LLC “Rusfinance Bank”

Financial Statements
For the Year Ended December 31, 2014

LLC “Rusfinance Bank”

Table of Contents

LLC “Rusfinance bank”

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of Limited Liability Company “Rusfinance Bank” (the “Bank”) as at December 31, 2014 and the results of its operations, comprehensive income, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank’s financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Making an assessment of the Bank’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank’s transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enables them to ensure that the financial statements of the Bank 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 Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2014 were authorized for issue by the Bank’s Management Board on June 17, 2015:

On behalf of the Management Board:

S. Ozerov Chairman of the Management Board	S. Buydinova Chief Accountant
June 17, 2015 Samara	June 17, 2015 Samara

Deloitte.

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Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

To: Participant and the Board of Directors of Limited Liability Company "Rusfinance Bank".

We have audited the accompanying financial statements of Limited Liability Company "Rusfinance Bank" (hereinafter – the "Bank") which comprise the statement of financial position as at 31 December 2014 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on procedures performed in accordance with the Federal Law "On Banks and Banking Activities"

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

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Bank's annual financial statements for 2014 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2015 and compliance of its internal control and risk management systems with the CBRF requirements.

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

We report our findings below:

1. With respect to the Bank's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2015 were within the limits established by the CBRF.

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

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

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

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

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

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

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

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

Deloitte & Touche

17 June 2015
Moscow, Russian Federation

Svetlana Ploutalova, Partner
(certificate no. 01-000596 dated 19 March 2012)

ZAO Deloitte & Touche CIS

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений
* * *
Россия, г. Москва, ул. Лесная, д. 5

The Entity: LLC Rusfinance Bank

Certificate of registration in the Unified State Register series 63 № 001910025 of 28/08/2002, issued by Inspectorate of the Russian Ministry of Taxation.

Address: 42a, Chernorechenskaya st.,Samara, 443013, Russia

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.

LLC “Rusfinance Bank”

Statement of Financial Position
as at December 31, 2014
(in thousands of Russian Rubles)

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Cash and cash equivalents	6, 27	13,201,648	4,482,606
Minimum reserve deposit with the Central Bank of the Russian Federation	7	408,509	309,133
Financial assets at fair value through profit or loss	8, 27	-	3,151
Loans to customers	9, 27	103,250,889	102,500,612
Property and equipment	10	411,258	411,957
Intangible assets		399,307	265,031
Current income tax assets	22	86,404	61,038
Other assets	11, 27	1,144,976	601,649
TOTAL ASSETS		**118,902,991**	**108,635,177**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to credit institutions	12, 27	22,874,530	32,848,510
Due to customers	13, 27	29,654,933	21,017,356
Other borrowed funds	15	1,525,544	1,515,482
Debt securities issued	14, 27	37,785,439	27,402,413
Financial liabilities at fair value through profit or loss	8, 27	80,505	5,467
Deferred income tax liabilities	22	496,679	206,890
Other liabilities	16, 27	1,265,972	1,054,306
Total liabilities		**93,683,602**	**84,050,424**
EQUITY			
Participant’s contributions	17	12,016,960	12,016,960
Property and equipment revaluation reserve		56,896	55.946
Cash flow hedge reserve	8	(12,742)	(2,113)
Retained earnings		13,158,275	12,513,960
Total equity		**25,219,389**	**24,584,753**
TOTAL LIABILITIES AND EQUITY		**118,902,991**	**108,635,177**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

June 17, 2015
Samara

S. Buydinova
Chief Accountant

June 17, 2015
Samara

The notes on pages 10-68 form an integral part of these financial statements.

LLC "Rusfinance Bank"

Statement of Profit or Loss
For the Year Ended December 31, 2014
(in thousands of Russian Rubles)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
INTEREST INCOME			
Loans to customers:			
unimpaired loans		15,852,755	15,661,884
impaired loans	9	1,223,404	902,157
		17,076,159	**16,564,041**
Due from credit institutions and cash equivalents		342,625	211,847
	27	**17,418,784**	**16,775,888**
INTEREST EXPENSE			
Due to credit institutions		(2,150,671)	(2,992,303)
Due to customers		(1,964,431)	(1,043,010)
Other borrowed funds		(170,651)	(169,752)
Debt securities issued		(2,725,651)	(2,078,248)
	27	**(7,011,404)**	**(6,283,313)**
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		**10,407,380**	**10,492,575**
Allowance for impairment losses on interest bearing assets	18	(3,351,482)	(2,665,924)
NET INTEREST INCOME		**7,055,898**	**7,826,651**
Net gainon financial instruments at fair value through profit or loss	27	34,732	11,881
Net gainon foreign exchange operations:	27		
dealing		280	6,758
translation differences		64,236	40,833
Fee and commission income	19, 27	1,663,676	1,408,729
Fee and commission expense	19, 27	(162,068)	(228,874)
Allowance on other assets and other provisions	18	(57,564)	(132,972)
Other income	20, 27	260,824	261,246
NET NON-INTEREST INCOME		**1,804,116**	**1,367,601**
OPERATING INCOME		**8,860,014**	**9,194,252**
OPERATING EXPENSES	21, 27	(5,840,044)	(5,407,600)
PROFIT BEFORE INCOME TAX		**3,019,970**	**3,786,652**
Income tax expense	22	(653,788)	(849,587)
NET PROFIT FOR THE YEAR		**2,366,182**	**2,937,065**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

June 17, 2015
Samara

S. Buydinova
Chief Accountant

June 17, 2015
Samara

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LLC "Rusfinance Bank"

Statement of Other Comprehensive Income for the Year Ended December 31, 2014
(in thousands of Russian Rubles)

	Year ended December 31, 2014	Year ended December 31, 2013
NET PROFIT FOR THE YEAR	**2,366,182**	**2,937,065**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of property and equipment, net of deferred income tax effect of RUB (237) thousand (2013: RUB (519) thousand)	950	2,075
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedge for (losses)/gains on share options	(10,629)	33,733
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	**(9,679)**	**35,808**
TOTAL COMPREHENSIVE INCOME	**2,356,503**	**2,972,873**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

June 17, 2015
Samara

S. Buydinova
Chief Accountant

June 17, 2015
Samara

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LLC “Rusfinance Bank”

Statement of Changes in Equity
for the Year Ended December 31, 2014
(in thousands of Russian Rubles)

	Participant’s contributions	Property and equipment revaluation reserve	Cash flow hedge reserve	Retained earnings	Total equity
December 31, 2012	**12,016,960**	**53,871**	**(35,846)**	**12,348,766**	**24,383,751**
Total comprehensive income for the year	-	2,075	33,733	2,937,065	2,972,873
Amount paid to the sole participant (Note17)	-	-	-	(2,771,871)	(2,771,871)
December 31, 2013	**12,016,960**	**55,946**	**(2,113)**	**12,513,960**	**24,584,753**
Total comprehensive income for the year	-	950	(10,629)	2,366,182	2,356,503
Amount paid to the sole participant (Note17)	-	-	-	(1,721,867)	(1,721,867)
December 31, 2014	**12,016,960**	**56,896**	**(12,742)**	**13,158,275**	**25,219,389**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

June 17, 2015
Samara

S. Buydinova
Chief Accountant

June 17, 2015
Samara

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LLC "Rusfinance Bank"

Statement of Cash Flows
for the Year Ended December 31, 2014
(in thousands of Russian Rubles)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		17,265,870	16,299,903
Interest paid		(6,574,243)	(5,980,904)
Net gains/(losses) from transactions with financial instruments at fair value through profit or loss		37,882	(17,733)
Net gains from dealing in foreign currencies		280	6,758
Fees and commission received		1,661,817	1,437,587
Fees and commission paid		(213,587)	(215,566)
Other income received		220,984	256,936
Operating expenses paid		(5,578,840)	(5,530,253)
Income tax paid		(390,362)	(556,034)
Cash inflow from operating activities before changes in operating assets and liabilities		**6,429,801**	**5,700,694**
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(99,376)	(114,375)
Loans to customers		(3,827,151)	(12,452,058)
Other assets		(198,489)	(66,611)
(Decrease)/ increase in operating liabilities:			
Due to credit institutions		(9,618,010)	(8,204,052)
Due to customers		7,919,296	11,562,260
Other liabilities		(1,648)	(25,424)
Cash inflow/(outflow) from operating activities before tax		**604,423**	**(3,599,566)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(127,451)	(105,893)
Proceeds from disposal of property and equipment		1,684	1,757
Purchase of intangible assets		(243,499)	(126,430)
Net cash outflow from investing activities		**(369,266)**	**(230,566)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount paid to the sole participant	22	(1,721,867)	(2,771,871)
Debt securities repaid		(8,504,104)	(6,142,738)
Debt securities issued	19	18,670,201	13,000,000
Net cash inflow from financing activities		**8,444,230**	**4,085,391**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		39,655	92,383
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,719,042**	**347,642**
CASH AND CASH EQUIVALENTS, beginning of year		**4,482,606**	**4,134,964**
CASH AND CASH EQUIVALENTS, end of year	11	**13,201,648**	**4,482,606**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

June 17, 2015
Samara

S.V. Buydinova
Chief Accountant

June 17, 2015
Samara

The notes on pages 10-68 form an integral part of these financial statements.

1. Organization

Limited Liability Company Rusfinance Bank (the “Bank”) was established in May 1992 as a limited liability partnership under the name of Promek-Bank by Promek Group. Initially, Promek-Bank provided lending and settlement services to corporate customers, in particular, to the companies related to the Promek Group. In 2000 Promek-Bank was acquired by SOK Group, a car assembler and automobile components producer, which resulted in the change of Promek-Bank's strategy from corporate banking to retail banking. Since its acquisition by SOK Group, Promek-Bank began offering consumer finance products and developing a regional network. For the purposes of extending consumer finance operations in Russia in July 2005 Promek-Bank was acquired by Société Générale Group. Following the acquisition, Promek-Bank changed its name to Rusfinance Bank. By October 1, 2006, point-of-sale lending activities were transferred from Rusfinance LLC to LLC Rusfinance Bank. In February 2006, the Central Bank of the Russian Federation (hereinafter – “CBR”) granted LLC Rusfinance Bank a banking license No. 1792, which allows LLC Rusfinance Bank to perform general types of banking operations, including retail operations.

In February 2013 the Bank obtained the General license which allows the Bank to diversify its funding base in direction of borrowing the temporarily surplus funds from Ministry of Finance of the Russian Federation, Pension Fund of the Russian Federation, pension savings funds of Russian citizens managed by state managing company Vnesheconombank and non-governmental pension funds, state corporation and regional budgets.

The Bank offers consumer finance products and services such as car loans, point-of-sale loans, credit cards and loans to individuals through points of sale, business units and head office. The Bank’s registered legal address is: 443013, Russian Federation, Samara, Chernorechenskaya str. 42a.

On July 1, 2011 Société Générale Group (ultimate controlling party of the Bank – hereinafter the “Group”) completed a restructuring of its Russian business. In the process of reorganization Rusfinance Bank became a 100% subsidiary of PJSC Rosbank (the “Participant”). Rosbank is a subsidiary of Société Générale Bank, which provides all types of services to private and corporate customers.

Since November 4, 2004 the Bank has been a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation “Agency for Deposits Insurance”. Insurance covers the Bank’s liabilities to depositors for the amount up to RUB 1.400 thousand for each individual in case of business failure and revocation of the CBR banking license.

