liabilities	123,404	-	41	-	123,445
Subordinated debt	505,000	-	-	-	505,000
Total monetary financial liabilities	**26,707,244**	**1,664,004**	**695,492**	**24,322**	**29,091,062**
Net balance sheet position	**2,711,847**	**111,105**	**(77,926)**	**59,450**	**2,804,475**
Credit related commitments (Note 30)	**2,255,233**	**170,407**	**44,685**	**-**	**2,470,325**

As at 31 December 2013 the Bank had the following positions in different currencies:

	RUB	USD	EUR	Other	Total
Net balance sheet position	**2,718,270**	**58,297**	**(193,157)**	**44,989**	**2,628,399**
Credit related commitments (Note 30)	**2,992,904**	**-**	**-**	**-**	**2,992,904**

As at 31 December 2014 other currencies in assets were represented by the following currencies: Japanese Yen – the equivalent of 15,043 (31 December 2013: 9,573), Swiss Francs – the equivalent of 23 (31 December 2013: 20), Pound Sterling – the equivalent of 46 (31 December 2013: 17), Chinese Yuan – the equivalent of 7,820 (31 December 2013: 7,999), Canadian dollars - the equivalent of 12.

As at 31 December 2014 other currencies in liabilities were represented by the following currencies: Chinese Yuan – the equivalent of 2,413 (31 December 2013: 368), Yen – the equivalent of 7,861 (31 December 2013: 4,480), Pound Sterling – the equivalent of 3 (31 December 2013: 1).

The following table demonstrates the sensitivity to a reasonably possible change in the RUB to USD and EUR exchange rate, with all other variables held constant, of the Bank's profit after tax and the Bank's equity. Analysis has not been provided for other currencies as there are no significant exposures.

	2014	2013
USD		
30% increase	33,331	17,489
30% decrease	(33,331)	(17,489)
EUR		
30% increase	(23,378)	(57,947)
30% decrease	23,378	57,947

In thousands of Russian Roubles

29. Financial Risk Management (continued)

Interest rate risk

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

The Bank is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In absence of hedging instruments, the Bank usually aims to balance the interest rate margins positions.

The table below shows the general analysis of the Bank's weighted average interest rates for various financial instruments using period-end effective interest rates:

	31 December 2014					31 December 2013				
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Assets										
Cash and cash equivalents	16.0%	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	11.7%	11.6%	14.5%	14.5%	10.1%	8.2%	8.5%	8.7%	11.9%
Due from financial institutions	-	-	-	-	-	2.6%	-	-	-	-
Financial assets held to maturity	-	-	12.0%	-	-	-	-	12.0%	12.0%	-
Loans and advances to customers	19.2%	16.1%	16.6%	17.8%	13.0%	15.3%	11.9%	17.2%	20.3%	12.9%
Liabilities										
Due to financial institutions	17.3%	-	-	8.9%	6.4%	-	-	-	7.8%	-
Customer accounts	6.0%	14.1%	9.6%	10.7%	-	1.4%	8.7%	9.0%	9.9%	-
Debt securities issued	-	-	11.4%	8.8%	-	4.8%	9.8%	9.9%	-	-
Subordinated debt	-	-	-	-	11.0%	-	-	-	-	11.0%

The table below summarises the Bank's exposure to interest rate risks as at as at 31 December 2013. It includes the Bank's interest bearing financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	1,200,000	-	-	-	-	1,200,000
Financial assets at fair value	-	417,594	1,319,104	1,759,061	571,328	4,067,087
Financial assets held to maturity	-	-	20,604	-	-	20,604
Loans and advances to customers	4,017,259	2,174,981	8,049,286	8,656,538	743,983	23,642,047
Total assets	**5,217,259**	**2,592,575**	**9,388,994**	**10,415,599**	**1,315,311**	**28,929,738**
Liabilities						
Due to financial institutions	351,161	-	-	426,744	62,200	840,105
Customer accounts	11,037,667	4,445,280	7,665,166	4,061,221	-	27,209,334
Debt securities issued	50,730	178,715	158,436	11,036	-	398,917
Subordinated debt	-	-	-	-	505,000	505,000
Total liabilities	**11,439,558**	**4,623,995**	**7,823,602**	**4,499,001**	**567,200**	**28,953,356**
Interest rate sensitivity gap	**(6,222,299)**	**(2,031,420)**	**1,565,392**	**5,916,598**	**748,111**	**(23,618)**

