

“Asian-Pacific Bank”
(Open joint stock company)

Consolidated Financial Statements
for the year ended 31 December 2014

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Auditors' Report

To the Shareholders and the Board of Directors of "Asian-Pacific Bank" (Open joint stock company)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: "Asian-Pacific Bank" (Open joint stock company).

Registered by the Central Bank of the Russian Federation on 14 February 1992, Registration No. 1810.

Entered in the Unified State Register of Legal Entities on 22 August 2002 by Amur Regional Tax Inspectorate of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1022800000079, Certificate series 28 No. 000749008.

Address of the audited entity: 225 Amurskaya St., Blagoveschensk, Amur region, Russian Federation, 675000.

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

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

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

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

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

Opinion

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

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

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

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

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

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

Our findings from the procedures performed are reported below.

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

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

- Based on our procedures with respect to compliance of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:
 - as at 31 December 2014, the Group's Internal Audit Service was subordinated to, and reported to, the Board of Directors, and the Risk Management Service was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

- the Group's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2014, the Group maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's Risk Management and Internal Audit Services during 2014, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management and Internal Audit Services as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2014, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2014 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the Risk Management and Internal Audit Services, and considered proposed corrective actions.

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



Kolosov A.E.

Director

power of attorney dated 16 March 2015 No. 44/15



JSC "KPMG Moscow", Russian Federation

22 April 2015

OJSC "Asian-Pacific Bank"

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014

	Notes	2014 RUB'000	2013 RUB'000
Interest income	4	16 891 528	15 940 125
Interest expense	4	(7 528 772)	(7 011 734)
Net interest income		9 362 756	8 928 391
Deposit insurance expenses		(204 873)	(179 172)
Net interest income after deposit insurance expenses		9 157 883	8 749 219
Fee and commission income	5	3 589 056	3 530 947
Fee and commission expense		(330 243)	(258 249)
Net fee and commission income		3 258 813	3 272 698
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets		368 344	1 108 035
Net foreign exchange gain	6	578 830	363 019
Net gain (loss) on operations with precious metals	7	68 328	(5 790)
Other operating income	8	836 443	540 975
Operating income		14 268 641	14 028 156
Impairment losses	9	(8 878 902)	(4 478 297)
Personnel expenses	10	(3 529 789)	(3 897 460)
Other general administrative expenses	11	(1 812 984)	(1 786 231)
Profit before income tax		46 966	3 866 168
Income tax benefit (expense)	12	3 015	(753 208)
Profit for the year		49 981	3 112 960
Other comprehensive income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		(606 741)	(137 600)
- Net change in fair value transferred to profit or loss		212 810	98 055
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>(393 931)</i>	<i>(39 545)</i>
<i>Items that will not be reclassified to profit or loss</i>			
- Revaluation of buildings		-	342 262
<i>Total items that will not be reclassified to profit or loss</i>		<i>-</i>	<i>342 262</i>
Other comprehensive (loss) income for the year, net of income tax		(393 931)	302 717
Total comprehensive (loss) income for the year		(343 950)	3 415 677

The consolidated financial statements were approved by the Management Board on 22 April 2015.

Mr. A.V. Vdovin
Chairman of the Management Board



Ms. Ya.E. Komova
Chief Accountant

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

OJSC "Asian-Pacific Bank"
Consolidated Statement of Financial Position as at 31 December 2014

	Notes	2014 RUB'000	2013 RUB'000
ASSETS			
Cash and cash equivalents	13	13 973 022	10 085 780
Obligatory reserves with the Central Bank of the Russian Federation		896 191	1 078 793
Financial instruments at fair value through profit or loss	14	44 348	10 676 182
Available-for-sale financial assets	15	13 309 230	6 223 872
Due from banks	16	999 369	710 219
Amounts receivable under reverse repurchase agreements	17	1 560 811	335 720
Loans to customers	18	85 591 339	80 424 773
Net investments in finance leases	19	2 082 190	2 411 995
Held-to-maturity investments	20	5 544 648	-
Current tax asset		196 821	27 549
Deferred tax asset	12	76 691	51 462
Property, equipment, intangible assets and investment property	22	5 196 020	5 005 641
Other assets	23	996 163	1 524 276
Total assets		130 466 843	118 556 262
LIABILITIES			
Derivative financial instruments	14	6 492	16 430
Deposits and balances from banks	24	10 721 632	6 994 667
Amounts payable under repurchase agreements	25	8 838 184	6 809 841
Current accounts and deposits from customers	26	84 497 714	81 370 124
Debt securities issued	27	6 506 591	6 104 061
Subordinated borrowings	28	4 021 246	986 344
Current tax liability		2 073	184 630
Deferred tax liability	12	313 697	444 077
Other liabilities	29	703 628	1 055 670
Total liabilities		115 611 257	103 965 844
EQUITY			
Share capital	30*	585 414	562 312
Treasury shares		(10 307)	(10 307)
Share premium		1 778 739	1 192 723
Revaluation reserve for available-for-sale financial assets		(423 758)	(29 827)
Revaluation surplus for buildings		1 618 659	1 620 178
Retained earnings		11 306 839	11 255 339
Total equity		14 855 586	14 590 418
Total liabilities and equity		130 466 843	118 556 262

Mr. A.V. Vdovin
Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

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

OJSC "Asian-Pacific Bank"
Consolidated Statement of Cash Flows for the year ended 31 December 2014

