NK Bank
(open joint stock company)

Financial statements
For the Year Ended December 31, 2014
and Auditor's Report

NK Bank (open joint stock company)

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NK BANK (open joint stock company)

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended December 31, 2014

Management is responsible for the preparation of the financial statements that present fairly the financial position of NK Bank (open joint stock company) (hereinafter - the "Bank") as of December 31, 2014 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter - "IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Bank for the year ended December 31, 2014 were approved by the Bank's Management Board on April 7, 2015.

On behalf of the Management Board:

Chairman of the Management Board	**Chief Accountant**
S.N. Smirnov	**E.M. Merkulova**
April 7, 2015	April 7, 2015
Moscow	Moscow

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Open Joint Stock Company NK Bank.

We have audited the accompanying financial statements of OJSC NK Bank ("the Bank") which comprise the statement of financial position as at 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OJSC NK Bank as at 31 December 2014, and 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 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 annual financial statements for 2014 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2015 and compliance of its 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.

We report our findings below:

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.

   We have not performed an audit of the financial statements, prepared in accordance with the Russian accounting and financial reporting standards for credit organisations, based on which the obligatory ratios were calculated.

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 requirements.

Deloitte & Touche

April 17, 2015
Moscow, Russian Federation

Tyagoun Natalia Nikolaevna, Director
(qualification certificate no. 01-000486 dated February 13, 2012)

ZAO Deloitte & Touche CIS

The Entity: NK Bank (open joint stock company)

Certificate of state registration №2755, issued by the Moscow Registration Chamber by 18.03.1994.

Certificate № 1027739028536 of registration in the Unified State Register of 30.07.2002., issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: 2, Miusskaya square, Moscow, Russia, 125047

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in "NP "Audit Chamber of Russia" (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

NK Bank (open joint stock company)

Statement of Financial Position as at December 31, 2014

(in thousands of Russian Rubles)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Cash and balances with the Central bank of the Russian Federation	4	1,687,323	810,113
Precious metals	5	55,685	60,676
Financial assets at fair value through profit or loss	6	602,689	1,221,016
Due from banks and other financial institutions	7	2,038,170	1,944,545
Loans to customers	8, 28	9,479,723	8,276,062
Available-for-sale financial assets	9	89,685	75,867
Current income tax assets		17,243	-
Deferred income tax assets	26	5,462	-
Property, equipment and intangible assets	10	20,694	24,451
Other assets	11	19,108	11,077
		14,015,782	**12,423,807**
Assets classified as held for sale	12	37,222	-
Total assets		**14,053,004**	**12,423,807**
LIABILITIES			
Due to banks and other financial institutions	13	320,064	342,436
Customer accounts	14, 28	9,335,933	7,571,762
Debt securities issued	15	1,758,810	2,352,670
Current income tax liabilities		-	15,004
Deferred income tax liabilities	26	-	1,638
Other liabilities	16	33,326	39,359
Subordinated debt	17	324,082	-
Total liabilities		**11,772,215**	**10,322,869**
EQUITY			
Share capital	18	679,277	679,277
Share premium	18	449,358	449,358
Financial assets available-for-sale revaluation reserve		9,403	6,554
Additional paid-in capital	18	350,000	150,000
Retained earnings		792,751	815,749
Total equity		**2,280,789**	**2,100,938**
Total liabilities and equity		**14,053,004**	**12,423,807**

Approved by and signed on behalf of the Management Board

[ ] Chairman of the Management Board S.N. Smirnov

[ ] Chief Accountant E.M. Merkulova

April 7, 2015
Moscow
The notes on pages 11-43 form an integral part of these financial statements.

NK Bank (open joint stock company)

Statement of Profit and Loss for the Year Ended December 31, 2014

(in thousands of Russian Rubles)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Interest income	19, 28	1,454,841	1,323,694
Interest expense	19, 28	(559,055)	(581,923)
Net interest income before provision for impairment losses on interest-bearing financial assets		**895,786**	**741,771**
(Provision)/recovery of provision for impairment losses on interest bearing assets	20, 28	(105,253)	67,401
NET INTEREST INCOME		**790,533**	**809,172**
Net loss on financial assets at fair value through profit or loss	21	(644)	(14,348)
Net gain on foreign exchange operations	22, 28	38,349	90,006
Net gain/(loss) on precious metals operations		24,207	(7,048)
Fee and commission income	23, 28	132,054	78,763
Fee and commission expense	23	(15,620)	(14,757)
Net gain on available-for-sale financial assets		11	297
Net gain on sales of assets held for sale	12	4,061	-
Loss from sale of accounts receivable (cessions)	24	(291,623)	(32,930)
Dividends received		451	441
Other income	28	4,615	2,240
NET NON-INTEREST (EXPENSE)/INCOME		**(104,139)**	**102,664**
OPERATING INCOME		**686,394**	**911,836**
Operating expenses	25, 28	(649,884)	(695,598)
PROFIT BEFORE INCOME TAX		**36,510**	**216,238**
Income tax expense	26	(3,958)	(62,723)
NET PROFIT FOR THE PERIOD		**32,552**	**153,515**

Approved and signed on behalf of the Management Board

[ ]	Chairman of the Management Board	S.N. Smirnov
[ ]	Chief Accountant	E.M. Merkulova

April 7, 2015
Moscow

The notes on pages 11-43 form an integral part of these financial statements.

NK Bank (open joint stock company)

Statement of Other Comprehensive Income for the Year Ended December 31, 2014

(in thousands of Russian Rubles)

	Note	December 31, 2014	December 31, 2013
NET PROFIT		**32,552**	**153,515**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		3,562	(586)
Income tax effect attributable to other components of comprehensive income	26	(713)	118
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER INCOME TAX		**2,849**	**(468)**
TOTAL COMPREHENSIVE INCOME		**35,401**	**153,047**

Approved by and signed on behalf of the Management Board

[Chairman of the Management Board S.N. Smirnov

[Chief Accountant E.M. Merkulova

April 7, 2015
Moscow
The notes on pages 11-43 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended December 31, 2014

(in thousands of Russian Rubles)

	Note	Share capital	Share premium	Financial assets available-for-sale revaluation reserve	Retained earnings	Additional paid-in capital	Total equity
Balance at January 1, 2013		**679,277**	**449,358**	**7,022**	**717,784**	**-**	**1,853,441**
Other comprehensive income for the year		-	-	(468)	153,515	-	153,047
Dividends paid	18	-	-	-	(55,550)	-	(55,550)
Payments from shareholders	18		-	- -		150,000	150,000
Balance at January 1, 2014		**679,277**	**449,358**	**6,554**	**815,749**	**150,000**	**2,100,938**
Other comprehensive income for the year		-	-	2,849	32,552	-	35,401
Dividends paid	18	-	-	-	(55,550)	-	(55,550)
Payments from shareholders	18	-	-	-	-	200,000	200,000
Balance at December 31, 2014		**679,277**	**449,358**	**9,403**	**792,751**	**350,000**	**2,280,789**

Approved by and signed on behalf of the Management Board

[Chairman of the Management Board S.N. Smirnov

[Chief Accountant E.M. Merkulova

April 7, 2015
Moscow
The notes on pages 11-43 form an integral part of these financial statements.

NK Bank (open joint stock company)

Statement of Cash Flows for the Year Ended December 31, 2014

(in thousands of Russian Rubles)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		36,510	216,238
Adjustments for non-cash items:			
(Provision)/recovery of provision for impairment losses on interest bearing assets		105,253	(67,401)
Net change in fair value of financial assets at fair value through profit or loss		(3,950)	8,554
Net gain on available-for-sale financial assets		(11)	(297)
Loss from sale of accounts receivable (cessions)		291,623	32,930
Net gain on sales of assets held for sale		(4,061)	-
Depreciation and amortization		13,340	14,007
(Gain)/loss from disposal of property and equipment and intangible assets		(368)	635
Dividends received		(451)	(441)
Net change in interest accruals		9,607	68,646
(Gain)/loss from revaluation of accounts in foreign currency and precious metals		(175,518)	21,185
Cash inflow from operating activities before changes in operating assets and liabilities		**271,974**	**294,056**
Increase/(decrease) of net cash flows from operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central bank of the Russian Federation		(10,370)	(3,752)
Precious metals		2,421	(47,052)
Financial assets at fair value through profit or loss		630,008	(639,467)
Due from banks and other financial institutions		97,864	(97,795)
Loans to customers		(632,182)	(836,727)
Other assets		(8,031)	(3,035)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(22,372)	(562,543)
Customer accounts		770,620	2,225,247
Other liabilities		(6,033)	6,166
Cash inflow from operating activities before taxation		**1,093,899**	**335,098**
Income tax paid		**(44,018)**	**(60,797)**
Net cash inflow from operating activities		**1,049,881**	**274,301**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(9,995)	(12,155)
Proceeds from disposal of property, equipment and intangible assets		780	-
Dividends received		451	441
Purchase of available-for-sale financial assets		(105,712)	(370,000)
Proceeds from sale of available-for-sale financial assets		113,410	391,484
Purchase of held-to-maturity financial assets		-	(100,890)
Proceeds from repayment of held-to-maturity financial assets		36,682	103,569
Proceeds from sale of accounts receivable (cessions)		519,261	70,000
Proceeds from sale of assets held for sale		173,264	-
Net cash inflow from investing activities		**728,141**	**82,449**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in additional paid-in capital		200,000	150,000
Proceeds from placement of debt securities issued		4,638,619	5,125,700
Repayment of debt securities issued		(5,756,309)	(4,417,752)
Dividends paid on ordinary shares		(55,550)	(55,550)
Proceeds from subordinated debt		324,000	-
Repayment of subordinated debt		-	(148,500)
Net cash (outflow)/inflow from financing activities		**(649,240)**	**653,898**

NK Bank (open joint stock company)

Statement of Cash Flows for the year ended December 31, 2014 (continued)

(in thousands of Russian Rubles)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(69,457)	(2,520)
Net increase in cash and cash equivalents		**1,059,325**	**1,008,128**
Cash and cash equivalents at the beginning of the reporting period	4	**2,551,776**	**1,543,648**
Cash and cash equivalents at the end of the reporting period	4	**3,611,101**	**2,551,776**
			0

Interest received and paid by the Bank during the year ended December 31, 2014 amounted to RUB 1,490,456 thousand and RUB 640,917 thousand, respectively.

Interest received and paid by the Bank during the year ended December 31, 2013 amounted to RUB 1,234,230 thousand and RUB 447,017 thousand, respectively.

Approved by and signed on behalf of the Management Board

[Chairman of the Management Board S.N. Smirnov

[Chief Accountant E.M. Merkulova

April 7, 2015
Moscow
The notes on pages 11-43 form an integral part of these financial statements.

1 Organization

NK Bank, a open joint stock company (the "Bank"), have been operating in the Russian Federation since 1993. The Bank is regulated by the Central bank of the Russian Federation (the "CBR") and conducts its business under general license on conducting banking operations number 2755. The Bank's primary business consists of commercial banking, trading with securities and foreign currencies and originating loans and guarantees.

The registered office of the Bank is located at: 2, Miusskaya Square, Moscow, Russia.