In thousands of Russian Roubles

29. Financial Risk Management (continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2013:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Financial assets at fair value through profit or loss	1,044,810	506,418	1,287,464	420,894	-	3,259,586
Due from financial institutions	150,000	-	-	-	-	150,000
Financial assets held to maturity	-	-	9,787	20,602	-	30,389
Loans and advances to customers	2,369,172	3,185,691	7,501,567	9,297,263	693,929	23,047,622
Total assets	**3,563,982**	**3,692,109**	**8,798,818**	**9,738,759**	**693,929**	**26,487,597**
Liabilities						
Due to financial institutions	-	-	-	30,228	-	30,228
Customer accounts	8,012,851	1,518,638	6,952,062	11,067,561	-	27,551,112
Debt securities issued	9,303	55,000	10,215	-	-	74,518
Subordinated debt	-	-	-	-	505,000	505,000
Total liabilities	**8,022,154**	**1,573,638**	**6,962,277**	**11,097,789**	**505,000**	**28,160,858**
Interest rate sensitivity gap	**(4,458,172)**	**2,118,471**	**1,836,541**	**(1,359,030)**	**188,929**	**(1,673,261)**

The table below shows the average interest rate by major currencies on the assets and liabilities bearing interest. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments in accordance with the agreements valid at the end of the period.

	31 December 2014			31 December 2013		
	RUB	**USD**	**EUR**	**RUB**	**USD**	**EUR**
Assets						
Cash and cash equivalents	16.0%	-	-	-	-	-
Financial assets at fair value through profit or loss	14.0%	-	6.9%	10.0%	-	-
Due from financial institutions	-	-	-	3.0%	-	-
Financial assets held to maturity	12.0%	-	-	12.0%	-	-
Loans and advances to customers	17.8%	6.6%	7.5%	18.7%	8.8%	5.5%
Liabilities						
Due to financial institutions	12.3%	-	-	7.8%	-	-
Customer accounts	9.5%	3.2%	4.1%	7.3%	3.7%	5.0%
Debt securities issued	12.6%	-	3.5%	9.6%	-	-
Subordinated debt	11.0%	-	-	11.0%	-	-

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Bank's profit after tax and the Bank's equity as at 31 December 2014 and 31 December 2013:

In thousands of Russian Roubles

29. Financial Risk Management (continued)

	31 December 2014	31 December 2013
RUB		
100 bp parallel increase	49,926	22,599
100 bp parallel decrease	(49,926)	(22,599)
USD		
50 bp parallel increase	(6,128)	(2,151)
50 bp parallel decrease	6,128	2,151
EUR		
50 bp parallel increase	(3,182)	(1,535)
50 bp parallel decrease	3,182	1,535

Liquidity risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk.

The matching and / or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

In the opinion of Management, in spite of the substantial portion of customer accounts being on demand and less than 1 month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide - at least under normal circumstances - a long-term and stable source of funding to the Bank.

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year,

The Bank was in compliance with the above ratios during the year ended 31 December 2014 and the year ended 31 December 2013. The following table represents the mandatory liquidity ratios for the Bank:

	Requirement	31 December 2014	31 December 2013
Instant liquidity ratio (N2)	Minimum 15%	102.7%	64.5%
Current liquidity ratio (N3)	Minimum 50%	98.2%	102.3%
Long-term liquidity ratio (N4)	Maximum 120%	74.1%	59.7%

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Liquidity Department, and any issues are highlighted and referred to senior Management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with.