As of end of December, 2014 LLC Rusfinance Bank was rated by international rating agencies Fitch Ratings, Moody’s and Standard & Poor’s on “BBB”, “Ba1” и “BBB-” levels respectively. It should be mentioned that Fitch and Moody’s rating of the Bank is still at investment grade level.

The Bank’s development strategy is focused on the formation of a regional network on a national scale. As at December 31, 2014, the Bank had 138 lending and cash outlets and 7 additional offices in the 68 regions of Russian Federation (December 31, 2013: 136 and 9 in the 63 regions).

For the year ended December 31, 2014 the Bank had an average of 5,294 employees (December 31, 2013: 5,893 employees).

The financial statements of the Bank for the year ended December 31, 2014 were authorized for issue by the Management Board on June 17, 2015.

2. Significant accounting policies

Statement of Compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”) issued by the International Accounting Standards Board (hereinafter – “IASB”).

Other basis of presentation criteria. These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian rubles (hereinafter – “RUB”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and at revalued amount for buildings as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) of financial assets and liabilities is presented in Note 26.

Functional currency. Items included in the financial statements of the Bank entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of the Bank is the Russian Ruble (“RUB”). The presentational currency of the financial statements of the Bank is the RUB. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

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

2. Significant accounting policies (continued)

Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The significant accounting policies are set out below.

Revenue recognition

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are 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 on initial recognition. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

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

Recognition of fee and commission income and expenses. Fee and commission income/ (expense) are recognized as income/ (expense) when the related transactions are completed. Loan origination fees together with the related direct costs that are considered to be integral to the overall profitability of a loan, are recorded in interest income over the estimated life of the financial instrument using the effective interest method. Other non-interest income/ (expense) are recognized on an accrual basis when the corresponding service has been provided.

Recognition and measurement of financial instruments. The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

2. Significant accounting policies (continued)

Financial assets. Financial assets are classified into the following specified categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Held-to-maturity investments;
- Available-for-sale (AFS) financial assets; and
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

A financial asset is classified as held for trading if:

- 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 Bank 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 Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘net gain/ (loss) on financial instruments at fair value through profit or loss’ line item in the income statement. Fair value is disclosed in Note 24.

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 to customers’ and ‘receivables’ (together the “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, except for short-term receivables when the recognition of interest would be immaterial.

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 that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

2. Significant accounting policies (continued)

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

For financial assets carried at amortised cost, 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. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of 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. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

Write off of loans and receivables. Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and receivables are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

Derecognition of financial assets. The Bank 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 entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

2. Significant accounting policies (continued)

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 derecogntion of a financial asset other than it is entirety (e.g. when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank 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 recognizes 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 recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

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

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

Financial liabilities*.* Financial liabilities are classified as either financial liabilities ‘at FVTPL’ 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 Bank 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 a 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 Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial 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 ‘net gain/ (loss) on financial instruments at fair value through profit or loss’ line item in the income statement. Fair value is disclosed in Note 24.

2. Significant accounting policies (continued)

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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.

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

Derivative financial instruments. The Bank entered into derivative financial instruments (forwards) to manage currency, interest and liquidity risks. Derivative financial instruments entered into by the Bank 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 re-measured to 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 statement of financial position. Gains and losses resulting from these instruments are included in the income statement as net gain/ (loss) on financial instruments at fair value through profit or loss.

Derivative instruments embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not itself held for the trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value on the trading portfolio with changes in fair value recognised in the income statement.

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

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

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

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.

2. Significant accounting policies (continued)

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.

Cash and cash equivalents*.* Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBR and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

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

Minimum reserve deposits with the CBR*.* Minimum reserve deposits with the CBR represent mandatory reserve deposits with the Central Bank of the Russian Federation, which are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents.

Property and equipment. Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any (except for buildings that are carried at revalued amounts less accumulated deprecation and subsequent impairment losses).

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis over the following estimated useful lives:

- Buildings – 50 years;
- Computer and office equipment – 5-6 years;
- Furniture and fixtures – 10 years;
- Motor vehicles – 4 years.

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

Leasehold improvements are amortized during the leasing period or assets’ useful life depending on which one of them is shorter.

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Buildings are stated in the 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 any subsequent accumulated depreciation and 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 such buildings is credited to the property and equipment revaluation reserve, except to 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 profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense 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 charged to the income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

2. Significant accounting policies (continued)

Market value of buildings is assessed using either the method of comparable sales which involves analysis of market sales prices for similar real estate properties or discounted cash flow approach (income capitalization approach).

An item of property and equipment 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.

Intangible assets. Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over their useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred.

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

***Impairment of non-financial assets other than goodwill*.** On an ongoing basis, the Bank reviews the carrying amounts of its tangible and definitely-lived 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 Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where 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)

Accounting for the effects of hyperinflation*.* In accordance with IAS 29, the economy of RF was treated as hyperinflationary until the end of 2002. Since January 1, 2003 economy of RF ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at December 31, 2002, was used to form the beginning balances as at January 1, 2003.

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

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank’s current tax expense is calculated using tax rates that have been enacted during the reporting period.

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

The carrying amount of deferred tax assets is reviewed at each reporting date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

***Current and deferred tax for the year*.** Current and deferred tax are recognised in the income statement, 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 RF also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the income statement.

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

The amount 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).

2. Significant accounting policies (continued)

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 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Retirement and other benefit obligations. In accordance with the requirements of the RF legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the RF which transfers them to pension funds selected by employees. The Bank does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the RF. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Share based payments. For cash settled share based payments (compensation indexed on Société Générale shares), the fair value of the amounts payable is booked to Operating expenses as an expense over the vesting period against a corresponding liability entry booked in the balance sheet under Other liabilities. This payable item is then remeasured at fair value against income until settled.

Hedge accounting. The Bank designates certain hedging instruments, which include derivatives, such as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2. Significant accounting policies (continued)

Foreign currency translation. The financial statements are presented in Russian Rubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in net gain/ (loss) on foreign exchange operations.

***Rates of exchange*.** The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2014	December 31, 2013
RUB/1 US Dollar	56.2584	32.7292
RUB/1 Euro	68.3427	44.9699

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer’s assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Bank’s statement of financial position include:

- Property and equipment revaluation reserve discloses the effects of revaluation of properties
- Cash flow hedge reserve which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank’s 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. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank’s financial condition.

Allowance for impairment of loans. The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. 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 and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

As at December 31, 2014 and 2013 the gross loans and receivables totalled RUB 115,323,729 thousand and RUB 115,198,348 thousand, respectively, and allowance for impairment losses amounted to RUB 12,072,840 thousand and RUB 12,697,736 thousand, respectively.

Valuation of financial instruments. Financial instruments that are classified at fair value through profit or loss, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted market prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Bank's reported net income.

The Bank had not any foreign currency forward contracts as at December 31, 2014 (December 31, 2013: fair value of forward contracts amounted to the positive amount of RUB 3,151 thousand and negative amount of RUB 5,467 thousand).

Property and equipment. Buildings are measured at revalued amounts. The date of the latest appraisal was December 31, 2014. The next revaluation is preliminary scheduled as at December 31, 2015. The revalued amount of property was RUB 75,215 thousand and RUB 75,532 thousand as at December 31, 2014 and 2013, respectively.

Deferred tax assets. The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it believes that the deferred tax asset will be fully realized. The carrying value of deferred tax liabilities amounted to RUB 496,679 thousand as at December 31, 2014 and deferred tax assets amounted to RUB 206,890 thousand as at December 31, 2013.

4. 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 following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*;
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities.* The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity’s investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the Bank's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities.* The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realization and settlement’.

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

Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets.* The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*. These amendments affect disclosures only which are presented in the Note 24.

Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting.* These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. There is no effect of these amendments on these financial statements as the Bank does not apply novation of derivatives in hedge accounting.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

IFRIC 21 *Levies.* The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. There was no effect of the interpretation on these financial statements except for the change in the Bank’s policy.

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

New and revised IFRSs in issue but not yet effective. The Bank 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 IAS 16 and IAS 41 - *Agriculture: Bearer Plants*[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.

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 Bank’s management does not expect any impact of these amendments on the financial statements as the Bank does not have 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 Bank’s financial statements in the future as the Bank is not an IFRS first-time adopter.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

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 Bank anticipates that the application of IFRS 15 in the future may have a 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.

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.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

- **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 Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank'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.

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 Bank does not anticipate that the application of these amendments will have an impact of the Bank’s 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.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

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

Amendments to IAS 16 and IAS 41 – ***Agriculture: Bearer Plants.*** The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as a property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for as agricultural produce in accordance with IAS 41. The management of the Bank does not expect any impact of adoption of these amendments on the financial statements as the Bank is not engaged in agricultural activities.

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 Bank does not expect any impact of these amendments on the financial statements as the Bank does not have investments in subsidiaries, joint ventures and associates.

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 Bank does not anticipate that the application of these amendments will have a material impact on the Bank’s 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.

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.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

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 Bank 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 Bank 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 Bank does not anticipate that the application of these amendments will have a significant effect on the 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 Bank 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.

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.

(in thousands of Russian Rubles, unless otherwise indicated)

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

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 Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

5. Segment reporting

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Bank’s operations are highly integrated and constitute a single segment – retail banking. Assets of the Bank are concentrated in the RF and its revenues and net income is received from the operations within the territory of the RF. As such no disclosure of revenues, costs, assets and liabilities has been made in the financial statement as required by IFRS 8 “Operating Segments” as the Bank considers itself to be a single operating segment.

6. Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	410,955	335,134
Current accounts with the CBR	7,619,184	4,050,635
Current accounts with other credit institutions	256,421	96,837
Time deposits with credit institutions up to 90 days	4,915,088	-
Total cash and cash equivalents	**13,201,648**	**4,482,606**

As at December 31, 2014 current accounts and deposits with credit institutions include amounts of RUB 204,893 thousand (December 31, 2013: RUB 54,271 thousand) placed with banks in Russia that are members of Société Générale Group (Note 27).

As at December 31, 2014 time deposits with credit institutions up to 90 days include amounts of RUB 3,711,252 thousand (December 31, 2013: RUB 0 thousand) placed with banks in Russia that are members of Société Générale Group (Note 27).

7. Minimum reserve deposit with the CBR

As at December 31, 2014 the Bank maintained mandatory balances of RUB 408,509 thousand with the CBR (December 31, 2013: RUB 309,133 thousand). The Bank is not able to use its mandatory balances with the CBR for payments and other purposes. According to the Russian legislation mandatory balances are interest-free.

(in thousands of Russian Rubles, unless otherwise indicated)

8. Financial instruments at fair value through profit or loss

The Bank enters into derivative transactions that comprise:

	December 31, 2014			December 31, 2013		
	Notional	Fair value		Notional	Fair value	
	value	Asset	Liability	value	Asset	Liability
Financial instruments at fair value through profit or loss						
Foreign currency forwards	-	-	-	374,268	3,151	-
Cash flow hedge forwards	313,699	-	(80,505)	196,556	-	(5,467)
Total financial instruments at fair value through profit or loss		**-**	**(80,505)**		**3,151**	**(5,467)**

Foreign currency forwards. 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.

At December 31, 2014, the Bank had no forward foreign currency contracts.

At December 31, 2013, the Bank had one forward foreign currency contracts to purchase US Dollar 8,970 thousand against the sale of RUB 296,907 thousand and two forward contracts to purchase Euro 1,685 thousand against the sale RUB 77,361 thousand (cumulatively amounting to RUB 374,268 thousand). The forward contracts mature between May 8, 2014 and June 30, 2014. All contracts were entered into with Société Générale (Note 27).

