JSC OTP Bank

Consolidated Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2014

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JSC OTP Bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the Consolidated Financial Statements that present fairly the financial position of Joint Stock Company "OTP Bank" and its subsidiaries (the "Group") as at 31 December 2014, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the Consolidated 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group'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 Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the Consolidated Financial Statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The Consolidated Financial Statements for the year ended 31 December 2014 were approved by the President of the Bank on 27 April 2015.

On behalf of the Management Board:

President
G. Chesakov

27 April 2015
Moscow

Chief Accountant
P. Alekseev

27 April 2015
Moscow

Акционерное общество «ОТП Банк» г. Москва

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Joint Stock Company "OTP Bank".

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

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

Management of the Bank is responsible for compliance of the Group with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group'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" (the "Federal Law") in the course of our audit of the Group's consolidated financial statements for 2014 we performed procedures with respect to the Group'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 Group'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 Group's financial information other than those we considered necessary to express our opinion on whether the consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Group 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 consolidated 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 Group'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 Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group'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 Group'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 Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Deloitte & Touche

27 April 2015
Moscow, Russian Federation

Golovkova A.Y., Partner
(certificate № 01-000102 dated 17 October 2011)

ZAO Deloitte & Touche CIS

The Entity: JOINT-STOCK COMPANY "ОТП Bank"

Certificate of state registration №2087711001871 of 26 February 2008.

License to attract deposits and placement of precious metals №2766 from November 27, 2014.

General license for banking operations №2766 on 27 November 2014.

Address: Russia, 125171, Moscow, Leningradskoe shosse 16A-1

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.

JSC OTP Bank

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2014
(in thousands of Russian Rubles unless otherwise stated)

	Notes	2014	2013
Interest income	4	32 290 106	33 286 727
Interest expense	4	(6 526 634)	(7 553 257)
Net interest income before impairment of interest bearing assets		**25 763 472**	**25 733 470**
Impairment of interest bearing assets	5	(19 617 994)	(18 042 933)
Net interest income		**6 145 478**	**7 690 537**
Net gain on financial assets and liabilities at fair value through profit or loss	6	3 796 171	489 462
Net (loss)/gain on foreign exchange operations	7	(2 898 120)	276 964
Fee and commission income	8	5 944 388	5 999 976
Fee and commission expense	8	(2 482 432)	(2 898 950)
Net gain on financial assets available-for-sale		444 204	1 311 381
(Other provisions)/recovery of other provisions	5	(166 319)	68 630
Other income	9	33 420	29 676
Net non-interest income		**4 671 312**	**5 277 139**
Operating income		10 816 790	12 967 676
Operating expenses	10	(12 908 752)	(11 907 860)
(Loss)/profit before income tax		**(2 091 962)**	**1 059 816**
Income tax recovery/(expense)	11	289 518	(183 739)
(Loss)/profit for the year		**(1 802 444)**	**876 077**
Other comprehensive expense			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property and equipment		(32 920)	75 539
Deferred tax relating to revaluation of property and equipment	11	6 584	(15 108)
Total items that will not be reclassified subsequently to profit or loss		**(26 336)**	**60 431**
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets available-for-sale		(210 194)	1 038 620
Net change in fair value of financial assets available-for-sale transferred to profit or loss		(438 454)	(1 449 969)
Deferred tax relating to revaluation of financial assets available-for-sale	11	129 730	82 270
Total items that may be reclassified subsequently to profit or loss		**(518 918)**	**(329 079)**
Total other comprehensive loss		**(545 254)**	**(268 648)**
Total comprehensive (loss)/income		**(2 347 698)**	**607 429**
(Loss)/Earnings per share – basic and diluted (RUR, per share)	12	(0.006)	0.003

The Consolidated Financial Statements are approved for issue by the President of the Bank and signed on its behalf on 27 April 2015.

President
G. Chesakov

27 April 2015
Moscow

Chief Accountant
P. Alekseev

27 April 2015
Moscow

The notes on pages 9-77 form an integral part of these Consolidated Financial Statements.

JSC OTP Bank

Consolidated Statement of Financial Position
as at 31 December 2014
(in thousands of Russian Rubles unless otherwise stated)

	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	13	19 825 653	8 844 946
Obligatory reserve with the Central Bank of the Russian Federation		966 169	1 057 694
Financial assets at fair value through profit or loss	14	21 211 274	597 937
Due from banks and other financial institutions	15	4 473 352	8 728 959
Loans to customers	16	108 274 039	105 634 919
Financial assets available-for-sale	17	7 696 318	13 616 315
Financial assets held-to-maturity	18	-	169 264
Property, equipment and intangible assets	19	3 694 295	3 261 259
Current income tax assets		315 934	-
Deferred tax assets	11	1 178 624	723 208
Other assets	20	1 078 251	1 085 788
Total assets		**168 713 909**	**143 720 289**
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	21	24 155 517	8 601 924
Financial liabilities at fair value through profit or loss	14	18 090 209	215 466
Customer accounts	22	92 624 613	86 826 020
Debt securities issued	23	1 033 649	15 567 715
Current income tax liabilities		-	186 758
Other liabilities	24	2 300 079	2 430 946
Subordinated debts	25	5 367 299	2 401 219
Total liabilities		**143 571 366**	**116 230 048**
Equity			
Share capital	26	4 423 768	4 423 768
Share premium	26	2 000 000	2 000 000
Financial assets available-for-sale revaluation reserve		(89 825)	429 093
Property and equipment revaluation reserve		446 446	472 782
Retained earnings		18 362 154	20 164 598
Total equity		**25 142 543**	**27 490 241**
Total liabilities and equity		**168 713 909**	**143 720 289**

President
G. Chesakov

27 April 2015
Moscow

Chief Accountant
P. Alekseev

27 April 2015
Moscow

The notes on pages 9-77 form an integral part of these Consolidated Financial Statements.

JSC OTP Bank

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2014
(in thousands of Russian Rubles unless otherwise stated)

	Share capital	Share premium	Financial assets available-for-sale revaluation reserve	Property revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2012	**4 423 768**	**2 000 000**	**758 172**	**412 351**	**19 288 521**	**26 882 812**
Profit for the year	-	-	-	-	876 077	876 077
Other comprehensive income						
Revaluation of property, net of deferred tax	-	-	-	60 431	-	60 431
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	830 896	-	-	830 896
Disposal of financial assets available-for-sale	-	-	(1 159 975)	-	-	(1 159 975)
Total other comprehensive income for the year ended 31 December 2013	**-**	**-**	**(329 079)**	**60 431**	**-**	**(268 648)**
Total comprehensive income for the year ended 31 December 2013	**-**	**-**	**(329 079)**	**60 431**	**876 077**	**607 429**
Balance as at 31 December 2013	**4 423 768**	**2 000 000**	**429 093**	**472 782**	**20 164 598**	**27 490 241**
Loss for the year	-	-	-	-	(1 802 444)	(1 802 444)
Other comprehensive loss						
Revaluation of property, net of deferred tax	-	-	-	(26 336)	-	(26 336)
Net change in fair value of financial assets available-for-sale, net of deferred tax	-	-	(168 155)	-	-	(168 155)
Disposal of financial assets available-for-sale	-	-	(350 763)	-	-	(350 763)
Total other comprehensive Loss for the year ended 31 December 2014	**-**	**-**	**(518 918)**	**(26 336)**	**-**	**(545 254)**
Total comprehensive loss for the year ended 31 December 2014	**-**	**-**	**(518 918)**	**(26 336)**	**(1 802 444)**	**(2 347 698)**
Balance as at 31 December 2014	**4 423 768**	**2 000 000**	**(89 825)**	**446 446**	**18 362 154**	**25 142 543**

President
G. Chesakov

27 April 2015
Moscow

Chief Accountant
P. Alekseev

27 April 2015
Moscow

АКЦИОНЕРНОЕ ОБЩЕСТВО «ОТП Банк» г. МОСКВА

The notes on pages 9-77 form an integral part of these Consolidated Financial Statements.

JSC OTP Bank

Consolidated Statement of Cash Flows for the Year Ended 31 December 2014
(in thousands of Russian Rubles unless otherwise stated)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		(2 091 962)	1 059 816
Adjustments for:			
Allowance for impairment losses on interest bearing assets		19 617 994	18 042 933
Other provisions/(recovery of other provisions)		166 319	(68 630)
Net change in fair value of financial assets held for trading		2 876	6 373
Net change in fair value of derivative instruments		(2 944 299)	(379 422)
Loss on disposal of property, equipment and intangible assets		6 134	1 787
Net gain on operations with financial assets available-for-sale		(444 204)	(1 311 381)
Depreciation charge on property, equipment and amortization charge on intangible assets		911 200	779 581
Loss/(gain) from translation of foreign currency transactions		3 412 113	(755 981)
Net change in interest accruals		89 425	414 008
Net change in other accruals		(738 261)	297 538
Loss on revaluation of property and equipment		1 812	-
Dividends received		(334)	(179)
Cash flows from operating activities before changes in operating assets and liabilities		**17 988 814**	**18 086 443**
(Increase)/decrease in operating assets			
Obligatory reserve deposit with the Central Bank of the Russian Federation		91 525	104 439
Financial assets at fair value through profit or loss		196 850	(201 300)
Due from banks and other financial institutions		3 760 799	5 590 563
Loans to customers		(21 566 835)	(21 068 563)
Other assets		97 532	(404 244)
Increase/(decrease) in operating liabilities			
Due to other banks		14 963 495	(2 194 083)
Customer accounts		2 310 863	2 008 112
Debt securities issued in the normal course of business		(799 643)	(772 095)
Other liabilities		315 728	(145 095)
Cash inflow from operating activities before taxation		**17 359 128**	**1 004 177**
Income tax paid		(532 277)	(1 020 607)
Net cash inflow /(outflow) from operating activities		**16 826 851**	**(16 430)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(1 384 353)	(1 302 084)
Proceeds on sale of property, equipment and intangible assets		2 109	1 807
Purchase of financial assets available-for-sale		(4 666 461)	(1 550 856)
Proceeds on disposal of financial assets available-for-sale		11 645 343	5 038 843
Proceeds on repayment of financial assets held to maturity		183 486	-
Dividends received		334	179
Net cash inflow from investing activities		**5 780 458**	**2 187 889**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated debt		(1 210 684)	(1 500)
Subordinated debt issue		3 000 000	-
Repayment of bonds issued		(13 319 113)	-
Net cash outflow from financing activities		**(11 529 797)**	**(1 500)**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		**(96 805)**	**125 648**
Net increase in cash and cash equivalents		**10 980 707**	**2 295 607**
Cash and cash equivalents, beginning of year	13	**8 844 946**	**6 549 339**
Cash and cash equivalents, end of year	13	**19 825 653**	**8 844 946**

Interest paid and received by the Group during the year ended 31 December 2014 amounted to RUR 6 975 685 thousand and RUR 32 828 582 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2013 amounted to RUR 7 057 890 thousand and RUR 33 205 368 thousand, respectively.

President
G. Chesakov

27 April 2015
Moscow

Chief Accountant
P. Alekseev

27 April 2015
Moscow

The notes on pages 9-77 form an integral part of these Consolidated Financial Statements.

(in thousands of Russian Rubles unless otherwise stated)

1. Organisation

JSC "OTP Bank" (the "Bank") is a joint stock company, which was incorporated in the Russian Federation (the "RF") in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2766 dated 27 November 2014. The Bank's primary business consists of retail banking and commercial operations. These operations include receipt of funds on deposits and lending to corporate clients, small businesses and individuals, issue of guarantees, servicing clients on import and export operations, cash settlement services, operations with securities, foreign currency, derivative financial instruments, borrowing and issuing funds in the interbank loan market.

In the year 2014 the Bank changed the form of incorporation from OJSC "OTP Bank" to JSC "OTP Bank".

The registered office of the Bank is located at: 16A Leningradskoye shosse, bld. 1, Moscow, 125171, Russian Federation.

As of 31 December 2014 and 2013 the Bank had 7 branches in the Russian Federation.

The Bank is the parent company of banking Group which consists of the following entities:

		Ownership interest, %		
Company	**Country of operation**	**2014**	**2013**	**Type of operation**
Joint Stock Company "OTP Bank"	RF	Parent company	Parent company	Commercial bank
Limited Liability Company "Gamayun"	RF	100.00	100.00	Catering

The registered office of the LLC "Gamayn" is located at 3A Ordjonikidze Omsk 644099. Net assets and profit for the years 2014 and 2013 of "LLC Gamayun" do not exceed 5% of the Group's equity and profit/(loss) for the years 2014 and 2013 correspondingly. Consolidation of LLC "Gamayun" doesn't affect Group's risk and capital management policy disclosed in Note 32 and Note 33.

In the year 2013 LLC "Gamayn" was not consolidated because it's effect on financial statements was insignificant. In the year 2014 LLC "Gamayn" is consolidated to comply with the requirement of the CBR.

As of 31 December 2014 and 2013, the following shareholders owned the issued shares of the Bank.

	31 December, 2014, %	**31 December, 2013, %**
First level shareholders:		
OTP BANK PLC	66.15	66.12
ALLIANCE RESERVE LLC	31.71	31.71
Other	2.14	2.17
Total	**100.00**	**100.00**

Being the sole owner of ALLIANCE RESERVE LLC, OTP BANK PLC ultimately holds 97.86% of the Bank's shares as of 31 December 2014 (31 December 2013: 97.83%), so the Bank is a subsidiary of OTP BANK PLC and OTP BANK PLC is the ultimate controlling party for the Bank (Parent Bank).

2. Significant accounting policies

Statement of Compliance. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Other basis of presentation criteria. These Consolidated Financial Statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These Consolidated Financial Statements are presented in thousands of Russian Roubles ("RUR thousand"), unless otherwise indicated.

These Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments and properties that are measured at fair value, as explained below.

Functional currency. Items included in the Consolidated Financial Statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group is the Russian Rouble ("RUR"). The presentation currency of the Consolidated Financial Statements of the Group is the RUR.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the Consolidated Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation.

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

2. Significant accounting policies (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Recognition of interest income and expense. Interest income and expense are recognized 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 payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The discounting period is equal to the expected life of the financial instrument, or if applicable, to a shorter period.

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 net of provision using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

***Recognition of gain/loss on repurchase and reverse repurchase agreements*.** Gain/loss on the sale of the repo/reverse repo instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price and purchase price accrued up to reporting date using the effective interest method.

Recognition of fee and commission income. Loan origination fees 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.

Fee and commission income is recognised when the corresponding service is provided. The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

2. Significant accounting policies (continued)

Other income and expense recognition. Other income and expense items are recognised in profit or loss when the corresponding service is provided.

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

Cash and cash equivalents. Cash comprises cash on hand and cash on correspondent accounts of the Group. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Obligatory reserve deposit with the CBR. Obligatory reserve deposits with the CBR comprises funds deposited with the CBR and not used to finance the Group's current operations and hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Financial instruments*.* The Group recognizes financial assets and liabilities in its Consolidated Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. The historic cost of financial assets not at fair value through profit or loss is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 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.

The accounting policies for subsequent re-measurement of financial instruments are disclosed below.