The Bank holds a diversified portfolio of cash and other financial instruments to support payment obligations and contingent funding. The Bank's assets held for managing liquidity comprise the following:

In thousands of Russian Roubles

29. Financial Risk Management (continued)

- Cash and cash equivalents (balances with the CBRF and Nostro accounts with other banks);
- Due from financial institutions;
- Financial assets at fair value through profit or loss.

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2014. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to financial institutions	368,906	9,159	33,978	559,321	62,745	1,034,109
Customer accounts	11,142,093	4,795,469	12,800,109	4,409,075	-	33,146,746
Debt securities issued	55,395	183,121	163,415	13,183	-	415,213
Subordinated debt	-	-	-	-	892,236	892,236
Other liabilities	58,947	-	-	-	-	58,947
Total liabilities	**11,625,341**	**4,987,749**	**12,997,601**	**4,981,579**	**954,981**	**35,547,251**
Credit related commitments (Note 30)	**971,015**	**49,151**	**706,296**	**660,111**	**83,752**	**2,470,325**
Assets held for managing liquidity risk	**5,938,703**	**323,122**	**707,480**	**2,445,192**	**1,153,098**	**10,567,595**

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2013.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to financial institutions	4,398	-	-	37,256	-	41,654
Customer accounts	7,921,153	1,343,212	7,507,652	13,384,157	-	30,156,174
Debt securities issued	9,523	55,891	10,988	-	-	76,402
Subordinated debt	-	-	-	-	1,060,248	1,060,248
Other liabilities	55,811	-	-	-	-	55,811
Total liabilities	**7,990,885**	**1,399,103**	**7,518,640**	**13,421,413**	**1,060,248**	**31,390,289**
Credit related commitments (Note 30)	**836,230**	**71,535**	**1,072,359**	**1,012,780**	**-**	**2,992,904**
Assets held for managing liquidity risk	**5,169,050**	**513,777**	**439,785**	**521,745**	**-**	**6,644,358**

In the above tables customer accounts payable after 1 month include the amounts relating to term deposits of individuals which, under terms of relevant deposits agreements, can be withdrawn by clients without restrictions. As at the both reporting dates total amount that can be withdrawn comprised 30% of the total customer accounts payable after 1 month. They have not been disclosed in “Up to 1 month” range as in the opinion of Management the probability of those amounts being withdrawn by the clients is considered remote.

29. Financial Risk Management (continued)

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2014 and at 31 December 2013 and IFRS 7 revised does not require such reconciliation.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in less than one month.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Other price risk

The Bank is exposed to the risk that fair value of cash flows related to financial instruments will change as a result of changes of market prices (apart from those changes caused by interest rate and currency risks) irrespectively of whether these changes are caused by the factors, specific for a particular security or its issuer, that have impact on all financial instruments operating on the market.

Operating risk

Operating risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional fraudulent actions of personnel and force-majeure circumstances.

The Bank has developed special internal regulations and procedures aimed to minimise operating risk. The report on operating risks is considered quarterly by the Executive Board and once a year on the meeting of the Board of Directors of the Bank.

Legal risk

Legal risk is the risk that the Bank will incur losses as a result of non-compliance by the Bank with requirements of laws, regulations or contracts, occurrence of legal errors in the course of business activities and imperfection of the legal system.

In 2014 no legal risks arising from changes in the existing legislation (including banking, tax and customs legislations) were identified. The Bank incurred a certain amount of losses that arose from imperfections in the legal system (inconsistency of legislation, absence of legal regulations on particular issues of banking activity). The losses incurred were minimal in comparison with the Bank’s equity and they did not pose a threat of financial or reputational losses to shareholders or partners of the Bank.