	Notes	2014 RUB'000	2013 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		15 999 111	15 463 527
Interest payments		(7 989 173)	(6 830 807)
Fee and commission receipts		3 617 960	1 752 948
Fee and commission payments		(330 243)	(258 249)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial instruments		375 005	1 052 135
Net receipts from foreign exchange		1 667 300	249 385
Other income receipts		836 443	539 560
Net receipts (payments) from operations with precious metals		72 417	(68 225)
General administrative expenses payments		(5 535 465)	(5 511 252)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		182 602	(332 338)
Financial instruments at fair value through profit or loss		5 449 763	1 788 975
Available-for-sale financial assets		(6 995 392)	(2 754 792)
Due from banks		49 883	(275 079)
Amounts receivable under reverse repurchase agreements		(1 220 384)	(185 498)
Loans to customers		(9 059 719)	(24 049 936)
Net investments in finance leases		172 173	(361 186)
Other assets		862 430	138 702
Increase (decrease) in operating liabilities			
Deposits and balances from banks		2 581 857	(213 477)
Amounts payable under repurchase agreements		2 028 874	4 693 021
Current accounts and deposits from customers		(1 705 516)	16 022 172
Promissory notes		582 170	(871 139)
Other liabilities		(423 135)	301 730
Cash flows from operating activities before income tax paid		1 218 961	290 177
Income tax paid		(405 564)	(620 174)
Cash flows from (used in) operations		813 397	(329 997)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		(539 577)	-
Net purchases of property and equipment and intangible assets		(501 686)	(233 505)
Cash flows used in investing activities		(1 041 263)	(233 505)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury shares		-	(316 963)
Issue of shares		609 118	-
Net (repayment) issue of bonds		(124 342)	2 663 665
Attraction of subordinated borrowing		1 410 060	-
Distributions to shareholders		-	(37 230)
Cash flows from financing activities		1 894 836	2 309 472

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

OJSC "Asian-Pacific Bank"
Consolidated Statement of Cash Flows for the year ended 31 December 2014

	2014	2013
Notes	RUB'000	RUB'000
Net increase in cash and cash equivalents	1 666 970	1 745 970
Effect of changes in exchange rates on cash and cash equivalents	2 220 272	159 200
Cash and cash equivalents as at the beginning of the year	10 085 780	8 180 610
Cash and cash equivalents as at the end of the year	13 13 973 022	10 085 780

Mr. A.V. Vdovin
Chairman of the Management Board



Ms. Ya.E. Komova
Chief Accountant

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

OJSC "Asian-Pacific Bank"
Consolidated Statement of Changes in Equity for the year ended 31 December 2014

RUB'000	Share capital	Treasury shares	Share premium	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2013	562 312	-	1 192 723	9 718	1 280 014	8 484 167	11 528 934
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	3 112 960	3 112 960
Other comprehensive income, net of income tax							
<i>Items that are or may be reclassified subsequently to profit or loss</i>							
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 34 400 thousand	-	-	-	(137 600)	-	-	(137 600)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of 24 514 thousand	-	-	-	98 055	-	-	98 055
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	(39 545)	-	-	(39 545)
<i>Items that will not be reclassified to profit or loss</i>							
Revaluation of buildings, net of deferred tax of RUB 85 566 thousand	-	-	-	-	342 262	-	342 262
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	(2 098)	2 098	-
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	-	340 164	2 098	342 262
Total comprehensive income for the year, net of income tax	-	-	-	(39 545)	340 164	3 115 058	3 415 677
Transactions with owners, recorded directly in equity							
Acquisition of treasury shares	-	(10 307)	-	-	-	(306 656)	(316 963)
Distributions to shareholders (note 37)	-	-	-	-	-	(37 230)	(37 230)
Total transactions with owners	-	(10 307)	-	-	-	(343 886)	(354 193)
Balance as at 31 December 2013	562 312	(10 307)	1 192 723	(29 827)	1 620 178	11 255 339	14 590 418
Total comprehensive loss for the year							
Profit for the year	-	-	-	-	-	49 981	49 981
Other comprehensive loss, net of income tax							
<i>Items that are or may be reclassified subsequently to profit or loss</i>							
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 151 686 thousand	-	-	-	(606 741)	-	-	(606 741)

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

OJSC "Asian-Pacific Bank"
Consolidated Statement of Changes in Equity for the year ended 31 December 2014

RUB'000	Share capital	Treasury shares	Share premium	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 53 203 thousand	-	-	-	212 810	-	-	212 810
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	(393 931)	-	-	(393 931)
<i>Items that will not be reclassified to profit or loss</i>							
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	(1 519)	1 519	-
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	-	(1 519)	1 519	-
Total comprehensive loss for the year, net of income tax	-	-	-	(393 931)	(1 519)	51 500	(343 950)
Transactions with owners, recorded directly in equity							
Issue of shares (note 30)	23 102	-	586 016	-	-	-	609 118
Total transactions with owners	23 102	-	586 016	-	-	-	609 118
Balance as at 31 December 2014	585 414	(10 307)	1 778 739	(423 758)	1 618 659	11 306 839	14 855 586

Mr. A.V. Vdovin
Chairman of the Management Board



Ms. Ya.E. Komova
Chief Accountant

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of OJSC “Asian-Pacific Bank” (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. On 7 May 2010 LLC “PPFIN Region”, being a common majority shareholder for OJSC “Asian-Pacific Bank”, OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”, merged the operations of these entities and therefore granted full control over OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” to OJSC “Asian-Pacific Bank”.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 250 (2013: 316) offices from which it conducts business throughout the Russian Federation including a head office, 4 regional branches, 42 additional offices, 201 operational offices and 2 operational cash boxes. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the assets and liabilities are located in the Russian Federation.

As at 31 December 2014, the following shareholders held the issued shares of Open Joint Stock Company “Asian-Pacific Bank”:

Shareholder	2014 %	2013 %
LLC “PPFIN Region” (Russian Federation)	59.17	58.22
East Capital Explorer Financial Institutions Fund AB (Sweden)	17.91	17.91
TECHSUN ENTERPRISES LIMITED (Cyprus)	8.41	7.76
International Financial Corporation	6.71	6.99
Aksenov E.V.	3.08	4.21**
LLC “Expo-Leasing” (a 100% owned subsidiary of the Bank)	1.76*	1.83*
Others	2.96	3.08
Total:	100.00	100.00

* Treasury shares

** As at 31 December 2013, Aksenov E.V. hold 3.21% of Bank’s shares. At the end of December 2013, he transferred 1% of owned by him shares to LLC “Expo-Leasing”, but subsequently in February 2014 this transaction was cancelled. No payments were made under this deal. As a result the Group did not recognise these shares as treasury shares as at 31 December 2013.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2014	2013
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%
CJSC “Mortgage agent APB”	Russian Federation	Mortgage agent	see below	see below
CJSC “Mortgage agent APB 2”	Russian Federation	Mortgage agent	see below	-

On 1 October 2010 100% of the shares of LLC “Expo-Leasing” were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russia. Its head office is in Moscow and it has 10 branches (2013: 13) comprising a head office, 1 regional branch and 8 separate offices.