***Financial assets*.** Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), financial assets 'held to maturity' ("HTM") financial assets 'available-for-sale' ("AFS") 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.

<u>Financial assets at FVTPL.</u> 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:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent 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 financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group'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.

2. Significant accounting policies (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the ‘other gains and losses’ and ‘interest income’ line item, respectively, in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Fair value is determined in the manner described in Note 31.

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

If the Group were to sell or reclassify more than an insignificant amount of financial assets HTM before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as AFS. Furthermore, the Group will not classify any financial asset as HTM during the following two years.

Financial assets AFS. Financial assets AFS are non-derivative financial assets that are are not classified as (a) loans and receivables, (b) financial assets HTM or (c) financial assets at FVTPL.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market that are also classified as AFS and stated at fair value based on valuation estimate. Fair value is determined in the manner described in Note 31. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial assets AFS revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments 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 recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised 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.

Derivative financial instruments. The Group enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forwards, swaps and options on foreign currency, precious metals and securities. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments or other host contracts are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid financial instrument that includes both the embedded derivative and the underlying host.

2. Significant accounting policies (continued)

Forwards and futures. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts also result in market risk exposure.

Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in RUR, EUR and USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

Interest rate swaps are subject to price risk associated with a change in the price of an underlying asset and credit risk, related to the possibility of violating the terms of the transaction by the counterparty of the deal.

Options. Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Loans and receivables. 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 amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Securities repurchase and reverse repurchase agreements. 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 Consolidated Financial Statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to other banks or customer accounts.

Assets purchased under reverse repos are recorded in the Consolidated Financial Statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from other banks or loans to customers.

2. Significant accounting policies (continued)

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice.

The transfer of securities to counterparties is recorded in case when all risks and rewards are transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of 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 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 and HTM, 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; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed as not individually impaired are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group'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 amortised cost that are individually impaired the amount of the impairment loss recognised 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a 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 recognised in profit or loss.

Interest income on overdue and impaired loans is accrued in the amount based on Group's estimate of future cash flows on each loan or group of collectively assessed loans.

For financial assets measured at amortized cost, 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 profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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 investments revaluation reserve.

2. Significant accounting policies (continued)

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 Group 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.

Full Write and partial write off loans. Loans are fully written off against allowance for impairment losses after the Group accepts all the necessary and sufficient measures to recover the sums owed to the Group, as well as receipt and implementation of the Bank has sold all available collateral.

Full write off of bad debt can also be made by the Board of Directors decision when the following conditions are met at the reporting date:

- The loan is overdue for more than 365 days;
- There were no payments for principal and interest for more than 365 days.

Retail non-collateralized loans are partially written off if:

- Principal is overdue by more than 365 days;
- All collection procedures required by internal document of the Group are passed;
- Debt was placed to external debt collection agency at least 1 time;
- Debt is not already fully or partially written off.

The partial write off is made by reducing the outstanding loan principal amount to the maximum expected recovery amount for the loan portfolio product group assessed for impairment on collective basis. The allowance is reduced by the same amount.

Derecognition of financial assets. The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2. Significant accounting policies (continued)

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 Group are recognised at the proceeds received, net of direct issue costs. Equity instruments issued and paid before January 1, 2003 are recognized at their cost restated for inflation.

Repurchase of the Group'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 Group's own equity instruments.

Financial liabilities**.** Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

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

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

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

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group'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 liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the Statement of Profit or Loss and Comprehensive Income. Fair value is determined in the manner described in Note 31.

Other financial liabilities. Other financial liabilities, including due to other banks, customer accounts, debt securities issued, subordinated debt and other financial liabilities are initially recognized at fair value, less transaction costs.

Further, other financial liabilities are carried at amortized cost. Interest expense is calculated applying the effective interest rate.

2. Significant accounting policies (continued)

The effective interest method is a method of calculating the amortised 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 Group are initially measured at their fair values and, if not designated 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*; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group'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 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 and loss.

Operating leases**.** Operating lease payments are recognised 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 recognised 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 recognised as a liability. The aggregate benefit of incentives is recognised 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.

Property, equipment and intangible assets**.** Land and buildings are stated in the Consolidated Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of property and equipment is recognized in the property and equipment revaluation reserve, except for the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the Consolidated Statement of Profit or Loss and Other Comprehensive Income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Land is not depreciated.

2. Significant accounting policies (continued)

Furniture, equipment and other fixed assets and intangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Group doesn’t have internally generated intangible assets.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) 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:

Buildings	1%-20%
Other property and equipment	3.3%-50%
Intangible assets	10%-33.3%

Leasehold improvements are amortized over the contractual lease term of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment/intangible asset is derecognised 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 recognised in profit or loss.

***Impairment of tangible and intangible assets*.** At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised 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 (or a cash-generating unit) 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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.

2. Significant accounting policies (continued)

***Investment property*.** Investment property includes assets used to earn rental payment. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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

***Current tax assets and liabilities*.** The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's 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 assets and liabilities*.** Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, 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 Group 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 recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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 charged on the Group’s activities. These taxes are included as a component of operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

2. Significant accounting policies (continued)

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised 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 recognized in the Consolidated Statement of Financial Position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the Consolidated Statement of Financial Position but disclosed when an inflow of economic benefit is probable.

Fiduciary activities. The Group 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 Group's Consolidated Financial Statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of depository services is recognized as services are provided.

Foreign currencies. In preparing these Consolidated Financial Statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised 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 retranslated 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 measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Group in the preparation of the Consolidated Financial Statements as at year-end are as follows:

	31 December 2014	**31 December 2013**
RUR/1 US Dollar	56.2584	32.7292
RUR/1 Euro	68.3427	44.9699

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

Equity reserves. The reserves recorded in equity on the Group's Consolidated Statement of Financial Position include:

- Available-for-sale investment reserve which comprises changes in fair value of available-for-sale financial assets;
- Property and equipment revaluation reserve which reflects change in fair value of buildings.

2. Significant accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty. The preparation of the Group's Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. 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 recognised 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.

Critical judgements in applying accounting policies. The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

***Key sources of estimation uncertainty*.** The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans to customers. The Group regularly reviews its loans to assess for impairment. The Group's loan impairment allowances are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans 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 loans are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record allowances which could have a material impact on its Consolidated Financial Statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the Consolidated Financial Statements have been determined on the basis of existing economic and political conditions taking into account partial write off. The Group 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 allowance for impairment of financial assets in future periods.

As of 31 December 2014 the loans to customers totalled RUR 130 394 585 thousand (31 December 2013: RUR 130 213 382 thousand), and allowance for impairment losses was RUR 22 120 546 thousand (31 December 2013: RUR 24 578 463 thousand). Details are set in Note 16.

Valuation of financial instruments. As described in Note 31, fair value of financial instruments is calculated by the Group based on market information available, if any, and proper evaluation methods. However, professional judgment is required to interpret market data in order to calculate fair value. Changes in assessment may influence the fair value recognized in Consolidated Financial Statements. The Russian Federation still has some typical features of a developed market, but the economic environment still restricts operations in financial markets. Market quotations may be outdated or reflect transactions at residual value and, thus, sometimes do not reflect fair value of financial instruments. All market information available has been used for measurement of fair value of financial instruments.

2. Significant accounting policies (continued)

The Group's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property carried at revalued amounts. Buildings and investment properties are carried in the Consolidated Financial Statements at fair value. The date of the latest appraisal was 31 December 2014. As of 31 December 2014 the carrying value of revalued buildings amounted to RUR 1 073 736 thousand (31 December 2013: RUR 1 134 072 thousand). Details are set in Note 19.

Recoverability of deferred tax assets. The Group regularly assesses the possibility of recognition of deferred tax assets. Recognized deferred tax asset is the amount of income tax which can be offset against future income tax and is recognized in the Consolidated Statement of Financial Position. Deferred tax assets are recognized to the extent that utilization of respective tax benefit is probable. Assessment of future taxable profit and tax benefit probable for recovery in the future is based on expectations of the management which are considered reasonable in current conditions. Deferred tax asset amount recognized in the Consolidated Statement of Financial Position amounted to RUR 1 178 624 thousand as at 31 December 2014 (31 December 2013: RUR 723 208 thousand). Details on deferred tax assets and liabilities movements are set out on Note 11.

Application of new and revised international financial reporting standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year the new and revised Standards and Interpretations have been adopted by the Group but had no significant impact on amounts reported in Consolidated Financial Statements and disclosures.

New and revised IFRSs in issue but not yet effective. The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 19 – *Defined Benefit Plans: Employee contributions*[1];
- Annual Improvements to IFRSs 2010-2012 Cycle[1];
- Annual Improvements to IFRSs 2011-2013 Cycle[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[2];
- IFRS 14 *Regulatory Deferral Accounts*[2];
- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*[2];
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements*[2];
- Amendments to IFRS 11 – *Accounting for Acquisition of Interests in Joint Operations*[2];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2];
- IFRS 15 *Revenue from Contracts with Customers*[3];
- IFRS 9 *Financial Instruments*[4].

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2. Significant accounting policies (continued)

Amendments to IAS 19 – ***Defined Benefit Plans: Employee contributions.*** The amendments to IAS 19 *Employee Benefits* clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. The Group's management does not expect any impact of these amendments on the financial statements as the Group has no defined benefit plans.

IFRS 14 ***Regulatory Deferral Accounts.*** IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The application of IFRS 14 will not have any impact on the Group's financial statements in the future as the Group is not an IFRS first-time adopter.

IFRS 15 ***Revenue from Contracts with Customers.*** In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 9 ***Financial Instruments.*** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

2. Significant accounting policies (continued)

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the 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 amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments 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 recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires 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 presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI 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 an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2. Significant accounting policies (continued)

Amendments to IFRS 11 – ***Accounting for Acquisitions of Interests in Joint Operations.*** The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The management of the Group anticipates that the application of these amendments will have no impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – ***Clarification of Acceptable Methods of Depreciation and Amortisation.*** The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 27 – ***Equity Method in Separate Financial Statements.*** The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Group does not expect any impact of these amendments on the financial statements

Amendments to IFRS 10 and IAS 28 – ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss in recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

2. Significant accounting policies (continued)

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

(in thousands of Russian Rubles unless otherwise stated)

2. Significant accounting policies (continued)

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are fist applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

3. Reclassifications

Certain reclassifications have been made to the Consolidated Financial Statements as at December 31, 2013 and for the year then ended to conform to the presentation as at December 31, 2014 and for the year then ended as current year presentation provides better view of the financial position of the Group.

	As previously reported for the year 2013	**Reclassification amount**	**As reclassified for the year 2013**
Interest income	34 850 635	(1 563 908)	33 286 727
Impairment of interest bearing assets	(19 606 841)	1 563 908	(18 042 933)
Loans to customers before allowance for impairment losses	131 811 115	(1 597 733)	130 213 382
Allowance for loan impairment	(26 176 196)	1 597 733	(24 578 463)
Investment property	11 137	(11 137)	-
Other assets	1 074 651	11 137	1 085 788

Interest income and impairment reclassifications were made because the Group has changed the estimate of interest income accrual for performing and non-performing loans. Reclassification is related to changes in the approach of accounting the overdue interest as a part of interest income. In 2014, for rapprochement with the accounting policies of the Parent Bank part overdue interest have been shown in interest income in the amount less provision (in 2013 the amount of overdue interest was presented in full amount, and the provision for it was presented separately). For comparability interest income and provision have been reclassified the amount of interest income and provision for 2013.

(in thousands of Russian Rubles unless otherwise stated)

4. Net interest income

Net interest income for the year ended 2014 and 2013 comprises:

	2014	2013
Interest income comprises		
Interest income on loans to customers	31 479 669	31 516 454
Interest income on financial assets available-for-sale	695 727	1 395 963
Interest income on due from banks and other financial institutions	109 733	349 457
Interest income on financial assets at fair value through profit or loss	3 716	8 770
Interest income on financial assets held-to-maturity	1 261	16 083
Total interest income	**32 290 106**	**33 286 727**
Interest expense comprises		
Interest expense on customer accounts	5 118 874	5 370 953
Interest expense on due to other banks	664 130	627 378
Interest expense on debt securities issued	564 170	1 407 060
Interest expense on subordinated debt	179 460	147 866
Total interest expense	**6 526 634**	**7 553 257**
Net interest income before impairment of interest bearing assets	**25 763 472**	**25 733 470**

5. Impairment of interest bearing assets and other provisions

The movements in allowance for impairment losses of loans to customers were as follows:

	Total
31 December 2012	**23 469 341**
Allowance	18 042 933
Assets full write-off	(14 141 609)
Disposal of assets	(2 792 202)
31 December 2013	**24 578 463**
Allowance	19 617 994
Assets full write-off	(1 712 733)
Assets partial write-off	(12 530 043)
Disposal of assets	(7 833 135)
31 December 2014	**22 120 546**

(in thousands of Russian Rubles unless otherwise stated)

5. Impairment of interest bearing assets and other provisions (continued)

The movements in other provisions were as follows:

	Other assets	Other liabilities: Provision for credit commitments	Other liabilities: Legal proceedings	Total
31 December 2012	**108 345**	**142 478**	**25 459**	**276 282**
Provision/(recovery of provision)	49 668	(124 292)	5 994	(68 630)
Write-off	(5 393)	-	(20 011)	(25 404)
31 December 2013	**152 620**	**18 186**	**11 442**	**182 248**
Provision	92 277	39 964	34 078	166 319
Write-off	(21 779)	-	(6 022)	(27 801)
31 December 2014	**223 118**	**58 150**	**39 498**	**320 766**

6. Net gain on financial assets and liabilities at fair value through profit or loss

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	2014	2013
Net realized (loss)/gain on operations with derivative financial instruments	825 337	65 961
Net unrealized gain on operations with derivative financial instruments	2 981 165	437 554
Net loss on financial assets and liabilities held for trading	(10 331)	(14 053)
Total net gain on financial assets and liabilities at fair value through profit or loss	**3 796 171**	**489 462**

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. (For risk policy description please see note 33).