Cash flow hedge forwards. The Bank’s cash flow hedge is related to its exposure to variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program for the total amount of equivalent of 103,008 shares (at December 31, 2013 the estimated number were 103,008 shares) to be paid during 2015 and 2016 subject to certain underlying conditions being satisfied.

To hedge against the variability in the cash flows on financial liabilities due to the price risk, the Bank used forward contracts at a fixed price of EUR 42.1 per share. As such the Bank minimizes the effect of a change in market prices for Société Générale shares on its future cash flows.

As of 31 December 2014 the fair value of liability arising from the derivative financial instruments classified as hedging instruments was RUB 80,505 thousand (2013: RUB 5,467 thousand).

For the year ended 31 December 2014 the result from hedge ineffectiveness recognised in net result on financial instruments at fair value through profit or loss was RUB nil.

As at 31 December 2014, the aggregate amount of unrealised loss under forward contracts deferred in the cash flow hedge reserve relating to the exposures amounted to RUB 12,742 thousand (2013: RUB 2,113 thousand). It is being recycled to profit or loss over the periods up to March 2016.

(in thousands of Russian Rubles, unless otherwise indicated)

9. Loans to customers

Loans to customers comprise:

	December 31, 2014	December 31, 2013
Loans to individuals	113,927,017	114,500,482
Loans to legal entities (trade)	1,396,712	697,866
Total loans	**115,323,729**	**115,198,348**
Less – allowance for impairment of loans to customers	(12,072,840)	(12,697,736)
Total loans to customers after allowance for impairment losses	**103,250,889**	**102,500,612**

Movements in the allowance for impairment losses for the years ended December 31, 2014 and 2013 are disclosed in Note 18.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2014	December 31, 2013
Car loans to individuals secured by vehicles	86,623,532	88,461,734
Loans to legal entities secured by vehicles	1,396,712	697,866
Unsecured loans	27,303,485	26,038,748
	115,323,729	**115,198,348**
Less – allowance for impairment of loans to customers	(12,072,840)	(12,697,736)
Total loans to customers	**103,250,889**	**102,500,612**

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

(in thousands of Russian Rubles, unless otherwise indicated)

9. Loans to customers (continued)

The loan portfolio of the Bank has the following product structure:

	December 31,2014	December 31,2013
Loans to individuals		
Car loans	86,623,532	88,461,734
Consumer loans	18,172,039	17,047,447
Direct sales	8,608,079	8,301,823
Credit cards	523,367	689,478
Total loans to individuals	**113,927,017**	**114,500,482**
Loans to legal entities (trade)	1,396,712	697,866
Gross loans to customers	**115,323,729**	**115,198,348**
Less – allowance for impairment of loans to customers	(12,072,840)	(12,697,736)
Total loans to customers	**103,250,889**	**102,500,612**

Allowance for impairment of loans to customers. The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2014			December 31, 2013		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to Legal entities individually determined to be impaired	32,058	(32,058)	-	-	-	-
Loans to individuals collectively determined to be impaired	14,157,595	(11,146,620)	3,010,975	13,354,690	(12,003,574)	1,351,116
Unimpaired loans	101,134,076	(894,162)	100,239,914	101,843,658	(694,162)	101,149,496
Total	**115,323,729**	**(12,072,840)**	**103,250,889**	**115,198,348**	**(12,697,736)**	**102,500,612**

Allowances for impairment of loans are deducted from the related loans. In accordance with the Russian legislation, loans may only be written off with the approval of the Management Board and, in certain cases, with respective Court decisions.

During 2014 and 2013 interest income on loans overdue by 90 days (impaired loans) or more was RUB 1,223,404 thousand and RUB 902,157 thousand, respectively.

In order to estimate the loan portfolio quality, loans granted to individuals are broken down into the following groups:

- Homogeneous loans are loans attributed to homogeneous portfolios that are insignificant in amount (both individually and in aggregate for all loans made to one borrower are less than RUB 8,000 thousand);
- Non-homogeneous loans that are individually assessed.

All loans extended to legal entities and credit institutions are classified by the Bank as non-homogeneous loans.

(in thousands of Russian Rubles, unless otherwise indicated)

9. Loans to customers (continued)

Other attributes of homogeneous loans:

- "Overdue" status of loans;
- Designated purpose of loans;
- Borrower's creditworthiness assessment methodology;
- Type of the borrower.

Depending on the "overdue" status, the Bank's loan portfolio is grouped into the following buckets:

- Current loans;
- Past due but not impaired loans (loans with overdue payments of 1-30 calendar days);
- Sound loans (loans with overdue payments of 31-90 calendar days);
- Doubtful loans (loans with overdue payments of 91-360 calendar days);
- Non-performing loans (loans with overdue payments over 361 calendar days).

The credit quality of loans to customers is determined based on the Bank's internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that the borrower fails to pay interest, principal and other financial obligations to the Bank.

As at December 31, 2014, the Bank's loan portfolio less allowance for impairment of loans to customers is broken down into the following buckets:

	Current loans	**Past due but not impaired loans**	**Sound Loans**	**Doubtful loans**	**Non-performing loans**	**Total 2014**
Loans to customers						
Car loans	71,156,215	4,174,576	691,784	1,231,043	1,040,467	78,294,085
Consumer lending	15,055,241	1046,003	123,988	139,032	100,603	16,464,867
Direct sales	5,493,709	698,110	133,491	237,137	233,776	6,796,223
Credit cards	275,890	18,069	8,184	15,144	13,773	331,060
Loans to legal entities	1,364,654	-	-	-	-	1,364,654
Total	**93,345,709**	**5,936,758**	**957,447**	**1,622,356**	**1,388,619**	**103,250,889**

As at December 31, 2013:

	Current loans	**Past due but not impaired loans**	**Sound Loans**	**Doubtful loans**	**Non-performing loans**	**Total 2013**
Loans to customers						
Car loans	73,078,068	4,322,301	709,668	790,640	152,997	79,053,674
Consumer lending	14,262,505	688,914	156,345	142,087	-	15,249,851
Direct sales	6,061,190	578,380	157,222	257,640	-	7,054,432
Credit cards	409,170	24,204	3,662	7,753	-	444,789
Loans to legal entities	697,866	-	-	-	-	697,866
Total	**94,508,799**	**5,613,799**	**1,026,897**	**1,198,120**	**152,997**	**102,500,612**

(in thousands of Russian Rubles, unless otherwise indicated)

9. Loans to customers (continued)

As at December 31, 2014 and 2013, past due but not impaired loans (all loans with overdue payments of less than 30 days) amounted to RUB 5,936,758 thousand and RUB 5,613,799 thousand and were included within sound loans.

As at December 31, 2014 and 2014 100% of loans are granted to customers operating in the RF, which represents a significant geographical concentration in one region.

10. Property and equipment

	Buildings and land	Computers and office equipment	Furniture and fixtures	Motor vehicles	Leasehold improve-ments	Assets not yet commis-sioned	Total
Cost or revalued amount							
December 31, 2012	**74,049**	**760,648**	**31,517**	**21,869**	**52,412**	**18,318**	**958,813**
Additions	370	98,893	674	5,309	-	3,325	**108,571**
Revaluation	1,113	-	-	-	-	-	**1,113**
Transfers	-	18,205	-	-	-	(18,205)	**-**
Disposals	-	(13,836)	(1,250)	(2,763)	-	-	**(17,849)**
December 31, 2013	**75,532**	**863,910**	**30,941**	**24,415**	**52,412**	**3,438**	**1,050,648**
Additions	-	72,070	1,618	953	-	52,020	**126,661**
Revaluation	(317)	-	-	-	-	-	**(317)**
Transfers	-	2,727	589	-	-	(3,316)	**-**
Disposals	-	(22,321)	(400)	(3,562)	-	(122)	**(26,405)**
December 31, 2014	**75,215**	**916,386**	**32,748**	**21,806**	**52,412**	**52,020**	**1,150,587**
Accumulated depreciation and impairment							
December 31, 2012	**-**	**(472,368)**	**(12,888)**	**(10,698)**	**(26,206)**	**-**	**(522,160)**
Charge for the year	(1,481)	(117,642)	(3,031)	(4,002)	(7,487)	-	**(133,643)**
Eliminated on revaluation	1,481	-	-	-	-	-	**1,481**
Eliminated on disposals	-	13,059	580	1,992	-	-	**15,631**
December 31, 2013	**-**	**(576,951)**	**(15,339)**	**(12,708)**	**(33,693)**	**-**	**(638,691)**
Charge for the year	(1,504)	(110,172)	(3,041)	(4,786)	(7,488)	-	**(126,991)**
Eliminated on revaluation	1,504	-	-	-	-	-	**1,504**
Eliminated on disposals	-	21,289	233	3,327	-	-	**24,849**
December 31, 2014	**-**	**(665,834)**	**(18,147)**	**(14,167)**	**(41,181)**	**-**	**(739,329)**
Net book value							
As at December 31, 2014	**75,215**	**250,552**	**14,601**	**7,639**	**11,231**	**52,020**	**411,258**
As at December 31, 2013	**75,532**	**286,959**	**15,602**	**11,707**	**18,719**	**3,438**	**411,957**

As at December 31, 2014 and 2013 included in property and equipment were fully depreciated assets totalling 419,993 thousand and RUB 257,468 thousand, respectively.

(in thousands of Russian Rubles, unless otherwise indicated)

10. Property and equipment (continued)

Buildings owned by the Bank were revalued by independent appraisers as at December 31, 2014. Fair value is determined by reference to market-based evidence (Level 2 according to fair value hierarchy). The method of sales comparison (comparative approach) was used. As a result of the 2014 revaluation, the Bank recognized positive revaluation after tax of RUB 950 thousand in other comprehensive income (2013: RUB 2,075 thousand).

Had the revalued buildings and land been accounted for at their historical cost less accumulated depreciation, their carrying values would have been:

	December 31, 2014	December 31, 2013
Cost	21,556	21,926
Accumulated depreciation	(8,633)	(8,202)
Net carrying amount	**12,923**	**13,724**

11. Other assets

Other assets comprise:

	December 31, 2014	December 31, 2013
Other financial assets recognized as loans and receivables in accordance with IAS 39:		
Accrued commission	84,974	183,199
Receivables on other transactions	322,128	109,191
Total other financial assets, before allowance	**407,102**	**292,390**
Allowance for other financial assets	(13,671)	(9,253)
Total other financial assets recognized as loans and receivables in accordance with IAS 39, net of allowance	**393,431**	**283,137**
Other non-financial assets:		
State Duties compensation	221,014	201,788
Prepayments	590,898	197,060
Other	44,205	28,035
Total other non-financial assets, before allowance	**856,117**	**426,883**
Allowance for other non-financial assets	(104,572)	(108,371)
Total other non-financial assets, net of allowance	**751,545**	**318,512**
Total other assets	**1,144,976**	**601,649**

The movement in allowance of other assets is disclosed in Note 18.

(in thousands of Russian Rubles, unless otherwise indicated)

12. Due to credit institutions

Due to credit institutions comprise:

	December 31, 2014	December 31, 2013
Recorded at amortized cost		
Loans and time deposits of credit institutions	19,333,269	30,808,190
Loan from the CBR	3,511,610	2,003,466
Loro accounts with credit institutions	29,651	36,854
Total due to credit institutions	**22,874,530**	**32,848,510**

As at December 31, 2014 loans and time deposits due to credit institutions include credit lines granted by Société Générale and Rosbank for RUB 17,856,912 thousand and USD 920 thousand (currency equivalent of RUB 51,800 thousand) and by other related parties for RUB 1,426,623 thousand (Note 27).