CJSC “Mortgage agent APB” and CJSC “Mortgage agent APB 2” (MA APB and MA APB 2) are structured entities established to facilitate the Bank’s issue of mortgage backed securities (refer to note 27). These entities are not owned by the Group. Control arises through the predetermination of the entities’ activities, having rights to obtain the majority of benefits of the structured entities, and retaining the majority of the residual risks related to the entities.

In 2014 the average number of the Group’s employees was 4 489 (2013: 4 359).

Russian business environment

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

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

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

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- insurance agent commission – note 3;
- loan impairment estimates - note 18;
- building revaluation estimates - note 22.

Changes in accounting policies and presentation

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

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurements)

The nature and the effect of the changes are explained below.

Offsetting Financial Assets and Financial Liabilities

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

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

Recoverable Amount Disclosures for Non-Financial Assets

Amendment requires detailed disclosure of how fair value less cost of disposal has been measured when an impairment loss has been recognised or reversed, including key assumptions and the level of fair value hierarchy for which the fair value measurement is categorised. At the same time the amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. This amendment does not have an impact on the Group's consolidated financial statements.

Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

These amendments do not have an impact on Group's consolidated financial statements as the Group does not apply hedge accounting according to IFRS.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements, except as explained in note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

Subsidiaries

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

Structured entities

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

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank equity, except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

Transactions eliminated on consolidation

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

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

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

Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions with original maturity within ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

Amortised cost

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

Fair value measurement principles

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase agreements, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

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

Securitisation

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

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

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

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

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

Offsetting

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

Leases

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Property and equipment

Owned assets

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

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

Revaluation

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

Leased assets

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

Depreciation

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

- buildings	50 years
- computers and equipment	5 years
- fixtures and fittings	5 years
- vehicles	5 years
- computer software	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment

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

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

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

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

Financial assets carried at amortised cost

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

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

Non financial assets

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

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

Provisions

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

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

Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

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

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

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

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value the presumption is that the carrying amount of investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

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

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

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

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

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

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

Hyperinflation accounting

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

Segment reporting

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

Comparative information

A change in the presentation of cash on hand, placements with the CBR, due from banks and deposit insurance expenses was made during 2014 in order to better present the substance of the underlying transactions.

With effect from 1 January 2014, the Group presents cash on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions with maturity within ninety days and which are free from contractual encumbrances in cash and cash equivalents. The Group previously presented them in different captions of the consolidated statement of financial position for the year ended 31 December 2013. The 2013 presentation of cash and cash equivalents and amounts reclassified in the comparative consolidated statement of financial position to conform to the 2014 presentation are presented below:

	2013 presentation	Amount reclassified to conform 2014 presentation RUB'000
Cash on hand	Cash	2 752 702
Nostro accounts with the CBR	Placements with the CBR	2 942 741
Term deposits with the CBR (with maturity up to 90 days)	Placements with the CBR	2 000 000
Nostro accounts with other banks	Due from banks	1 943 263
Term deposits with other banks (with maturity up to 90 days)	Due from banks	447 074
		10 085 780

With effect from 1 January 2014, the Group presents deposit insurance expenses after net interest income. The Group previously presented deposit insurance expenses within other general administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013. As a result, the amount of RUB 179 172 thousand has been reclassified from other general administrative expenses to deposit insurance expenses in the comparative consolidated statement of profit or loss and other comprehensive income, to conform to the 2014 presentation.

New standards and interpretations not yet adopted

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

- IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Interest income and expense

	2014 RUB'000	2013 RUB'000
Interest income		
Loans to customers	15 986 377	14 838 054
Net investments in finance leases	509 537	541 321
Due from banks and cash equivalents	257 442	194 204
Promissory notes included in financial instruments at fair value through profit or loss	138 172	366 546
	16 891 528	15 940 125
Interest expense		
Current accounts and deposits from customers	5 194 026	5 307 656
Deposits and balances from banks	1 301 950	900 575
Debt securities issued	817 278	697 422
Subordinated borrowings	215 518	106 081
	7 528 772	7 011 734

5 Fee and commission income

	2014 RUB'000	2013 RUB'000
Insurance agent commission	1 784 608	1 800 035
Settlement operations	1 349 860	1 332 139
Accounts opening and maintenance	166 045	184 112
Guarantee issuance	104 871	68 160
Other	183 672	146 501
	3 589 056	3 530 947

Information on the basis of which insurance agent commission income is recognised in profit or loss is disclosed in note 3.

6 Net foreign exchange gain

	2014 RUB'000	2013 RUB'000
Gain on derivatives and spot transactions (except swaps)	1 068 927	286 610
(Loss) gain on swap operations	(47 610)	44 623
(Loss) gain from revaluation of financial assets and liabilities	(442 487)	31 786
	578 830	363 019

7 Net gain (loss) on operations with precious metals

	2014 RUB'000	2013 RUB'000
Gain on trading operations	56 921	50 571
Gain (loss) from revaluation of financial assets and liabilities and operations with derivatives	11 407	(56 361)
	68 328	(5 790)

8 Other operating income

	2014 RUB'000	2013 RUB'000
Penalties on loans issued	597 304	398 860
Repayment of written off loans	101 888	20 038
Penalties on other operations	39 705	36 491
Rental income	24 109	25 646
Income from sale of loans	16 671	32 293
Income from sale of repossessed collateral	15 550	-
Other income	41 216	27 647
	836 443	540 975

9 Impairment losses

	2014 RUB'000	2013 RUB'000
Loans to customers	(8 719 202)	(4 428 906)
Net investments in finance leases	(92 938)	(20 520)
Other assets	(66 762)	(28 871)
	(8 878 902)	(4 478 297)