The Bank has an additional office ("Ochakovo") located at 14/6, Generala Dorokhova street, Moscow.

NK Bank does not participate in a bank group (bank holding).

As at December 31, 2014 and 2013, the shares of the Bank were owned by the following shareholders (ultimate owners):

	December 31, 2014	December 31, 2013
Viktor Yevgenyevich Grigoryev	90,00%	90,00%
Larisa Leonidovna Drozdova	10,00%	10,00%
	100,00%	100,00%

These financial statements were authorized for issue by the Bank's Management Board on April 7, 2015.

2 Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue to operate for the foreseeable future.

These financial statements are presented in thousands of Russian Rubles ("RUB thousand"), unless otherwise indicated. These financial statements of the Bank have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;

• Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

• Level 3 inputs are unobservable inputs for the asset or liability.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 32.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit and loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

3 Significant accounting policies

Recognition of interest income and expense

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit and loss based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the repo/reverse repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income

Loan origination fees (material) are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment.

Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are rendered.

Recognition of dividend income

Dividend income is recognized on the date when the issuer declares dividend payment (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Financial instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" financial assets, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- acquired principally for the purpose of selling them in the near future;
- which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or;
- the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments*: *Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Net gain or loss includes dividends and interest received on the financial asset. Fair value is determined in the manner prescribed in Note 29.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity financial assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity

Listed shares and listed redeemable notes that are traded in an active market, are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 29. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and accounts receivable

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions

In the normal course of business, the Bank enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and other financial institutions and/or loans and advances to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

• Significant financial difficulty of the issuer or counterparty;
• Breach of contract, such as default or delinquency in interest or principal payments;
• Default or delinquency in interest or principal payments;
• It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
• The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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 recognized, the previously recognized impairment loss is reversed through the profit and loss account The carrying amount of financial assets as of the date of reversal of impairment loss cannot exceed the carrying amount, which should have been recorded if impairment had not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of available-for-sale reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

Write-off of loans to customers

Loans are written off against the provision for impairment losses when deemed uncollectible, including through repossession of collateral. Loans to customers are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit and loss (the statement of comprehensive income) in the period of recovery.

Derecognition of financial assets

A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognized where:

• A right to receive cash flows from the asset has expired;
• The Bank has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
• The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Bank either (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to receive the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity instruments.

Other financial liabilities

Other financial liabilities, including depository instruments with the the Central bank of the Russian Federation, deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires 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.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated by Management as at FVTPL, are subsequently measured at the higher of:

• The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ;
• The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivatives

The Bank enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Gains and losses arising from that are immediately recognized through financial results, except derivatives designated and effective as a hedging instrument.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Bank as lessee

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

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

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

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

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of their carrying amount and fair value less costs to sell.

Property and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Office and computer equipment	10 - 25%
Cars and other equipment	20 - 25%
Other	33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Intangible assets are amortized using the following annual rates:

Intangible assets	30 - 100%

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of property, equipment and intangible assets other than goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on precious metals operations.

(in thousands of Russian Roubles, unless otherwise indicated)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances on corresponded and term deposits with the Central bank of the Russian Federation with original maturity of less than or equal to 90 days and amounts with original maturity of less than or equal to 30 days due from:
- banks in the countries that are members of the Organisation for Economic Co-operation and Development (the “OECD”);
- central banks of the countries ranked highest according to classifications of Expert Credit Agencies;
- non-resident banks in the countries outside the OECD, but with a minimum international credit rank Ba3/BB-;
- resident banks that have a stable financial position according to the Bank's assessment.

The minimum reserve deposits with the CBR are subject to restrictions to their availability and therefore are not included in cash and cash equivalents.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income/statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the statement of profit and loss.

Provisions

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

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

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

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed in the financial statements unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Fiduciary activities

The Bank provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank’s financial statements. The Bank accepts the operational risk on these activities, but the Bank’s customers bear the credit and market risks associated with such operations. Revenue from the provision of trustee services is recognized as services are provided.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are recognized at historical cost denominated in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2014	**December 31, 2013**
RUB/USD	56,2584	32,7292
RUB/EUR	68,3427	44,9699
RUB/BYR 10,000	38,7989	34,3073
RUB/Gold bullion (1 ounce)	66 750,55	39 324,13

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include investments available-for-sale revaluation reserve, which comprises changes in the fair value of available-for-sale investments.

Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Bank is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Bank will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical accounting judgments and key sources of estimation uncertainty

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

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

Impairment of receivables

The Bank regularly reviews its receivables for impairment. The Bank's impairment provisions are established to recognize incurred impairment losses in its portfolio of receivables. The Bank considers accounting estimates related to the provision for impairment of receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The provisions for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the provisions for impairment of financial assets in future periods.

Valuation of financial instruments

As described in Note 29, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 29 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Adoption of new and revised standards

Adoption of new standards

Standards affecting the financial statements

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the IFRIC), which became effective for the Bank's annual financial statement for the year ended December 31, 2014:

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

There is no effect of these amendments on the financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognised or reverses. They also expand the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. New disclosures include fair-value hierarchy, critical assumptions and valuation techniques in compliance with disclosure requirements under IFRS 13 *Fair Value Measurement* .

The Bank did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

Standards and Interpretations in issue but not yet adopted

The Bank has not adopted *the following standards and interpretations in issue but not yet effective:*

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include new requirements for the classification and measurement of financial liabilities and for financial instruments derecognition, and in November 2013 new hedge accounting requirements were issued. In July 2014 IASB issued the finalised version of IFRS 9 introducing accounting requirements for financial asset impairment as well as certain changes in financial asset classification and measurement requirements. IFRS 9 will replace the current IAS 39 *Financial Instruments: Recognition and Measurement* .

(in thousands of Russian Roubles, unless otherwise indicated)

The key requirements of IFRS 9 are:

Classification and measurement of financial assets. Financial assets are classified based on the business model they are held within and on the contractual cash flows specifics. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost after the initial recognition. The 2014 version of IFRS 9 introduces a category of instruments measured at fair value through other comprehensive income for debt instruments debt investments that are held within a business model whose objective is both to collect the contractual cash flows and sell the financial assets, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding. Such instruments are measured at fair value through other comprehensive income. All other debt instruments and equity securities are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

• **Classification and measurement of financial liabilities**. Financial liabilities are classified similarly to IAS 39 requirements, however, the are differences in requirements to the entity's own credit risk measurement. IFRS 9 prescribes that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

• **Impairment**. The 2014 version of IFRS 9 introduces a model based on expected credit loss to measure the financial assets' impairment to replace the incurred credit loss model under IAS 39. In accordance with the expected credit loss model, entities will be recognising expected credit losses and changes therein as at each reporting date reflecting changes in the credit risk from the date of initial recognition. In other words, in order to recognise a credit loss, the credit loss event occurrence evidencing impairment is not necessary.

• **Hedge accounting**. A new hedge accounting model is introduced, with a view to more closely link hedge accounting to management's risk management efforts in hedging financial and non-financial items. IFRS 9 extends the list of transactions which qualify for hedge accounting, in particular, it introduces new instruments which may be designated as hedges; moreover, components of risk of non-financial items may now qualify as hedged items. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship' between the hedged item and hedging instrument. Retrospective assessment of hedge effectiveness is no longer required. In addition, extended risk management disclosure requirements were introduced.

• **Derecognition**. Financial assets and liabilities derecognition requirements did not change significantly as compared to IAS 39.

The Standard will be effective from January 1, 2018 with early adoption permitted. Depending of the approach selected, the transition may be effectuated on a single date or on various dates for various requirements of the standard.

The Bank's Management believes that IFRS 9 may have a significant impact on the reported amounts of the financial assets and financial liabilities. However, it is impossible to measure the impact of IFRS 9 application reliably without a detailed analysis.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 prohibit the preparers from using revenue-based method to calculate charges for the depreciation or amortisation of items of property, plant and equipment. Amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis to calculate charges for depreciation or amortisation of an intangible asset. The said presumption can be rebutted only in case an intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

These amendments are to be applied prospectively and effective for annual periods beginning on or after January 1, 2016. Currently, the Bank uses straight-line depreciation method to calculate charges for the depreciation or amortisation of items of property, plant and equipment and intangible assets. The Bank's Management does not expect that the adoption of these amendments will have a material impact on the Bank's financial statements.

4 Cash and balances with the Central bank of the Russian Federation

	December 31, 2014	**December 31, 2013**
Balances with the Central bank of the Russian Federation	1,158,628	595,924
Cash on hand	528,695	214,189
Total cash and balances with the Central bank of the Russian Federation	**1,687,323**	**810,113**

The balances with the Central bank of the Russian Federation as at December 31, 2014 and 2013 include RUB 111,276 thousand and RUB 100,906 thousand, respectively, which represent statutory reserve deposits with the Central bank of the Russian Federation. The Bank is required to maintain minimum reserve deposits with the CBR at all times.

Cash and cash equivalents presented in the statement of cash flows comprise:

	December 31, 2014	**December 31, 2013**
Cash and balances with the Central bank of the Russian Federation	1,687,323	810,113
Correspondent accounts with OECD banks	1,470,812	1,271,689
Term interbank loans with maturity within 30 days	500,000	510,310
Correspondent accounts with resident banks	64,242	60,570
	3,722,377	2,652,682
Less minimum reserve deposits with the Central bank of the Russian Federation	(111,276)	(100,906)
Total cash and cash equivalents	**3,611,101**	**2,551,776**

(in thousands of Russian Roubles, unless otherwise indicated)

5 Precious metals

Precious metals as at December 31, 2014 and 2013 included gold in the Bank's vault with the carrying amount of RUB 55,685 thousand and RUB 60,676 thousand, respectively.

6 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	December 31, 2014	December 31, 2013
Financial assets held for trading:		
Debt securities	602,689	1,221,016
Total financial assets at fair value through profit or loss	**602,689**	**1,221,016**

Held-for-trading financial assets comprise:

Debt securities:	Interest to nominal, %	December 31, 2014	Interest to nominal, %	December 31, 2013
Eurobonds	6.47%-8.5%	335,063	7.7%-9%	49,984
Bonds issued by Russian banks	10.4%	223,834	8.5%-12.75%	920,255
Russian corporate bonds	14.5%	43,792	14.5%	51,632
Russian State Bonds (OFZ)		-	7.1%-12%	199,145
Total debt securities		**602,689**		**1,221,016**

As at December 31, 2014 and 2013 Russian bank bonds comprised ruble-denominated bonds with maturities in July 2018 and from April 2014 through January 2019, respectively.

As at December 31, 2014 and 2013 the Bank's portfolio comprised Eurobonds listed on international markets with maturities from March 2015 to February 2019 and from November 2016 through February 2018, respectively.

As at December 31, 2014 and 2013 Russian corporate bonds comprised ruble-denominated bonds with maturities in October 2016.

Russian State Bonds (OFZ) are ruble-denominated state securities issued with a discount to nominal cost and guaranteed by the RF Ministry of Finance. OFZ comprise short-term bonds.