7. Net (loss)/gain on foreign exchange operations

Net (loss)/gain on foreign exchange operations comprises:

	2014	2013
Translation differences, net	(3 412 113)	755 981
Dealing, net	513 993	(479 017)
Net (loss)/gain on foreign exchange operations	**(2 898 120)**	**276 964**

(in thousands of Russian Rubles unless otherwise stated)

8. Fee and commission income and expense

Fee and commission income and expense comprise:

	2014	2013
Fee and commission income		
Plastic cards operations	2 301 634	2 689 380
Cash operations and settlements	1 955 388	1 787 333
Intermediary services	1 415 793	1 257 319
Documentary operations and issue of guarantees	69 508	62 955
Foreign exchange operations	65 909	67 286
Use of a remote access system	65 749	68 235
Currency control agent's functions	44 883	41 938
Encashment operations	5 514	6 513
Banknote transactions	-	3 371
Other	20 010	15 646
Total fee and commission income	**5 944 388**	**5 999 976**
Fees and commission expense		
Intermediary services	1 946 658	2 321 467
Plastic cards operations	389 694	419 139
Financial market operations, including transactions with securities	68 054	80 995
Settlements and money transfers	60 555	59 696
Encashment operations	9 419	8 112
Depositary services	1 477	2 900
Banknote transactions	-	4 890
Other	6 575	1 751
Total fee and commission expense	**2 482 432**	**2 898 950**

9. Other income

Other income comprises:

	2014	2013
Income from rent of safe boxes	10 628	16 510
Property operating lease	6 834	7 606
Reversal of loss on revaluation of property and equipment of prior periods	3 891	-
Income on accounts payable write-off	2 109	2 375
Other	9 958	3 185
Total other income	**33 420**	**29 676**

(in thousands of Russian Rubles unless otherwise stated)

10. Operating expenses

Operating expenses comprise:

	2014	2013
Staff costs	6 139 251	5 408 984
Social Taxes	1 485 010	1 275 912
Operating lease	1 096 277	934 350
Depreciation and amortization expense (Note 19)	911 200	779 581
Taxes other than income tax	729 091	776 222
Repairs and maintenance expenses	644 616	506 735
Postal and other delivery costs	412 325	560 417
Telecommunication and information technology	399 653	293 765
Advertising expenses	238 781	330 706
Payments to the Deposit Insurance Fund	227 122	224 837
Professional services	169 459	377 576
Security expenses	125 132	109 229
Stationary and office expenses	67 248	104 510
Business trip expenses	41 071	72 749
Other expenses	222 516	152 287
Total operating expenses	**12 908 752**	**11 907 860**

11. Income tax

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

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime for certain income.

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 of 31 December 2014 and 2013 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the 2014 and 2013 reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction.

Tax effect of temporary differences is presented below.

(in thousands of Russian Rubles unless otherwise stated)

11. Income tax (continued)

Tax effect of temporary differences as of 31 December 2014 and 2013 is presented below:

	31 December 2014 Net deferred tax asset/ (liability)	Tax effect on profit or loss	Tax effect on other comprehen-sive income	31 December 2013 Net deferred tax asset/ (liability)	Tax effect on profit or loss	Tax effect on other comprehen-sive income	31 December 2012 Net deferred tax asset/ (liability)
Financial assets at fair value through profit or loss	(4 233 798)	(4 164 123)	-	(69 675)	(51 586)	-	(18 089)
Loans to customers	1 403 246	489 874	-	913 372	857 945	-	55 427
Financial assets available-for-sale	(238 767)	(273 392)	129 730	(95 105)	(2 057)	82 270	(175 318)
Financial assets held-to-maturity	-	6 559	-	(6 559)	(587)	-	(5 972)
Property, equipment and intangible assets	(303 272)	(29 913)	6 584	(279 943)	(55 122)	(15 108)	(209 713)
Other assets	158 908	19 605	-	139 303	59 478	-	79 825
Financial liabilities at fair value through profit or loss	3 618 042	3 574 949	-	43 093	(22 218)	-	65 311
Debt securities issued	20 990	17 760	-	3 230	7 474	-	(4 244)
Other liabilities	261 070	28 698	-	232 372	(11 397)	-	243 769
Current income tax loss carried forward	617 277	617 277	-	-	-	-	-
	1 303 696	**287 294**	**136 314**	**880 088**	**781 930**	**67 162**	**30 996**
Less: unrecognized deferred tax asset	(125 072)	31 808	-	(156 880)	76 766	-	(233 646)
Net deferred tax assets/(liabilities)	**1 178 624**	**319 102**	**136 314**	**723 208**	**858 696**	**67 162**	**(202 650)**

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

	2014	2013
(Loss)/Income before tax	**(2 091 962)**	**1 059 816**
(Recovery)/Tax at the statutory tax rate (20%)	(418 392)	211 963
Change in deferred tax asset not recognized	(31 808)	(76 766)
Prior year income tax	114 239	15 260
Tax effect of the base taxed at different rates	(9 427)	(14 024)
Tax effect of permanent differences – non-deductible expenses	55 870	47 306
Attributable income tax (recovery)/expense	**(289 518)**	**183 739**
Current income tax expense	29 584	1 042 435
Change in deferred tax	(319 102)	(858 696)
Attributable income tax (recovery)/expense	**(289 518)**	**183 739**

(in thousands of Russian Rubles unless otherwise stated)

12. Earnings per share

Basic earnings per share are calculated by dividing profits owned by the Group's shareholders by the average weighted number of ordinary shares outstanding for the year. The Group holds no ordinary shares which could potentially dilute earnings per share. Thus, diluted earnings per share are equal to basic earnings per share.

	2014	2013
Net (loss)/profit for the year attributable to owners of the Bank	(1 802 444)	876 077
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (thousand of shares)	279 788 785	279 788 785
(Loss)/Earnings per share – basic and diluted (RUR, per share)	**(0.006)**	**0.003**

13. Cash and cash equivalents

	31 December 2014	31 December 2013
Balances on correspondent accounts with banks	11 094 990	1 609 744
Cash on hand	5 220 712	3 310 747
Balances on correspondent accounts with the Central Bank of the Russian Federation	3 509 951	3 924 455
Total cash and cash equivalents	**19 825 653**	**8 844 946**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

14. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2014	31 December 2013
Financial assets held for trading:		
Derivative financial assets	21 178 823	359 781
Government bonds	32 451	238 156
Total financial assets at fair value through profit or loss	**21 211 274**	**597 937**

As of 31 December 2014 federal loan bonds amounting to RUR 32 451 thousand (31 December 2013: RUR 35 319 thousand), were restricted by the CBR. Collateral represented by these securities enables the Group to use the one-day and automatic overdraft loans while transfer payments through the current accounts with the CBR.

As at 31 December 2013 government bonds totalling RUR 202 837 thousand were pledged under repurchase agreements with other banks (see Note 21).

(in thousands of Russian Rubles unless otherwise stated)

14. Financial assets and liabilities at fair value through profit or loss (continued)

Financial liabilities at fair value through profit or loss comprise:

	31 December 2014	31 December 2013
Financial liabilities held for trading:		
Derivative financial liabilities	18 090 209	215 466
Total financial liabilities at fair value through profit or loss	**18 090 209**	**215 466**

Derivative financial assets and liabilities comprise:

	31 December 2014				31 December 2013			
	Nominal value		Fair value		Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Forward contracts	1 730 891	(1 674 581)	73 545	(56 880)	-	-	-	-
Foreign exchange spot contracts	592 758	(599 342)	5 065	(11 649)	204 626	(205 593)	36	(1 003)
Cross currency swap contracts	61 244 851	(57 456 926)	14 116 494	(10 620 138)	13 054 903	(13 111 223)	245 903	(180 248)
Swap contracts	67 375 050	(69 012 246)	6 931 386	(7 342 189)	11 716 410	(11 590 246)	109 533	(17 352)
Interest rate swap contracts	15 153 750	(15 153 750)	50 832	(57 853)	1 901 026	(1 901 026)	4 309	(16 863)
Other forex derivative	23 023	(23 023)	1 501	(1 501)	-	-	-	-
Total	**146 120 323**	**(143 919 868)**	**21 178 823**	**(18 090 210)**	**26 876 965**	**(26 808 088)**	**359 781**	**(215 466)**

As at December 31, 2014 and 2013 the deals with derivatives in the amount of RUR 7 358 842 thousand and RUR 61 176 thousand, respectively, were collateralized by funds received from banks (Note 21).

As at December 31, 2014 and 2013 the Group has provided collateral on the deals with derivatives in the form of demand deposits with banks in the amount of RUR 4 291 922 thousand and RUR 16 639 thousand, respectively (Note 15).

As of 31 December 2014 derivative financial assets of RUR 20 940 465 thousand (31 December 2013: RUR 308 190 thousand) were due from 3 clients (31 December 2013: 2 clients), which represents significant concentration.

As of 31 December 2014 derivative financial liabilities of RUR 17 923 611 thousand (31 December 2013: RUR 176 694 thousand) were due to the 2 clients (2013: 1 client), which represents significant concentration.

15. Due from banks and other financial institutions

Due from banks and other financial institutions comprise:

	31 December 2014	31 December 2013
Current and other accounts	4 367 587	68 896
Term deposits	105 765	8 660 063
Total due from banks and other financial institutions	**4 473 352**	**8 728 959**

(in thousands of Russian Rubles unless otherwise stated)

15. Due from banks and other financial institutions (continued)

As of 31 December 2014 the Group had term deposits with the Parent Bank amounting to RUR 4 293 688 thousand (31 December 2013: RUR 7 928 208 thousand), which exceeded 17% (31 December 2013: 29%) of the Group's equity.

As of 31 December 2014 the Group had restricted guarantee deposits in clearing institutions amounting to RUR 75 666 thousand (31 December 2013: RUR 52 257 thousand).

As at December 31, 2014 and 2013 demand deposits with banks in the amount of RUR 4 291 922 thousand and RUR 16 639 thousand, respectively, were pledged under deals with derivatives (Note 14).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

16. Loans to customers

Loans to customers comprise as of 31 December 2014 and 2013 comprise:

	31 December 2014	31 December 2013
Loans to individuals		
Consumer loans to individuals at points of sale	48 285 245	52 089 548
Plastic card overdrafts	43 344 957	43 622 598
Cash loans to individuals	24 587 958	22 694 964
Mortgage loans to individuals	5 929 932	5 530 870
Car loans to individuals	449 561	518 321
Total loans to individuals	**122 597 653**	**124 456 301**
Loans to legal entities		
Loans to legal entities	7 796 932	5 757 081
Total loans to legal entities	**7 796 932**	**5 757 081**
Total loans to customers before allowance for loan impairment	**130 394 585**	**130 213 382**
Less: allowance for loan impairment	(22 120 546)	(24 578 463)
Total loans to customers	**108 274 039**	**105 634 919**

(in thousands of Russian Rubles unless otherwise stated)

16. Loans to customers (continued)

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2014:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to individuals collectively assessed for impairment				
Consumer loans to individuals at points of sale				
Not past due	38 973 986	(291 697)	38 682 289	0.75%
Loans up to 30 days overdue	1 476 929	(391 871)	1 085 058	26.53%
Loans 31 to 60 days overdue	813 662	(500 818)	312 844	61.55%
Loans 61 to 90 days overdue	636 815	(475 182)	161 633	74.62%
Loans 91 to 180 days overdue	1 708 897	(1 453 707)	255 190	85.07%
Loans over 180 days overdue	4 674 956	(4 396 097)	278 859	94.04%
Total consumer loans to individuals at points of sale	**48 285 245**	**(7 509 372)**	**40 775 873**	**15.55%**
Plastic card overdrafts				
Not past due	31 841 255	(382 389)	31 458 866	1.20%
Loans up to 30 days overdue	1 938 470	(459 487)	1 478 983	23.70%
Loans 31 to 60 days overdue	1 145 572	(655 633)	489 939	57.23%
Loans 61 to 90 days overdue	868 939	(631 132)	237 807	72.63%
Loans 91 to 180 days overdue	2 450 184	(2 093 852)	356 332	85.46%
Loans over 180 days overdue	5 100 537	(4 800 269)	300 268	94.11%
Total plastic card overdrafts	**43 344 957**	**(9 022 762)**	**34 322 195**	**20.82%**
Cash loans to individuals				
Not past due	19 382 980	(152 338)	19 230 642	0.79%
Loans up to 30 days overdue	910 248	(263 121)	647 127	28.91%
Loans 31 to 60 days overdue	470 965	(306 084)	164 881	64.99%
Loans 61 to 90 days overdue	386 454	(299 294)	87 160	77.45%
Loans 91 to 180 days overdue	1 117 961	(982 214)	135 747	87.86%
Loans over 180 days overdue	2 319 350	(2 212 129)	107 221	95.38%
Total cash loans to individuals	**24 587 958**	**(4 215 180)**	**20 372 778**	**17.14%**
Mortgage loans to individuals				
Not past due	4 047 941	(211)	4 047 730	0.01%
Loans up to 30 days overdue	449 499	-	449 499	0.00%
Loans 31 to 60 days overdue	182 302	-	182 302	0.00%
Loans 61 to 90 days overdue	40 126	(708)	39 418	1.76%
Loans 91 to 180 days overdue	122 388	(11 158)	111 230	9.12%
Loans over 180 days overdue	1 087 676	(440 333)	647 343	40.48%
Total mortgage loans to individuals	**5 929 932**	**(452 410)**	**5 477 522**	**7.63%**
Car loans to individuals				
Not past due	100 764	(37)	100 727	0.04%
Loans up to 30 days overdue	7 437	(119)	7 318	1.60%
Loans 31 to 60 days overdue	2 976	(340)	2 636	11.42%
Loans 61 to 90 days overdue	94	(18)	76	19.15%
Loans 91 to 180 days overdue	1 817	(878)	939	48.32%
Loans over 180 days overdue	336 473	(335 498)	975	99.71%
Total car loans	**449 561**	**(336 890)**	**112 671**	**74.94%**
Total loans to individuals	**122 597 653**	**(21 536 614)**	**101 061 039**	**17.57%**

(in thousands of Russian Rubles unless otherwise stated)

16. Loans to customers (continued)

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to legal entities				
Loans to legal entities individually impaired				
Not past due	3 061 714	(133 094)	2 928 620	4.35%
Loans 1 to 30 days overdue	54 069	(26 052)	28 017	48.18%
Loans 31 to 90 days overdue	70 064	(55 574)	14 490	79.32%
Loans 91 to 180 days overdue	35 091	(31 515)	3 576	89.81%
Loans over 180 days overdue	341 745	(323 774)	17 971	94.74%
Total loans to legal entities individually impaired	**3 562 683**	**(570 009)**	**2 992 674**	**16.00%**
Loans to legal entities collectively assessed for impairment				
Not past due	4 234 162	(13 923)	4 220 239	0.33%
Loans 91 to 180 days overdue	87	-	87	0.00%
Total loans to legal entities collectively assessed for impairment	**4 234 249**	**(13 923)**	**4 220 326**	**0.33%**
Total loans to legal entities	**7 796 932**	**(583 932)**	**7 213 000**	**7.49%**
Total loans to customers at 31 December 2014	**130 394 585**	**(22 120 546)**	**108 274 039**	**16.96%**

(in thousands of Russian Rubles unless otherwise stated)

16. Loans to customers (continued)

The table below shows the analysis of loans and allowance for loan impairment as at 31 December 2013:

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to individuals collectively assessed for impairment				
Consumer loans to individuals at points of sale				
Not past due	37 788 638	(316 900)	37 471 738	0.84%
Loans up to 30 days overdue	2 195 017	(446 595)	1 748 422	20.35%
Loans 31 to 60 days overdue	948 420	(458 927)	489 493	48.39%
Loans 61 to 90 days overdue	813 387	(499 787)	313 600	61.45%
Loans 91 to 180 days overdue	2 330 285	(1 700 802)	629 483	72.99%
Loans over 180 days overdue	8 013 801	(7 558 551)	455 250	94.32%
Total consumer loans to individuals at points of sale	**52 089 548**	**(10 981 562)**	**41 107 986**	**21.08%**
Plastic card overdrafts				
Not past due	31 045 834	(203 047)	30 842 787	0.65%
Loans up to 30 days overdue	2 472 089	(312 324)	2 159 765	12.63%
Loans 31 to 60 days overdue	919 408	(370 026)	549 382	40.25%
Loans 61 to 90 days overdue	717 410	(425 059)	292 351	59.25%
Loans 91 to 180 days overdue	1 636 979	(1 235 010)	401 969	75.44%
Loans over 180 days overdue	6 830 878	(6 495 274)	335 604	95.09%
Total plastic card overdrafts	**43 622 598**	**(9 040 740)**	**34 581 858**	**20.72%**
Cash loans to individuals				
Not past due	17 707 388	(87 292)	17 620 096	0.49%
Loans up to 30 days overdue	1 002 198	(177 174)	825 024	17.68%
Loans 31 to 60 days overdue	374 673	(182 749)	191 924	48.78%
Loans 61 to 90 days overdue	301 596	(192 207)	109 389	63.73%
Loans 91 to 180 days overdue	701 836	(551 115)	150 721	78.52%
Loans over 180 days overdue	2 607 273	(2 501 832)	105 441	95.96%
Total cash loans to individuals	**22 694 964**	**(3 692 369)**	**19 002 595**	**16.27%**
Mortgage loans to individuals				
Not past due	4 211 169	(8)	4 211 161	0.00%
Loans up to 30 days overdue	181 246	(1)	181 245	0.00%
Loans 31 to 60 days overdue	35 917	-	35 917	0.00%
Loans 61 to 90 days overdue	22 039	-	22 039	0.00%
Loans 91 to 180 days overdue	41 032	(1 007)	40 025	2.45%
Loans over 180 days overdue	1 039 467	(288 891)	750 576	27.79%
Total mortgage loans to individuals	**5 530 870**	**(289 907)**	**5 240 963**	**5.24%**
Car loans to individuals				
Not past due	253 018	(138)	252 880	0.05%
Loans up to 30 days overdue	11 493	(329)	11 164	2.86%
Loans 31 to 60 days overdue	1 743	(283)	1 460	16.24%
Loans 61 to 90 days overdue	365	(103)	262	28.22%
Loans 91 to 180 days overdue	5 951	(3 142)	2 809	52.80%
Loans over 180 days overdue	245 751	(243 475)	2 276	99.07%
Total car loans	**518 321**	**(247 470)**	**270 851**	**47.74%**
Total loans to individuals	**124 456 301**	**(24 252 048)**	**100 204 253**	**19.49%**

(in thousands of Russian Rubles unless otherwise stated)

16. Loans to customers (continued)

	Gross loans	Allowance for impairment	Net loans	Allowance for impairment to gross loans
Loans to legal entities				
Loans to legal entities individually impaired				
Not past due	1 255 409	(43 400)	1 212 009	3.46%
Loans 91 to 180 days overdue	10 169	(10 169)	-	100.00%
Loans over 180 days overdue	268 697	(244 540)	24 157	91.01%
Total loans to legal entities individually impaired	**1 534 275**	**(298 109)**	**1 236 166**	**19.43%**
Loans to legal entities collectively assessed for impairment				
Not past due	4 177 813	(6 547)	4 171 266	0.16%
Loans 31 to 60 days overdue	42 725	(21 490)	21 235	50.30%
Loans 91 to 180 days overdue	2 005	(6)	1 999	0.30%
Loans over 180 days overdue	263	(263)	-	100.00%
Total loans to legal entities collectively assessed for impairment	**4 222 806**	**(28 306)**	**4 194 500**	**0.67%**
Total loans to legal entities	**5 757 081**	**(326 415)**	**5 430 666**	**5.67%**
Total loans to customers at 31 December 2013	**130 213 382**	**(24 578 463)**	**105 634 919**	**18.88%**

Movements in allowances for impairment losses for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

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

	31 December 2014	31 December 2013
Unsecured loans	120 131 109	120 526 300
Loans collateralized by mortgages and other property rights	8 458 262	7 063 804
Loans collateralized by pledge of inventories, goods in turnover and equipment	1 063 757	1 589 403
Loans collateralized by pledge of automobiles and other transport	665 352	585 453
Loans collateralized by pledge of equity securities and other financial assets	76 105	420 712
Loans collateralized by other collateral	-	27 710
	130 394 585	**130 213 382**
Less: allowance for impairment losses	(22 120 546)	(24 578 463)
Total loans to customers	**108 274 039**	**105 634 919**

(in thousands of Russian Rubles unless otherwise stated)

16. Loans to customers (continued)

The table below summarizes the amount of loans analyzed by industry:

	31 December 2014	31 December 2013
Analysis by sector		
Individuals	122 597 653	124 456 301
Trade	4 011 083	2 608 207
Real estate and rent	2 521 624	2 093 415
Construction	392 666	397 378
Finance and operating leases	305 072	216 491
Manufacturing	214 755	129 301
Services	200 441	83 222
Transport and communication	81 925	97 833
Agriculture	2 216	5 164
Publishing and printing	-	9 154
Other	67 150	116 916
	130 394 585	**130 213 382**
Less: allowance for impairment losses	(22 120 546)	(24 578 463)
Total loans to customers	**108 274 039**	**105 634 919**

For the year 2014 the Group disposed of loans to customers amounting to RUR 8 330 605 thousand (2013: RUR 2 961 606 thousand). The allowance for loan losses at the date of disposal amounted to RUR 7 833 135 thousand (2013: RUR 2 792 202 thousand). Total proceeds from disposal amounted to RUR 252 988 thousand (2013: RUR 169 404 thousand). The difference between net carrying amount of the loans and proceeds from disposal was charged to impairment of interest bearing assets in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. All risks and rewards on the disposed loans were transferred to counterparties at the dates of disposal.

For the year 2014 the Group received non-financial assets by taking possession of collateral it held as security with fair value of RUR 155 025 thousand (2013 – RUR 49 207 thousand). As of 31 December 2014 part of such assets in the amount of RUR 145 001 thousand (31 December 2013: RUR 102 524 thousand) was included in other assets. Part of such loans was sold during 2014 and 2013.

As of 31 December 2014, included in loans to customers were loans of RUR 496 546 thousand (31 December 2013: RUR 472 135 thousand), the terms of which were renegotiated.

As of 31 December 2014 included in loans to customers is accrued interest income, less allowance for impairment losses, in the amount of RUR 2 594 726 thousand (31 December 2013: RUR 3 003 749 thousand). Accrued interest on impaired loans as of 31 December 2014 amounts to RUR 534 272 thousand (31 December 2013: RUR 721 287 thousand).

As of 31 December 2014 loans amounting to RUR 3 562 683 thousand (31 December 2013: RUR 1 534 275 thousand) that are individually impaired are collateralized by the Group's promissory notes, pledge of real estate, motor vehicles, equipment, goods in turnover and other collateral with book value of RUR 4 295 638 thousand (31 December 2013: RUR 3 705 533 thousand).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

17. Financial assets available-for-sale

Financial assets available-for-sale comprise:

	31 December 2014	31 December 2013
Debt securities	7 577 449	13 489 178
Equity securities	118 869	127 137
Total financial assets available-for-sale	**7 696 318**	**13 616 315**

Debt securities comprise:

	Maturity	Nominal annual interest rate,%	31 December 2014	Maturity	Nominal annual interest rate,%	31 December 2013
Government bonds	June 2015 – January 2016	6.88-7.35	1 013 425	March 2014 - March 2030	6.88-12.00	3 642 918
Eurobonds	-	-	-	October 2014 - without maturity	3.374-9.125	3 497 705
Promissory notes	February 2015 – October 2015	2.87-4.00	4 720 690	May 2014 - October 2014	7.90-8.00	1 291 654
Corporate bonds	January 2015 – September 2023	7.60-9.40	1 843 334	July 2014 - September 2032	7.60-9.10	5 056 901
Total debt securities available-for-sale			**7 577 449**			**13 489 178**

In July 2014 and December 2013 the Group disposed of subordinated eurobonds of the Parent Bank. The transaction was executed at fair value of RUR 3 249 630 thousand (2013: RUR 2 904 588 thousand). The result on this operation amounting to RUR 909 154 thousand was included in net gain/(loss) on financial assets available-for-sale (2013: RUR 1 446 519 thousand).

As of 31 December 2014 financial assets available-for-sale included accrued interest income on debt securities for the total amount of RUR 110 743 thousand (31 December 2013: RUR 249 965 thousand).

As of 31 December 2014 government and corporate bonds amounting to RUR 489 960 thousand (31 December 2013: RUR 818 416 thousand) were restricted by the Central Bank of the Russian Federation. Collateral represented by these securities enables the Group to use the one-day and automatic overdraft loans while transfer payments through the correspondent accounts with the Central Bank of the Russian Federation.

As at 31 December 2014 financial assets available-for-sale included securities pledged under repurchase agreements with other banks amounting to RUR 2 270 183 thousand (31 December 2013: RUR 7 072 134 thousand) (see Note 21).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

18. Financial assets held-to-maturity

Financial assets held-to-maturity comprise:

	31 December 2014		31 December 2013	
	Nominal annual interest rate,%	Amount	Nominal annual interest rate,%	Amount
Eurobonds	-	-	8.63	169 264
Total financial assets held-to-maturity		**-**		**169 264**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

19. Property, equipment and intangible assets

Property, equipment and intangible assets comprise:

	Land	Buildings	Other property and equipment	Intangible assets	Capital invest-ments	Total
Cost						
31 December 2012	**5 825**	**1 319 575**	**2 874 595**	**1 033 085**	**1 153**	**5 234 233**
Acquisitions	201	3 272	792 783	484 905	20 923	1 302 084
Revaluation	-	102 610	-	-	-	102 610
Reclassification to investment property	-	47 251	-	-	-	47 251
Disposals	-	-	(81 368)	(139 273)	-	(220 641)
31 December 2013	**6 026**	**1 472 708**	**3 586 010**	**1 378 717**	**22 076**	**6 465 537**
Acquisitions	-	12 992	421 014	904 229	46 118	1 384 353
Revaluation	1 836	(61 876)	-	-	-	(60 040)
Reclassification from investment property	-	2 420	-	-	-	2 420
Disposals	-	-	(81 061)	(14 992)	-	(96 053)
31 December 2014	**7 862**	**1 426 244**	**3 925 963**	**2 267 954**	**68 194**	**7 696 217**
Accumulated depreciation and amortization						
31 December 2012	**-**	**281 235**	**1 799 637**	**534 211**	**-**	**2 615 083**
Charge for the period	-	30 737	448 376	300 468	-	779 581
Revaluation	-	27 071	-	-	-	27 071
Reclassification to investment property	-	(407)	-	-	-	(407)
Disposals	-	-	(79 710)	(137 340)	-	(217 050)
31 December 2013	**-**	**338 636**	**2 168 303**	**697 339**	**-**	**3 204 278**
Charge for the period	-	39 623	515 294	356 283	-	911 200
Revaluation	-	(25 751)	-	-	-	(25 751)
Disposals	-	-	(78 184)	(9 621)	-	(87 805)
31 December 2014	**-**	**352 508**	**2 605 413**	**1 044 001**	**-**	**4 001 922**
Net book value						
31 December 2014	**7 862**	**1 073 736**	**1 320 550**	**1 223 953**	**68 194**	**3 694 295**
31 December 2013	**6 026**	**1 134 072**	**1 417 707**	**681 378**	**22 076**	**3 261 259**

As of 31 December 2014 property and equipment included fully depreciated equipment of RUR 1 487 260 thousand (31 December 2013: RUR 1 279 210 thousand).

(in thousands of Russian Rubles unless otherwise stated)

19. Property, equipment and intangible assets (continued)

As of 31 December 2014 and 2013 the Group revalued its buildings. The revaluation was performed by appraisers who have experience in the revaluation of properties with similar location and category. The revaluation was performed using the following methods: discounted cash flow approach (income approach), sales comparison approach (comparative approach).

There has been no change to the valuation technique during the year.

As of 31 December 2014 buildings owned by the Group were recognized at a revalued amount. If the buildings were accounted at historical cost restated for inflation less accumulated depreciation their carrying value at 31 December 2014 would be RUR 599 352 thousand (31 December 2013: RUR 607 836 thousand).

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2014 and 2013 are as follows:

	Level 3	Fair value as at December 31, 2014	Level 3	Fair value as at December 31, 2013
Buildings in following regions:				
Omsk	875 114	875 114	928 704	928 704
Rostov	129 120	129 120	134 514	134 514
Novorossiysk	69 502	69 502	70 854	70 854
Total	**1 073 736**	**1 073 736**	**1 134 072**	**1 134 072**

20. Other assets

Other assets comprise:

	31 December 2014	31 December 2013
Other financial assets		
Receivables on other transactions	177 913	48 653
Accrued commission income	95 187	78 427
Other financial assets	46 652	7 542
	319 752	**134 622**
Less: allowance for impairment losses	(158 062)	(110 244)
Total other financial assets	**161 690**	**24 378**

(in thousands of Russian Rubles unless otherwise stated)

20. Other assets (continued)

	31 December 2014	31 December 2013
Other non-financial assets		
Prepayments and receivables on other transactions	772 417	929 326
Property received as collateral under loan agreement	145 001	102 524
Tax settlements, other than income tax	52 193	41 711
Investments property	8 279	11 137
Receivable from staff	3 479	2 175
Inventories	248	16 913
	981 617	**1 103 786**
Less: allowance for impairment losses	(65 056)	(42 376)
Total other non-financial assets	**916 561**	**1 061 410**
Total other assets	**1 078 251**	**1 085 788**

Movements in the provision for impairment losses on other assets for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

21. Due to other banks

Due to other banks comprise:

	31 December 2014	31 December 2013
Loans and deposits from other banks	19 120 745	7 691 057
Correspondent accounts of other banks	5 034 772	910 867
Total due to other banks	**24 155 517**	**8 601 924**

As of 31 December 2014 amount of RUR 13 150 320 thousand (54.44%) (31 December 2013: RUR 1 192 367 thousand (13.86%)), was due to the Parent Bank, which represents significant concentration.

As at 31 December 2014 deposits from other banks comprise loans under repurchase agreements in the amount of RUR 2 127 501 thousand that were settled before 14 January 2015. As at 31 December 2013 in deposits by banks are loans under repurchase agreements of RUR 6 127 127 thousand that were settled before 15 January 2014 (see Note 17).

As at December 31, 2014 and 2013 deposits from other banks in the amount of RUR 7 358 842 thousand and RUR 61 176 thousand, respectively, were received as collateral under deals with derivatives (Note 14).