As at December 31, 2013 loans and time deposits due to credit institutions include credit lines granted by Société Générale and Rosbank for RUB 28,257,356 thousand and USD 1,601 thousand (currency equivalent of RUB 52,413 thousand) and by other related parties for RUB 2,504,170 thousand (Note 27).

Interest rates on RUB-denominated loans received from Société Générale and Rosbank as at December 31, 2014 ranged from 7.68% to 18.62% (from 5.75% to 10.76% in 2013) and mature in 2015-2016 (2013: 2014-2016), and on US Dollar denominated loans 3.00% and 3.69% (0.97% in 2013) and mature in 2015 (2013: 2016).

13. Due to customers

The amounts due to customers include the following:

	December 31, 2014	December 31, 2013
Legal entities		
Current accounts	127,925	91,690
Time deposits	27,857,093	18,850,168
Total legal entities	**27,985,018**	**18,941,858**
Individuals		
Current accounts	1,669,915	2,075,046
Time deposits	-	452
Total individuals	**1,669,915**	**2,075,498**
Total due to customers	**29,654,933**	**21,017,356**

(in thousands of Russian Rubles, unless otherwise indicated)

13. Due to customers (continued)

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless an other interest rate is specified in the agreement.

As at December 31, 2014 and 2013 deposits by customers totalling RUB 8,365,469 thousand and RUB 8,103,401 thousand (30.02% and 42,99% of total due to customers), respectively, were due to 3 customers (2013: 3) being companies under common control, which represents a significant concentration (Note 27).

The Participant and the management of the Bank are confident that these customers will maintain their accounts and cash holdings with the Bank in the foreseeable future. The Participant controls both of these companies and manages liquidity within its Group in the interest of all Group companies. An analysis of due to customers by economic sector follows:

	December 31, 2014	December 31, 2013
Analysis by sector		
Financial services – asset management	18,186,072	9,303,940
Insurance	6,851,299	6,164,890
Non-banking retail lending	2,921,035	3,418,468
Individuals	1,669,915	2,075,498
Other	26,612	54,560
Total customer accounts	**29,654,933**	**21,017,356**

Amounts due to customers include accounts of related parties as set out in Note 27.

14. Debt securities issued

Debt securities issued comprise:

	December 31, 2014	December 31, 2013
RUB denominated bonds	37,785,439	27,402,413
Total debt securities issued	**37,785,439**	**27,402,413**

As at December 31, 2014 securities of the Bank are presented by the RUB denominated:

- Non-convertible interest-bearing bonds of the series 08 with remaining nominal value of RUB 1,791,464 thousand out of 2,000,000 thousand issued in September 2010 at fixed interest rate of 7.70% p.a. and maturing in September, 2015. In September 2012 bonds of the series 08 were totally renewed at fixed rate of 9.25% p.a., in September 2013 bonds of the series 08 were renewed by 90% (except 208,536 papers of RUB 208,536,000) at fixed rate of 8.15% p.a. to maturity date.
- Non-convertible interest-bearing bonds of the series 09 with remaining nominal value of RUB 1,914,955 thousand out of RUB 2,000,000 thousand issued in September, 2010 at fixed interest rate of 7.70% p.a. and maturing in September 2015. In September 2012 the series 09 was almost completely (except 1 paper of RUB 1,000) renewed at fixed rate of 9.25% p.a., in September 2013 bonds of the series 09 were partly renewed (except 85,045 papers of RUB 85,045,000) at fixed rate of 8.15% p.a. to maturity date.

14. Debt securities issued (continued)

- Non-convertible interest-bearing bonds of the series 10 with remaining nominal value of RUB 760,474 thousand out of RUB 2,000,000 thousand issued in November, 2010 at fixed interest rate of 7.90% p.a. and maturing in November 2015. In November 2013 bonds of the series 10 were renewed with the share of 67% (RUB 1,333,781 thousand were prolonged) at fixed rate of 7.70% p.a. Within the put option in November 2014 with the coupon rate set at 11.60% p.a. to maturity date bonds series 10 of RUB 1,073,307 thousand were redeemed by the Bank of which RUB 500,000 thousand were sold in December 2014 on the secondary market at the price lower than nominal.
- Non-convertible interest-bearing bonds of the series 11 with remaining nominal value of RUB 789,685 thousand out of RUB 2,000,000 thousand issued in November 2010 at fixed interest rate of 7.90% p.a. and maturing in November 2015. In November 2013 bonds of the series 11 were partly renewed (except 747,648 paper of RUB 747,648,000) at fixed rate of 7.70% p.a. Within the put option in November 2014 with the coupon rate set at 11.60% p.a. to maturity date bonds series 11 of RUB 962,667 thousand were redeemed by the Bank of which RUB 400,000 thousand and RUB 100,000 thousand were sold on the secondary market (in November and December 2014 respectively) at the price lower than nominal.
- Non-convertible interest-bearing bonds of the series 12 with nominal value of RUB 3,000,000 thousand issued in August 2014 at fixed interest rate of 10.88% p.a. and maturing in August 2019. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on September 1, 2016 (put option execution) at par value.
- Non-convertible interest-bearing bonds of the series 13 with nominal value of RUB 4,000,000 thousand issued in July 2013 at fixed interest rate of 8.10% p.a. and maturing in July 2018. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on January 28, 2015 (put option execution) at par value (Note 29).
- Non-convertible interest-bearing bonds of the series 14 with nominal value of RUB 4,000,000 thousand issued in October 2014 at fixed interest rate of 11.40% p.a. and maturing in October 2019. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on April 13, 2016 (put option execution) at par value.
- Non-convertible interest-bearing bonds of the series 15 with nominal value of RUB 5,000,000 thousand issued in October 2013 at fixed interest rate of 8.30% p.a. and maturing in October 2018. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on April 12, 2016 (put option execution) at par value.
- Non-convertible interest-bearing documentary commercial papers of the series BO-02 with remaining nominal value of RUB 1,484,515 thousand out of RUB 4,000,000 thousand issued in March 2012 at fixed interest rate of 8.75% p.a. and maturing on March 2015. In September 2013 bonds of the series BO-02 were renewed partly (except 2,515,485 paper of RUB 2,515,485,000) at fixed rate of 8.05% p.a. to maturity date (Note 29).
- Non-convertible interest-bearing documentary commercial papers of the series BO-03 with remaining nominal value of RUB 1,632,296 thousand out of RUB 4,000,000 thousand issued in November 2012 at fixed interest rate of 10% p.a. and maturing in November 2015. Within the put option in November 2014 with the coupon rate set at 11.60% p.a. to maturity date bonds series BO-03 of RUB 2,617,704,000 were redeemed by the Bank of which RUB 250,000 thousand were sold in December 2014 on secondary market at the nominal price.
- Non-convertible interest-bearing documentary commercial papers of the series BO-07 with remaining nominal value of RUB 3,649,969 thousand out of RUB 4,000,000 thousand issued in April 2013 at fixed interest rate of 8.30% p.a. and maturing in April 2015. In April 2014 bonds of the series BO-07 were renewed at the share of 44% (RUB 2,229,768 thousand out of RUB 4,000,000 thousand) at fixed rate of 9.90% p.a. until the next put option in April 2015. In May 2014 RUB 1,420,201 thousand out of RUB 1,770,232 previously redeemed by the Bank were sold on secondary market with the fixed rate of 9.90% p.a (Note 29).
- Non-convertible interest-bearing bonds of the series BO-08 with nominal value of RUB 4,000,000 thousand issued in June 2014 at fixed interest rate of 9.70% p.a. and maturing in June 2019. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on June 15, 2015 (put option execution) at par value (Note 29).

(in thousands of Russian Rubles, unless otherwise indicated)

14. Debt securities issued (continued)

- Non-convertible interest-bearing bonds of the series BO-11 with nominal value of RUB 5,000,000 thousand issued in October 2014 at fixed interest rate of 11.70% p.a. and maturing in October 2019. These corporate bonds include a written put option allowing the investors to sell the corporate bonds back to the Bank on October 27, 2015 (put option execution) at par value.

In accordance with the term of the bonds issue to the Bank has to comply with the CBRF normatives. As at December 31, 2014 and 2013 the Bank was in compliance with such normatives.

15. Other borrowed funds

Other borrowed funds comprise:

	December 31, 2014	December 31, 2013
International Finance Corporation	1,525,544	1,515,482
Total borrowed funds	**1,525,544**	**1,515,482**

At December 31, 2014, the Bank had fully drawn a RUB 1,500,000 thousand loan from the International Finance Corporation (here in after “IFC”), in accordance with Loan agreement dated June 22, 2012.

The loan was granted in two tranches with maturity over 36 months from the dates of withdrawal and aimed to finance the sales of eco-friendly cars (so called “Green loans”). In accordance with the terms of the loan agreement, the loan is Ruble-denominated. The average interest rate at December 31, 2014 was 10.13% (at December 31, 2013: 10.13%). Under the loan agreement with IFC, the loan is secured with a guarantee from Société Générale and the Bank is obliged to meet the covenants.

At December 31, 2014 and 2013 the Bank was in compliance with these covenants.

16. Other liabilities

Other liabilities comprise:

	December 31, 2014	December 31, 2013
Other financial liabilities		
Accrued personnel expenses	894,802	609,801
Settlements on other operations	96,369	115,068
Accrued commission expenses	64,116	110,977
Provision for guarantees and other commitments	90,255	108,009
Accrued expenses on Bank re-invoicing general expenses	5,463	20,163
Collection services	3,335	5,568
Total other financial liabilities	**1,154,340**	**969,586**
Other non-financial liabilities		
Taxes payable, other than income tax	100,653	82,411
Other	10,979	2,309
Total other non-financial liabilities	**111,632**	**84,720**
Total other liabilities	**1,265,972**	**1,054,306**

(in thousands of Russian Rubles, unless otherwise indicated)

17. Equity

The Bank has the legal form of a limited liability company with a sole participant, PJSC Rosbank. (Note 1).

In accordance with the Russian legislation, the sole participant in limited liability companies could not unilaterally withdraw from the company. In accordance with the Bank’s Charter its participants can sell or otherwise transfer its share (or part thereof) to third parties without consent of other participants. According to the Charter the sole participant is not allowed to withdraw its share from the capital of the Bank.

In accordance with the Russian legislation concerning banks and banking activities, the Bank must allocate its profits to reserves on the basis of statutory accounting reports. As at December 31, 2014, the Bank's reserves under the Russian Accounting Standards amounted to RUB 8,380,721 thousand (2013: RUB 8,380,721 thousand) and included reserve fund and fund of material reward and accumulation fund.

In 2014 the Bank declared the distribution of the part of profit to its participant PJSC Rosbank – RUB 1,721,867 thousand for 2013 (2013: RUB 2,771,871).

18. Allowance for impairment losses and other provisions

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

	Car loans	Consumer lending	Direct sales	Plastic cards	Loans to legal entities	Total
December 31, 2012	**9,409,459**	**2,432,688**	**1,218,669**	**218,935**	**17,701**	**13,297,452**
Charge for allowance for impairment of loans to customers during the year	1,454,290	662,165	523,715	25,754	-	2,665,924
Loans to customers written off on cession	(1,333,673)	(1,201,081)	(466,870)	-	-	(3,001,624)
Loans to customers written off during the year as uncollectible	(122,017)	(96,175)	(28,123)	-	(17,701)	(264,016)
December 31, 2013	**9,408,059**	**1,797,597**	**1,247,391**	**244,689**	**-**	**12,697,736**
Charge for allowance for impairment of loans to customers during the year	1,473,559	922,424	905,241	18,200	32,058	3,351,482
Loans to customers written off on cession	(57,598)	(568,049)	(147,209)	(68,489)	-	(841,345)
Loans to customers written off during the year as uncollectible	(2,748,089)	(293,273)	(93,671)	-	-	(3,135,033)
December 31, 2014	**8,075,931**	**1,858,699**	**1,911,752**	**194,400**	**32,058**	**12,072,840**

During the year 2014 the Bank changed its write-off procedures for loans to customers.