7 Due from banks and other financial institutions

	December 31, 2014	December 31, 2013
Correspondent accounts of banks and overnight deposits	1,535,740	1,332,552
Term interbank loans and deposits	500,000	609,176
Other accounts with financial institutions	2,430	2,817
Total due from banks and other financial institutions	**2,038,170**	**1,944,545**

As at December 31, 2014 and 2013 the Bank had amounts due from the DEUTSCHE BANK group totaling RUB 1,470,290 thousand and RUB 1,261,286 thousand, respectively, which exceeded 10% of the Bank's equity.

8 Loans to customers

	December 31, 2014	December 31, 2013
Loans to customers	10,454,464	9,145,550
Less: provision for impairment losses	(974,741)	(869,488)
Total loans to customers	**9,479,723**	**8,276,062**

As at December 31, 2014 and 2013 the amount of loans to the Bank's customers under the small an d medium businesses support programme in collaboration with Joint Stock Company "Russian Bank for Small and Medium Enterprises Support", a state development bank, was RUB 246,300 thousand and 300,651 thousand, respectively (Note 13).

As at December 31, 2014 and 2013 loans to customers totaling RUB 246,300 thousand and RUB 291,470 thousand, respectively, served as collateral for borrowings from Joint Stock Company "Russian Bank for Small and Medium Enterprises Support" (Note 13).

Movements in provisions for impairment losses on loans to customers for the years ended December 31, 2014 and 2013 are disclosed in Note 20.

(in thousands of Russian Roubles, unless otherwise indicated)

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	December 31, 2014	December 31, 2013
Loans collateralized by pledge of real estate	3,217,922	2,330,935
Loans collateralized by pledge of securities	892,703	678,408
Loans collateralized by pledge of the Bank's promissory notes	683,465	573,172
Loans collateralized by pledge of equipment	650,941	507,758
Loans collateralized by receivables	342,589	88,583
Loans collaterlized by deposits	165,762	105,196
Loans collateralized by corporate guarantees	40,745	115,841
Loans collateralized by goods	-	34,520
Unsecured loans	4,460,337	4,711,137
	10,454,464	9,145,550
Less provision for impairment losses	(974,741)	(869,488)
Total loans to customers	**9,479,723**	**8,276,062**

Risk concentrations on customer loan portfolio by industries were as follows:

	December 31, 2014	December 31, 2013
Individuals	4,383,024	2,445,168
Trade	2,052,123	2,132,412
Real estate operations	1,385,728	974,858
Financial activities	1,164,058	2,069,629
Machinery construction	584,382	435,338
Construction	433,015	186,426
Light industry	135,724	249,000
Tourism	134,105	133,089
Hotels and restaurants	93,853	76,308
Transport and communication	79,151	389,412
Science	6,500	27,910
Food industry	2,801	3,000
Manufacturing	-	23,000
	10,454,464	9,145,550
Less provision for impairment losses	(974,741)	(869,488)
Total loans to customers	**9,479,723**	**8,276,062**

As at December 31, 2014 and 2013 the Bank issued loans to 15 and 14 borrowers totaling RUB 5,598,794 thousand and RUB 4,509,282 thousand, respectively, which individually exceeded 10% of the Bank's equity.

Loans to customers as at December 31, 2014 and 2013 are grouped into the following categories according to their profile and nature of disclosure:

	December 31, 2014			December 31, 2013		
	Loans to customers	Provision for impairment losses	Net loans to customers	Loans to customers	Provision for impairment losses	Net loans to customers
Loans to legal entities	**6,071,440**	**(598,764)**	**5,472,676**	**6,700,381**	**(621,811)**	**6,078,570**
Loans for current activity	5,331,183	(452,625)	4,878,558	5,604,599	(529,779)	5,074,820
Loans against turnover	574,849	(134,620)	440,229	521,259	(70,891)	450,368
Investment loans	165,408	(11,519)	153,889	574,523	(21,141)	553,382
Loans to individuals	**4,383,024**	**(375,977)**	**4,007,047**	**2,445,169**	**(247,677)**	**2,197,492**
Targeted loans	3,724,799	(327,239)	3,397,560	1,945,937	(193,819)	1,752,118
Consumer loans	652,787	(46,260)	606,527	496,747	(52,659)	444,088
Plastic card overdrafts	5,438	(2,478)	2,960	2,485	(1,199)	1,286
Total loans to customers	**10,454,464**	**(974,741)**	**9,479,723**	**9,145,550**	**(869,488)**	**8,276,062**

(in thousands of Russian Roubles, unless otherwise indicated)

The analysis by credit quality of loans outstanding as at December 31, 2014 is as follows:

	December 31, 2014			
	Loans to customers	Provision for impairment losses	Net loans to customers	Provision for impairment losses to loans gross
Loans to legal entities				
Individually impaired				
Not past due	5,500,857	(420,463)	5,080,394	7.6%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	222,396	(62,883)	159,513	28.3%
61 to 90 days	40,672	(34,136)	6,536	83.9%
91 to 180 days	225,490	(62,908)	162,582	27.9%
over 180 days	82,025	(18,374)	63,651	22.4%
Total loans to legal entities	**6,071,440**	**(598,764)**	**5,472,676**	**9.9%**
Loans to individuals				
Individually impaired				
Not past due	3,962,987	(249,411)	3,713,576	6.3%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	2,813	(13)	2,800	0.5%
over 180 days	340,600	(120,690)	219,910	35.4%
Collectively assessed				
Not past due	72,671	(2,430)	70,241	3.3%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	543	(51)	492	9.4%
91 to 180 days	-	-	-	-
over 180 days	3,410	(3,382)	28	99.2%
Total loans to individuals	**4,383,024**	**(375,977)**	**4,007,047**	**8.6%**
Total loans to customers	**10,454,464**	**(974,741)**	**9,479,723**	**9.3%**

The analysis by credit quality of loans outstanding as at December 31, 2013 is as follows:

	December 31, 2013			
	Loans to customers	Provision for impairment losses	Net loans to customers	Provision for impairment losses to loans gross
Loans to legal entities				
Individually impaired				
Not past due	6,700,122	(621,552)	6,078,570	9.3%
Overdue:				
up to 30 days	-	-	-	
31 to 60 days	-	-	-	
61 to 90 days	-	-	-	
91 to 180 days	-	-	-	
over 180 days	259	(259)	-	100.0%
Total loans to legal entities	**6,700,381**	**(621,811)**	**6,078,570**	**9.3%**

(in thousands of Russian Roubles, unless otherwise indicated)

Loans to individuals				
Individually impaired				
Not past due	2,020,171	(168,022)	1,852,149	8.3%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	35,816	(35,816)	-	100.0%
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	322,958	(41,536)	281,422	12.9%
Collectively assessed				
Not past due	66,224	(2,303)	63,921	3.5%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	-	-	-	-
Total loans to individuals	**2,445,169**	**(247,677)**	**2,197,492**	**10.1%**
Total loans to customers	**9,145,550**	**(869,488)**	**8,276,062**	**9.5%**

The table below analyzes loans to customers by impairment:

	December 31, 2014			December 31, 2013		
	Loans to customers	Provision for impairment losses	Net loans to customers	Loans to customers	Provision for impairment losses	Net loans to customers
Loans individually impaired	6,312,490	(968,878)	5,343,612	6,626,332	(867,185)	5,759,147
Loans unimpaired	4,089,378	-	4,089,378	2,472,893	-	2,472,893
Loans collectively impaired	52,596	(5,863)	46,733	46,325	(2,303)	44,022
Total loans to customers	**10,454,464**	**(974,741)**	**9,479,723**	**9,145,550**	**(869,488)**	**8,276,062**

The table below presents loans that would have been past due or impaired had they not been renegotiated:

	December 31, 2014			December 31, 2013		
	Loans to customers	Provision for impairment losses	Net loans to customers	Loans to customers	Provision for impairment losses	Net loans to customers
Loans to legal entities	**1,024,691**	**(60,253)**	**964,438**	**1,594,890**	**(182,488)**	**1,412,402**
Loans for current activity	1,024,691	(60,253)	964,438	1,185,775	(170,458)	1,015,317
Investment loans	-	-	-	409,115	(12,030)	397,085
Loans to individuals	**1,234,585**	**(77,747)**	**1,156,838**	**678,504**	**(103,938)**	**574,566**
Targeted loans	961,166	(64,138)	897,028	460,352	(58,136)	402,216
Consumer loans	273,419	(13,609)	259,810	218,152	(45,802)	172,350
Total loans to customers	**2,259,276**	**(138,000)**	**2,121,276**	**2,273,394**	**(286,426)**	**1,986,968**

9 Available-for-sale financial assets

Available-for-sale financial assets comprise:

	December 31, 2014	December 31, 2013
Debt securities	82,100	68,282
Equity securities	7,585	7,585
Total available-for-sale financial assets	**89,685**	**75,867**

(in thousands of Russian Roubles, unless otherwise indicated)

Available-for-sale financial assets comprise:

Debt securities:

Name	Interest to nominal, %	December 31, 2014	Interest to nominal, %	December 31, 2013
Eurobonds	9.00%	82,100	8.25%	68,282
Total debt securities		**82,100**		**68,282**

Equity securities:

Name	Ownership interest, %	December 31, 2014	Ownership interest, %	December 31, 2013
Corporate shares:				
Shares issued by OJSC Moscow Experimental Jewelry Factory "Yuvelirprom"	**0.69%**	7,585	**0.69%**	7,585
Total equity securities		**7,585**		**7,585**

As at December 31, 2014 and 2013 the Bank's portfolio comprised Eurobonds listed on international markets with maturities from March 2015 to November 2016 and through August 2014, respectively.

10 Property, equipment and intangible assets

	Office and computer equipment	Cars and other equipment	Intangible assets	Other	Total
Net book value at January 1, 2014	**6,709**	**13,447**	**4,251**	**44**	**24,451**
Balance at the beginning of the year	24,360	31,106	23,443	66	**78,975**
Additions	1,035	5,468	3,492	-	**9,995**
Disposals	(2,110)	(3,403)	(3,286)	-	**(8,799)**
Balance at the end of the period	**23,285**	**33,171**	**23,649**	**66**	**80,171**
Accumulated depreciation at the beginning of the year	(17,651)	(17,659)	(19,192)	(22)	**(54,524)**
Depreciation charge	(3,519)	(5,979)	(3,820)	(22)	**(13,340)**
Disposals	1,996	3,403	2,988	-	**8,387**
Accumulated depreciation at the end of the period	**(19,174)**	**(20,235)**	**(20,024)**	**(44)**	**(59,477)**
Net book value as at December 31, 2014	**4,111**	**12,936**	**3,625**	**22**	**20,694**

	Office and computer equipment	Cars and other equipment	Intangible assets	Other	Total
Net book value at January 1, 2013	**9,765**	**12,749**	**4,358**	**66**	**26,938**
Balance at the beginning of the year	25,897	25,277	21,268	66	**72,508**
Additions	804	5,932	5,419	-	**12,155**
Disposals	(2,341)	(103)	(3,244)		**(5,688)**
Balance at the end of the period	**24,360**	**31,106**	**23,443**	**66**	**78,975**
Accumulated depreciation at the beginning of the year	(16,132)	(12,528)	(16,910)	-	**(45,570)**
Depreciation charge	(3,820)	(5,234)	(4,931)	(22)	**(14,007)**
Disposals	2,301	103	2,649	-	**5,053**
Accumulated depreciation at the end of the period	**(17,651)**	**(17,659)**	**(19,192)**	**(22)**	**(54,524)**
Net book value at December 31, 2013	**6,709**	**13,447**	**4,251**	**44**	**24,451**

Property and equipment as at December 31, 2014 and 2013 included fully depreciated office and computer equipment and cars totaling RUB 13,542 thousand and RUB 8,472 thousand, respectively.