(in thousands of Russian Rubles unless otherwise stated)

21. Due to other banks (continued)

Fair value of assets pledged and carrying value of loans under repurchase comprise:

	31 December 2014		31 December 2013	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Corporate bonds	2 127 501	2 270 183	6 127 127	7 274 971
Total	**2 127 501**	**2 270 183**	**6 127 127**	**7 274 971**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

22. Customer accounts

Customer accounts comprise:

	31 December 2014	**31 December 2013**
Term deposits	72 158 494	64 407 704
Current/settlement accounts and demand deposits	20 466 119	22 418 316
Total customer accounts	**92 624 613**	**86 826 020**

	31 December 2014	**31 December 2013**
Analysis by sector		
Individuals	63 662 536	57 671 919
Trade	6 812 747	6 745 052
Services	5 481 241	3 869 159
Finance and investments	5 259 728	6 255 620
Insurance	3 391 642	4 155 101
Manufacturing and engineering	2 941 099	1 823 632
Construction	1 954 212	2 461 312
Real estate and rent	1 160 539	851 304
Science, education and IT	865 586	1 145 269
Transport and communication	533 196	683 072
Agriculture	269 638	462 583
Publishing and mass media	111 310	129 622
Public activities and charity	72 351	16 068
Marketing and advertising	39 434	67 251
Food	25 074	304 589
Power and heat generation and distribution	22 075	86 376
Geological investigations	7 948	46 107
Oil & gas production, refining and transportation	3 940	28 454
Finance and operating leases	3 121	9 519
Other	7 196	14 011
Total customer accounts	**92 624 613**	**86 826 020**

(in thousands of Russian Rubles unless otherwise stated)

22. Customer accounts (continued)

As of 31 December 2014 customer accounts from top 10 customer groups of clients amounted to 42.9% of the Group's equity (31 December 2013: 32.6%).

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

23. Debt securities issued

Debt securities issued comprise:

	Maturity month/year	Interest rate per annum, %	31 December 2014	Maturity month/year	Interest rate per annum, %	31 December 2013
Bonds	March 2015	10.50	307 097	March 2014 - October 2014	8.21–10.86	14 041 933
Discount promissory notes	On demand - September 2017	0.48–27.47	711 087	On demand - March 2015	1.76–10.33	1 507 070
Interest bearing promissory notes	On demand - November 2023	5.00–10.75	12 421	February 2014 - January 2015	7.65–9.50	13 030
Interest/discount free promissory notes	March 2015	-	3 044	On demand - March 2015	-	5 682
Total debt securities issued			**1 033 649**			**15 567 715**

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

24. Other liabilities

Other liabilities comprise:

	31 December 2014	31 December 2013
Other financial liabilities		
Accrued commission expenses	446 629	485 147
Trade accounts payable and fees payable for professional services	237 947	292 567
Provision for credit commitments	58 150	18 186
Settlements on other operations	23 556	53 600
Unsettled transactions with plastic cards	624	398 080
	766 906	**1 247 580**
Other non-financial liabilities		
Salary payable	864 282	656 254
Taxes payable, other than income tax	528 948	434 717
Accrued expenses on deposit insurance premiums	60 169	57 298
Advances received	40 276	23 655
Provision for legal proceedings	39 498	11 442
	1 533 173	**1 183 366**
Total other liabilities	**2 300 079**	**2 430 946**

Movements in provision for credit commitments and legal proceedings for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

25. Subordinated debt

As of 31 December 2014 and 2013 carrying value of subordinated debt comprised the following:

	Currency	Maturity date	Interest rate %	31 December 2014	Interest rate %	31 December 2013
Subordinated debt from the parent bank	U.S. Dollars	2024	3.70	2 034 751	7.05	1 188 720
Subordinated debt from the parent bank	RUR	2015	6.50–7.00	284 408	6.50–7.00	569 851
Subordinated debt from related party	Swiss francs	2014	-	-	4.60	627 448
Subordinated debt from related party	RUR	2024	14.85	3 043 940	-	-
Subordinated debt from other companies – third party	RUR	2015	8.25	4 200	8.25	15 200
				5 367 299		**2 401 219**

In the event of bankruptcy or liquidation of the Group repayment of these debts is subordinate to the repayment of the Group's liabilities to all other creditors.

Liquidity, geographical, currency and interest rate risks are disclosed in Note 33.

26. Share capital and share premium

As of 31 December 2014 and 2013, the authorised and issued share capital of the Bank comprised of 279 788 785 310 ordinary shares with a par value of RUR 0.01 per share carrying equal rights. Each share provides for one vote. All issued ordinary shares are fully paid up.

As of 31 December 2014 and 2013, share premium amounting to RUR 2 000 000 thousand represents an excess of contributions received over the nominal value of shares issued.

The Bank's distributable reserves among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable funds 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.

There were no payments of dividends for the years 2014 and 2013.

27. Segment reporting

The Group discloses information to enable users of its Consolidated Financial Statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

(in thousands of Russian Rubles unless otherwise stated)

27. Segment reporting (continued)

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing consumer loans and mortgages, credit and debit cards, private banking services, private customer accounts, deposits from individuals and small business;
- Corporate banking – cash settlement service, deposits, overdrafts, loans and other credit facilities;
- Treasury – operations in finance markets (borrowing and lending funds in the interbank loan market, issue of debt securities, conversion operations, swaps, note operations, operations in the currency market, with interest rates, repurchase operations with securities).

Segment information for the main operating segments of the Group is set out below as of 31 December 2014 and for the year then ended, is provided below:

	Retail banking	Corporate banking	Treasury	Unallocated amounts	2014
Interest income	30 851 269	628 399	810 438	-	32 290 106
Interest expense	(3 860 625)	(1 258 249)	(1 407 760)	-	(6 526 634)
Internal (expense)/income on funding	(4 195 120)	1 371 247	236 614	2 587 259	-
Allowance for impairment losses of interest bearing assets	(19 334 418)	(283 576)	-	-	(19 617 994)
Net interest income	**3 461 106**	**457 821**	**(360 708)**	**2 587 259**	**6 145 478**
Net non-interest income	**3 858 936**	**171 723**	**640 653**	**-**	**4 671 312**
Operating income	**7 320 042**	**629 544**	**279 945**	**2 587 259**	**10 816 790**
Operating expenses	(12 302 204)	(325 012)	(281 536)	-	(12 908 752)
(Loss)/profit before income tax	**(4 982 162)**	**304 532**	**(1 591)**	**2 587 259**	**(2 091 962)**
Income tax	689 509	(42 146)	220	(358 065)	289 518
Net (loss)/profit	**(4 292 653)**	**262 386**	**(1 371)**	**2 229 194**	**(1 802 444)**
Segment assets	**101 061 039**	**7 213 000**	**47 985 885**	**12 453 985**	**168 713 909**
Segment liabilities	**71 920 740**	**20 703 873**	**48 646 674**	**2 300 079**	**143 571 366**

(in thousands of Russian Rubles unless otherwise stated)

27. Segment reporting (continued)

Segment information for the main operating segments of the Group is set out below as of 31 December 2013 and for the year then ended:

	Retail banking	Corporate banking	Treasury	Unallocated amounts	2013
Interest income	31 121 542	393 402	1 771 783	-	33 286 727
Interest expense	(4 030 505)	(1 340 447)	(2 182 305)	-	(7 553 257)
Internal (expense)/income on funding	(3 450 623)	1 610 729	312 111	1 527 783	-
(Allowance)/recovery of allowance for impairment losses of interest bearing assets	(18 049 829)	6 896	-	-	(18 042 933)
Net interest income	**5 590 585**	**670 580**	**(98 411)**	**1 527 783**	**7 690 537**
Net non-interest income	**3 112 181**	**134 619**	**2 108 109**	**(77 770)**	**5 277 139**
Operating income	**8 702 766**	**805 199**	**2 009 698**	**1 450 013**	**12 967 676**
Operating expenses	(11 332 661)	(285 050)	(290 149)	-	(11 907 860)
(Loss)/profit before income tax	**(2 629 895)**	**520 149**	**1 719 549**	**1 450 013**	**1 059 816**
Income tax	455 940	(90 177)	(298 116)	(251 386)	(183 739)
Net (loss)/profit	**(2 173 955)**	**429 972**	**1 421 433**	**1 198 627**	**876 077**
Segment assets	**100 802 189**	**5 430 668**	**28 048 737**	**9 438 695**	**143 720 289**
Segment liabilities	**66 756 776**	**20 069 244**	**26 786 324**	**2 617 704**	**116 230 048**

Operations between segments are performed as a part of ordinary activities. The Group operates principally in the Russian Federation. Geographical risk is disclosed in Note 33.

(in thousands of Russian Rubles unless otherwise stated)

28. Commitments and contingencies

In the normal course of business, the Group 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 Consolidated Statement of Financial Position.

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

As of 31 December 2014 provision for losses on credit commitments was RUR 58 150 thousand (31 December 2013: RUR 18 186 thousand).

As of 31 December 2014 and 2013, the credit commitments comprise:

	31 December 2014 Nominal amount	31 December 2013 Nominal amount
Unused credit lines	22 064 123	75 663 182
Guarantees issued	7 104 762	2 658 334
Import letters of credit	318 975	69 546
Total credit commitments	**29 487 860**	**78 391 062**

Capital commitments – The Group had capital commitments in respect of rented premises totaling RUR 8 770 thousand as of 31 December 2014 (31 December 2013: RUR 35 347 thousand).

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non cancelable operating leases of premises as of 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Less than 1 year	143 233	173 960
Later than 1 year and not later than 5 years	469 383	485 300
Later than 5 years	-	44 439
Total operating lease commitments	**612 616**	**703 699**

The lease agreement is considered non cancelable, if in the case of unilateral termination at Bank's initiative, the contract provides for fines, penalties or other additional payments in excess of 20% of the remaining lease payments.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred. The movements of provisions for legal proceedings are disclosed in Note 5.

Taxation – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing for more than one interpretation, and also due to the probability that tax authorities may make judgments on the Group's activities which differ from those of the Group, if a particular treatment based on management's judgment of the Group's business activities are to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the Consolidated Financial Statements. Generally, taxpayers are subject to tax audits with respect to 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.

28. Commitments and contingencies (continued)

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

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

Business environment – The Group's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Operating Environment – Emerging markets such as the 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 continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the RF is heavily influenced by the 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, its economy is particularly sensitive to the price of oil and gas on the world market. which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Ruble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

29. Fiduciary activity

The Group provides depositary services to its customers. As of 31 December 2014 the Group held as the nominee holder for its customers' securities in the amount of 92 096 492 205 securities (31 December 2013: 92 098 419 349 securities).

(in thousands of Russian Rubles unless otherwise stated)

30. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group:

(a) Associates – enterprises on which the Group has significant influence and which is neither subsidiary nor a joint venture of the investor;
(b) Joint ventures in which the Group is a venturer;
(c) Key management personnel of the Group or its parent;
(d) Close members of the family of any individuals referred to in (a)-(c);
(e) 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 (a)-(d);
(f) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	31 December 2014		31 December 2013	
	Related party transactions	**Total category as per Consolidated Financial Statements caption**	**Related party transactions**	**Total category as per Consolidated Financial Statements caption**
Cash and cash equivalents	**5 057**	**19 825 653**	**5 103**	**8 844 946**
- shareholders	4 224		4 536	
- entities and banks controlled by the shareholders	833		567	
Financial assets at fair value through profit or loss	**13 705 958**	**21 211 274**	**253 576**	**597 937**
- shareholders	13 705 958		253 576	
Due from banks and other financial institutions	**4 293 688**	**4 473 352**	**7 928 208**	**8 728 959**
- shareholders	4 293 688		7 928 208	
Loans to customers	**147 525**	**130 394 585**	**179 452**	**130 213 382**
- key management personnel of the Group	33 931		-	
- entities controlled by the shareholders	113 594		179 452	

(in thousands of Russian Rubles unless otherwise stated)

30. Transactions with related parties (continued)

	31 December 2014		31 December 2013	
	Related party transactions	Total category as per Consolidated Financial Statements caption	Related party transactions	Total category as per Consolidated Financial Statements caption
Financial assets available-for-sale	**300 713**	**7 696 318**	**2 888 815**	**13 616 315**
- shareholders	-		2 770 048	
- entities and banks controlled by the shareholders	300 713		118 767	
Other assets	**58**	**1 078 251**	**49**	**1 085 788**
- shareholders	48		49	
- entities and banks controlled by the shareholders	10		-	
Due to other banks	**13 419 341**	**24 155 517**	**1 333 540**	**8 601 924**
- shareholders	13 157 922		1 192 367	
- entities and banks controlled by the shareholders	261 419		141 173	
Financial liabilities at fair value through profit or loss	**17 923 611**	**18 090 209**	**176 694**	**215 466**
- shareholders	17 923 611		176 694	
Customer accounts	**524 805**	**92 624 613**	**420 355**	**86 826 020**
- shareholders	353 311		246 879	
- key management personnel of the Group	111 750		79 972	
- entities and banks controlled by the shareholders	57 880		90 184	
- other related parties	1 864		3 320	
Debt securities issued	**-**	**1 033 649**	**1 095 826**	**15 567 715**
- shareholders	-		1 095 826	
Other liabilities	**21**	**2 300 079**	**39 439**	**2 430 946**
- shareholders	4		8	
- key management personnel of the Group	17		39 431	
Subordinated debt	**5 363 099**	**5 367 299**	**2 386 020**	**2 401 219**
- shareholders	2 319 159		1 758 571	
- entities and banks controlled by the shareholders	3 043 940		627 449	

(in thousands of Russian Rubles unless otherwise stated)

30. Transactions with related parties (continued)

The remuneration of directors and other members of key management personnel was as follows:

	31 December 2014		31 December 2013	
	Related party transactions	**Total category as per Consolidated Financial Statements caption**	**Related party transactions**	**Total category as per Consolidated Financial Statements caption**
Key management personnel compensation				
Short-term benefits	413 408	6 139 251	316 847	5 408 984
	413 408	**6 139 251**	**316 847**	**5 408 984**

Included in the income statement for the years ended 31 December 2014 and 2013 are the following amounts which arose due to transactions with related parties:

	31 December 2014		31 December 2013	
	Related party transactions	**Total category as per Consolidated Financial Statements caption**	**Related party transactions**	**Total category as per Consolidated Financial Statements caption**
Interest income	**322 741**	**32 290 106**	**709 383**	**33 286 727**
- shareholders	309 384		689 804	
- key management personnel of the Group	1 041		1 226	
- entities and banks controlled by the shareholders	12 316		18 353	
- other related parties	-		-	
Interest expenses	**(397 534)**	**(6 526 634)**	**(450 493)**	**(7 553 257)**
- shareholders	(311 240)		(412 870)	
- key management personnel of the Group	(9 493)		(7 422)	
- entities and banks controlled by the shareholders	(76 546)		(30 098)	
- other related parties	(255)		(103)	
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	**(741 994)**	**3 796 171**	**264 816**	**489 462**
- shareholders	(741 320)		264 816	
- entities and banks controlled by the shareholders	326		-	
Net (loss)/gain on foreign exchange operations	**(4 784)**	**(2 898 120)**	**9 826**	**276 964**
- shareholders	(9 835)		9 431	
- key management personnel of the Group	1 580		366	
- entities and banks controlled by the shareholders	3 471		28	
- other related parties	-		1	
Fee and commission income	**894**	**5 944 388**	**1 191**	**5 999 976**
- shareholders	264		73	
- key management personnel of the Group	117		131	
- entities and banks controlled by the shareholders	511		970	
- other related parties	2		17	

(in thousands of Russian Rubles unless otherwise stated)

30. Transactions with related parties (continued)

	31 December 2014		31 December 2013	
	Related party transactions	**Total category as per Consolidated Financial Statements caption**	**Related party transactions**	**Total category as per Consolidated Financial Statements caption**
Fee and commission expense	**(3 778)**	**(2 482 432)**	**(1 877)**	**(2 898 950)**
- shareholders	(3 776)		(1 875)	
- entities and banks controlled by the shareholders	(2)		(2)	
Net gain/(loss) on financial assets available-for-sale	**914 904**	**444 204**	**1 341 648**	**1 311 381**
- shareholders	909 154		1 446 520	
- entities and banks controlled by the shareholders	5 750		(104 872)	
Other income	**800**	**33 420**	**616**	**29 676**
- shareholders	61		45	
- entities and banks controlled by the shareholders	739		571	
Operating expense excluding staff costs and social taxes	**(167 130)**	**(5 284 491)**	**(147 516)**	**(5 222 964)**
- key management personnel of the Group	(1 021)		(2 424)	
- entities and banks controlled by the shareholders	(166 109)		(145 092)	

31. 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.