10 Personnel expenses

	2014 RUB'000	2013 RUB'000
Employee compensation	2 793 790	3 168 210
Payroll related taxes	735 999	729 250
	3 529 789	3 897 460

11 Other general administrative expenses

	2014 RUB'000	2013 RUB'000
Depreciation and amortisation	310 587	248 984
Taxes other than income tax	261 735	222 544
Repairs and maintenance	216 960	169 101
Write-off of materials and loss on disposals of assets	169 743	218 367
Rent	167 251	181 409
Communications and information services	160 270	156 378
Advertising and marketing	105 671	141 719
IT expenses	73 990	60 698
Security	47 915	46 997
Travel expenses	45 699	46 421
Loss on termination lease agreements	37 592	40 596
Professional services	28 691	23 132
Agent fees for attraction of clients	12 357	70 298
Insurance	11 697	11 801
Other	162 826	147 786
	1 812 984	1 786 231

12 Income tax (benefit) expense

	2014 RUB'000	2013 RUB'000
Current tax expense		
Current year tax expense	53 731	699 614
Origination and reversal of temporary differences	(56 746)	53 594
Total income tax (benefit) expense	(3 015)	753 208

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2014 RUB'000	%	2013 RUB'000	%
Profit before tax	46 966		3 866 168	
Income tax at the applicable tax rate	9 393	20.0	773 234	20.0
Other differences	1 032	2.2	(3 742)	(0.1)
Income taxed at lower tax rates	(13 440)	(28.6)	(16 284)	(0.4)
	(3 015)	(6.4)	753 208	19.5

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2014 and 2013. Net deferred tax assets and liabilities have been recognised in these consolidated financial statements.

The deductible temporary differences do not expire under current tax legislation. Tax loss carry-forward expires in 2024.

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

RUB'000	Balance 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2014
Due from banks	-	(414)		(414)
Financial instruments at fair value through profit or loss	(19 797)	19 797	-	-
Available-for-sale financial assets	7 457	(36 910)	98 483	69 030
Held-to-maturity investments	-	23 186	-	23 186
Derivative financial instruments	1 973	(9 544)	-	(7 571)
Loans to customers	(166 016)	(194 472)	-	(360 488)
Net investments in finance leases	51 462	21 779	-	73 241
Property, equipment and intangible assets	(379 271)	2 797	380	(376 094)
Other assets	-	33 583	-	33 583
Current accounts and deposits from customers	10 901	(10 901)	-	-
Debt securities issued	(2 504)	3 401	-	897
Subordinated borrowings	-	(6 637)	-	(6 637)
Other liabilities	103 180	(102 560)	-	620
Tax loss carry-forward	-	313 641	-	313 641
	(392 615)	56 746	98 863	(237 006)
Comprising of:				
Deferred tax asset	51 462			76 691
Deferred tax liability	(444 077)			(313 697)

RUB'000	Balance 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2013
Financial instruments at fair value through profit or loss	2 385	(22 182)	-	(19 797)
Available-for-sale financial assets	(2 429)	-	9 886	7 457
Derivative financial instruments	32 143	(30 170)	-	1 973
Loans to customers	(111 223)	(54 793)	-	(166 016)
Net investments in finance leases	25 432	26 030	-	51 462
Property, equipment and intangible assets	(300 582)	6 877	(85 566)	(379 271)
Current accounts and deposits from customers	-	10 901	-	10 901
Debt securities issued	(662)	(1 842)	-	(2 504)
Other liabilities	91 595	11 585	-	103 180
	(263 341)	(53 594)	(75 680)	(392 615)
Comprising of:				
Deferred tax asset	25 432			51 462
Deferred tax liability	(288 773)			(444 077)

13 Cash and cash equivalents

	2014 RUB'000	2013 RUB'000
Cash on hand	5 148 414	2 752 702
Nostro accounts with the CBR	3 778 620	2 942 741
Nostro accounts with other banks		
- Largest 30 Russian banks	2 043 488	582 742
- OECD banks	987 138	980 488
- Other Russian banks	365 829	322 402
- Other foreign banks	103 972	57 631
Total nostro accounts with other banks	3 500 427	1 943 263
Term deposits with the CBR	1 500 000	2 000 000
Term deposits with other banks		
- Other foreign banks	45 408	2 155
- Largest 30 Russian banks	153	300 763
- Other Russian banks	-	144 156
Total term deposits with other banks	45 561	447 074
Total cash and cash equivalents	13 973 022	10 085 780

None of cash and cash equivalents are impaired or past due.

As at 31 December 2014, the Group has no banks (except the CBR) (2013: no banks), whose balances individually exceed 10% of equity.

14 Financial instruments at fair value through profit or loss

	2014 RUB'000	2013 RUB'000
ASSETS		
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	709 235
Regional authorities bonds	-	517 879
Total government and municipal bonds	-	1 227 114
- Corporate bonds		
rated from BB- to BBB+	-	1 684 511
rated below B+	-	102 259
Total corporate bonds	-	1 786 770
- Promissory notes		
rated from BB- to BBB+	-	1 558 241
rated below B+	-	2 637 827
Total promissory notes	-	4 196 068
Derivative financial instruments		
Foreign currency contracts	44 348	-
	44 348	-
Total financial instruments at fair value through profit or loss held by the Group	44 348	7 209 952
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	380 688
Regional authorities bonds	-	71 770
Total government and municipal bonds	-	452 458
- Corporate bonds		
rated from BB- to BBB+	-	3 013 772
Total corporate bonds	-	3 013 772
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	-	3 466 230
Total financial instruments at fair value through profit or loss	44 348	10 676 182
LIABILITIES		
Derivative financial instruments		
Foreign currency and precious metals contracts	6 492	16 430
	6 492	16 430

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

All financial instruments at fair value through profit or loss are classified as held for trading.

None of financial assets at fair value through profit or loss are past due.

The Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale assets. For details on impact of these reclassifications, refer to note 15 “Available-for-sale assets” of the consolidated financial statements.

Foreign currency and precious metals contracts

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

	Notional amount		Weighted average contractual exchange rates	
	2014 RUB'000	2013 RUB'000	2014 RUB'000	2013 RUB'000
Buy USD sell RUB				
Less than 3 months	84 388	496 181	57.37	33.28
Buy USD sell RUB				
Between 3 to 12 months	-	1 533 906	-	34.29
Buy EUR sell USD				
Less than 3 months	1 435 197	-	1.22	-
Buy CNY sell RUB				
Less than 3 months	22 677	-	93.62	-
Buy JPY sell RUB				
Less than 3 months	-	9 317	-	31.08
Buy Gold sell RUB				
Less than 3 months	-	642 264	-	1 271.92
Sell EUR buy RUB				
Less than 3 months	27 337	-	70.25	-
Sell USD buy RUB				
Less than 3 months	2 126 568	-	57.41	-

15 Available-for-sale financial assets

	2014 RUB'000	2013 RUB'000
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	328 213	-
Russian Government Eurobonds	291 457	-
Regional authorities bonds	-	267 370
Total government and municipal bonds	619 670	267 370
- Corporate bonds		
rated from BB- to BBB+	5 554 421	1 311 461
rated below B+	-	149 390
not rated	47 124	95 391
Total corporate bonds	5 601 545	1 556 242
Total available-for-sale financial instruments held by Group	6 221 215	1 823 612
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Regional authorities bonds	-	375 093
Total government and municipal bonds	-	375 093
- Corporate bonds		
rated from BB- to BBB+	7 088 015	3 813 394
rated below B+	-	211 773
Total corporate bonds	7 088 015	4 025 167
Total available-for-sale financial instruments pledged under sale and repurchase agreements	7 088 015	4 400 260
Total available-for-sale financial instruments	13 309 230	6 223 872

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

None of available-for-sale financial assets are past due.

Reclassifications out of securities held for trading

The substantial falls in the securities markets in Russia commencing October 2014 and the subsequent lack of liquidity in the market peaking up period after 15 December 2014 (when the CBR increased key rate from 12% to 17%), meaning the Group was either unable to sell certain securities or sell them at what they believe is a reasonable price, a situation which they believe will continue for the foreseeable future, constituted rare circumstances that permit reclassification out of the trading category. Thus the Group decided to perform reclassifications of trading securities to available-for-sale financial assets.

The reclassifications were made with effect from 16 December 2014 at fair value at this date. The table below shows carrying and fair value of reclassified securities:

	Carrying value of reclassified securities as at date of reclassification RUB'000	Fair value of reclassified securities as at date of reclassification RUB'000	Carrying value of reclassified securities as at 31 December 2014 RUB'000	Fair value of reclassified securities as at 31 December 2014 RUB'000
Securities held for trading reclassified to available-for- sale financial assets	5 129 649	5 129 649	5 092 817	5 092 817

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2014 in respect of securities reclassified out of securities held for trading:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Before reclassification		
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	171 319	-
Net loss on financial instruments at fair value through profit or loss and on available-for-sale financial assets	(128 970)	-
After reclassification		
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	22 056	-
Revaluation reserve for available-for-sale financial assets	-	(29 466)

The table below sets out the amounts that would have been recognised in the period following reclassifications during 2014 if the reclassifications had not been made:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	22 056	-
Net loss on financial instruments at fair value through profit or loss and on available-for-sale financial assets	(36 832)	-

The effective interest rates on trading securities reclassified to available-for-sale assets with expected recoverable cash flows as at the date of reclassification are presented below:

	Effective interest rate %	Expected cash flows RUB'000
Securities held for trading reclassified to available-for-sale financial assets	9.72%	5 658 922

The Group reclassified certain financial assets out of available-for-sale assets into held-to-maturity investments. For details on impact of these reclassifications, refer to note 20 “Held-to-maturity investments” of the consolidated financial statements.

16 Due from banks

	2014 RUB'000	2013 RUB'000
Term deposits		
- Other foreign banks	827 600	333 276
- OECD banks	165 206	-
- Largest 30 Russian banks	6 563	213 297
- Other Russian banks	-	163 646
Total term deposits	999 369	710 219

None of due from banks balances are impaired or past due.

17 Amounts receivable under reverse repurchase agreements

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2014:

	Corporate bonds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements		
- Other Russian companies	946 566	946 566
- Other Russian banks	614 245	614 245
	1 560 811	1 560 811

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2013:

	Corporate bonds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements		
- Other Russian banks	335 720	335 720
	335 720	335 720

At 31 December 2014, the fair value of corporate bonds collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is RUB 1 879 496 thousand (31 December 2013: RUB 395 986 thousand) out of which the Group repledged as at 31 December 2014 securities with fair value of RUB 765 915 thousand (31 December 2013: RUB 338 752 thousand) under repurchase agreements.

None of amounts receivable under reverse repurchase agreements are past due or impaired.

18 Loans to customers

	2014 RUB'000	2013 RUB'000
Loans to corporate customers	34 158 648	26 969 176
Loans to retail customers		
Consumer loans	54 436 681	50 582 233
Mortgage loans	10 123 948	8 684 640
Total loans to retail customers	64 560 629	59 266 873
Gross loans to customers	98 719 277	86 236 049
Impairment allowance	(13 127 938)	(5 811 276)
Net loans to customers	85 591 339	80 424 773

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	670 578	5 140 698	5 811 276
Net charge	712 440	8 006 762	8 719 202
Write-offs	(21 278)	(1 381 262)	(1 402 540)
Balance at the end of the year	1 361 740	11 766 198	13 127 938

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	266 267	2 653 568	2 919 835
Net charge	437 550	3 991 356	4 428 906
Write-offs	(33 239)	(1 504 226)	(1 537 465)
Balance at the end of the year	670 578	5 140 698	5 811 276