Intangible assets comprise trademark, software, patents and licenses.

(in thousands of Russian Roubles, unless otherwise indicated)

11 Other assets

	December 31, 2014	December 31, 2013
Other financial assets:		
Receivables on other transactions	377	450
Other non-financial assets:		
Advance payments	18,381	9,967
Taxes receivable, other than income tax	350	660
Total other assets	**19,108**	**11,077**

12 Assets classified as held for sale

On March 27, 2014 the Bank signed an Agreement on Compensation with an individual borrower to transfer a land plot with a total area of 3,500 square metres (Moscow Oblast, Odintsovo District) as partial fulfillment of its loan obligations. The fair value of the land plot is RUB 37,222 thousand.

The Bank decided to sell the land plot within a year. The Bank recorded this asset on its balance sheet as held for sale. No impairment loss was recognised on reclassification of the land as held for sale at December 31, 2014.

On March 27, 2014 the Bank signed a Settlement Agreement with an individual borrower on transfer of a dwelling house with a total area of 1,189.5 square metres and a number land plots with a total area of 11,549 square metres situated in Odintsovo District, Moscow Oblast, as partial fulfillment of its loan obligations. The fair value of the said property is RUB 367,389 thousand.

On October 22, 2014 the Bank sold the said assets. Income from the sale totaled RUB 4,061 thousand.

13 Due to banks and other financial institutions

	December 31, 2014	December 31, 2013
Term loans and deposits from other banks	249,900	340,522
Correspondent accounts and overnight deposits of other banks	70,164	1,914
Total due to banks and other financial institutions	**320,064**	**342,436**

Borrowings on interbank market are caused by the Bank's cooperation with Joint Stock Company “Russian Bank for Small and Medium Enterprises Support“ (state bank for development) under the SME financial support program. As at December 31, 2014 and 2013, loans to customers issued under the program amounted to RUB 246,300 thousand and RUB 300,651 thousand, respectively (Note 8).

As at December 31, 2014 and 2013, borrowings from banks include a loan from Joint Stock Company “Russian Bank for Small and Medium Enterprises Support“ totaling RUB 249,900 thousand and RUB 340,522 thousand, respectively, secured by loans to customers totaling RUB 246,300 thousand and RUB 291,470 thousand, respectively (Note 8).

14 Customer accounts

	December 31, 2014	December 31, 2013
Commercial entities		
Current and settlement accounts	2,443,666	1,314,612
Term deposits	491,771	1,614,613
Letters of credit payable	27,966	-
	2,963,403	**2,929,225**
Individuals		
Term deposits	5,561,649	3,954,383
Current accounts and demand deposits	810,881	688,154
	6,372,530	**4,642,537**
Total customer accounts	**9,335,933**	**7,571,762**

The breakdown of customer accounts by industry was as follows:

	December 31, 2014	%	December 31, 2013	%
Individuals	6,372,530	68.3%	4,642,537	61.3%
Science and education	1,001,269	10.7%	322,356	4.3%
Trade	363,382	3.9%	580,791	7.7%
Construction	309,826	3.3%	415,150	5.5%
Financial activities	304,072	3.3%	117,973	1.6%
Real estate operations	295,382	3.2%	105,055	1.4%
Machinery construction	201,948	2.2%	1,012,751	13.4%
Equipment manufacturing	167,321	1.8%	74,016	1.0%
Other	320,203	3.4%	301,133	4.0%
Total customer accounts	**9,335,933**		**7,571,762**	

As at December 31, 2013 commercial customer accounts of RUB 1,006,400 thousand (13.29% of total customer accounts) were due to 1 customer, which represents a significant concentration.

(in thousands of Russian Roubles, unless otherwise indicated)

15 Debt securities issued

	December 31, 2014	December 31, 2013
Discounted promissory notes	1,758,810	2,352,621
Settlement promissory notes	-	49
Total debt securities issued	**1,758,810**	**2,352,670**

As at December 31, 2014 and 2013 commercial debt securities issued by the Bank totaling RUB 623,580 thousand and RUB 873,554 thousand, respectively, have been purchased by a customer (commercial organization). They account for 5,3% and 8,5% of the Bank's total liabilitites at the reporting date, which represents a significant concentraiton.

16 Other liabilities

	December 31, 2014	December 31, 2013
Other financial liabilities:		
Amounts payable to employees	22,872	23,565
Other liabilities	3,991	10,561
Total other financial liabilities	**26,863**	**34,126**
Other non-financial liabilities:		
Payable to the deposit insurance fund	5,614	4,470
Taxes payable, other than income tax	849	763
Total other liabilities	**33,326**	**39,359**

17 Subordinated debt

	Currency	Maturity year	Interest rate, %	December 31, 2014
Subordinated debt	RUB	2024	9.25%	324,082
TOTAL				**324,082**

During the reporting period, the Bank received a subordinated loan from a company which is not a related party.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank’s liabilities to all other creditors.

18 Equity

As at December 31, 2014 and 2013, the Bank's share capital comprised:

	December 31, 2014				December 31, 2013			
	Number of shares	Par value of one share, RUB ‘000	Par value, RUB ‘000	Amount adjusted for inflation, RUB ‘000	Number of shares	Par value of one share, RUB ‘000	Par value, RUB ‘000	Amount adjusted for inflation, RUB ‘000
Ordinary shares	555,500	1	555,500	679,277	555,500	1	555,500	679,277
Total share capital	**555,500**		**555,500**	**679,277**	**555,500**		**555,500**	**679,277**

As at December 31, 2014 and 2013 the Bank's authorized share capital consisted of 749,600 ordinary shares with a par value of RUR 1,000 each. As at December 31, 2014 and 2013 the Bank's issued and fully paid share capital consisted of 555,500 ordinary shares with a par value of RUR 1,000 each. All shares are ranked equally and carry one vote.

As at December 31, 2014 and 2013 share premium of RUB 449,358 thousand represents an excess of the contributions received over the par value of the shares issued.

In 2014 and 2013, the Bank received RUB 200,000 thousand and RUB 150,000 thousand, respectively, from a shareholder free of charge in order to increase the Bank's equity. This transaction was recorded as share premium in the Bank's financial statements.

During the period ended December 31, 2014 the Bank announced and paid dividends based on the results of its operations in 2013 of RUB 55,550 thousand.

During the period ended December 31, 2013 the Bank announced and paid dividends based on the results of its operations in 2012 of RUB 55,550 thousand.

The Bank’s reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank’s statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank’s share capital reported in its statutory books.

(in thousands of Russian Roubles, unless otherwise indicated)

19 Net interest income

	Year ended December 31, 2014	Year ended December 31, 2013
Interest income		
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on impaired financial assets	936,779	1,031,928
Interest income on unimpaired financial assets	412,647	153,468
Interest income on financial assets at fair value	105,415	138,298
Total interest income	**1,454,841**	**1,323,694**
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	1,306,355	1,160,108
Interest income on balances due from banks	43,071	22,609
Interest on financial assets held-to-maturity	-	2,679
Total interest income on financial assets recorded at amortized cost	**1,349,426**	**1,185,396**
Interest income on financial assets at fair value comprises:		
Interest income on financial asets at fair value through profit and loss	102,671	125,885
Interest income on financial assets available-for-sale	2,744	12,413
Total interest income on financial assets at fair value	**105,415**	**138,298**
Interest expense		
Interest expense on financial liabilities recorded at amortized cost	(559,055)	(581,923)
Total interest expense	**(559,055)**	**(581,923)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on customer accounts	(326,950)	(341,121)
Interest expense on debt securities issued	(204,523)	(180,665)
Interest expense on balances due to banks and other financial institutions	(26,925)	(49,884)
Interest expense on subordinated debt	(657)	(10,253)
Total interest expense on financial liabilities recorded at amortized cost	**(559,055)**	**(581,923)**
Net interest income before provision for impairment losses on interest-bearing assets	**895,786**	**741,771**

20 Provision for impairment losses

The movements in the provision for impairment losses on interest bearing assets were as follows:

	Balance at December 31, 2013	Write offs	Provision	Balance at December 31, 2014
Change in provision for impairment losses on interest bearing assets				
On loans to customers	869,488	-	105,253	974,741
Total change in provision for impairment losses on interest bearing assets	**869,488**	**-**	**105,253**	**974,741**

	Balance at December 31, 2012	Write offs	Recovery of provision	Balance at December 31, 2013
Change in provision for impairment losses on interest bearing assets				
On loans to customers	942,100	(5,211)	(67,401)	869,488
Total change in provision for impairment losses on interest bearing assets	**942,100**	**(5,211)**	**(67,401)**	**869,488**

(in thousands of Russian Roubles, unless otherwise indicated)

In view of termination of execution proceedings for the recovery of debt from an individual pursuant to the Amicable Agreement dated February 1, 2013 the Bank wrote off a portion of the outstanding amount (RUB 4,843 thousand) not covered by the repossession of collateral to the previously created provision.

In view of the uncollectibility of balances due from an individual the Bank wrote off the outstanding RUB 368 thousand pursuant to the Management Board decision dated July 9, 2013 against the previously created provision. The amount written off included principal and interest.

21 Net loss on financial assets at fair value through profit or loss

	December 31, 2014			December 31, 2013		
	Change in fair value	Trade operations	**Total**	Change in fair value	Trade operations	**Total**
Net loss on financial assets initially designated as at fair value through profit or loss	839	(1,739)	**(900)**	(8,554)	(5,794)	**(14,348)**
Income on derivative instruments	256	-	**256**	-	-	**-**
Total net loss on financial assets at fair value through profit or loss	**1,095**	**(1,739)**	**(644)**	**(8,554)**	**(5,794)**	**(14,348)**

22 Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2014	**Year ended December 31, 2013**
Trading, net	23,139	61,215
Foreign exchange differences, net	15,210	28,791
Total net gain on foreign exchange operations	**38,349**	**90,006**

23 Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended December 31, 2014	**Year ended December 31, 2013**
Fee and commission income		
Guarantees issued	66,769	13,049
Cash operations and cash collection	28,321	24,979
Settlements	27,777	26,361
Currency control	7,118	6,805
Providing of loans	953	3,493
Brokerage services	178	3,101
Other	938	975
Total fee and commission income	**132,054**	**78,763**
Fee and commission expense		
Settlements	(13,651)	(12,568)
Joining the Visa international payment system	(1,007)	(1,685)
Other	(962)	(504)
Total fee and commission expense	**(15,620)**	**(14,757)**

24 Loss from assignment of accounts receivable

On April 21, 2014 due to the client's financial position significant degradation due to the current economic environment the Bank signed an assignment agreement for loan receivables with a legal borrower. The amount of the receivables as at the transaction date was RUB 268,527 thousand (the principal amount, interest and commissions), impairment amounted to RUB 39,512 thousand. The cash received as contractual payment amounted to RUB 99,250 thousand. Loss from the sale totaled RUB 169,277 thousand.