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The carrying amount of other financial assets and liabilities is approximately equal to fair value.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

(in thousands of Russian Rubles unless otherwise stated)

31. Fair value of financial instruments (continued)

The Group's valuation approach and fair value hierarchy categorization for significant classes of financial instruments recognized at fair value as at 31 December 2014 is as follows:

	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss	32 451	21 178 823	-	21 211 274
Financial assets available-for-sale	2 856 759	4 720 690	105 438	7 682 887
	2 889 210	**25 899 513**	**105 438**	**28 894 161**
Financial liabilities at fair value through profit or loss	-	18 090 209	-	**18 090 209**
		18 090 209	-	**18 090 209**

The Group's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value as at 31 December 2013 is as follows:

	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss	238 156	359 781	-	**597 937**
Financial assets available-for-sale	12 197 524	1 291 654	118 767	**13 607 945**
	12 435 680	**1 651 435**	**118 767**	**14 205 882**
Financial liabilities at fair value through profit or loss	-	215 466	-	**215 466**
		215 466	-	**215 466**

There were no transfers between Level 1 and 2 in the year 2014 and 2013.

All other financial assets and liabilities belong to level 3 category.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)
Financial assets at fair value through profit or loss and financial assets available-for-sale – quoted securities	Quoted bid prices in an active market.
Derivative financial assets and financial liabilities	Discounted cash flows. Group adopts multi curve valuation approach for calculating the net present value of future cash flows based on different curves used for determining forward rates and used for discounting purposes. Discounting rates used are directly observable in the active market at the valuation date.
Financial assets available-for-sale	Unquoted securities: Net assets based valuation of outstanding assets and liabilities (level 3). Promissory notes: market interest rate curve adjusted for observable spreads for similar instruments or issuers (level 2).

(in thousands of Russian Rubles unless otherwise stated)

31. Fair value of financial instruments (continued)

The fair value of unquoted equity securities available for sale was determined by net assets based valuation. The value of underlying assets and liabilities was significant unobservable input in the valuation process.

Except as detailed in the following table, the management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values as at 31 December 2014.

	December 31, 2014		December 31, 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans to customers	108 274 039	100 216 799	105 634 919	105 634 919
Customer accounts	92 624 613	88 321 506	86 826 020	86 826 020
Debt securities issued	1 033 649	987 798	15 567 715	15 567 715

The fair values of the financial assets and financial liabilities included above belong to level 3 category except bonds issued included in Debt securities issued. The fair value of bonds issued was determined based on quoted bid price and belongs to level 1 category. The fair values of other assets and liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being future cash flow estimates and discount rates applicable to those cash flows.

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Financial assets available-for-sale – unquoted equities
December 31, 2012	**223 639**
Impairment recognized in profit or loss	(104 872)
December 31, 2013	**118 767**
Impairment recognized in profit or loss	(13 329)
December 31, 2014	**105 438**

32. Capital risk management

The Group's policy establishes a basis for the maintenance of a stable capital base to retain the trust of investors, lenders and market participants. The Group's capital management is aimed at compliance with capital requirements established by the Central Bank of the Russian Federation, future development of the business, maintenance of the capital base sufficient to ensure compliance with laid down capital adequacy ratio requirement. The Group controls the capital adequacy ratio, determining the ratio value on a daily basis.

In accordance with effective requirements established by the Central Bank of the Russian Federation (the CBR Regulation N 139-I "Obligatory banking ratios"), banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%.

(in thousands of Russian Rubles unless otherwise stated)

32. Capital risk management (continued)

As of 31 December 2014 the Group complied with all external requirements to the capital.

Capital (own funds) under the requirements of the CBR regulation N 395-P “Calculation of own funds (Basel III) by credit institution” as at 31 December 2014 and 2013 was as follows:

	31 December 2014	31 December 2013
Core capital	24 350 197	22 859 549
Additional capital	6 970 562	3 491 274
Total capital	**31 320 759**	**26 350 823**
Risk weighted assets	**259 296 738**	**186 879 148**
Total capital adequacy ratio	**12.1%**	**14.1%**

When calculating the required ratios as of January 1, 2015 the Bank did not use any particular calculation norms stipulated by CBR Letter of December 18, 2014 N 211-T “On peculiarities of application regulations of the Bank of Russia”.

33. Risk management policies

Improvement of risk management quality is one of the priorities of the Group. In 2014 the Group continued the work on bringing the Group’s risk management system to the standards of the Parent Bank.

In 2014 as a part of its risk management procedures integration process the Group continued the work on implementation of principles of general evaluation and risk acceptance, adopted by the Group’s parent, taking into consideration local peculiarities, regulative base of the Central Bank of the Russian Federation and the Basel Committee’s recommendations on banking surveillance.

A better transparency of the risk management system is a key task for the successful integration of the Group in the general risk management system of the Parent Bank. This task is performed, among other, by means of implementation of information systems used in the Parent Bank for risk assessment and control.

The risk management system of the Group is developed based on continuous processes of risk detection, analysis, evaluation, control and monitoring.

The main risks inherent in the Group’s operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

33. Risk management policies (continued)

Credit risk. The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation, and, consequently, the other party will incur a financial loss.

Major credit exposures of the Group are concentrated in the lending segment (consumer loans, financial market transactions and corporate client transactions). Each area of risk has its own methodologies of risk management that are based on international practices and recommendations of the Bank of Russia.

Credit risk management is performed in accordance with regulatory documents approved by the Group's authorized management bodies including the Group's Credit policy. The Group's credit policy is based on the strategy of the Parent Bank and is reviewed annually.

The objectives of the Credit policy include:

- Determination of the Group's risk appetite including business opportunities and objective market conditions;
- Determination of target customer segments;
- Assessment of corporate lending risk depending on economic sectors;
- Development of directions;
- Determination of instruments required to achieve goals (pricing, segmentation, product development and allocation of funds);
- Development of the structure of interaction between business and risk management units;
- Determination of the main principles of risk acceptance and monitoring, portfolio limits and triggers;
- Determination of short-term goals to achieve a planned portfolio structure and manage sale processes.

The Group’s retail risk management policy is focused on continuous improvement of risk management methods and retail lending processes through:

- Implementation of industry best practices based on the Parent Bank experience;
- Improvement of the risk assessment process as a part of the lending process by optimizing the lending policy and procedures;
- Continuous control of the lending process, while loan portfolio is monitored on a daily basis.

The Group is especially focused on managing the risks related to the retail loan portfolio. The accepted credit risk is regularly monitored by regional portfolios, loan products, POSs, overdue debt size, ratio between risks accepted and return on retail lending transactions. The particular focus is on the development and improvement of scoring models for credit analysis, depending on a type of loan product. These models are regularly reviewed and adjusted depending on both external (macroeconomic, Parent Bank experience) and internal (obtained through its own data analysis) factors. The Group develops principles of risk-oriented pricing.

In 2014, stricter requirements were introduced to more risky segments of retail lending borrowers. The Group introduced a new concept of a fraud prevention system. The Group also developed and launched a project of transformation of internal processes with regard to overdue debt collection in the retail segment, which contributed to the improvement of operational efficiency, development of new strategies for debt collection, and more efficient cooperation with collection agencies.

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

The credit risks of financial organizations (lending institutions, insurance and investment companies) are managed as a part of the procedures used to analyze the financial position of counter parties, define and monitor compliance with limits, provide for the regular monitoring of financial organizations (i.e. monthly assessments of the financial position of resident financial organizations and quarterly assessments of non-resident financial organization). The internal methodologies applied by the Group to assess the financial position of counter parties and define limits are aligned with the standards of the Parent Bank. The Group has in place a structured system of limits for correspondent banks that defines limits depending on the type (i.e. lending, pre-delivery, and delivery limits) and term of a transaction. The Group's Main Credit Committee is responsible for establishing and reviewing limits for correspondent banks. Limits are reviewed at least once a year. The current and proactive monitoring of limits is performed on a daily basis.

The Group manages credit risk of financial institutions taking the following proactive measures to prevent potential losses: Suspending limits, limiting transaction terms, implementing more real-time monitoring with respect to the financial position of counter parties and information available from public sources.

Credit risks related to corporate clients and self-employed entrepreneurs are managed based on the requirements of the CBR, recommendations from the Parent Bank and internal guidelines.

Exposure on one borrower or group of related borrowers, maximal exposure to major credit risks, aggregate exposure to insiders of the Group, maximum amount of loans and guarantees issued by the Group to its members (shareholders) are further restricted by internal limits that are lower than mandatory ratios set by the CBR. Actual exposures against limits are monitored on a daily basis.

In 2014 and 2013, the Group complied with all statutory ratios aimed at the limitation of credit risk set by the CBR.

The Group limits the concentration of risks by setting limits on certain clients, counterparties and issuers (for securities), groups of related clients, and industries. Limits are revised at least once a month as part of the credit policy development, which is in turn determined by the market situation and the Bank's strategy.

Maximum credit risk exposure**.** The Group’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet accounts, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, net of provision for impairment loss.

As of 31 December 2014:

	Maximum credit risk exposure	Collateralized exposures	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	3 509 951	-	3 509 951
Balances on correspondent accounts and on accounts with non-banking credit institutions	11 094 990	-	11 094 990
Obligatory reserve deposit with the Central Bank of the RF	966 169	-	966 169
Financial assets at fair value through profit or loss	21 211 274	(7 358 842)	13 852 432
Due from banks and other financial institutions	4 473 352	-	4 473 352
Loans to customers	108 274 039	(9 306 119)	98 967 920
Financial assets available-for-sale	7 577 449	-	7 577 449
Other financial assets	161 690	-	161 690
Guarantees issued and other commitments	7 094 371	(324 905)	6 769 466
Letters of credit and other transaction related contingent obligations	318 975	-	318 975
Commitments on loans and unused credit lines	22 016 365	-	22 016 365

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

As of 31 December 2013:

	Maximum credit risk exposure	Collateralized exposures	Net exposure after collateral
Balances with the Central Bank of the Russian Federation	3 924 455	-	3 924 455
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 609 744	-	1 609 744
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	1 057 694
Financial assets at fair value through profit or loss	597 937	(61 176)	536 761
Due from banks and other financial institutions	8 728 959	-	8 728 959
Loans to customers	105 634 919	(8 808 875)	96 826 044
Financial assets available-for-sale	13 489 178	-	13 489 178
Financial assets held-to-maturity	169 264	-	169 264
Other financial assets	24 378	-	24 378
Guarantees issued and other commitments	2 657 595	(264 991)	2 392 604
Letters of credit and other transaction related contingent obligations	69 546	-	69 546
Commitments on loans and unused credit lines	75 645 735	-	75 645 735

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized agency such as Fitch, Standard & Poor's and Moody's. 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.

As of 31 December 2014 the balances with the Central Bank of the Russian Federation including obligatory reserve comprised RUR 4 476 120 thousand (31 December 2013: RUR 4 982 149 thousand). The credit rating of the Russian Federation according to the international rating agencies in 2014 corresponded to investment level BB (2013: investment level BBB).

The following table details the credit ratings of non-impaired financial assets held by the Group as of 31 December 2014 (this information prepared for all financial assets that are neither past due nor impaired):

	AA	A	BBB	<BBB	Not rated	31 December 2014 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	2 715	152 507	10 607 098	46 709	285 961	11 094 990
Financial assets at fair value through profit or loss	-	164 812	2 846 827	13 704 458	4 495 177	21 211 274
Due from banks and other financial institutions	-	163 664	16 000	4 293 688	-	4 473 352
Loans to customers	-	-	-	-	5 598 221	5 598 221
Financial assets available-for-sale	-	-	6 965 643	555 891	55 915	7 577 449
Other financial assets	-	-	-	-	148 387	148 387

As of 31 December 2013:

	AA	A	BBB	<BBB	Not rated	31 December 2013 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	1 100	202 899	1 185 263	9 248	211 234	1 609 744
Financial assets at fair value through profit or loss	-	23 746	320 626	253 565	-	597 937
Due from banks other financial institutions	-	105 133	695 618	7 928 208	-	8 728 959
Loans to customers	-	-	-	216 491	7 916 510	8 133 001
Financial assets available-for-sale	-	-	8 077 445	5 411 733	-	13 489 178
Financial assets held-to-maturity	-	-	-	169 264	-	169 264
Other financial assets	-	-	-	-	11 224	11 224

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. With regard to the loans to customers this risk exposure is generally concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are complied with.

All overdue financial assets are impaired.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies including loans to individuals. The Group has developed internal models, which allow it to determine the rating of counterparties for internal risk management purposes. Credit rating classification for all loans to customers is based on loan overdue period. The Group has the following credit risk groups:

Credit risk group	Overdue period range	Gross loans December 31, 2014	Gross loans December 31, 2013
Not past due	Not past due	101 642 802	96 439 269
Performing	Below 30 days	4 836 652	5 862 043
To be monitored	Between 30 and 60 days	2 615 477	2 322 886
Below average	Between 60 and 90 days	2 002 492	1 854 797
Doubtfull	Between 90 and 180 days	5 436 425	4 728 257
Bad	Over 180 days	13 860 737	19 006 130
		130 394 585	130 213 382

Information about amounts of allowance for loan losses for each credit risk group period is presented in Note 16.

***Renegotiated loans to customers*.** Loans to customers are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The table below shows the carrying amount of renegotiated loans to customers by class:

Financial asset class	31 December 2014	31 December 2013
Corporate loans	358 902	173 082
Mortgage loans	76 402	204 834
Consumer loans	51 674	84 251
Car loans	9 568	9 968
Total renegotiated loans to customers	**496 546**	**472 135**

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the country. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Group's risk management policy are not breached.

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

***Geographical concentration*.** Country (regional) risk is a risk that a credit institution may incur losses due to the failure of foreign counterparties to fulfill their obligations due to economic, political or social changes, as well as due to specific provisions of national legislation. This risk is controlled by the Group's Credit Committee. When handling loan applications, market work technologies, the Group pays a special attention to residence of a potential borrower and to the impact of regional factor on functioning of the technology. More severe requirements are in effect for non-residents as compared to the residents of the Russian Federation. The Group continuously monitors the recent developments in the world in order to be able to react to the relevant changes in a timely manner. The Group limits the country risk value in accordance with requirements of the Parent Bank, implements regular country risk control.