(in thousands of Russian Rubles, unless otherwise indicated)

18. Allowance for impairment losses and other provisions (continued)

The movements in allowance on other assets and other provisions were as follows:

	Allowance for other financial assets	Allowance for other non-financial assets	Allowance for other liabilities	Total
December 31, 2012	**12,865**	**119,132**	**140,002**	**271,999**
Charge for allowance	2,238	41,857	88,877	132,972
Write-off	(5,850)	(52,618)	(120,870)	(179,338)
December 31, 2013	**9,253**	**108,371**	**108,009**	**225,633**
Charge/(recovery) for allowance	5,355	53,437	(1,228)	**57,564**
Write-off	(937)	(57,236)	(16,526)	**(74,699)**
December 31, 2014	**13,671**	**104,572**	**90,255**	**208,498**

19. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Fee and commission income		
Agents’ fees	1,033,959	924,560
SMS-informing	580,004	415,190
Plastic cards	40,124	60,589
Other	9,589	8,390
Total fee and commission income	**1,663,676**	**1,408,729**
Fee and commission expense		
Settlements	76,775	166,524
Encashment operations	46,815	40,021
Plastic cards	9,602	12,131
Other	28,876	10,198
Total fee and commission expense	**162,068**	**228,874**

Agents’ fees represent fees earned from insurance companies for directing the Bank’s borrowers to insure their collaterals.

(in thousands of Russian Rubles, unless otherwise indicated)

20. Other income

Other income comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Outsourcing income – banking and IT services	78,137	76,917
Cooperation contracts income	62,967	58,369
Sub-renting income – office spaces	40,284	39,519
Advertising	8,912	19,013
Write-off the unclaimed balances	10,420	17,567
Other	60,104	49,861
Total other income	**260,824**	**261,246**

21. Operating expenses

Operating expenses comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Staff costs	3,035,548	2,877,927
Social taxes	761,119	722,470
Rental	533,905	499,972
IT related services	264,070	192,991
Depreciation and amortization	234,324	214,908
Communications	151,820	129,552
Building maintenance and occupancy	124,492	153,985
Professional services	95,972	71,923
Advertising and marketing	85,823	130,193
Other personnel expenses	81,317	70,911
Expenses on Group re-invoicing of general expenses (except for structure expenses and staff expenses)	69,232	(345,869)
Travel expenses	68,931	65,922
Cash collection	64,132	316,129
Office supplies	53,742	47,234
Postal services	45,369	46,435
Other	170,248	212,917
Total operating expenses	**5,840,044**	**5,407,600**

During 2014 and 2013 the Bank incurred expenses in the amount of RUB 69,232 thousand and RUB 82,734 thousand respectively for intra-group corporate services rendered by Société Générale Group (Note 27). The amount presented in the table above for Group re-invoicing of general expenses includes RUB 428,603 thousand forgiven by Société Générale Group in 2013. Corporate services mainly include: support of the Bank in all areas of business, in its development projects and provision with the sale support, development and maintenance of information systems solutions, etc.

(in thousands of Russian Rubles, unless otherwise indicated)

22. Income taxes

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the RF.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses.

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

The statutory tax rate is 20%.

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

	December 31, 2014	December 31, 2013
Deductible temporary differences		
Other liabilities	1,057,320	826,376
Other assets	142,906	144,717
Due to credit institutions and customers	77,621	-
Financial assets at fair value through profit or loss	67,763	260
Total deductible temporary differences	**1,345,610**	**971,353**
Taxable temporary differences		
Loans to customers	(3,180,734)	(1,530,496)
Intangible assets	(197,742)	(242,805)
Property and equipment	(381,880)	(161,063)
Debt securities issued	(61,272)	(53,999)
Other borrowed funds	(7,378)	(17,440)
Total taxable temporary differences	**(3,829,006)**	**(2,005,803)**
Net deferred deductible temporary differences	(2,483,396)	(1,034,450)
Net deferred tax liability at the statutory tax rate (20%)	(496,679)	(206,890)
Net deferred tax liability	**(496,679)**	**(206,890)**

(in thousands of Russian Rubles, unless otherwise indicated)

22. Income taxes (continued)

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

	Year ended December 31, 2014	Year ended December 31, 2013
Profit before income tax	**3,019,970**	**3,786,652**
Tax at the statutory tax rate (20%)	603,994	757,330
Tax effect of permanent differences	49,794	92,257
Income tax expense	**653,788**	**849,587**
Current income tax expense	364,236	434,398
Changes in deferred income tax balances	289,552	415,189
Income tax expense	**653,788**	**849,587**

Deferred income tax assets and liabilitites	December 31, 2014	December 31, 2013
As at January 1 – deferred tax (liabilities)/assets	**(206,890)**	**208,818**
Changes in deferred income tax balances recognized in comprehensive income	(237)	(519)
Change in deferred income tax balances recognized in income statement	(289,552)	(415,189)
As at December 31- deferred tax liabilities	**(496,679)**	**(206,890)**

23. Commitments and contingencies

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

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

	December 31, 2014	December 31, 2013
Commitments on loans and unused credit lines	4,430,721	2,644,913
Total credit related commitments	**4,430,721**	**2,644,913**

(in thousands of Russian Rubles, unless otherwise indicated)

23. Commitments and contingencies (continued)

Commitments on loans and unused credit lines represent the unused portion of approved loans. With respect to loan commitments, the Bank is potentially exposed to a loss in the amount equal to total unused loan commitments. However, the likely amount of loss is less than the total unused loan commitments since most loan commitments are contingent upon customers maintaining specific creditworthiness standards. The Bank monitors the remaining maturities under its loan commitments since longer-term commitments usually have a greater degree of credit risk than short-term commitments.

The total outstanding amount under undrawn loan commitments does not necessarily represent future cash requirements since these commitments may expire or be cancelled without being funded.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of offices are as follows:

	December 31, 2014	December 31, 2013
Less than 1 year	471,501	382,769
Later than 1 year and not later than 5 years	150,017	362,103
Total operating lease commitments	**621,518**	**744,872**

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management created a provision against such legal claims as is described below.

The Bank charged fees on issuance and maintenance of specific loans and advances to customers up until 2010. Some of the borrowers filed court claims against the Bank for charging those fees in addition to the interest charges. The Bank has lost most of such cases in courts. All claims made by the borrowers against the Bank as at the reporting dates are provided for the amount of such claims (RUB 89,252 thousand as of December 31, 2014 and RUB 106,786 thousand as of December 31, 2013).

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

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The tax authorities may assess additional tax charges in respect of certain transactions, including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Bank's transfer pricing positions by the tax authorities cannot be reliably estimated.

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

23. Commitments and contingencies (continued)

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. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Operating Environment. Emerging markets such as Russia 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 Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia 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 Bank’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 Bank is at this stage difficult to determine.

24. Fair value of financial instruments

Fair value is defined 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.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

Financial and non-financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

24. Fair value of financial instruments (continued)

Fair value of the Bank’s financial assets and financial liabilities measured at fair value on a recurring basis. Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. 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	Fair value as at December 31, 2014	Fair value as at December 31, 2013	Fair value hierarchy	Valuation technique(s) and key input(s	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss (Note 8)	-	3,151	Level 1	Quoted bid prices in an active market.	-	-
Financial liabilities at fair value through profit or loss (Note 8)	(80,505)	(5,467)	Level 1	Quoted bid prices in an active market.	-	-

There were no transfers between Level 1 and 2 in the period. The Bank’s policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required). The following methods and significant assumptions have been applied to estimate the fair values of financial instruments:

- Cash and balances with the CBR and minimum reserve deposit with the CBR due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of loans advanced to banks and loans to customers where such loans provided during the period of less than 3 month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the current market rates offered on similar products with the deduction of the allowances for credit losses from the calculated fair value amounts.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The carrying value of term deposits (included in customer accounts and due to credit institutions) for term deposits placed during the period of less than 3 month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates offered on similar deposits.
- The carrying amount of customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liabilities.
- The fair value of issued bonds is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds where market rates are quoted.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Fair value of financial instruments (continued)

Set out below is comparison by category of carrying amount and fair value of all the Bank’s financial instruments:

	31 December 2014		31 December 2013	
	Net carrying amount	**Fair value**	**Net carrying amount**	**Fair value**
Financial assets				
Loans to customers	103,250,889	91,590,874	102,500,612	98,311,258
Financial liabilities				
Due to credit institutions	(22,874,530)	(21,810,339)	(32,848,510)	(33,550,545)
Due to customers	(29,654,933)	(28,643,939)	(21,017,356)	(20,989,002)
Other borrowed funds	(1,525,544)	(1,462,374)	(1,515,482)	(1,737,835)
Debt securities issued	(37,785,439)	(36,585,763)	(27,402,413)	(27,493,691)

31 December 2014	**Quoted prices in active market (Level 1)**	**Valuation techniques using observable inputs (Level 2)**	**Total**
Financial assets			
Loans to customers	-	91,590,874	92,108,115
Financial liabilities			
Due to credit institutions	-	(21,810,339)	(21,810,339)
Due to customers	-	(28,643,939)	(28,643,939)
Other borrowed funds	-	(1,462,374)	(1,462,374)
Debt securities issued	(36,585,763)	-	(36,585,763)

31 December 2013	**Quoted prices in active market (Level 1)**	**Valuation techniques using observable inputs (Level 2)**	**Total**
Financial assets			
Loans to customers		98,311,258	98,311,258
Financial liabilities			
Due to credit institutions		(33,550,545)	(33,550,545)
Due to customers	-	(20,989,002)	(20,989,002)
Other borrowed funds	-	(1,737,835)	(1,737,835)
Debt securities issued	(27,493,691)	-	(27,493,691)

(in thousands of Russian Rubles, unless otherwise indicated)

25. Capital risk management

As at December 31, 2014 and 2013 the Bank complied in full with all its externally imposed capital requirements.

CBR capital adequacy ratio. The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian Accounting Standards. As at December 31, 2014 and 2013, the Bank’s capital adequacy ratio on this basis was as follows:

	December 31, 2014	December 31, 2013
Capital	**20,849,916**	**21,951,071**
Risk weighted assets	**141,859,722**	**127,306,526**
Capital adequacy ratio	14.70%	17.24%

Regulatory capital consists of core capital, which comprises participant's contributions and retained earnings, including current year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CBR. The other component of regulatory capital is supplementary capital, which includes subordinated long-term debt and revaluation reserves.

The following table analyzes the Bank’s regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Capital Accord 2004 (Basel II) for the years ended December 31, 2014 and 2013.

For Basel II ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill and intangible assets.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus

	December 31, 2014	December 31, 2013
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	12,016,960	12,016,960
Reserves	13,158,275	12,513,960
Gross tier 1 capital	**25,175,235**	**24,530,920**
Deduct: all intangibles	(399,307)	(265,031)
Total qualifying tier 1 capital	**24,775,928**	**24 265 889**
Property and equipment revaluation reserve	56,896	55,946
Hedge reserve	(12,742)	(2,113)
Total regulatory capital	**24,820,082**	**24,319,722**
Risk weighted assets	**111,105,238**	**105,329,427**
Capital Ratios:		
Tier 1 capital	22.30%	23.04%
Total capital	**22.34%**	23.09%

25. Capital risk management (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets. As at December 31, 2014 and 2013, the Bank complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavourable changes in market conditions and minimize liquidity risk. The capital management policy supports the participant’s vision and strategy of long-term Bank’s development.