30. Contingencies and Commitments

Legal proceedings

In the normal course of business the Bank receives claims from customers. Management of the Bank does not consider that legal proceedings might lead to substantial losses therefore there is no need for creating a provision in this respect in the financial statements.

Tax legislation

Due to the presence in the Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank may be levied with additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

In thousands of Russian Roubles

30. Contingencies and Commitments (continued)

Capital commitments

As at 31 December 2014 and 31 December 2013 the Bank had no material capital commitments.

Operating lease commitments

In the normal course of business, the Bank enters into operating lease agreements. Most of these agreements are non-cancellable. In the table below the minimum amount of future rent obligations on irrevocable operating lease agreements are presented, where the Bank acts as a lessee:

	31 December 2014	**31 December 2013**
Not later than one year	96,749	102,728
Later than one year and no later than five years	153,251	184,442
Later than five years	8,068	-
	258,068	**287,170**

Credit related commitments

Credit related commitments comprise loan commitments and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments at their nominal amounts are as follows:

	31 December 2014	**31 December 2013**
Undrawn loan commitments	1,297,250	1,977,769
Undrawn overdrafts	905,050	837,250
Guarantees issued on mortgages sold	123,765	106,539
Letters of credit	144,260	71,346
	2,470,325	2,992,904
Other guarantees issued	528,793	399,132
Total credit related commitments	**2,999,118**	**3,392,036**

As at 31 December 2014 the impairment allowance created in respect of other credit related commitments amounted to 5,234 (31 December 2013: 3,677). Movements in impairment allowance during the year are presented within Operating expenses in the Statement of comprehensive income. The total outstanding contractual amount of loan commitments and guarantees does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

In thousands of Russian Roubles

30. Contingencies and Commitments (continued)

As at 31 December 2014 the Bank had 87 foreign currency swap contracts (31 December 2013: 65).

	Notional amount 31 December 2014	CBRF rate 31 December 2014	Notional amount 31 December 2013	CBRF rate 31 December 2013
Buy RUR sell USD				
Less than one month	1,057,428	56.2584	492,985	32.7292
Buy USD sell RUR				
Less than one month	1,182,632	56.2584	577,885	32.7292
Buy EUR sell USD				
Less than one month	54,971	1.2148	-	-
Buy EUR sell RUR				
Less than one month	-	-	193,789	44.9699
Buy Yuan sell RUR				
Less than one month	-	-	3,236	5.3993

In 2014 the corresponding fair value gain and a corresponding asset of 14,035 (2013: 378) have been recorded in Statement of comprehensive income within net gains from operations with foreign currencies and in the Statement of financial position in the relevant line within Other assets.

31. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms' length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Bank, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment. Although, for estimating the fair value of financial instruments, Management uses the most up to date market information, it may not always represent the value that can be realised in current conditions.

Financial instruments held at fair value
Cash and cash equivalents, financial assets and liabilities measured at fair value through profit or loss and financial assets available for sale are recorded in the Statement of financial position at fair value.

For some available for sale investment securities no external market quotes are available. The fair value of such assets has been measured by Management according to the results of recent sales of shares to unrelated third parties, an analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions
The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity. In the opinion of Management, fair value of due from financial institutions did not materially differ from their carrying value as at 31 December 2014 and 31 December 2013. This is explained by the existing practice of revising the interest rates to reflect current market conditions, thus interest on the majority of balances are accrued under market interest rates.

31. Fair Value of Financial Instruments (continued)

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. In the opinion of Management, fair value of loans and advances to customers as at 31 December 2014 and 31 December 2013 only slightly differ from their carrying value. This is explained by an existing practice of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.

32. Related Party Transactions

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

Members of the Board of Directors of the Bank, key management personnel, including members of the Executive Board are also considered related parties as they can influence the activities of the Bank.

In the normal course of business, the Bank enters into transactions with its members, directors, subsidiaries and associated companies, companies, a significant share in the capital of which belongs to the members of the Bank, as well as with other related parties.