The geographical concentration of financial assets and liabilities is set out below:

	Russian Federation	OECD countries	Other countries	31 December 2014 Total
Financial assets				
Cash and cash equivalents	19 654 029	167 028	4 596	19 825 653
Obligatory reserve deposit with the Central Bank of the RF	966 169	-	-	966 169
Financial assets at fair value through profit or loss	7 342 004	13 869 270	-	21 211 274
Due from banks and other financial institutions	16 000	4 457 352	-	4 473 352
Loans to customers	108 254 920	19 089	30	108 274 039
Financial assets available-for-sale	7 577 950	12 930	105 438	7 696 318
Other financial assets	161 661	29	-	161 690
Total financial assets	**143 972 733**	**18 525 698**	**110 064**	**162 608 495**
Financial liabilities				
Due to other banks	10 744 466	13 152 224	258 827	24 155 517
Financial liabilities at fair value through profit or loss	166 598	17 923 611	-	18 090 209
Customer accounts	90 147 367	2 053 636	423 610	92 624 613
Debt securities issued	1 033 649	-	-	1 033 649
Other financial liabilities	766 906	-	-	766 906
Subordinated debt	4 200	2 319 159	3 043 940	5 367 299
Total financial liabilities	**102 863 186**	**35 448 630**	**3 726 377**	**142 038 193**
Net position	**41 109 547**	**(16 922 932)**	**(3 616 313)**	**20 570 302**

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

	Russian Federation	OECD countries	Other countries	31 December 2013 Total
Financial assets				
Cash and cash equivalents	8 629 838	212 088	3 020	8 844 946
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	-	1 057 694
Financial assets at fair value through profit or loss	320 626	277 311	-	597 937
Due from banks and other financial institutions	695 618	8 033 341	-	8 728 959
Loans to customers	105 622 390	12 475	54	105 634 919
Financial assets available-for-sale	9 991 979	3 505 569	118 767	13 616 315
Financial assets held-to-maturity	-	169 264	-	169 264
Other financial assets	24 354	20	4	24 378
Total financial assets	**126 342 499**	**12 210 068**	**121 845**	**138 674 412**
Financial liabilities				
Due to other banks	7 268 384	1 192 896	140 644	8 601 924
Financial liabilities at fair value through profit or loss	8 522	206 944	-	215 466
Customer accounts	84 429 434	1 376 302	1 020 284	86 826 020
Debt securities issued	15 567 715	-	-	15 567 715
Other financial liabilities	1 247 512	2	66	1 247 580
Subordinated debt	15 200	1 758 570	627 449	2 401 219
Total financial liabilities	**108 536 767**	**4 534 714**	**1 788 443**	**114 859 924**
Net position	**17 805 732**	**7 675 354**	**(1 666 598)**	**23 814 488**

Liquidity risk. Liquidity risk is a risk that the Group may be unable to meet its obligations or incur financial losses due to a forced sale of assets, incur expenses due to the need for additional funding or suffer low income resulting from excess liquidity.

Strategic liquidity management involves the following:

- Ensure sufficient liquidity availability, i.e. the ability to fulfill its obligations at the lowest possible cost of resources;
- Ensure continuous funding of the Group's businesses, exclude limits on the Group's profitable operations;
- Create liquidity reserves to cover potential risks, such as mass outflow of client deposits, excessive cost of funding;
- Ensure effective use of available resources by maintaining an optimal liquidity level affecting neither the Group's profit nor return on assets;
- Ensure control over the compliance with regulatory requirements of the CBR;
- Ensure control over the compliance with statutory requirements of banks, mandatory reserve requirements, etc.

The liquidity management ensures timely meeting of all payments and liabilities.

33. Risk management policies (continued)

In recent years, the Group has adopted new standards of liquidity management for the Parent Bank on the basis of the following approaches:

- **Current liquidity management.** This approach involves the analysis of liquidity in the horizon of 6 months by comparing the Group's current level of liquidity to the Group's liabilities on financial instruments to be met within a specified period increased by the Group's net funding requirements and the estimated deposit shock[1]. Depending on the results, the Group may decide on the placement of temporary excess liquidity or additional funding.
- **"Liquidity pool" concept.** The concept allows the banks of the Parent Bank to use funding in foreign currency due to a pool of excess liquidity of the Group;
- **Gap analysis / Liquidity Ratio Report.** The objective of the Liquidity Ratio Report is to calculate liquidity positions in all of the major currencies to identify gaps between cash inflows and outflows for various time horizons. Moreover, the report is structured to calculate ratios introduced by Basel III international standards: LCR (Liquidity Cover Ratio) : NSFR (Net Stable Funding Ratio);
- **"Liquid asset portfolio management" concept.** The concept ensures profitability with acceptable level of risks in terms of placing resources.
- **Anti-crisis liquidity management.** For the purposes of the risk management, the Group believes it is essential to use early warning systems including early warning indicators to identity crisis situations and early warning measures aimed at elimination or minimization of the Group's losses. If the crisis situation is announced, responsible employees are required to prepare contingency plan containing organizational events and management actions including responsible parties and implementation dates.

The liquidity management process is facilitated by the Asset and Liability Management Committee (the "ALMC") responsible for developing the Group's liquidity management strategy, monitoring current liquidity and making decisions related to liquidity management issues.

Liquidity risk identification and measurement is performed by the Group's Assets and Liabilities Management Department (ALM). The results of the analysis are submitted to ALM on a weekly basis and to ALM of the Parent Bank – on a monthly basis.

Instant liquidity is monitored by one of the subdivisions of the Assets and Liabilities Management Unit, which is responsible for the estimation of the Group's payment position and optimization of its cash flows.

As of 31 December 2014 and 2013 the Group did not violate any mandatory liquidity ratios set by the CBR.

[1] In order to calculate the current liquidity, the Group uses a stress component to avoid a deposit shock, i.e. a maximum possible amount of deposits that may leave the bank within one month, calculated on the basis of historical data in accordance with the VAR methodology (99% confidence level). At present, the deposit shock amounts to about 12% of the Group's total deposit portfolio.

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

Further is analysis of liquidity and interest rate risks.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2014 Total
Financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	1.10%	13 379	-	-	-	-	-	13 379
Financial assets at fair value through profit or loss	7.00%	-	820	-	31 631	-	-	32 451
Due from banks	0.23%	61 442	-	-	-	-	-	61 442
Loans to customers	32.85%	11 660 366	14 516 849	39 767 941	34 071 180	1 909 117	-	101 925 453
Financial assets available-for-sale	4.99%	251 172	2 878 381	2 072 702	1 410 570	964 624	-	7 577 449
Total fixed interest bearing financial assets		**11 986 359**	**17 396 050**	**41 840 643**	**35 513 381**	**2 873 741**	**-**	**109 610 174**
Variable interest rate instruments								
Cash and cash equivalents	0.01%	5 846	-	-	-	-	-	5 846
Loans to customers	11.80%	3 946 427	411 528	827 345	859 479	303 807	-	6 348 586
Total variable interest bearing financial assets		**3 952 273**	**411 528**	**827 345**	**859 479**	**303 807**	**-**	**6 354 432**
Non-interest bearing financial assets								
Cash and cash equivalents		19 806 428	-	-	-	-	-	19 806 428
Obligatory reserve deposit with the Central Bank of the RF		-	-	-	-	-	966 169	966 169
Financial assets at fair value through profit or loss		1 874 547	5 925 067	5 471 845	7 907 364	-	-	21 178 823
Due from banks		4 411 910	-	-	-	-	-	4 411 910
Financial assets available-for-sale						-	118 869	118 869
Other financial assets		161 611	-	79	-	-	-	161 690
Total non-interest bearing financial assets		**26 254 496**	**5 925 067**	**5 471 924**	**7 907 364**	**-**	**1 085 038**	**46 643 889**
Total financial assets		**42 193 128**	**23 732 645**	**48 139 912**	**44 280 224**	**3 177 548**	**1 085 038**	**162 608 495**

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2014 Total
Financial liabilities								
Fixed interest rate instruments								
Due to other banks	5.21%	10 999 084	8 266 101	207 021	-	-	-	19 472 206
Customer accounts	11.21%	8 094 369	15 160 725	46 939 591	1 313 111	-	-	71 507 796
Debt securities issued	10.37%	125 395	488 944	372 528	35 737	8 001	-	1 030 605
Subordinated debt	6.77%	-	284 408	-	-	-	-	284 408
Total fixed interest bearing financial liabilities		**19 218 848**	**24 200 178**	**47 519 140**	**1 348 848**	**8 001**	**-**	**92 295 015**
Variable interest rate instruments								
Subordinated debt	10.49%	-	53 389	4 200	-	5 025 302	-	5 082 891
Total variable interest bearing financial liabilities		**-**	**53 389**	**4 200**	**-**	**5 025 302**	**-**	**5 082 891**
Non-interest bearing financial liabilities								
Financial liabilities at fair value through profit or loss		1 560 474	7 182 937	5 210 495	4 136 303	-	-	18 090 209
Due to other banks		4 683 311		-		-	-	4 683 311
Customer accounts		21 113 398	977	2 398	44	-	-	21 116 817
Debt securities issued		-	3 044	-	-	-	-	3 044
Other financial liabilities		624 066	1 935	139 712	1 193	-	-	766 906
Total non-interest bearing financial liabilities		**27 981 249**	**7 188 893**	**5 352 605**	**4 137 540**	**-**	**-**	**44 660 287**
Total financial liabilities		**47 200 097**	**31 442 460**	**52 875 945**	**5 486 388**	**5 033 303**	**-**	**142 038 193**
Interest sensitivity gap		**(3 280 216)**	**(6 445 989)**	**(4 855 352)**	**35 024 012**	**(1 855 755)**		
Cumulative interest sensitivity gap		**(3 280 216)**	**(9 726 205)**	**(14 581 557)**	**20 442 455**	**18 586 700**		
Liquidity gap		**(5 006 969)**	**(7 709 815)**	**(4 736 033)**	**38 793 836**	**(1 855 755)**		
Cumulative liquidity gap		**(5 006 969)**	**(12 716 784)**	**(17 452 817)**	**21 341 019**	**19 485 264**		

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by customer accounts, issuance of unsecured bonds at favorable prevailing market conditions and secured refinancing with the CBR.

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
Financial assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.32%	51 898	-	-	-	-	-	51 898
Financial assets at fair value through profit or loss	7.26%	3 186	3 613	-	34 507	196 850	-	238 156
Due from banks	1.97%	7 071 363	1 639 978	-	-	-	-	8 711 341
Loans to customers	32.02%	11 924 290	15 636 642	40 662 320	33 972 297	2 997 746	-	105 193 295
Financial assets available-for-sale	7.80%	41 253	1 851 033	2 966 553	3 032 000	5 598 339	-	13 489 178
Financial assets held-to-maturity	8.63%	169 264	-	-	-	-	-	169 264
Total fixed interest bearing financial assets		**19 261 254**	**19 131 266**	**43 628 873**	**37 038 804**	**8 792 935**	**-**	**127 853 132**
Variable interest rate instruments								
Cash and cash equivalents	0.01%	3 744	-	-	-	-	-	3 744
Loans to customers	20.38%	54 025	3 663	16 236	106 828	260 872	-	441 624
Total variable interest bearing financial assets		**57 769**	**3 663**	**16 236**	**106 828**	**260 872**	**-**	**445 368**
Non-interest bearing financial assets								
Cash and cash equivalents		8 789 304	-	-	-	-	-	8 789 304
Obligatory reserve deposit with the Central Bank of the RF		-	-	-	-	-	1 057 694	1 057 694
Financial assets at fair value through profit or loss		80 622	27 814	19 760	231 585	-	-	359 781
Due from banks		17 618	-	-	-	-	-	17 618
Financial assets available-for-sale		-	-	-	-	-	127 137	127 137
Other financial assets		23 302	-	1 076	-	-	-	24 378
Total non-interest bearing financial assets		**8 910 846**	**27 814**	**20 836**	**231 585**	**-**	**1 184 831**	**10 375 912**
Total financial assets		**28 229 869**	**19 162 743**	**43 665 945**	**37 377 217**	**9 053 807**	**1 184 831**	**138 674 412**

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2013 Total
Financial liabilities								
Fixed interest rate instruments								
Due to other banks	4.74%	7 841 448	500 658	181 848	-	-	-	8 523 954
Customer accounts	7.72%	24 917 105	10 517 752	27 794 367	5 772 554	-	-	69 001 778
Debt securities issued	9.37%	122 117	8 874 862	6 511 353	53 702	-	-	15 562 034
Subordinated debt	6.35%	-	18 936	2 085 083	282 000	-	-	2 386 019
Total fixed interest bearing financial liabilities		**32 880 670**	**19 912 208**	**36 572 651**	**6 108 256**	**-**	**-**	**95 473 785**
Variable interest rate instruments								
Subordinated debt	8.25%	-	-	11 000	4 200	-	-	15 200
Total variable interest bearing financial liabilities		**-**	**-**	**11 000**	**4 200**	**-**	**-**	**15 200**
Non-interest bearing financial liabilities								
Due to other banks		77 970	-	-	-	-	-	77 970
Financial liabilities at fair value through profit or loss		1 245	129 346	-	84 875	-	-	215 466
Customer accounts		17 820 694	978	2 506	64	-	-	17 824 242
Debt securities issued		1 000	1 612	1 433	1 636	-	-	5 681
Other financial liabilities		1 092 881	38	154 650	11	-	-	1 247 580
Total non-interest bearing financial liabilities		**18 993 790**	**131 974**	**158 589**	**86 586**	**-**	**-**	**19 370 939**
Total financial liabilities		**51 874 460**	**20 044 182**	**36 742 240**	**6 199 042**	**-**	**-**	**114 859 924**
Interest sensitivity gap		**(13 561 647)**	**(777 279)**	**7 061 458**	**31 033 176**	**9 053 807**		
Cumulative interest sensitivity gap		**(13 561 647)**	**(14 338 926)**	**(7 277 468)**	**23 755 708**	**32 809 515**		
Liquidity gap		**(23 644 591)**	**(881 439)**	**6 923 705**	**31 178 175**	**9 053 807**		
Cumulative liquidity gap		**(23 644 591)**	**(24 526 030)**	**(17 602 325)**	**13 575 850**	**22 629 657**		

The amounts are split according to contractual terms. In the case of no clear contractual terms for monetary assets or liabilities the amounts are classified according to expectations when the amounts will be settled based on historical experience. Current accounts and demand deposits are classified as liabilities up to one month.