From September to December 2014 due to the client's financial position significant deterioration due to the current economic environment the Bank signed assignment agreements for loan receivables with a legal borrower. The amount of the receivables as at the transaction date was RUB 346,182 thousand (the principal amount, interest and commissions), impairment amounted to RUB 5,162 thousand. The cash received as contractual payment amounted to RUB 330,011 thousand. Loss from the assignment totaled RUB 16,171 thousand.

(in thousands of Russian Roubles, unless otherwise indicated)

On December 5, 2014 due to the client's financial position significant deterioration due to the current economic environment the Bank signed an assignment agreement for loan receivables with a legal borrower. The amount of the receivables as at the transaction date was RUB 196,175 thousand (the principal amount, interest and commissions), impairment amounted to RUB 93,191 thousand. The cash received as contractual payment amounted to RUB 90,000 thousand. Loss from the assignment totaled RUB 106,175 thousand.

On November 29, 2013 due to the client's financial position significant degradation, the Bank entered into assignment agreements for loan receivables totaling RUB 102,930 thousand at the transaction date (comprising principal and interest). Cash consideration received amounted to RUB 70,000 thousand. Loss from the assignment totaled RUB 32,930 thousand.

25 Operating expenses

Operating expenses comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Staff costs	(329,941)	(402,243)
Operating leases	(133,916)	(119,072)
Insurance contributions	(56,421)	(60,450)
Payments to the Deposit Insurance Fund	(19,351)	(15,930)
Security expenses	(13,414)	(12,592)
Depreciation and amortization expense	(13,340)	(14,007)
Non-exclusive right to use software	(11,839)	(11,128)
Telecommunications	(11,599)	(11,514)
Taxes, other than income tax	(10,519)	(9,033)
Property and equipment maintenance	(7,300)	(6,590)
Software product support	(4,479)	(4,108)
Professional services	(3,773)	(4,421)
Advertising	(2,553)	(2,471)
Sale of property and equipment	(2,234)	(635)
Rating assignment services	(1,837)	(1,637)
Purchase of stationery	(1,531)	(1,486)
Property insurance	(1,310)	(891)
Other	(24,527)	(17,390)
Total operating expenses	**(649,884)**	**(695,598)**

26 Income taxes

The Bank measures and records its current income tax payable based on the tax accounts maintained and prepared in accordance with the tax regulations of RF which may differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2014 and 2013 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at December 31, 2014 and 2013 comprise:

	December 31, 2014	December 31, 2013
Deductible temporary differences:		
Loans to customers	61,849	26,473
Other liabilities	9,765	31,572
Property, equipment and intangible assets	4,918	-
Other assets	56,035	18,714
Total deductible temporary differences	**132,567**	**76,759**

(in thousands of Russian Roubles, unless otherwise indicated)

Taxable temporary differences:		
Financial assets at fair value through profit or loss and available-for-sale	(86,237)	(17,677)
Debt securities issued	(15,270)	(2,538)
Customer accounts	(2,943)	-
Precious metals	(805)	(848)
Property, equipment and intangible assets	-	(7,818)
Total taxable temporary differences	**(105,255)**	**(28,881)**
Net deferred tax assets	27,312	47,878
Net deferred tax assets at the rate of 20%	**5,462**	**9,576**
Deferred tax asset not recognized	**-**	(11,214)
Net deferred tax asset/(liability)	**5,462**	**(1,638)**

Relationships between income tax expenses and accounting profit for the years ended December 31, 2014 and 2013 are explained below:

	Year ended December 31, 2014	**Year ended December 31, 2013**
Profit before tax	**36,510**	**216,238**
Tax at the statutory tax rate (20%)	(7,302)	(43,248)
Change in deferred tax asset not recognized	11,214	(10,134)
Unrecognized loss carried forward	-	(94)
Effect of tax rate, different from the rate of 20%	576	521
Tax effect of permanent differences	(8,446)	(9,768)
Income tax expense	**(3,958)**	**(62,723)**
Current income tax expense	(11,771)	(62,723)
Deferred tax income recognized in the current year	7,813	-
Income tax expense	**(3,958)**	**(62,723)**

Deferred income tax assets/(liabilities)

	December 31, 2014	**December 31, 2013**
Beginning of the period	**(1,638)**	**(1,756)**
Change in deferred income tax for the period recognized in profit or loss	7,813	-
Change in deferred income tax for the period charged to equity	(713)	118
End of the period	**5,462**	**(1,638)**

27 Commitments and contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at December 31, 2014 and 2013 contingent liabilities comprise:

	December 31, 2014	**December 31, 2013**
Guarantees issued	1,368,540	355,086
Commitments on loans and unused credit lines	601,845	1,401,673
Letters of credit and other transaction-related contingent obligations	27,966	-
Total credit related commitments	**1,998,351**	**1,756,759**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Operating lease commitments – Building operating leases that the Bank has entered into as at December 31, 2014 and 2013 are cancellable.

Fiduciary activities – The Bank provides depositary services to its customers. As at December 31, 2014 and 2013, the Bank had customer securities totaling 468,439,226 items and 19,005,328 items, respectively, in its nominal holder accounts.

(in thousands of Russian Roubles, unless otherwise indicated)

Legal proceedings – In the normal course of business, customers and counterparties can claim against the Bank. Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these financial statements.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatements of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Russia's transfer pricing (TP) legislation was amended with the effect from January 1, 2012. The above amendments introduce additional requirements with respect to the accounting for and documenting transactions. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. In view of the absence of application practice for the new transfer pricing rules and the uncertainty of wording of a number of their provisions, the likelihood of challenge by tax authorities of the Banks position with respect to application of those rules cannot be assessed reliably.

Operating environment – Emerging markets such as RF are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to estimate reliably further price movements and the impact that they may have on the Bank's financial position.

Starting from March 2014, the USA and the EU imposed sanctions on a number of Russian officials, businessmen, and organizations. International rating agencies downgraded the Russian Federation’s long-term foreign currency sovereign rating. In December 2014, the Russian Central Bank raised its key policy rate significantly, which caused a considerable growth in lending rates in the domestic market. The Russian Ruble devaluated significantly against other currencies. These developments may restrict access to international capital and export markets for Russian businesses, which might provoke capital flight, weakening of the Ruble, and other negative economic consequences.

The impact of these events on the Bank's future performance and financial position is currently difficult to estimate.

According to the government statistics, inflation in Russia in 2014 and 2013 was 11.4% and 6.5%, respectively.

28 Related party transactions

Related parties or transactions with related parties, as defined by IAS 24 Related Party Disclosures, represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;

(b) Associates – entities on which the Bank has significant influence and which are neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and related parties are disclosed below:

	December 31, 2014		**December 31, 2013**	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Loans to customers				
key management personnel of the Bank	4,800		2,600	
other related parties	5,780		5,578	
Total loans to customers	**10,580**	**10,454,464**	**8,178**	**9,145,550**
Provision for impairment losses on loans to customers				
other related parties	(287)		(262)	
Total provision for impairment losses on loans to customers	**(287)**	**(974,741)**	**(262)**	**(869,488)**
Customer accounts				
entities with joint control or significant influence over the Bank	9,061		227,710	
key management personnel of the Bank	533,525		123,282	
other related parties	84,862		352,997	
Total customer accounts	**627,448**	**9,335,933**	**703,989**	**7,571,762**

(in thousands of Russian Roubles, unless otherwise indicated)

The following amounts arising due to transactions with related parties were included in the statement of profit and loss for the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014		**Year ended December 31, 2013**	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income				
entities with joint control or significant influence over the Bank	-		549	
key management personnel of the Bank	959		514	
other related parties	757		10,763	
Total interest income	**1,716**	**1,454,841**	**11,826**	**1,323,694**
Interest expense				
key management personnel of the Bank	(4,014)		(5,233)	
other related parties	(4,591)		(3,029)	
Total interest expense	**(8,605)**	**(559,055)**	**(8,262)**	**(581,923)**
(Provision)/recovery of provision for impairment losses on interest bearing assets				
key management personnel of the Bank	-		13	
other related parties	(25)		(225)	
Total provision for impairment losses on interest bearing assets	**(25)**	**(105,253)**	**(212)**	**67,401**
Fee and commission income				
entities with joint control or significant influence over the Bank	2,083		586	
key management personnel of the Bank	702		517	
other related parties	1,451		348	
Total fee and commission income	**4,236**	**132,054**	**1,451**	**78,763**
Other income				
key management personnel of the Bank	34		76	
other related parties	40		14	
Total other income	**74**	**4,615**	**90**	**2,240**
Net gain on foreign exchange operations				
entities with joint control or significant influence over the Bank	533		(431)	
key management personnel of the Bank	3,554		415	
other related parties	137		(73)	
Total net gain on foreign exchange operations	**4,224**	**38,349**	**(89)**	**90,006**
Operating expenses				
entities with joint control or significant influence over the Bank	(62,945)		-	
key management personnel of the Bank	(69,413)		(73,954)	
other related parties	(2,478)		(49,111)	
Total operating expenses	**(134,836)**	**(649,884)**	**(123,065)**	**(695,598)**
Key management personnel compensation				
Payroll	(82,383)		(99,126)	
Insurance contributions	(9,295)		(10,735)	
Total key management personnel compensation	**(91,678)**	**(383,947)**	**(109,861)**	**(461,416)**

29 Fair Value of Financial Instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair value of the Bank's financial instruments approximates their carrying amount.

The following methods and significant assumptions were used in assessing the value of the financial instruments below:

- The carrying amount is assumed to be a reasonable estimate of fair value of cash and balances with the CBR and statutory reserves with the CBR due to their short term environment and availability restrictions.

- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss, is determined based on quoted active market prices at the reporting date.

- The fair value of loans to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them.

(in thousands of Russian Roubles, unless otherwise indicated)

- The fair value of loans to customers is estimated by applying market interest rates at the date of origination and market interest rates for similar loans at the year end less provisions for impairment losses;

- The Bank uses quoted market prices to determine the fair value of the promissory notes and bonds, including financial investments available-for-sale. Investments in equity that do not have a quoted market price are measured at cost because their fair value cannot be reliably measured;

- As other financial assets and liabilities mostly include short-term payables and receivables, their carrying value is taken to represent a reasonable estimate of their fair value;

- The fair value of term deposits (included in customer accounts and funds from banks) placed during the period of one month to the reporting date is assumed to be their fair value amount. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.