Credit quality of loans to customers

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

	2014 RUB'000	2013 RUB'000
Loans to corporate customers		
Loans without individual signs of impairment	32 463 471	25 892 313
Impaired loans:		
- not overdue	-	144 215
- overdue less than 90 days	369 540	183 923
- overdue more than 90 days and less than 1 year	772 110	407 691
- overdue more than 1 year	553 527	341 034
Total impaired loans	1 695 177	1 076 863
Total gross loans to corporate customers	34 158 648	26 969 176
Impairment allowance	(1 361 740)	(670 578)
Net loans to corporate customers	32 796 908	26 298 598

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

	Consumer loans RUB'000	Mortgage loans RUB'000	Total loans to retail customers RUB'000
Loans to retail customers			
- not overdue	36 963 000	9 850 665	46 813 665
- overdue less than 30 days	1 859 284	50 719	1 910 003
- overdue 30-89 days	2 216 731	73 778	2 290 509
- overdue 90-179 days	2 859 085	64 610	2 923 695
- overdue more than 180 days	10 538 581	84 176	10 622 757
Total gross loans to retail customers	54 436 681	10 123 948	64 560 629
Impairment allowance	(11 699 080)	(67 118)	(11 766 198)
Net loans to retail customers	42 737 601	10 056 830	52 794 431

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

	Consumer loans	Mortgage loans	Total loans to retail customers
	RUB'000	RUB'000	RUB'000
Loans to retail customers			
- not overdue	41 256 683	8 413 426	49 670 109
- overdue less than 30 days	1 920 372	222 352	2 142 724
- overdue 30-89 days	1 715 238	18 400	1 733 638
- overdue 90-179 days	1 703 765	17 967	1 721 732
- overdue more than 180 days	3 986 175	12 495	3 998 670
Total gross loans to retail customers	50 582 233	8 684 640	59 266 873
Impairment allowance	(5 124 569)	(16 129)	(5 140 698)
Net loans to retail customers	45 457 664	8 668 511	54 126 175

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for significant impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified or not significant impaired loans.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows represented by different types, mainly real state. Valuations for real estate have been discounted by 40 percent to reflect current market conditions and costs to sell;
- loss given default rate for unsecured loans is 75%.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be RUB 327 969 thousand lower/higher (31 December 2013: RUB 262 986 thousand lower/higher).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 36 months
- the historic actual recovery rate of loans overdue 365 - 724 days for past 18 months has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be RUB 1 583 833 thousand lower/higher (31 December 2013: RUB 1 623 785 thousand).

Analysis of collateral and other credit enhancements

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2014 RUB'000	% of loan portfolio	2013 RUB'000	% of loan portfolio
Real estate	15 225 384	46.42	10 454 908	39.75
Corporate and personal guarantees	3 913 515	11.93	8 555 541	32.53
Motor vehicles	2 955 771	9.01	1 609 358	6.12
Goods in turnover	1 495 690	4.56	1 611 561	6.13
Equipment	274 631	0.84	793 647	3.02
Securities	165 957	0.51	99 033	0.38
Promissory notes issued by the Bank	87 019	0.27	18 000	0.07
Cash balances	31 180	0.10	25 129	0.10
Other collateral	710 525	2.17	789 342	3.00
No collateral	7 937 236	24.19	2 342 079	8.90
	32 796 908	100.00	26 298 598	100.00

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.

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired or past due

Loans with individual signs of impairment or past due with net carrying value of RUB 457 053 thousand (31 December 2013: RUB 566 661 thousand) are secured by collateral (mainly real estate) with fair value of RUB 219 552 thousand (31 December 2013: RUB 398 554 thousand), excluding the effect of over collateralisation.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Reposessed collateral

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 41 845 thousand (2013: RUB 1 189 thousand). As at 31 December, the reposessed collateral comprise:

	2014 RUB’000	2013 RUB’000
Real estate	15 058	6 967
Other assets	2 611	462
Total reposessed collateral	17 669	7 429

The Group’s policy is to sell these assets as soon as it is practicable.

Asset securitisation

As at 31 December 2014, the Group transferred mortgage loans of RUB 3 941 004 thousand (31 December 2013: RUB 1 149 703 thousand) to MA APB and MA APB 2, entities that are, in substance, controlled by the Group. Accordingly, MA APB and MA APB 2 are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans serve as collateral for secured mortgage backed securities issued by the Group. As at 31 December 2014, the carrying amount of liabilities on these securities is RUB 3 056 990 thousand (31 December 2013: RUB 1 206 064 thousand).

Industry and geographical analysis of the loan portfolio

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

	2014 RUB'000	2013 RUB'000
Wholesale and retail trade	7 501 253	7 688 160
Services	6 130 362	2 971 267
Investment activities and real estate	5 373 366	1 543 025
Mining	2 192 429	2 081 655
Production	1 601 547	2 087 437
Construction	1 351 618	1 902 577
Fishery	1 170 839	1 413 301
Energy	549 373	1 104 504
Other	8 287 861	6 177 250
Individuals	64 560 629	59 266 873
	98 719 277	86 236 049
Impairment allowance	(13 127 938)	(5 811 276)
	85 591 339	80 424 773

Significant credit exposures

As at 31 December 2014, the Group has two groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2013: no borrowers or group of borrowers). The gross value of these balances as at 31 December 2014 is RUB 8 396 351 thousand (2013: RUB 4 257 541 thousand).

For maturity analysis refer to note 32.