Balances and transactions with shareholders fully reflected in this category regardless of whether shareholders belonged to different categories of stakeholders.

Balances of accounts, income and expenses from transactions with related parties are presented below (all balances are not secured, unless otherwise stated).

In thousands of Russian Roubles

32. Related Party Transactions (continued)

	31 December 2014				
Statement of Financial Position	**Share-holders**	**Other**	**Key management**	**Total balances with related parties**	**Total per category in financial statements**
NOSTRO accounts					
At the beginning of the year	-	1,455	-	**1,455**	**74,380**
Placed during the year	-	142,701	-	**142,701**	**n/a**
Repaid during the year	-	(139,485)	-	**(139,485)**	**n/a**
At the end of the year	-	4,671	-	**4,671**	**202,806**
Due from financial institutions					
At the beginning of the year	-	-	-	**-**	**338,204**
Placed during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	-	-	-	**-**	**424,258**
Loans and advances to customers					
At the beginning of the year	-	-	157	**157**	**23,047,622**
Granted during the year	9,062	-	24,876	**33,938**	**n/a**
Repaid during the year	-	-	(17,917)	**(17,917)**	**n/a**
At the end of the year	9,062	-	7,116	**16,178**	**20,835,809**
Due to financial institutions					
At the beginning of the year	-	-	-	**-**	**36,562**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	-	-	-	**-**	**854,366**
Customer accounts					
Customer deposits at the beginning of the year	-	-	56,629	**56,629**	**20,311,654**
Received during the year	-	-	94,322	**94,322**	**n/a**
Repaid during the year	-	-	(90,594)	**(90,594)**	**n/a**
Customer deposits at the end of the year	-	-	60,357	**60,357**	**20,873,037**
Current accounts at the beginning of the year	-	-	50,512	**50,512**	**7,239,458**
Current accounts at the end of the year	-	-	6,472	**6,472**	**6,336,297**
Subordinated loans					
At the beginning of the year	505,000	-	-	**505,000**	**505,000**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	505,000	-	-	**505,000**	**505,000**
Statement of Comprehensive Income					
Interest income from loans issued	71	-	199	**270**	**4,003,031**
Interest expense from customer deposits	-	-	9,467	**9,467**	**1,916,981**
Interest expense from subordinated loans	55,525	-	-	**55,525**	**55,525**

In thousands of Russian Roubles

32. Related Party Transactions (continued)

	31 December 2013				
Statement of Financial Position	**Share-holders**	**Other**	**Key management**	**Total balances with related parties**	**Total per category in financial statements**
NOSTRO accounts					
At the beginning of the year	-	1,026	-	**1,026**	**154,770**
Placed during the year	-	1,844,843	-	**1,844,843**	**n/a**
Repaid during the year	-	(1,844,414)	-	**(1,844,414)**	**n/a**
At the end of the year	-	1,455	-	**1,455**	**74,380**
Due from financial institutions					
At the beginning of the year	-	-	-	**-**	**1,882,593**
Placed during the year	-	100,000	-	**100,000**	**n/a**
Repaid during the year	-	100,000	-	**100,000**	**n/a**
At the end of the year	-	-	-	**-**	**338,204**
Loans and advances to customers					
At the beginning of the year	-	-	1,465	**1,465**	**20,378,631**
Granted during the year	-	-	25,780	**25,780**	**n/a**
Repaid during the year	-	-	(27,088)	**(27,088)**	**n/a**
At the end of the year	-	-	157	**157**	**23,047,622**
Due to financial institutions					
At the beginning of the year	-	-	-	**-**	**135,996**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	-	-	-	**-**	**36,562**
Customer accounts					
Customer deposits at the beginning of the year	-	-	7,699	**7,699**	**19,100,483**
Received during the year	-	-	69,460	**69,460**	**n/a**
Repaid during the year	-	-	(20,530)	**(20,530)**	**n/a**
Customer deposits at the end of the year	-	-	56,629	**56,629**	**20,311,654**
Current accounts at the beginning of the year	-	-	92,241	**92,241**	**7,523,462**
Current accounts at the end of the year	-	-	50,512	**50,512**	**7,239,458**
Subordinated loans					
At the beginning of the year	505,000	-	-	**505,000**	**505,000**
Received during the year	-	-	-	**-**	**n/a**
Repaid during the year	-	-	-	**-**	**n/a**
At the end of the year	505,000	-	-	**505,000**	**505,000**
Statement of Comprehensive Income					
Interest income from interbank loans	-	51	-	**51**	**164,585**
Interest income from loans issued	-	-	18	**18**	**4,535,663**
Interest expense from customer deposits	-	-	11,217	**11,217**	**2,181,786**
Interest expense from subordinated loans	55,525	-	-	**55,525**	**55,525**