26. Risk management policies

Introduction*.* Risk is inherent in the Bank’s activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

Systems of risks assessment and communication of information about risks*.* The Bank’s risks are measured by a method which reflects both expected losses which are likely to arise in normal circumstances, and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. These models utilize the probability values generated from the prior experience and are adjusted to reflect the economic environment. The Bank also runs worst case scenarios that consider occurrence of extreme events that are generally unlikely to occur.

Monitoring and control of risks are chiefly based on the limits established by the Bank. Such limits reflect the business strategy and the market conditions, in which the Bank is operating, as well as the risk level the Bank is ready to accept in the context of various types of activities. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Mitigation of risk*.* Within the framework of risk management, the Bank uses derivatives and other instruments for managing the interest rate, exchange rate exposures and the credit risk.

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

- Credit risk;
- Liquidity risk;
- Market risk;
- Concentration risk;
- Operational risk.

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

26. Risk management policies (continued)

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

The Bank manages credit risk by:

- Implementation of a decision making procedure based on centralized assessments of credit risks by the Credit Risk department (independent from commercial and sales units) in coordination with other departments (business protection department, commercial departments and regional network) and providing standardized, fast and traceable credit decisions;
- Management of a system of limits that requires establishing critical risk ratios by types of borrowers and portfolios;
- Implementation of credit risk indicators and monitoring procedures for early identification of potential bad debts and mitigating negative trends;

A number of Committees as described below are integral in the credit risk management process.

The Bank has established the Credit Committee which is responsible for the oversight of credit risk.

Credit risk for retail loans is managed by establishing standard lending conditions and setting profitability targets on each portfolio of homogeneous loans.

The Credit Committee is involved in approval of large new loans and in changes and amendments to the existing loan agreements. The Asset and Liability Committee takes decisions on establishing limits for transactions with financial assets, which are associated with credit risks. The Board of Directors or the Management Board approves new large loans. Credit Risk Department assesses the level of credit risk in respect of each instrument and submits the results of such assessment to the above mentioned committees for their consideration. Credit Risk Department is also responsible for current monitoring and control over credit risks.

Credit risk for off-balance sheet financial instruments is defined as the probability of losses due to failure of the counterparty to comply with the contractual terms and conditions. The Bank applies the same credit policy to the credit related commitments as it does to financial instruments recognized in the statement of financial position, using the approved loan limits and risk level limits in accordance with the established control procedures.

The Credit Risk Management Committee is responsible for establishing and controlling the compliance with critical credit risk ratios. Partner Committees (partners are the Bank’s agents through which certain loans are issued) are operational committees responsible for implementation of credit risk mitigating measures towards partners.

The Internal Control Department is responsible for the control over compliance with the credit risk management requirements and procedures and reporting of information on credit risk positions to the Board of Directors.

Maximum credit risk exposure. The Banks maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

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

	Gross maximum exposure December 31, 2014	Collateral December 31, 2014	Net exposure December 31, 2014	Gross maximum exposure December 31, 2013	Collateral December 31, 2013	Net exposure December 31, 2013
Cash and cash equivalents (excluding cash on hand)	12,790,693	-	12,790,693	4,147,472	-	4,147,472
Financial assets at fair value through profit or loss	-	-	-	3,151	-	3,151
Loans to customers	103,250,889	88,020,244	16,393,050	102,500,612	89,051,230	13,449,382
Other financial assets	393,431	-	393,431	283,137	-	283,137
	116,435,013	**88,020,244**	**29,577,174**	**106,934,372**	**89,051,230**	**17,883,142**
Commitments on loans and unused credit lines	4,430,721	-	4,430,721	2,644,913	-	2,644,913
Total credit risk exposure	**120,865,734**	88,020,244	**34,007,895**	**109,579,285**	**89,051,230**	**20,528,055**

***Credit quality per class of financial assets*.** Loans provided by the Bank are classified as follows:

- Loans extended to other credit institutions;
- Loans extended to legal entities;
- Loans extended to individuals, including:
  - Car loans;
  - Consumer loans;
  - Direct sales;
  - Credit cards.

Certain financial institutions – bank’s counterparties are graded according to the current credit ratings they have given by internationally regarded agencies such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade ratings range from AAA to BBB. Financial assets which have ratings below BBB are classed as speculative grade.

As at 31 December 2014 and 2013 balances with the CBR amounted to RUB 8,027,693 thousand and RUB 4,359,768 thousand respectively. In 2014 the rating of Russian Federation corresponded to the investment level: Fitch – BBB, Standard and Poor’s – BBB-; Moody’s – Baa2.

Loans extended to legal entities, to individuals and other assets are not rated and are not included in the table below.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The following table details credit ratings of financial assets held by the Bank as at December 31, 2014 (note: the rating of credit indtitutions are updated after the downgrading of sovereign rating of Russian Federation in January, 2015):

	A	BBB	Not rated	Total at December 31, 2014
Cash and cash equivalents				
Current accounts with the CBR	-	7,619,184	-	7,619,184
Minimum reserve deposit with the CBR	-	408,509	-	408,509
Current accounts with other credit institutions	-	254,747	1,674	256,421
Time deposits with credit institutions up to 90 days	-	4,915,088	-	4,915,088
Total financial assets	**-**	**13,197,528**	**1,674**	**13,199,202**

As at December 31, 2013:

	A	BBB	Not rated	Total at December 31, 2013
Cash and cash equivalents:				
Current accounts with the CBR	-	4,050,635	-	4,050,635
Minimum reserve deposit with the CBR	-	309,133	-	309,133
Current accounts with other credit institutions	2,362	92,820	1,655	96,837
Total financial assets	**2,362**	**4,452,588**	**1,655**	**4,456,605**

Geographical concentration*.* Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular branch or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The geographical concentration of assets and liabilities as at December 31, 2014 is set out below:

		2014		
	RF	OECD countries	Other non-OECD countries	December 31, 2014 Total
FINANCIAL ASSETS				
Cash and cash equivalents	13,198,724	2,924	-	13,201,648
Minimum reserve deposit with the CBR	408,509	-	-	408,509
Loans to customers	103,250,889	-	-	103,250,889
Other financial assets	15,453	377,978	-	393,431
TOTAL FINANCIAL ASSETS	**116,873,575**	**380,902**	**-**	**117,254,477**
FINANCIAL LIABILITIES				
Due to credit institutions	15,799,890	7,074,640	-	22,874,530
Due to customers	29,654,929	4	-	29,654,933
Other borrowed funds	-	1,525,544	-	1,525,544
Debt securities issued	37,785,439	-	-	37,785,439
Financial liabilities at fair value through profit or loss	-	80,505	-	80,505
Other financial liabilities	830,155	324,185	-	1,154,340
TOTAL FINANCIAL LIABILITIES	**84,070,413**	**9,004,878**	**-**	**93,075,291**
NET BALANCE SHEET POSITION	**32,803,162**	**(8,623,976)**	**-**	**24,179,186**
NET OFF-BALANCE SHEET POSITION	**4,430,721**	**-**	**-**	**4,430,721**

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The geographical concentration of assets and liabilities as at December 31, 2013 is set out below:

		2013		
	RF	**OECD countries**	**Other non-OECD countries**	**December 31, 2013 Total**
FINANCIAL ASSETS				
Cash and cash equivalents	4,480,268	2,338	-	4,482,606
Minimum reserve deposit with the CBR	309,133	-	-	309,133
Financial assets at fair value through profit or loss	-	3,151	-	3,151
Loans to customers	102,500,612	-	-	102,500,612
Other financial assets	188,492	94,645	-	283,137
TOTAL FINANCIAL ASSETS	**107,478,505**	**100,134**	**-**	**107,578,639**
FINANCIAL LIABILITIES				
Due to credit institutions	18,542,515	14,305,995	-	32,848,510
Due to customers	21,017,350	2	4	21,017,356
Other borrowed funds	-	1,515,482	-	1,515,482
Debt securities issued	27,402,413	-	-	27,402,413
Financial liabilities at fair value through profit or loss	-	5,467	-	5,467
Other financial liabilities	818,596	150,990	-	969,586
TOTAL FINANCIAL LIABILITIES	**67,780,874**	**15,977,936**	**4**	**83,758,814**
NET BALANCE SHEET POSITION	**39,697,631**	**(15,877,802)**	**(4)**	**23,819,825**
NET OFF-BALANCE SHEET POSITION	**2,644,913**	**-**	**-**	**2,644,913**

As at December 31, 2014 and 2013, the negative net position with OECD countries is primarily caused by the loans received from Société Générale.

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The liquidity risk is defined as a mismatch of asset and liability maturity periods.

The liquidity is managed and controlled by:

- The Treasury, which is responsible for current liquidity management;
- The Internal Control Department in respect of control over the compliance with liquidity management requirements and procedures, and reporting of liquidity ratios to the Board of Directors.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The liquidity management system includes:

- Determination of an adequate level of liquid assets;
- Determination of the amount of liquid assets required to meet obligations in crisis environment through stress-testing (on a regular basis);
- Contingency funding plans in case of significant outflow of liabilities resulted from a force-majeure;
- Report on current and forecasted level of short-term liquidity on the basis of the payment schedule and a forecast of resource needs produced on a daily basis;
- Liquidity position with a gap analysis that is prepared on a monthly basis;
- Control over compliance of the financial position liquidity ratios with mandatory liquidity ratios.

The liquidity management system enables adequate assessment of cash inflows and outflows for various future time intervals, and timely decision-making with a view to cover liquidity gaps.

The Bank implements a prudent approach for assessment of medium-term and long-term liquidity, using the earliest possible estimated maturities for contractual liabilities and the latest possible estimated maturities for assets.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. The Bank was in compliance with these ratios during the years ended December 31, 2014 and 2013.

The Bank’s liquidity is maintained at a sufficient level, and in the event of unfavourable conditions resulting in a decrease in liquidity, the Bank has at its disposal all necessary means which, in a relatively short period of time, facilitates bringing the liquidity to a level which is secure for the Bank. With the purpose of maintaining quick liquidity, standby facilities are available from other banks in a size sufficient to make payments on commitments without delay.