19 Net investments in finance leases

Net investments in finance leases comprise:

	2014 RUB'000	2013 RUB'000
Gross investments in finance leases	2 694 581	3 131 007
Less unearned finance lease income	(463 140)	(657 203)
	2 231 441	2 473 804
Less allowance for impairment	(149 251)	(61 809)
Net investments in finance leases	2 082 190	2 411 995

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Future minimum lease payments to be received are disclosed below:

	2014 RUB'000	2013 RUB'000
Within 1 year	1 768 833	1 823 676
From 1 to 5 years	925 748	1 307 331
Minimum lease payments receivable	2 694 581	3 131 007

Gross investment in leases is receivable in the following currencies:

	2014 RUB'000	2013 RUB'000
RUB	2 376 670	2 886 490
USD	317 911	243 722
EUR	-	795
Gross investments in finance leases	2 694 581	3 131 007

Movements in the impairment allowance are as follows:

	2014 RUB'000	2013 RUB'000
Balance at the beginning of the year	61 809	48 319
Net charge	92 938	20 520
Write-offs	(5 496)	(7 030)
Balance at the end of the year	149 251	61 809

20 Held-to-maturity investments

	2014 RUB'000	2013 RUB'000
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	311 377	-
Regional authorities bonds	512 643	-
Total government and municipal bonds	824 020	-
Corporate bonds		
rated from BB- to BBB+	2 211 789	-
rated below B+	1 097	-
Total corporate bonds	2 212 886	-
Total held-to-maturity investments held by Group	3 036 906	-
 Pledged under sale and repurchase agreements		
Government and municipal bonds		
Regional authorities bonds	360 338	-
Total government and municipal bonds	360 338	-
Corporate bonds		
rated from BB- to BBB+	1 690 159	-
rated below B+	457 245	-
Total corporate bonds	2 147 404	-
Total held-to-maturity investments pledged under sale and repurchase agreements	2 507 742	-
Total held-to-maturity investments	5 544 648	-

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

None of held-to-maturity investments are past due or impaired.

Reclassifications out of of available-for-sale financial assets

In accordance with IAS 39 the Group reclassified certain securities out of available-for-sale financial assets to held-to-maturity investments as a result of a change in intention to hold these securities until maturity.

The reclassifications were made with effect in October 2014 and December 2014 at fair value at these dates. The table below shows carrying and fair value of reclassified securities:

Date of reclassification	Carrying value of reclassified securities as at date of reclassification RUB'000	Fair value of reclassified securities as at date of reclassification RUB'000	Carrying value of reclassified securities as at 31 December 2014 RUB'000	Fair value of reclassified securities as at 31 December 2014 RUB'000
28 October 2014	2 680 256	2 680 256	2 688 672	2 329 934
5 December 2014	591 225	591 225	590 390	588 198
8 December 2014	172 255	172 255	172 389	164 800
16 December 2014	1 522 810	1 522 810	1 524 199	1 479 361
31 December 2014	454	454	454	454

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2014 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Before reclassification		
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	64 971	-
Revaluation reserve for available-for-sale financial assets	-	(199 920)
After reclassification		
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	58 439	-

The table below sets out the amounts that would have been recognised in the period following reclassifications during 2014 if the reclassifications had not been made:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	51 890	-
Revaluation reserve for available-for-sale financial assets	-	(323 402)

The effective interest rates on available-for-sale securities reclassified to held-to-maturity investments with expected recoverable cash flows as at the date of reclassification are presented below:

Date of reclassification	Effective interest rate	Expected cash flows
	%	RUB'000
28 October 2014	8.02%	3 314 172
5 December 2014	8.77%	825 392
8 December 2014	9.75%	226 624
16 December 2014	7.89%	2 244 101
31 December 2014	8.50%	564

21 Transfers of financial assets

The securities sold under agreements to repurchase as at 31 December 2014 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to- maturity investments	Securities received under reverse repurchase agreements repledged
Carrying amount of assets	7 088 015	2 507 742	765 915
Carrying amount of associated liabilities	6 088 856	2 135 083	614 245

The securities sold under agreements to repurchase as at 31 December 2013 are presented in the table below:

RUB'000	Financial instruments at fair value through profit or loss	Financial assets available-for- sale	Securities received under reverse repurchase agreements repledged
Carrying amount of assets	3 466 230	4 400 260	338 752
Carrying amount of associated liabilities	2 886 652	3 618 612	304 577

The Group has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repurchased or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in notes 15 and 20 and as repurchased securities received under reverse repurchase agreements in note 17. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (note 25).

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

22 Property, equipment, intangible assets and investment property

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2014	4 387 149	642 687	44 382	55 606	255 014	190 822	5 575 660
Additions and transfers	127 221	227 511	2 345	10 604	256 071	45 358	669 110
Disposals and transfers	(9 766)	(11 320)	(27 398)	(5 713)	(5 567)	(190 822)	(250 586)
Transfers from investment property	39 031	-	-	-	-	-	39 031
At 31 December 2014	4 543 635	858 878	19 329	60 497	505 518	45 358	6 033 215
Depreciation, amortisation and impairment losses							
Balance at 1 January 2014	6 229	419 191	37 834	30 341	125 637	-	619 232
Depreciation and amortisation for the year	133 039	98 175	1 839	9 156	68 378	-	310 587
Disposals	(638)	(10 646)	(27 015)	(4 635)	(5 567)	-	(48 501)
Balance at 31 December 2014	138 630	506 720	12 658	34 862	188 448	-	881 318
Carrying amounts							
At 31 December 2014	4 405 005	352 158	6 671	25 635	317 070	45 358	5 151 897
At 31 December 2013	4 380 920	223 496	6 548	25 265	129 377	190 822	4 956 428

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2014 (2013: nil).

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2013	3 892 179	579 286	39 750	63 431	224 224	258 058	5 056 928
Additions and transfers	183 399	72 841	4 632	9 552	84 905	190 822	546 151
Disposals and transfers	(11 294)	(9 440)	-	(17 377)	(54 115)	(258 058)	(350 284)
Revaluation	227 381	-	-	-	-	-	227 381
Transfers from investment property	95 484	-	-	-	-	-	95 484
At 31 December 2013	4 387 149	642 687	44 382	55 606	255 014	190 822	5 575 660
Depreciation, amortisation and impairment losses							
Balance at 1 January 2013	100 806	346 501	36 664	27 026	97 336	-	608 333
Depreciation and amortisation for the year	106 033	79 920	1 170	8 594	53 267	-	248 984
Disposals	(163)	(7 230)	-	(5 279)	(24 966)	-	(37 638)
Revaluation	(200 447)	-	-	-	-	-	(200 447)
Balance at 31 December 2013	6 229	419 191	37 834	30 341	125 637	-	619 232
Carrying amounts							
At 31 December 2013	4 380 920	223 496	6 548	25 265	129 377	190 822	4 956 428
At 31 December 2012	3 791 373	232 785	3 086	36 405	126 888	258 058	4 448 595

Revalued assets

As at 31 December 2014, the independent appraiser S.A.Ricci analysed the main factors of change in value of commercial real estate in regions where Group’s buildings are located. Based on the analysis it is concluded that there were no significant changes in prices of commercial real estate during 2014.