Total remuneration paid to the General Director and the seven members of management of the Bank in their capacity as employees amounted to 91,684 (2013: 130,089). No long term benefits, post-employment benefits, termination benefits or share based payments were provided by the Bank. The interest of members of Management in the share capital of the Bank is shown in Note 1.

In thousands of Russian Roubles

33. Capital Management

Among the main objectives of the management of capital are the following:

- comply with capital requirements set by the CBRF,
- support the Bank in functioning as a going concern.

The compliance with the capital adequacy ratio required by the CBRF is monitored through monthly reports checked and approved by the General Director and the Chief Accountant of the Bank.

The following other targets of capital management are monitored on a daily basis:

- participation in the deposit insurance scheme and the compliance of the quality of capital to the standards as recommended by the Deposit Insurance Agency;
- increasing the volume of active operations of the Bank;
- control over funding of long-term investments.

As at 31 December 2014, as required by the CBRF, the banks have to maintain a ratio of capital to risk weighted assets, the total capital ratio, above the prescribed minimum of 10% (2013: 10%).

Moreover, the State Deposit Insurance Scheme requires the banks to maintain the total capital ratio of at least 11%. The Bank complied with these limits during the reporting period and the preceding year. The capital ratio of the Bank at 31 December 2014 amounted to 12.9% (31 December 2013: 13.3%).

The Bank's primary aim with regard to capital is to meet these requirements.

The Bank also periodically calculates capital in accordance with international guidelines. Its chosen measure for this is to calculate in accordance with the Basle Capital Accord, originally published in 1988, subsequently known as 'Basle I'. Basle I includes definitions of items comprising capital and a structure of risk weights to be applied to assets to give risk weighted assets. It therefore only takes account of credit risk with no allowance for market or operational risk. It was adopted by many countries in amended or non-amended forms and the Bank applies the original guidelines not adjusted to any country specific scenario. Subsequent amendments including Basel II and II have not been applied.

The structure of capital of the Bank calculated in accordance with the Basle I is presented below:

Tier 1 capital	**31 December 2014**	**31 December 2013**
Share capital	549,956	549,956
Retained earnings	3,302,087	3,178,806
Total tier 1 capital	**3,852,043**	**3,728,762**
Tier 2 capital		
Premises revaluation reserve	215,561	221,806
Subordinated debt	505,000	505,000
Total tier 2 capital	**720,561**	**726,806**
Total capital	**4,572,604**	**4,455,568**
Risk-weighted assets	**27,161,552**	**28,209,008**
Total capital expressed as percentage of risk-weighted assets ("total capital ratio")	**16.83%**	**15.79%**
Tier 1 capital expressed as percentage of risk-weighted assets ("tier 1 capital ratio")	**14.18%**	**13.22%**

In 2014 and 2013 the Bank complied with all capital requirements.

34. Events after the Statement of Financial Position Date

On 19 March 2015, the Board of Directors of the Bank made a decision to elect (appoint) Shaporenko Vladimir Viktorovich as General Director of the Bank for a period of 5 years starting 28 March 2015.