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

The further analysis of maturities of financial liabilities is represented in accordance with a requirement of clause 39 (a) of IFRS 7. The amounts disclosed in the maturity analysis represent undiscounted cash flows under the contracts and do not concur with the balance sheet amounts as a carrying amount is based on discounted cash flows:

(a) Term to maturity of financial liabilities, that are non-derivatives, is calculated for non-discounted cash flows (principal debt and interest) on the earliest date, when the Group will be liable to redeem the liability;

(b) Term to maturity of financial liabilities, that are derivatives, is calculated for non-discounted cash flows on the earliest date, when the Group will be liable to redeem the liability;

(c) When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over five years**	**31 December 2014 Total**
Due to other banks	15 699 827	8 355 890	220 500	-	-	24 276 217
Financial liabilities at fair value through profit or loss	1 560 474	7 182 937	5 210 495	4 136 303	-	18 090 209
Customer accounts	29 244 626	15 330 335	50 630 031	1 431 516	-	96 636 508
Debt securities issued	124 609	503 865	395 453	38 845	11 543	1 074 315
Other financial liabilities	624 066	1 935	139 712	1 193	-	766 906
Subordinated debt	29	365 509	393 542	2 083 341	7 643 469	10 485 890
Liabilities on financial guarantees and letters of credit	876 185	2 358 072	3 983 705	197 845	7 930	7 423 737
Commitments on loans and unused credit lines	22 064 123	-	-	-	-	22 064 123
Total undiscounted cash flows	**70 193 939**	**34 098 543**	**60 973 438**	**7 889 043**	**7 662 942**	**180 817 905**

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over five years**	**31 December 2013 Total**
Due to other banks	7 933 671	509 983	184 247	-	-	8 627 901
Financial liabilities at fair value through profit or loss	1 245	129 346	-	84 875	-	215 466
Customer accounts	42 796 373	10 774 744	29 179 059	6 509 124	-	89 259 300
Debt securities issued	321 649	9 037 936	6 608 206	58 544	-	16 026 335
Other financial liabilities	1 092 880	38	154 651	11	-	1 247 580
Subordinated debt	107	38 174	2 168 324	291 986	-	2 498 591
Liabilities on financial guarantees and letters of credit	145 679	674 146	1 785 345	122 710	-	2 727 880
Commitments on loans and unused credit lines	75 663 182	-	-	-	-	75 663 182
					-	
Total undiscounted cash flows	**127 954 786**	**21 164 367**	**40 079 832**	**7 067 250**	**-**	**196 266 235**

33. Risk management policies (continued)

Market risk. Market risk is a risk that the Group may incur losses due to adverse changes in foreign exchange rates, securities prices and interest rates.

The Group is exposed to market risks associated with its interest rate, currency instruments. ALCO of the Group proposes the main approaches to the assessment, control and estimation of the maximum exposure to the risks (by setting limits on each risk). The Group's Assets and Liabilities Management Committee sets limits to assumed risk.

The Group has in place a system to manage risks from financial market transactions that is compliant with the standards of the Parent Bank. The approach to managing market risks is primarily based on improving the risk/reward ratio for financial market transactions, as well as reducing risks from losses resulting from adversary changes in interest rates, financial instrument prices and exchange rates. The market risk management system basically relies on the procedures enabling independent assessments of risks arising from financial market transactions.

The Group has a limitation system to limit market exposures. The system includes position, VAR and stop-loss limits limiting losses incurred. The Group also sets additional limits on financial market transactions, including limits on the discounts on repo transactions. Market risks being accepted by the Group and the compliance with the defined limits are monitored on a regular basis. ALCO is responsible for coordinating the activities performed by the risk management functions of the Group, as well as for defining and reviewing market risk limits.

The corporate borrower credit risk management system is based on impartial and appropriate assessment of the borrowers' financial position and their business development prospects; regular monitoring of corporate borrowers' financial position and quality of debt service throughout the lending period; and a careful and balanced approach to loan portfolio management.

Interest rate risk. Interest rate risk is a risk that the Group may incur financial losses due to adverse changes in interest rates on assets, liabilities and off-balance sheet instruments of the Group.

Main sources of the interest rate risk are:

- Maturity gap of assets, liabilities, off-balance claims and liabilities on instruments with the fixed and/or floating interest rate (interest rate re-pricing risk);
- Changes in configuration of the yield curve on long and short positions of the financial instruments of one issuer, creating the risk of losses as the result of surplus of potential expenses over revenues when closing these positions (yield curve risk);
- Under the condition of equal frequency of the rate's revision – non-coincidence of the extent of changing interest rates on attracted and placed by a Group resources as financial instruments are related to various market indicators (basis risk);
- Use of interest rate options and/or transactions with embedded option components where counterparties are entitled to select maturities of their liabilities or the Group's liabilities (option risk).

Interest rate risk measurement methods depend on its sources. The primary source of the interest rate risk of the Group is the interest rate re-pricing risk. The Group uses measurement methods generally accepted in the international practice, including gap analysis and duration method, which complies with the requirements of the CBR (Letter No. 15-1-3-6-3995 dated 2 November 2007 On the international approaches to (standards of) interest rate risk management) and those of the Parent Bank.

These include the analysis of the effects of changes in interest rates:

- In the short-term perspective (up to 1 year) – on the Group's profitability as a result of changes in the Group's net interest income and other income depending on the interest rate, and operating expenses;
- In the long-term perspective – on the capital base or economic (net) value of the Group by influencing the present (fair) value of future cash flows (in some cases, the value of these flows).

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

An estimate of the effect of the interest rate risk on interest income (gap analysis) has a prevailing force over the estimate of the effect on the economic value (duration method), as it is the best estimate of the effects of changes in interest rates on the Group's operations.

As the Group's information systems become more sophisticated, the Group intends to include in the standard gap model the analysis of option and basis risks, analysis of sensitivity of net interest income and market value of capital to the effects of fluctuations in interest rates in case of changes in the balance sheet structure (simulation modeling), and stress-testing.

In order to respect the principle of independence of structural divisions responsible for interest rate risk management and structural divisions conducting operations with financial instruments sensitive to changes in interest rates, the responsibilities for monitoring, interest rate risk measurement and implementation of interest rate risk management rules and procedures are delegated to the Assets and Liabilities Management Unit (AML).

ALM uses the following mechanisms to manage the interest rate risk:

- Use of macroeconomic forecasts. ALM determines an appropriate for the Group target position exposed to the interest rate risk taking into account macroeconomic forecasts of changes in interest rates and quantitative risk assessment;
- Transfer pricing. Using transfer rates, ALM increases or decreases mismatch between the maturity of assets and liabilities depending on the target position, by stimulating asset or liability operations in a particular currency.
- ALM portfolio. Depending on the need for creation of a target position on the interest rate risk, ALM may invest in assets or issue liabilities of a required duration;
- ALM also may bring the Group's interest rate risk position to the target position by using forward and future contracts, interest rate swaps, interest rate options, etc.;
- Transformation of interest rate risks. If it is impossible to manage gap taking into account short RUR liabilities and demand for long assets, as well as derivatives with required maturity, ALM may transform the interest rate risk. Interest rate risk of RUR instruments may be transformed to interest rate risk of currency instruments with simultaneous hedging of the currency risk and interest rate risk in foreign currency by derivatives.
- Limitation of operations. To limit interest rate risk on positions of business units, it is required to limit their operations. ALM position on interest rate risk is monitored by ALCO and, if required, may also be limited.

Limits should be determined on the basis of the real interest rate risk and should not exceed it significantly. When setting limits of interest rate risk, the capital adequacy ratio, profitability, quality of the Group's interest rate risk management system should be taken into consideration.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable".

Impact on profit and equity as of 31 December 2014 and 2013 is as follows:

Impact on profit and equity of a change in interest rate by +4%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2014	(131 209)	(257 840)	(194 214)	(583 262)
2013	(542 466)	(31 091)	282 458	(291 099)

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

Impact on profit and equity of a change in interest rate by -4%

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
2014	131 209	257 840	194 214	583 262
2013	542 466	31 091	(282 458)	291 099

Currency risk. Currency risk is defined as a market risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The analysis of the currency risk takes into account the impact of external destabilizing factors on the international and internal currency markets. The analysis is based on data from previous periods.

General management of the Group's currency positions (in terms of maturity and currency) is carried out by the Group's collective bodies (ALMC, Credit Committee, Management Board). Presently, the Group makes a special effort to avoid significant imbalances in the maturity structure of its balance sheet by employing various risk mitigation instruments (borrowing from the Parent Bank and use of derivatives).

The ongoing management of open currency position is based on the limits defined by the Group's collective bodies, including the limitations set by the Central Bank of the Russian Federation.

The Group's exposure to currency risk is as follows:

	RUR	USD 1 = RUR 56.2584	EUR 1 = RUR 68.3427	Other currency	31 December 2014 Total
Financial assets					
Cash and cash equivalents	13 854 050	4 486 742	1 122 002	362 859	19 825 653
Obligatory reserve deposit with the Central Bank of the RF	966 169	-	-	-	966 169
Financial assets at fair value through profit or loss – non-derivative	32 451	-	-	-	32 451
Due from banks and other financial institutions	16 000	163 664	4 293 688	-	4 473 352
Loans to customers	100 521 832	3 838 237	1 968 757	1 945 213	108 274 039
Financial assets available-for-sale	2 963 442	4 732 876	-	-	7 696 318
Other financial assets	147 133	12 573	1 984	-	161 690
Total non-derivative financial assets	**118 501 077**	**13 234 092**	**7 386 431**	**2 308 072**	**141 429 672**
Financial liabilities					
Due to other banks	9 998 586	13 985 497	171 425	9	24 155 517
Customer accounts	79 110 954	8 625 432	4 557 777	330 450	92 624 613
Debt securities issued	754 320	190 869	88 460	-	1 033 649
Other financial liabilities	761 293	422	5 191	-	766 906
Subordinated debt	3 332 547	2 034 752	-	-	5 367 299
Total non-derivative financial liabilities	**93 957 700**	**24 836 972**	**4 822 853**	**330 459**	**123 947 984**
Total net position on non-derivative instruments	**24 543 377**	**(11 602 880)**	**2 563 578**	**1 977 613**	
Net position on derivative instruments	(4 784 704)	12 146 346	(2 518 493)	(1 754 535)	
Total net position	**19 758 673**	**543 466**	**45 085**	**223 078**	

(in thousands of Russian Rubles unless otherwise stated)

33. Risk management policies (continued)

	RUR	USD 1 = RUR 30.7292	EUR 1 = RUR 44.9699	Other currency	31 December 2013 Total
Financial assets					
Cash and cash equivalents	7 264 184	795 909	583 174	201 679	8 844 946
Obligatory reserve deposit with the Central Bank of the RF	1 057 694	-	-	-	1 057 694
Financial assets at fair value through profit or loss – non-derivative	238 156	-	-	-	238 156
Due from banks and other financial institutions	693 000	8 018 124	17 835	-	8 728 959
Loans to customers	99 050 951	3 191 301	1 668 441	1 724 226	105 634 919
Financial assets available-for-sale	9 492 850	673 756	3 449 709	-	13 616 315
Financial assets held-to-maturity	-	169 264	-	-	169 264
Other financial assets	23 272	28	1 078	-	24 378
Total non-derivative financial assets	**117 820 107**	**12 848 382**	**5 720 237**	**1 925 905**	**138 314 631**
Financial liabilities					
Due to other banks	7 624 064	340 221	637 543	96	8 601 924
Customer accounts	73 664 209	9 003 785	3 910 115	247 911	86 826 020
Debt securities issued	15 455 174	112 541	-	-	15 567 715
Other financial liabilities	1 245 339	2 240	1	-	1 247 580
Subordinated debt	585 050	1 188 720	-	627 449	2 401 219
Total non-derivative financial liabilities	**98 573 836**	**10 647 507**	**4 547 659**	**875 456**	**114 644 458**
Total net position on non-derivative instruments	**19 246 271**	**2 200 875**	**1 172 578**	**1 050 449**	
Net position on derivative instruments	4 053 616	(1 733 725)	(1 370 233)	(805 343)	
Total net position	**23 299 887**	**467 150**	**(197 655)**	**245 106**	

Currency risk sensitivity. The following table details the Group's sensitivity to an increase and decrease in the USD and the EUR exchange rates against the RUR. 30% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel of the Group and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 30% change in foreign currency rates.

	31 December 2014		31 December 2013	
	RUR/USD +30%	RUR/USD -30%	RUR/USD +30%	RUR/USD -30%
Impact on profit before tax	7.8%	(7.8%)	13.2%	(13.2%)
Impact on equity	0.6%	(0.6%)	0.5%	(0.5%)

	31 December 2014		31 December 2013	
	RUR/EUR +30%	RUR/EUR -30%	RUR/EUR +30%	RUR/EUR -30%
Impact on profit before tax	0.6%	(0.6%)	(5.6%)	5.6%
Impact on equity	0.0%	(0.0%)	(0.2%)	0.2%

33. Risk management policies (continued)

Operational risk. Operational risk is a risk of loss resulting from the fact that the Group'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 Group'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 Group and/or their failures/breakdowns; and from external impacts.

The operational risk management is a part of the risk management system of the Group. The objective of operational risk management is to maintain the risk accepted by the Group at a level determined by the Group in accordance with its major strategic tasks. The Group's priority is to ensure maximum safety of assets and equity on the basis of decrease (elimination) of possible losses.

The operational risk management is regulated by the internal guidelines of the Group, taking into account the requirements of the CBR, the regulatory documents of the Parent Bank and Basel recommendations. As a part of managing operational risks, the functions of the Group have clearly defined areas of roles and responsibilities. The Group's priority is to ensure maximum safety of assets and equity on the basis of decrease (elimination) of possible losses.

The operational risk management consists of the following key components: identification, assessment, monitoring and/or mitigation of operational risks. The operational risk management also allocates the roles to manage operational risks.

For a better identification of risks, the Group uses custom designed software to collect, on a regular basis, information on the occurrence of operational risks or losses occur. The accumulated data is used to assess the realized operating risk.

The Group performs annual self-assessments to identify potential operational risks by assessing transactions and activities with reference to a potential exposure to different operational risks.

The Group uses an operating risk level indicator system. The operating risk level indicator system is used for the purpose of preventing increase in the operating risk level.

The Group has the Operational Risk Committee, a permanent collective body responsible for monitoring operational risks levels and coordinating operational risk management activities, as well as for developing and implementing decisions providing for a centralized and aligned policy on operational risks.

To limit operational risks, the Group has designed and approved the Emergency Action Plan based on automated stand-by systems.

The Group uses the following tools to minimize operational risks: Continuous improvement of the systems of automated banking processes and data protection (the Group only uses solutions that are mission-proven and have been carefully analyzed before their implementation; the existing solutions include: back-ups of key databases; segregated rights for users to access, and monitor access to, protected software and information resources); insurance tools covering certain operational risks (insurance for owned property, accident insurance policies for employees involved in transportation of valuables, company car insurance policies); full or partial risk outsourcing; limit compliance monitoring; authority segregation and other measures to mitigate potential exposure to, and/or consequences of, operational risks.

34. Subsequent events

The sovereign rating of the Russian Federation in 2014 was downgraded to the bottom of the investment grade ratings group. In the first quarter of 2015, the international rating agencies lowered the rating of Russia further below investment grade with a negative outlook (BB+).

In March 2015 the Group sold part of its non-performing retail loan portfolio amounting to RUR 10 072 377 thousand. The sold portfolio included loans that have been previously fully or partially written off amounting to RUR 8 604 428 thousand. Proceeds from disposal amounted RUR 128 378 thousand.