- The fair value of issued promissory notes is based on expected cash flows discounted using market interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value and non-financial instruments, based on the fair value hierarchy.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	1,687,323	-	-	**1,687,323**
Financial assets at fair value through profit or loss	602,689	-	-	**602,689**
Due from banks and other financial institutions	-	2,038,170	-	**2,038,170**
Loans to customers	-	9,479,723	-	**9,479,723**
Available-for-sale financial assets	82,100	-	7,585	**89,685**
Other financial assets	-	377	-	**377**
Total financial assets	**2,372,112**	**11,518,270**	**7,585**	**13,897,967**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	-	320,064	-	**320,064**
Customer accounts	-	9,335,933	-	**9,335,933**
Debt securities issued	-	1,758,810	-	**1,758,810**
Other financial liabilities	-	26,863	-	**26,863**
Total financial liabilities	**-**	**11,441,670**	**-**	**11,441,670**

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	810,113	-	-	**810,113**
Financial assets at fair value through profit or loss	1,221,016	-	-	**1,221,016**
Due from banks and other financial institutions	-	1,944,545	-	**1,944,545**
Loans to customers	-	8,276,062	-	**8,276,062**
Available-for-sale financial assets	68,282	-	7,585	**75,867**
Other financial assets	-	450	-	**450**
Total financial assets	**2,099,411**	**10,221,057**	**7,585**	**12,328,053**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	-	342,436	-	**342,436**
Customer accounts	-	7,571,762	-	**7,571,762**
Debt securities issued	-	2,352,670	-	**2,352,670**
Other financial liabilities	-	34,126	-	**34,126**
Total financial liabilities	**-**	**10,300,994**	**-**	**10,300,994**

There were no transfers between Level 1, 2 and 3 during the period.

30 Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee.

As at December 31, 2014 the Bank's total capital amount for capital adequacy purposes was RUB 2,604,789 thousand and tier 1 capital amount was RUB 2,271,386 thousand with ratios 21.59% and 18.83%, respectively.

As at December 31, 2013 the Bank's total capital amount for capital adequacy purposes was RUB 2,100,938 thousand and tier 1 capital amount was RUB 2,094,384 thousand with ratios 19.08% and 19.02%, respectively.

As at December 31, 2014 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

31 Capital management

The Bank's capital is managed in order to comply with the capital adequacy requirements established by the Central Bank of the Russian Federation, ensure the Bank's capability, and maintain the amount of capital meeting the recommendations of the Basel Committee on Banking Supervision as provided in New Basel Capital Accord (Basel I). The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

According to the CBR requirements, the minimal capital adequacy rate comprises 10% of the risk-weighted assets estimated in compliance with Russian accounting standards. The Bank's capital adequacy rate as at December 31, 2014 was 15.67% (unaudited).

The Bank's capital structure consists of debt, which includes subordinated debt disclosed in Note 17 and shareholders' equity, comprising issued capital, additional paid-in capital , reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Management Board considers the cost of capital and the risks associated with each class of capital.

The Bank's overall capital risk management policy has remained unchanged from 2013.

32 Risk management policies

Risk management is fundamental to the Bank's banking business. The main risks inherent to the Bank's operations are those related to:

• credit risk;

• liquidity risk;

• market risk;

• operational risk.

The risk management responsibilities in the Bank are distributed among the following managements bodies and structural entities:

- The Bank's Board of Directors defines the banking risk strategy and policies, sets forth comprehensive banking risk limits and evaluates the Bank's effectiveness in the implementation of the approved banking risk management policies and monitoring the risk level;

- The Management Board is responsible for the implementation of the banking risk management strategy and policies as approved by the Board of Directors. The Management Board also manages the following: conducting bank risk management quality analysis; defining limits with respect to separate operations of the Bank and ensuring compliance therewith, approval of internal documents within the framework of the general risk management policies establishment approved by the Board of Directors; imposing limitations (moratorium) on certain operations.

- Chairman of the Management Board is responsible for: organising and ensuring bank risk management system, including organising risk monitoring and measurement systems; organising full and fair presentation of reports on banking risks management issues; defining the Bank's organisational structure (inlcuding defining competencies and responsibilities of structural units and/or individuals) ensuring efficient risk management; organising Bank staff in-house qualification training sessions for employees engaged in banking risks management functions;

- The Credit Committee of the Bank Credit is responsible for: effectuates risk measurement and management on a regular basis for risks undertaken by the Bank in the event of granting loans, issuing guarantees, investing cash in third-party promissory notes, acquisition of loan receivables, monetary claims assignment financing; takes measures to mitigate and diffuse concentration of credit and other types of banking risks (loans to related borrowers, separate industries, regions, etc.);

- The Bank's Asset and Liabilities Management Committee manages liquidity risk, interest risk, stock market risk and currency risk, as well as the Bank's balance sheet structure.

- The Bank's technological Committee ensures effectiveness of and decrease in the risk level of the Bank's activities through optimization, regulation and automation of the current and planned business processes.

The Risk Analysis and Assessment Department ("RAAD") is the key structural unit charged with risk assessment and analysis. RAAD's competence includes the following key matters: realization of banking risk management policy; risk assessment and monitoring on an ongoing basis; control over compliance with the acceptable levels of banking risks; reporting identified risks to the Bank's management bodies; preparation of management reporting in accordance with stipulated risk management procedures in respect of specific risks; development of proposals and measures to mitigate risks; participation in discussions of risk management quality with the Management Board and the Board of Directors;

The key risk management functions of the Bank's structural divisions include: organizing control over the factors affecting banking risks in accordance with the internal documents in place; timely notification of RAAD on the factors affecting the risk level; control over the implementation of appropriate changes in the Bank's internal documents and procedures in case of changes in the terms of banking operations (transactions); participation in the development of, and proposing changes to, the Bank's internal documents concerning the structural division's activities.

The Bank has set the tasks and objectives for the banking risk management system, and identified key stages and methods of banking risk management.

Credit Risk

The Bank is exposed to credit risk which is the risk that the Bank will incur losses if the debtor fails to discharge an obligation to the Bank fully, partially, or in due time, in accordance with terms of the contract.

Credit risk is managed in accordance with the established competencies by the Bank's Management Board, Credit Committee and Risk Analysis and Assessment Department.

To mitigate credit risk ,the Bank reduces excessive concentration of assets by setting limits on counterparties and groups of related counterparties. Requests for limits are initiated by respective business units.

The analysis of the borrower's financial situation and the assessment of the credit risk are undertaken by the Risk Analysis and Assessment Department.

(in thousands of Russian Roubles, unless otherwise indicated)

Limits are set by the Credit Committee or the Management Board (for financial institutions and issuers) or the Chairman of the Management Board or an authorized employee (for small limits prescribed by the Bank's Credit Policy).

Limits for borrowers and counterparties are set as requests are received and then monitored and revised on an ongoing basis. Limits of lending "against turnover" are revised at least once a month.

Credit risk is assessed using methods set out in the Bank's internal documents.

A counterparty financial analysis includes analysis of the borrower's business, financial position, credit history, nature of the financed transaction and purpose of the loan. The financial position of legal entity borrowers is analyzed on a quarterly basis, counterparty banks are monitored monthly. The solvency of individual borrowers is analyzed on a quarterly basis using a special technique.

In order to mitigate its credit risk, the Bank receives various types of securities for loan commitments (collateral, sureties, guarantees, etc.). The Bank evaluates collateral providers. Collateral evaluation is performed by independent valuers. The Bank requires that the real estate, equipment and goods accepted as collateral be insured.

However, collateral or guarantee for certain loans cannot be obtained. Such loans are monitored continuously.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring.

Maximum credit risk exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on the level of risks inherent in respective assets.

The following table presents the maximum exposure to credit risk of financial assets and contingent credit liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

December 31, 2014

	Maximum credit risk exposure	Collateral
Balances with the Central bank of the Russian Federation	1,158,628	-
Financial assets at fair value through profit or loss	602,689	-
Due from banks and other financial institutions	2,038,170	-
Loans to customers	9,479,723	(5,994,127)
Available-for-sale financial assets	82,100	-
Other financial assets	377	-
Commitments on loans and unused credit lines	601,845	-
Letters of credit payable	27,966	-
Guarantees issued	1,368,540	-

December 31, 2013

	Maximum credit risk exposure	Collateral
Balances with the Central bank of the Russian Federation	595,924	-
Financial assets at fair value through profit or loss	1,221,016	-
Due from banks and other financial institutions	1,944,545	-
Loans to customers	8,276,062	(4,434,413)
Available-for-sale financial assets	68,282	-
Other financial assets	450	-
Commitments on loans and unused credit lines	1,401,673	-
Guarantees issued	355,086	-

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

Balances with the CBR as at December 31, 2014 and 2013 included RUB 1,158,628 thousand and RUB 595,924 thousand, respectively. According to the international rating agencies, the credit rating of the Russian Federation corresponded to investment level BBB-.

(in thousands of Russian Roubles, unless otherwise indicated)

The following table details credit ratings of financial assets of the financial assets held by the Bank that are neither past due nor impaired:

December 31, 2014

	A	BBB	<BBB	Not rated	Total RUB '000
Financial assets at fair value through profit or loss	-	220,749	381,940	-	**602,689**
Due from banks and other financial institutions	1,470,290	683	565,329	1,868	**2,038,170**
Loans to customers	-	-	-	4,089,378	**4,089,378**
Available-for-sale financial assets	-	-	82,100	7,585	**89,685**
Other financial assets	-	-	-	377	**377**

December 31, 2013

	A	BBB	<BBB	Not rated	Total RUB '000
Financial assets at fair value through profit or loss	-	199,145	954,685	67,186	**1,221,016**
Due from banks and other financial institutions	1,261,286	413,356	269,591	312	**1,944,545**
Loans to customers	-	-	-	2,472,893	**2,472,893**
Available-for-sale financial assets	-	-	68,282	7,585	**75,867**
Other financial assets	-	-	-	450	**450**

The Bank classifies loans to customers according to internal ratings:

Rating 1

Analysis of the borrower's production, finance and business activities and other borrower data, including external circumstances, indicate the stability of production, positive net assets, profitability and solvency and there are no negative conditions (tendencies) that can affect the borrower's financial stability in the long term. Such negative conditions (tendencies) include material decrease in the production growth rates, profitability ratios, material increase in payables and/or receivables and other circumstances that are not related to seasonal factors;

Rating 2

Analysis of the borrower's production, finance and business activities and/or other borrower data indicate that there are no direct threats to the current financial position, though there are negative circumstances (tendencies) in the borrower's activity that can cause financial difficulties in the foreseeable future (a year or less) if the borrower fails to take measures to improve the situation;

Rating 3

Analysis of the borrower's production, finance and business activities and/or other borrower data indicate that there are threatening negative circumstances in (tendencies) in the borrower's activity and they can cause insolvency of the borrower. Threatening negative circumstances in (tendencies) in the borrower's activity can include: loss-making activity, negative or materially decreased net assets, material reduction of the production volume, substantial growth of payables and/or receivables.

As at December 31, 2014 and 2013, the internal rating assessments technique involves a point-based system based on the borrower's financial performance and other factors.

The internal ratings assigned by the Bank to loans to customers are specified below:

	December 31, 2014	December 31, 2013
Rating 1	1,332,161	1,371,595
Rating 2	7,147,496	6,305,686
Rating 3	1,000,066	598,781
Total loans to customers	**9,479,723**	**8,276,062**

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

The Bank has a country risk, i.e. the risk that the Bank may incur losses due to the failure of foreign counterparties (legal entities, individuals) to fulfill their obligations due to economic, political or social changes, as well as due to the fact that currency of a monetary liability may be inaccessible to a counterparty due to specific provisions of national legislation (regardless of the financial position of this counterparty).

(in thousands of Russian Roubles, unless otherwise indicated)

The Bank operates in the Russian Federation. The Bank's customer base generating income and resources is also located in the Russian Federation.