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
FINANCIAL ASSETS							
Cash and cash equivalents	13,201,648	-	-	-	-	-	**13,201,648**
Minimum reserve deposit with the CBR	-	-	-	-	-	408,509	**408,509**
Loans to customers	9,270,457	13,240,621	39,804,991	40,934,719	101	-	**103,250,889**
Other financial assets	83,561	140,102	368	169,400	-	-	**393,431**
Total financial assets	**22,555,666**	**13,380,723**	**39,805,359**	**41,104,119**	**101**	**408,509**	**117,254,477**
FINANCIAL LIABILITIES							
Due to credit institutions	1,186,477	3,801,943	14,386,110	3,500,000	-	-	**22,874,530**
Due to customers	10,271,122	1,956,345	10,047,402	7,380,064	-	-	**29,654,933**
Other borrowed funds	32,923	-	497,990	994,631	-	-	**1,525,544**
Debt securities issued	4,133,106	1,718,609	19,960,020	11,973,704	-	-	**37,785,439**
Financial liabilities at fair value through profit or loss	-	33,509	-	46,996	-	-	**80,505**
Other financial liabilities	564,007	421,189	8,792	160,352	-	-	**1,154,340**
Total financial liabilities	**16,187,635**	**7,931,595**	**44,900,314**	**24,055,747**	**-**	**-**	**93,075,291**
Liquidity gap	**6,368,031**	**5,449,128**	**(5,094,955)**	**17,048,372**	**101**	**408,509**	**24,179,186**
Cumulative liquidity gap	**6,368,031**	**11,817,159**	**6,722,204**	**23,770,576**	**23,770,677**	**24,179,186**	
Cumulative gap as a percentage of total financial assets	5.43%	10.08%	5.73%	20.27%	20.27%	20.62%	

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients’ and banking operations, which is a part of assets/liabilities management process. The liquidity gaps as of December 31.2014 were calculated given the intrinsic early repayment effect of customers loans, whereas gap analysis as of end of 2013 was built basing on contractual maturity of operations. Bank manages liquidity gaps through arranging new bonds placement or borrowing of corporate deposits and interbank loans, including funds from related parties.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2013 Total
FINANCIAL ASSETS							
Cash and cash equivalents	4,482,606	-	-	-	-	-	4,482,606
Minimum reserve deposit with the CBR	-	-	-	-	-	309,133	309,133
Financial assets at fair value through profit or loss	-	-	3,151	-	-	-	3,151
Loans to customers	5,225,656	9,011,155	31,356,950	56,905,050	1,801	-	102,500,612
Other financial assets	158,633	20	223	124,261	-	-	283,137
Total financial assets	**9,866,895**	**9,011,175**	**31,360,324**	**57,029,311**	**1,801**	**309,133**	**107,578,639**
FINANCIAL LIABILITIES							
Due to credit institutions	2,865,096	5,325,984	13,367,430	11,290,000	-	-	32,848,510
Due to customers	3,619,881	2,718,764	8,075,051	6,603,660	-	-	21,017,356
Other borrowed funds	32,922	-	-	1,482,560	-	-	1,515,482
Debt securities issued	223,563	125,279	12,893,152	14,160,419	-	-	27,402,413
Financial liabilities at fair value through profit or loss	-	-	-	5,467	-	-	5,467
Other financial liabilities	782,033	46,718	10,205	130,630	-	-	969,586
Total financial liabilities	**7,523,495**	**8,216,745**	**34,345,838**	**33,672,736**	**-**	**-**	**83,758,814**
Liquidity gap	**2,343,400**	**794,430**	**(2,985,514)**	**23,356,575**	**1,801**	**309,133**	**23,819,825**
Cumulative liquidity gap	**2,343,400**	**3,137,830**	**152,316**	**23,508,891**	**23,510,692**	**23,819,825**	
Cumulative gap as a percentage of total financial assets	2.18%	2.92%	0.14%	21.85%	21.85%	22.14%	

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank has received significant funding from Société Générale Group –related parties to the Bank. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 13).

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

Further is analysis of liquidity and interest rate risks:

(a) Term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability;

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

(c) Estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

The following tables show the undiscounted cash flows on the financial liabilities on the basis of their earliest possible contractual maturities. The expected cash flows on these financial liabilities may vary significantly from this analysis.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2014 Total
FINANCIAL LIABILITIES					
Due to credit institutions	1,218,052	4,111,303	15,588,438	3,862,983	24,780,776
Due to customers	14,295,499	2,043,832	10,988,131	8,337,183	35,664,645
Other borrowed funds	38,832	-	615,229	1,025,683	1,679,744
Debt securities issued	4,161,560	1,857,156	22,048,153	12,759,810	40,826,679
Financial liabilities at fair value through profit or loss	-	33,509	-	46,996	80,505
Other financial liabilities	564,007	421,189	8,792	160,352	1154,340
TOTAL FINANCIAL LIABILITIES	**20,277,950**	**8,466,989**	**49,248,743**	**26,193,007**	**104,186,689**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2013 Total
FINANCIAL LIABILITIES					
Due to credit institutions	2,888,600	5,480,595	14,480,950	12,682,222	35,532,367
Due to customers	5,702,279	2,753,937	8,436,693	7,932,941	24,825,850
Other borrowed funds	38,832	-	115,228	1,679,744	1,833,804
Debt securities issued	244,934	209,891	14,298,782	15,333,863	30,087,470
Financial liabilities at fair value through profit or loss	-	-	-	5,467	5,467
Other financial liabilities	782,033	46,718	10,205	130,630	969,586
TOTAL FINANCIAL LIABILITIES	**9,656,678**	**8,491,141**	**37,341,858**	**37,764,867**	**93,254,544**

***Market risk*.** Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange, and equity prices. The Bank manages and controls the risk on a non-trading portfolio (the Bank does not have a trading portfolio) using a sensitivity analysis. The Bank has no significant concentration of market risk.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

Interest rate risk. Interest rate risk occurs due to the possibility that interest rate changes may influence future cash flows or fair market value of financial instruments.

The interest risk level is measured quantitatively by using a sensitivity index. The methodology is validated by Societe Generale Group. The sensitivity index represents a change in the Bank’s net present value when the interest curve is shifted by 100 basis points with current time profiles of assets and liabilities in the statement of financial position of the Bank. Additionally Bank performs a yearly stress-test to assess the impact on Bank’s net present value in case the market interest rates shift by 400 basis points.

The sensitivity index calculation is based on the analysis of gaps in the Bank’s maturity profile and is analyzed by currency and quarterly time periods.

The table below represents the sensitivity indices for all the currencies (in RUB thousand) as at December 31, 2014 and 2013 and shows the impact on the Bank net present financial value under a yield parallel shift of a 100 basis points:

	December 31, 2014				December 31, 2013			
	Short-term	Medium-term	Long-term	Total	Short-term	Medium-term	Long-term	Total
Sensitivity indexes	**36,007**	**(121,542)**	**427,029**	**341,494**	**(28,929)**	**37,693**	**562,666**	**571,430**

Analysis of the sensitivity level for 2014 and 2013 demonstrates if market interest rates were 100 basis points higher and all other variables were held constant, the Bank’s net present value for the year ended December 31, 2014 would increase by RUB 341,494 thousand (December 31, 2013: RUB 571,430 thousand) or EUR 4,721 thousand (December 31, 2013: EUR 12,608 thousand).

The interest rate risk is well managed by the Bank with taking into account such behavioural factors as prepayment of customer loans or outflows of sight deposits through the relevant models applied. Bank shall take measures to optimize the level of interest rate risk in case it gets to the crucial value.

Currency risk. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank operates within the limits on currency in accordance with both the CBR and Société Générale regulations.

The aim of currency risk management is evaluation of potential loss at early stages and taking measures to provide protection against currency risks. Currency risk management may be described as a strategic process aimed at prevention of exposure from unexpected currency rate fluctuations

Key methods of currency risk management:

- Currency position limits;
- Use of an appropriate funding in a foreign currency and derivatives.

Financial position and cash flows of the Bank are subject to the influence of foreign currency exchange rate fluctuations. To minimize currency risk, the Bank performs monitoring of open currency positions on a daily basis. The limits are determined both for each currency and for the total open currency position.

The Bank also manages currency risk by either borrowing in an appropriate foreign currency to match assets with liabilities or entering into forward delivery contracts, and thus allowing for minimization of loss due to significant fluctuations of national and foreign currency exchange rates. Since most of the balances and cash flows of the Bank are expressed in RUB the currency risk is evaluated as low.

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The Bank’s exposure to foreign currency exchange rate risk as at December 31, 2014 is presented in the table below:

	RUB	**US Dollar** USD 1 = 56,2584 RUR	**Euro** EUR 1 = 68,3427 RUR	**December 31, 2014 Total**
Financial assets				
Cash and cash equivalents	13,001,565	107,932	92,151	13,201,648
Minimum reserve deposit with the CBR	408,509	-	-	408,509
Loans to customers	103,219,271	31,618	-	103,250,889
Other financial assets	112,530	1,035	279,866	393,431
Total financial assets	**116,741,875**	**140,585**	**372,017**	**117,254,477**
Financial liabilities				
Due to credit institutions	22,822,731	51,799	-	22,874,530
Due to customers	29,539,474	107,310	8,149	29,654,933
Other borrowed funds	1,525,544	-	-	1,525,544
Debt securities issued	37,785,439	-	-	37,785,439
Financial liabilities at fair value through profit or loss	-	-	80,505	80,505
Other financial liabilities	826,784	2,012	325,544	1,154,340
Total financial liabilities	**92,499,972**	**161,121**	**414,198**	**93,075,291**
OPEN BALANCE SHEET POSITION	**24,241,903**	**(20,536)**	**(42,181)**	**24,179,186**
Payables on foreign currency forwards	-	-	-	-
Receivables on foreign currency forwards	-	-	-	-
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	-	-	-	-
TOTAL NET POSITION	**24,241,903**	**(20,536)**	**(42,181)**	**24,179,186**

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

The Bank’s exposure to foreign currency exchange rate risk as at December 31, 2013 is presented in the table below:

	RUB	**US Dollar** 1 US Dollar = RUB 32.7292	**Euro** 1 Euro = RUB 44.9699	**December 31, 2013 Total**
Financial assets				
Cash and cash equivalents	4,451,337	4,220	27,049	4,482,606
Minimum reserve deposit with the CBR	309,133	-	-	309,133
Financial assets at fair value through profit or loss	-	1,973	1,178	3,151
Loans to customers	102,435,506	65,106	-	102,500,612
Other financial assets	188,491	1	94,645	283,137
Total financial assets	**107,384,467**	**71,300**	**122,872**	**107,578,639**
Financial liabilities				
Due to credit institutions	32,796,096	52,414	-	32,848,510
Due to customers	20,614,456	322,746	80,154	21,017,356
Other borrowed funds	1,515,482	-	-	1,515,482
Debt securities issued	27,402,413	-	-	27,402,413
Financial liabilities at fair value through profit or loss	-	-	5,467	5,467
Other financial liabilities	824,305	538	144,743	969,586
Total financial liabilities	**83,152,752**	**375,698**	**230,364**	**83,758,814**
OPEN BALANCE SHEET POSITION	**24,231,715**	**(304,398)**	**(107,492)**	**23,819,825**
Payables on foreign currency forwards	(374,268)	-	-	(374,268)
Receivables on foreign currency forwards	-	296,907	77,361	374,268
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(374,268)	296,907	77,361	-
TOTAL NET POSITION	**23,857,447**	**(7,491)**	**(30,131)**	**23,819,825**

(in thousands of Russian Rubles, unless otherwise indicated)

26. Risk management policies (continued)

Currency risk sensitivity**.** The following table details the Bank’s sensitivity to a 20% increase and decrease in the RUB against the US Dollar and EURO. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Bank where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the RUB strengthens 20% against the relevant currency. For a 20% weakening of the RUB against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

Impact on profit before tax and equity based on asset values as at December 31, 2014 and 2013:

Currency	Change in currency rate in % 2014	Effect on profit before tax 2014	Effect on equity 2014	Change in currency rate in % 2013	Effect on profit before tax 2013	Effect on equity 2013
US Dollar	25%	(5,134)	(4,107)	25%	(1,873)	(1,498)
	-25%	5,134	4,107	-25%	1,873	1,498
Euro	25%	(10,545)	(8,436)	25%	(7,533)	(6,026)
	-25%	10,545	8,436	-25%	7,533	6,026
Total	**25%**	**(15,679)**	**(12,543)**	**25%**	**(9,406)**	**(7,524)**
	-25%	**15,679**	**12,543**	**-25%**	**9,406**	**7,524**

In management’s opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Limitations of sensitivity analysis**.** The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

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

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

26. Risk management policies (continued)

Operational risks. Operational risk arises from:

- Internal processes and procedures which are not appropriate given the nature and size of the business and/(or) current legislation;
- Failure to comply with internal processes and procedures by the employees or other parties as a result of incompetence, unintentional or intentional actions or by omission;
- Lack of functional capabilities, information, technological and another systems used by the Bank and/(or) their failures;
- External events.