The Bank's foreign assets subject to country risk are loans issued to non-resident legal entities and individuals and also balances on correspondent accounts, where an overwhelming majority of non-resident banks, from which the Bank expects loan receivables, have highest country ratings stated as per the classification of Export Credit Agencies that are the Participants to the Arrangement between members of the Organization for Economic Co-operation and Development (the "OECD") On Officially Supported Export Credits.

Geographical analysis of the Bank's assets and liabilities as at December 31, 2014 and 2013 is provided below:

				December 31, 2014
	RF	**OECD countries**	**Non-OECD countries**	**Total**
FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	1,687,323	-	-	**1,687,323**
Financial assets at fair value through profit or loss	602,689	-	-	**602,689**
Due from banks and other financial institutions	567,356	1,470,812	2	**2,038,170**
Loans to customers	9,101,109	344,593	34,021	**9,479,723**
Available-for-sale financial assets	89,685	-	-	**89,685**
Other financial assets	317	-	60	**377**
Total financial assets	**12,048,479**	**1,815,405**	**34,083**	**13,897,967**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	319,639	-	425	**320,064**
Customer accounts	9,094,189	20,735	221,009	**9,335,933**
Debt securities issued	565,265	623,580	569,965	**1,758,810**
Other financial liabilities	26,863	-		**26,863**
Subordinated debt	324,082	-	-	**324,082**
Total financial liabilities	**10,330,038**	**644,315**	**791,399**	**11,765,752**
Net position	**1,718,441**	**1,171,090**	**(757,316)**	

				December 31, 2013
	RF	**OECD countries**	**Non-OECD countries**	**Total**
FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	810,113	-	-	**810,113**
Financial assets at fair value through profit or loss	1,221,016	-	-	**1,221,016**
Due from banks and other financial institutions	573,989	1,271,689	98,867	**1,944,545**
Loans to customers	7,892,884	361,904	21,274	**8,276,062**
Available-for-sale financial assets	75,867	-	-	**75,867**
Other financial assets	450	-	-	**450**
Total financial assets	**10,574,319**	**1,633,593**	**120,141**	**12,328,053**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	342,428	-	8	**342,436**
Customer accounts	7,520,607	20,999	30,156	**7,571,762**
Debt securities issued	1,147,636	873,554	331,480	**2,352,670**
Other financial liabilities	34,115	-	11	**34,126**
Total financial liabilities	**9,044,786**	**894,553**	**361,655**	**10,300,994**
Net position	**1,529,533**	**739,040**	**(241,514)**	

Market risk

Market risk is a risk that the Bank may incur losses due to adverse changes in the value of trading financial instruments and derivatives of the Bank, as well as foreign exchange rates and (or) precious metals rates. Therefore, market risks include stock market risk, currency risk and interest risks.

The main objective of market risk management is to minimize losses due to adverse changes in market prices of equity instruments; and to take measures to keep the market risk at a level which would not threaten the Bank's financial stability and interests of its creditors and depositors.

(in thousands of Russian Roubles, unless otherwise indicated)

Methods aimed at market risk mitigation include diversification; hedging of open positions; ongoing monitoring of investments; non-performance of operations with unreasonably volatile positions; setting limits on financial instruments and securities issuers and control of compliance; setting stop-loss limits; setting limits on net positions; assessment of risks in accordance with internal documents developed on the basis of the Bank of Russia's regulations; forecasting net currency positions values in foreign currencies and precious metals and control of compliance with the limits; distribution of authorities in decision-making in the Bank's operations.

Interest rate risk

Interest risk is a risk of financial losses resulting from adverse changes in the interest rates on the assets, liabilities, and off-balance sheet instruments of the Bank. The objective of interest rate risk management is to maintain the risk accepted by the Bank at a level determined by the Bank in accordance with its strategic tasks. The Bank's priority is to ensure maximum safety of assets and equity on the basis of decrease (elimination) of possible losses and lost profit on the Bank's investments in financial instruments. The Bank has established a list of financial instruments sensitive to interest rate fluctuations for the purpose of identification and assessment of interest rate indicators. Changing this list can imply changes/occurrences of additional factors affecting the level of new interest rate risk accepted by the Bank. To estimate the interest rate risk the Bank uses the following methods: interest margin calculation and gap analysis, which cover all the material sources of interest rate risk inherent in the operations and transactions conducted by the Bank.

The table below provides a general analysis of the Bank's interest rate risk prepared on the basis of weighted average interest rates at year end.

	December 31, 2014			**December 31, 2013**		
	RUB	USD	EUR	RUB	USD	EUR
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss	10,76%	6,82%	-	11,7%	8,12%	-
Available-for-sale financial assets	-	9,00%	-	-	8,25%	-
Due from banks and other financial institutions	15,00%	0,02%	-	6,51%	0,5%	0,3%
Loans to customers	13,41%	12,74%	12,78%	13,29%	12,76%	12,89%
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	6,72%	-	-	6,9%	-	-
Customer accounts	14,54%	5,83%	4,95%	8,03%	6,92%	5,48%
Debt securities issued	11,43%	7,87%	10,75%	9,59%	8,97%	10,75%
Subordinated debt	9,25%	-	-	-	-	-

The following tables present a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

	December 31, 2014		**December 31, 2013**	
RUB	Interest rate +0.5%	Interest rate -5%	Interest rate +3%	Interest rate -3%
Impact on profit before tax	17,112	(171,115)	84,555	(84,555)
Impact on equity	13,689	(136,892)	67,644	(67,644)

	December 31, 2014		**December 31, 2013**	
USD	Interest rate +0.5%	Interest rate -0.5%	Interest rate +3%	Interest rate -3%
Impact on profit before tax	2,550	(2,550)	5,467	(5,467)
Impact on equity	2,040	(2,040)	4,373	(4,373)

	December 31, 2014		**December 31, 2013**	
EUR	Interest rate +0.5%	Interest rate -0.5%	Interest rate +3%	Interest rate -3%
Impact on profit before tax	(156)	156	2,049	(2,049)
Impact on equity	(125)	125	1,639	(1,639)

(in thousands of Russian Roubles, unless otherwise indicated)

Currency risk

Currency risk is the risk of losses due to adverse change of foreign exchange and (or) precious metals rates on the Bank's open positions in foreign currencies and (or) precious metals. The objectives of currency risk management include minimizing the Bank's losses when building assets and liabilities with the use of foreign currencies; preventing non-compliance with the Russian currency legislation and foreign currency control regulations when conducting foreign currency operations and performing foreign currency control agent functions.

The main methods of currency risk management used by the Bank include: calculation of open foreign currency positions and observing the set limits; limiting operations with instruments denominated in foreign currency and precious metals; forecasting the exchange rates; hedging; diversification; insurance (choosing contractual currency as a method to insure against currency risks). The objective is to set the contract price in such a currency of which the fluctuations will be favorable; to structurally balance assets and liabilities; accounts receivable and payable.

The Treasury Department of the Bank performs daily monitoring of the Bank's open currency position to ensure its compliance with the requirements of the CBR. Compliance with these requirements is monitored by the Risk Analysis and Assessment Department.

The Bank's currency positions as at December 31, 2014 were as follows:

	RUB	**USD**	**EUR**	**Gold**	**Other currency**	**Total**
FINANCIAL ASSETS						
Cash and balances with the Central bank of the Russian Federation	1,345,205	57,195	284,923	-	-	**1,687,323**
Financial assets at fair value through profit or loss	317,772	284,917	-	-	-	**602,689**
Due from banks and other financial institutions	536,168	1,372,432	129,568	-	2	**2,038,170**
Loans to customers	4,881,318	3,592,407	1,005,998	-	-	**9,479,723**
Available-for-sale financial assets	7,585	82,100	-	-	-	**89,685**
Other financial assets	377	-	-	-	-	**377**
Total financial assets	**7,088,425**	**5,389,051**	**1,420,489**	**-**	**2**	**13,897,967**
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	252,484	67,556	24	-	-	**320,064**
Customer accounts	3,942,213	4,418,411	964,682	10,627	-	**9,335,933**
Debt securities issued	420,685	964,947	373,178	-	-	**1,758,810**
Other financial liabilities	26,863	-	-	-	-	**26,863**
Subordinated debt	324,082	-	-	-	-	**324,082**
Total financial liabilities	**4,966,327**	**5,450,914**	**1,337,884**	**10,627**	**-**	**11,765,752**
Open position	**2,122,098**	**(61,863)**	**82,605**	**(10,627)**	**2**	

The Bank's currency positions as at December 31, 2013 were as follows:

	RUB	**USD**	**EUR**	**Gold**	**Other currency**	**Total**
FINANCIAL ASSETS						
Cash and balances with the Central bank of the Russian Federation	649,446	107,625	53,042	-	-	**810,113**
Financial assets at fair value through profit or loss	1,171,032	49,984	-	-	-	**1,221,016**
Due from banks and other financial institutions	549,857	1,253,004	141,682	-	2	**1,944,545**
Loans to customers	5,100,960	2,418,762	756,340	-	-	**8,276,062**
Available-for-sale financial assets	7,585	68,282	-	-	-	**75,867**
Other financial assets	450	-	-	-	-	**450**
Total financial assets	**7,479,330**	**3,897,657**	**951,064**	**-**	**2**	**12,328,053**

(in thousands of Russian Roubles, unless otherwise indicated)

FINANCIAL LIABILITIES						
Due to banks and other financial institutions	342,388	30	18	-	-	**342,436**
Customer accounts	3,910,549	2,869,625	785,320	6,261	7	**7,571,762**
Debt securities issued	1,116,088	983,294	253,288	-	-	**2,352,670**
Other financial liabilities	34,126	-	-	-	-	**34,126**
Total financial liabilities	**5,403,151**	**3,852,949**	**1,038,626**	**6,261**	**7**	**10,300,994**
Open position	**2,076,179**	**44,708**	**(87,562)**	**(6,261)**	**(5)**	

Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUB. As at December 31, 2014 the ranges from +20% to -15% for USD and EUR represent the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates on the basis of assessment of internal and external factors (balance of payments, situation in Euro zone, Forex market and oil prices). The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the end of the period for a respective change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Bank where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

	December 31, 2014		**December 31, 2013**	
USD	Exchange rate + 20%	Exchange rate - 15%	Exchange rate + 10%	Exchange rate - 10%
Impact on profit before tax	(12,373)	9,279	4,471	(4,471)
Impact on equity	(9,898)	7,423	3,577	(3,577)

	December 31, 2014		**December 31, 2013**	
EUR	Exchange rate + 20%	Exchange rate - 15%	Exchange rate + 10%	Exchange rate - 10%
Impact on profit before tax	16,521	(12,391)	(8,756)	8,756
Impact on equity	13,217	(9,913)	(7,005)	7,005

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims at managing the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in stockholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Stock market risk

The Bank's security portfolio is exposed to stock market risk, i.e. the risk that losses may be incurred due to adverse changes in market prices of equity instruments of the trade portfolio and derivatives under the influence of factors related both to the issuer of equity instruments and to general fluctuations of market prices of financial instruments.