The Bank considers the following types of operational risk:

- Personnel risk is the risk of losses resulting from potential errors, fraud actions, insufficient qualification of the employees;
- Process risk is the risk of losses resulting from errors in the processes of conducting operations, settlement of transactions, their accounting and recognition in the financial statements, etc.;
- Technology risk is the risk of losses resulting from inadequate technologies used, insufficient system capacity, use of systems which are inadequate for operations conducted, low quality of data processing or inadequacy of data used, etc.;
- Environment risk is the risk of losses resulting from non-financial changes in the environment, in which the Bank operates, including changes in legislation, political changes, etc.

Operational risk is measured and managed by:

- Performing special and general reviews in order to assess the risk of losses resulting from errors in operational processes and settlements of transactions, their accounting and recognition in the financial statements and control over implementation of correcting measures;
- Maintaining of the losses database, which contains information on losses, failures and irregularities of business processes and control over implementation of correcting measures;
- Preliminary assessment (procedure of preliminary assessment by a business-unit not responsible for conducting operating activities) of internal regulatory acts which limit operational risks and introduce internal regulating processes for existence and adequacy of control mechanisms;
- Assessment of existing system of segregation of duties and responsibilities, etc.;
- Assessment of information on failures in the operational process;
- Compliance with the Russian legislation, requirements of the CBR and internal banking documents;
- The Bank has developed and implemented a system of assessment of the operational risk exposure in business units.

The management believes that their procedures mitigate the risk of an operational risk occurring. The Internal Audit Service is responsible for control over compliance with the operational risk management requirements and procedures and reporting of information on the level of operational risk to the Board of Directors.

27. Transactions with related parties

For the purposes of these financial statements, parties are considered to be as defined by IAS 24 “Related Party Disclosures”:

(a) A person or a close member of that person’s family is related to the Bank if that person:
  (i) has control or joint control over the Bank;
  (ii) has significant influence over the Bank; or
  (iii) is a member of the key management personnel of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:
  (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  (iii) Both entities are joint ventures of the same third party.
  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the reporting entity is itself such a plan, the sponsoring employers are also related to the Bank.
  (vi) The entity is controlled or jointly controlled by a person identified in (a).
  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Russian Rubles, unless otherwise indicated)

27. Transactions with related parties (continued)

Details of balances and transactions between the Bank and related parties are disclosed below:

	December 31, 2014		December 31, 2013	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Cash and cash equivalents	**3,916,145**	**13,201,648**	**54,271**	**4,482,606**
- participant and ultimate controlling party	3,914,471		52,616	
- entities controlled by the participant and ultimate controlling party	1,674		1,655	
Loans to customers	**1,812**	**103,250,889**	**-**	**102,500,612**
- key management personnel of the Bank or its participant and ultimate controlling parent	1,812		-	-
Financial assets at fair value through profit or loss	**-**	**-**	**3,151**	**3,151**
- participant and ultimate controlling party	-		3,151	
Other assets	**357,737**	**1,144,976**	**141,953**	**601,649**
- participant and ultimate controlling party	326,470		110,205	
- entities controlled by the Participant and ultimate controlling party	31,267		31,748	
Due to credit institutions	**(19,335,335)**	**(22,874,530)**	**(30,813,939)**	**(32,848,510)**
- participant and ultimate controlling party	(17,908,712)		(28,309,769)	
- entities controlled by the participant and ultimate controlling party	(1,426,623)		(2,504,170)	
Due to customers	**(8,372,674)**	**(29,654,933)**	**(8,143,771)**	**(21,017,356)**
- entities controlled by the participant and ultimate controlling party	(8,371,011)		(8,143,115)	
- key management personnel of the Bank or its participant and ultimate controlling parent	(1,663)		(656)	
Debt securities issued	**(7,439,388)**	**(37,785,439)**	**(1,533,506)**	**(27,402,413)**
- participant and ultimate controlling party	(6,811,392)		(1,409,524)	
- entities controlled by the Participant and ultimate controlling party	(627,996)		(123982)	
Financial liabilities at fair value through profit or loss	**(80,505)**	**(80,505)**	**(5,467)**	**(5,467)**
- participant and ultimate controlling party	(80,505)		(5,467)	
Other liabilities	**(19,311)**	**(1,265,972)**	**(48,627)**	**(1,054,306)**
- participant and ultimate controlling party	(13,687)		(36,075)	
- entities controlled by the Participant and ultimate controlling party	(5,624)		(12,552)	

(in thousands of Russian Rubles, unless otherwise indicated)

27. Transactions with related parties (continued)

Included in the income statement for the years ended December 31, 2014 and 2013 are the following amounts which were recognized in transactions with related parties:

	December 31, 2014		December 31, 2013	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	**261,233**	**17,418,784**	**171,234**	**16,775,888**
- participant and ultimate controlling party	261,145		171,174	
- key management personnel of the Bank or its participant and ultimate controlling parent	88		60	
Interest expense	**(2,463,414)**	**(7,011,404)**	**(3,347,608)**	**(6,283,313)**
- participant and ultimate controlling party	(1,766,055)		(2,767,294)	
- entities controlled by the participant and ultimate controlling party	(697,357)		(580,313)	
- key management personnel of the Bank or its participant and ultimate controlling parent	(2)		(1)	
Net gain on financial instruments at fair value through	**34,732**	**34,732**	**11,881**	**11 881**
- participant and ultimate controlling party	34,732		11,881	
Net gain on foreign exchange operations	**19**	**64,516**	**845**	**47,591**
- entities controlled by the participant and ultimate controlling party	-		841	
- key management personnel of the Bank or its participant and ultimate controlling parent	19		4	
Fee and commission income	**430,996**	**1,663,676**	**338,370**	**1,408,729**
- participant and ultimate controlling party	2,883		1,538	
- entities controlled by the participant and ultimate controlling party	428,113		336,831	
- key management personnel of the Bank or its participant and ultimate controlling parent	-		1	
Fee and commission expense paid	**(81,948)**	**(162,068)**	**(180,270)**	**(228,874)**
- participant and ultimate controlling party	(52,714)		(146,702)	
- entities controlled by the participant and ultimate controlling party	(29,234)		(33,568)	
Other income	**135,504**	**260,824**	**86,411**	**261,246**
- participant and ultimate controlling party	88,541		42,449	
- entities controlled by the participant and ultimate controlling party	46,963		43,962	
Operating expenses	**(95,962)**	**(5,840,044)**	**153,576**	**(5,407,600)**
- participant and ultimate controlling party	(78,378)		345,840	
- entities controlled by the participant and ultimate controlling party	(17,584)		(192,264)	

(in thousands of Russian Rubles, unless otherwise indicated)

27. Transactions with related parties (continued)

The Bank has not issued guarantees to related parties as of December 31, 2014 (RUB 30,000 thousand as of December 31, 2013 for annual interest rate of 2 %).

Société Générale (ultimate controlling party of the Bank) provided a guarantee on behalf of the Bank under the Loan agreement between the Bank and IFC dated June 22, 2012 (Note 15). The amount of the guarantee as at 31 December 2014 is RUB 1,800,000 thousand.

The remuneration of directors and key management was as follows:

	December 31, 2014		December 31, 2013	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- salaries and bonuses	63,713	3,035,548	44,943	2,877,927
- social taxes	5,293	761,119	3,252	722,470
Total	69,006	**3,796,667**	**48,195**	**3,600,397**

28. Share based payments

In November 2010, the Bank adopted a share equivalent plan (the “Share Plan”), granting 40 Société Générale Performance Shares equivalent (“the Performance Shares”) to employees of the Bank, subject to conditions of presence and performance. The purpose of the Share Plan is to offer to the Bank’s employees a cash bonus payable in local currency equal in value to the performance shares received by employees of Société Générale Group in other countries through its similar Share Plan launched at the same date. The beneficiaries are all employees and executive corporate officers who are part of the Bank as of the date the Share Plan is adopted. The vesting conditions are as follows:

1. Vesting period:
   (a) For the first tranche, concerning 16 Performance Shares equivalent, the vesting period will expire on March 31, 2015;
   (b) For the second tranche, concerning 24 Performance Shares equivalent, the vesting period will expire on March 31, 2016.

2. Vesting conditions:

   The effective vesting of Performance Shares is subject to a continued employment condition as well as to performance conditions. The satisfaction of the continued employment and performance conditions will be reviewed and officially acknowledged at the end of each of the vesting periods.

The fair value of the payable amount is booked as operating expenses over the vesting period against a corresponding liability booked under other liabilities. As of December 31, 2014, the total carrying amount of the corresponding liabilities amounted to RUB 306,425 thousand (2013: RUB 122,847 thousand).

29. Subsequent events

The following significant events have occurred after December, 2014:

In January 2015 after downgrading of Russian Federation rating LLC Rusfinance Bank’s rating was downgraded to BBB- by Fitch, to Ba2 by Moody’s and to BB+ by Standard&Poor’s. It should be mentioned that Fitch and Moody’s rating of the Bank is still at investment grade level.

In January 2015 Bank executed put-option for non-convertible interest-bearing bonds of the series 13 allowing the investors to sell the corporate bonds back to the Bank with the coupon rate set for the fourth coupon at 19.00% p.a. Within put-option in January 2015 bonds series 13 of RUB 1,020,009 thousand were redeemed by the Bank of which RUB 415,610 thousand in January 2015 and RUB 225,000 thousand in March 2015 were sold on the secondary market at fixed interest rate of 19.00% p.a. and maturing in 2018 (Note 14).

In March 2015 non-convertible interest-bearing documentary commercial papers of the series BO-02 with remaining nominal value of RUB 1,484,515 thousand were fully repaid (Note 14).

In March 2015 the vesting period for first tranche of Share Plan (Note 28) expired. Each eligible employee of the Bank was granted with 16 Société Générale Performance Shares equivalent, which was paid in local currency. At the date of execution there were 2,790 eligible employees and the price was fixed at 42.9605 EUR per share. The Bank’s expenses were fully compensated by Société Générale.

In April, 2015 Bank executed put-option for non-convertible interest-bearing documentary commercial papers of the series BO-07 allowing the investors to sell the corporate bonds back to the Bank with the coupon rate set for the coupons from fifth to eights at 13.90% p.a. Within put-option in April 2015 commercial papers of series BO-07 of RUB 401,960 thousand were redeemed by the Bank and RUB 3,248,009 thousand remained on the market with maturity date in 2018 (Note 14).

In April 2015 the participant of the Bank approved to pay out the total amount of the Bank’s net profit according to RAS equal to RUB 1,016,193 thousand to the participant of the Bank – PJSC Rosbank.

In June 2015 Bank executed put-option for non-convertible interest-bearing documentary commercial papers of the series BO-08 allowing the investors to sell the corporate bonds back to the Bank with the coupon rate set for the coupons from third to fifth at 10.75% p.a. Within put-option in June 2015 commercial papers of series BO-08 of RUB 3,886,105 thousand were redeemed by the Bank and RUB 113,895 thousand remained on the market with maturity date in 2019 (Note 14).