The main methods of stock market risk management used by the Bank include setting limits (per securities issuers; market; dealer; stop-loss, etc.); hedging; diversification; forecasting; technical stock market analysis; assessment of the financial market situation; analysis of economic and financial market indicators; assessment of an issuer's financial position; setting limits on the duration of investments in financial instruments.

As at December 31, 2014 and 2013 the Bank's security portfolio consisted primarily of debt securities.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for equity investments at the reporting date.

In case of increase/decrease of cost of available-for-sale financial assets:

	December 31, 2014		**December 31, 2013**	
	Increase by 5%	Decrease by 5%	Increase by 10%	Decrease by 5%
Impact on equity	379	(379)	759	(379)

(in thousands of Russian Roubles, unless otherwise indicated)

Liquidity risk

Liquidity risk is a risk that the bank may incur losses due to the failure to perform its obligations in full.

The key elements of liquidity management and assessment include:

- the procedure of managing current (daily) payment position (daily payment position is managed by the Treasury via transactions in the domestic and external financial markets with a view to maximize the efficiency of the use of the Bank's funds while complying with all its obligations);

- analysis of the risk of loss of liquidity due to gaps in the maturities of assets and liabilities (management of assets and liabilities depending on maturities, calculation of the excess (deficit) of liquidity, and the ratio of excess (deficit) of liquidity). RAAD analyses the liquidity risk on a continuous basis with respect to the aggregate value of national currency exposure as a result of all the transactions entered and performs a preliminary analysis of the impact of planned major transactions on the level of liquidity.

- daily monitoring of future expected cash flows on customers' and banking operations, which is a part of assets/liabilities management process.

An analysis of the balance sheet interest rate risk and liquidity risk as at December 31, 2014 is presented below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	602,689	-	-	-	-	-	**602,689**
Due from banks and other financial institutions	1,854,928	-	-	-	-	-	**1,854,928**
Loans to customers	698,606	1,119,853	4,377,618	3,281,655	1,991	-	**9,479,723**
Available-for-sale financial assets	-	-	-	25,865	-	-	**25,865**
Total interest-bearing financial assets	**3,156,223**	**1,119,853**	**4,377,618**	**3,307,520**	**1,991**	**-**	**11,963,205**
Cash and balances with the Central bank of the Russian Federation	1,576,047	-	-	-	-	111,276	**1,687,323**
Due from banks and other financial institutions	183,242	-	-	-	-	-	**183,242**
Available-for-sale financial assets	-	56,235	-	7,585	-	-	**63,820**
Other financial assets	377	-	-	-	-	-	**377**
Total financial assets	**4,915,889**	**1,176,088**	**4,377,618**	**3,315,105**	**1,991**	**111,276**	**13,897,967**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	3,600	-	36,300	210,000	-	-	**249,900**
Customer accounts	829,936	942,747	3,614,538	657,196	9,003	-	**6,053,420**
Debt securities issued	43,012	554,346	853,723	307,729	-	-	**1,758,810**
Subordinated debt	-	-	82	-	324,000	-	**324,082**
Total interest-bearing financial liabilities	**876,548**	**1,497,093**	**4,504,643**	**1,174,925**	**333,003**	**-**	**8,386,212**
Due to banks and other financial institutions	70,164	-	-	-	-	-	**70,164**
Customer accounts	3,282,513	-	-	-	-	-	**3,282,513**
Other financial liabilities	25,023	-	1,840	-	-	-	**26,863**
Total financial liabilities	**4,254,248**	**1,497,093**	**4,506,483**	**1,174,925**	**333,003**	**-**	**11,765,752**
Liquidity gap	661,641	(321,005)	(128,865)	2,140,180	(331,012)	111,276	
Interest sensitivity gap	2,279,675	(377,240)	(127,025)	2,132,595	(331,012)	-	
Cumulative interest sensitivity gap	2,279,675	1,902,435	1,775,410	3,908,005	3,576,993	3,576,993	
Cumulative interest sensitivity gap as a percentage of total financial assets	16%	14%	13%	28%	26%	26%	

(in thousands of Russian Roubles, unless otherwise indicated)

An analysis of the balance sheet interest rate risk and liquidity risk as at December 31, 2013 is presented below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Financial assets at fair value through profit or loss	1,221,016	-	-	-	-	-	**1,221,016**
Due from banks and other financial institutions	1,666,936	-	98,866	-	-	-	**1,765,802**
Loans to customers	770,253	1,676,539	2,646,983	3,179,575	2,712	-	**8,276,062**
Available-for-sale financial assets	-	-	68,282	-	-	-	**68,282**
Total interest-bearing financial assets	**3,658,205**	**1,676,539**	**2,814,131**	**3,179,575**	**2,712**	**-**	**11,331,162**
Cash and balances with the Central bank of the Russian Federation	709,207	-	-	-	-	100,906	**810,113**
Due from banks and other financial institutions	178,743	-	-	-	-	-	**178,743**
Available-for-sale financial assets	-	-	-	7,585	-	-	**7,585**
Other financial assets	450	-	-	-	-	-	**450**
Total financial assets	**4,546,605**	**1,676,539**	**2,814,131**	**3,187,160**	**2,712**	**100,906**	**12,328,053**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	28,652	12,224	27,246	272,400	-	-	**340,522**
Customer accounts	571,752	1,774,045	2,935,769	279,035	8,395	-	**5,568,996**
Debt securities issued	96,898	300,828	1,645,841	309,054	-	-	**2,352,621**
Total interest-bearing financial liabilities	**697,302**	**2,087,097**	**4,608,856**	**860,489**	**8,395**	**-**	**8,262,139**
Due to banks and other financial institutions	1,914	-	-	-	-	-	**1,914**
Customer accounts	2,002,766	-	-	-	-	-	**2,002,766**
Debt securitiesissued	49	-	-	-	-	-	**49**
Other financial liabilities	30,589	-	3,537	-	-	-	**34,126**
Total financial liabilities	**2,732,620**	**2,087,097**	**4,612,393**	**860,489**	**8,395**	**-**	**10,300,994**
Liquidity gap	1,813,985	(410,558)	(1,798,262)	2,326,671	(5,683)	100,906	
Interest sensitivity gap	2,960,903	(410,558)	(1,794,725)	2,319,086	(5,683)	-	
Cumulative interest sensitivity gap	2,960,903	2,550,345	755,620	3,074,706	3,069,023	3,069,023	
Cumulative interest sensitivity gap as a percentage of total financial assets	24%	21%	6%	25%	25%	25%	

Term deposits of individuals are presented on the basis of contractual maturities. However, such deposits may be withdrawn by customers on demand.

Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace many short-term loans are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

(in thousands of Russian Roubles, unless otherwise indicated)

The following table presents an allocation of undiscounted cash flows of the Bank's financial liabilities (both interest and principal cash flows) and the Bank's unrecognized credit commitments on the basis of their earliest possible contractual maturity as at December 31, 2014 and 2013. The total nominal amount of cash outflows presented in the table represents undiscounted contractual cash flows on financial liabilities or contingent commitments. The cash flows expected by the Bank from these financial liabilities and unrecognized credit commitments may differ from the analysis below:

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total as at December 31, 2014
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	5,171	2,665	48,344	236,882	-	**293,062**
Customer accounts	835,367	968,761	3,767,185	735,038	15,109	**6,321,460**
Debt securities issued	43,278	565,932	903,771	359,139	-	**1,872,120**
Subordinated debt	-	-	30,052	119,880	464,188	**614,120**
Total interest-bearing financial liabilities	**883,816**	**1,537,358**	**4,749,352**	**1,450,939**	**479,297**	**9,100,762**
Due to banks and other financial institutions	70,164	-	-	-	-	**70,164**
Customer accounts	3,282,513	-	-	-	-	**3,282,513**
Other financial liabilities	25,023	-	1,840	-	-	**26,863**
Total financial liabilities	**4,261,516**	**1,537,358**	**4,751,192**	**1,450,939**	**479,297**	**12,480,302**
Credit related commitments	**61,788**	**481,339**	**708,620**	**746,604**	**-**	**1,998,351**

	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total as at December 31, 2013
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	28,652	17,413	41,663	318,883	-	**406,611**
Customer accounts	573,280	1,796,160	3,060,493	309,549	15,108	**5,754,590**
Debt securities issued	97,409	305,184	1,730,059	345,224	-	**2,477,876**
Total interest-bearing financial liabilities	**699,341**	**2,118,757**	**4,832,215**	**973,656**	**15,108**	**8,639,077**
Due to banks and other financial institutions	1,914	-	-	-	-	**1,914**
Customer accounts	2,002,766	-	-	-	-	**2,002,766**
Debt securities issued	49	-	-	-	-	**49**
Other financial liabilities	30,589	-	3,537	-	-	**34,126**
Total financial liabilities	**2,734,659**	**2,118,757**	**4,835,752**	**973,656**	**15,108**	**10,677,932**
Credit related commitments	**31,110**	**149,030**	**1,393,603**	**183,015**	**-**	**1,756,758**

Operational risk

Operational risk is a risk of loss resulting from the fact that the Bank’s internal rules and procedures for banking and other transactions are inadequate to the nature and scope of its business and/or the current legislative requirements; from failure by the Bank’s employees or other persons to comply with such internal rules and procedures (through unintentional or deliberate action, or omission); from inadequacy/insufficiency of the operational features/characteristics of informational, technical and other systems used by the Bank and/or their failures/breakdowns; and from external impacts.

The Bank regularly monitors and assesses operational risk. As part of operational risk management system, the Bank identifies and assesses operational risk with regard to all current operations, banking products, processes and systems. New operations, banking products, processes and technologies are checked for operational risk exposure.

The main method of mitigation for the operational risk is the development of the organizational structure of the Bank, internal rules and procedures for banking and other transactions. A special focus is placed on compliance with the principle of the segregation of powers, procedures of approval (agreement), accountability for and control over banking operations and other transactions.

The Bank uses the following methods to mitigate the operational risk:
- operational control over the set limits on operations and control of allocation of responsibilities during banking operations exceeding the set limits;
- regular reconciliation of internal accounting for operations and accounting and depositary records;
- differentiation of access rights to informational and other resources;
- provision of personalised access for the Bank's employees to the Bank's information resources by means of unique personal user identifications and confidential passwords;
- control over workflow;
- conclusion of full material liability contracts;
- property insurance.

To reduce the probability of losses arising from computer system failures the following measures are taken:
- automatic information duplication and back up;
- development and updating of emergency action plans and disaster recovery plans;
- drills to train the steps to be taken in case of breakdown of different automated systems.

A special focus is placed on technological risks and risks associated with the implementation of new technologies within the risk management framework. For this purpose, project solutions and quality of their implementation, organization of technological processes, information flows and management processes, vulnerability to technological and technical risks are examined and assessed.

The Bank assesses operational risk level using basic indicator approach. The Bank performs data collection with regard to operational risks and losses, has created internal data base on operational losses, as well as regularly monitors its operational risks and material exposure to loss per types of operational risk and business lines.

33 Subsequent events

There have been no significant events in the period between the balance sheet date and the date when the financial statements were authorized for issue.

Approved by and signed on behalf of the Management Board

[	Chairman of the Management Board	S.N. Smirnov
[	Chief Accountant	E.M. Merkulova

April 7, 2015
Moscow