At 31 December 2013, buildings were revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50%/50% basis.

The market approach is based upon an analysis of the results of comparable sales/offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

The following key assumptions are used in applying the income capitalisation approach:

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties’ rental rates
- the vacancy rate of 5% was assumed for the properties with the total area less than 150 m2, the vacancy rate of 7% was assumed for the properties with the total area of 150 to 500 m2, the vacancy rate of 10% was used for the properties with the total area of more than 500 m2
- the capitalisation rate of 13% was assumed for large cities (regional centres) and 14% for small cities. For the office building located in Moscow, the capitalisation rate of 10% was assumed based on the Appraiser’s internal research (S.A.Ricci).

The values assigned to the key assumptions represent management’s assessment of future business trends and are based on both external sources and internal sources of information.

Fair value measurement of buildings is categorised as Level 3 in the fair value hierarchy.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2014 would be RUB 132 150 thousand higher/lower (2013: RUB 131 428 thousand).

The carrying value of buildings as at 31 December 2014, if the buildings would not have been revalued, would be RUB 2 529 732 thousand (2013: RUB 2 431 314 thousand).

Investment property

	2014 RUB’000	2013 RUB’000
Balance at 1 January	49 213	143 435
Additions	34 753	-
Transfer to property, equipment and intangible assets	(39 031)	(95 484)
Fair value revaluation	(812)	1 262
Balance at 31 December	44 123	49 213

As at 31 December 2014, the independent appraiser S.A.Ricci analysed the main factors of change in value of commercial real estate in regions where Group’s buildings are located. Based on the analysis it is concluded that there were no significant changes in prices of commercial real estate during 2014.

At 31 December 2013, investment property revalued based on the results of an independent appraisal performed by S.A.Ricci. The basis used for the appraisal is the same as for buildings (see above).

Fair value measurement of investment property is categorised as Level 3 in the fair value hierarchy.

Rental income from investment property for the year ended 31 December 2014 comprised RUB 2 801 thousand (2013: RUB 3 836 thousand).

23 Other assets

	2014 RUB'000	2013 RUB'000
Other receivables	273 439	181 838
Total other financial assets	273 439	181 838
Prepayments	289 552	558 436
Inventory	133 350	75 810
Prepayments for assets to be leased under finance lease	87 842	239 530
Advances on precious metals delivery	63 245	308 871
Materials and supplies	40 925	44 242
Other	183 370	144 420
Total other non-financial assets	798 284	1 371 309
Gross other assets	1 071 723	1 553 147
Less allowance for impairment of other non-financial assets	(75 560)	(28 871)
Net other assets	996 163	1 524 276

Movements in the impairment allowance are as follows:

	2014 RUB'000	2013 RUB'000
Balance at the beginning of the year	28 871	-
Net charge	66 762	28 871
Write-offs	(20 073)	-
Balance at the end of the year	75 560	28 871

24 Deposits and balances from banks

	2014 RUB'000	2013 RUB'000
Vostro accounts	146 920	281 660
Term deposits from banks	8 618 727	6 694 976
Term deposit from the CBR	1 955 985	18 031
	10 721 632	6 994 667

As at 31 December 2014, the Group has three banks (including the CBR) (31 December 2013: two banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2014 is RUB 6 501 347 thousand (2013: RUB 4 257 541 thousand).

Covenants

As at 31 December 2014, the Group has term deposits from one of the banks amounting to RUB 2 720 359 thousand (31 December 2013: RUB 2 019 038 thousand) with maturities set out in the table below:

	2014 RUB'000	2013 RUB'000
- repayable on 27 July 2016	96 154	230 990
- repayable on 5 July 2017	91 213	192 786
- repayable on 15 August 2017	54 386	146 872
- repayable on 19 March 2018	618 794	985 413
- repayable on 29 October 2018	381 861	426 967
- repayable on 10 November 2018	23 443	29 359
- repayable on 12 November 2018	71 167	6 651
- repayable on 28 February 2019	557 134	-
- repayable on 18 June 2019	246 920	-
- repayable on 12 August 2019	579 287	-
	2 720 359	2 019 038

According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Group should comply with all ratios of the CBR and N1.0 statutory ratio should be not less than 10.2%.

As at 31 December 2014, the Group has term deposits from another bank amounting to RUB 1 379 967 thousand repayable on 22 October 2019 (31 December 2013: none). According to the terms of the agreement the Group is subject to a debt covenant stating that funds should be used for issuance of loans to small and medium size entities and at the end of each month the Group should comply with a number of financial covenants.

As at 31 December 2014, the Group has term deposits from another bank amounting to RUB 47 642 thousand repayable on 15 June 2015 (31 December 2013: RUB 142 672 thousand). According to the terms of the agreement the Group is subject to a debt covenant stating that funds should be used for issuance of loans to small and medium size entities and at the end of each quarter the Group should comply with a number of financial and non-financial covenants.

As at 31 December 2014 and 2013, the Group did not breach any covenants described above.

25 Amounts payable under repurchase agreements

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2014:

RUB'000	Government and municipal bonds	Corporate bonds	Total
Amounts payable under direct repo agreements			
- The CBR	317 890	8 520 294	8 838 184
	317 890	8 520 294	8 838 184

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2013:

RUB'000	Government and municipal bonds	Corporate bonds	Total
Amounts payable under direct repo agreements			
- The CBR	727 487	6 082 354	6 809 841
	727 487	6 082 354	6 809 841

Fair value of securities transferred under repo agreements as at 31 December 2014 comprised RUB 9 404 640 thousand (31 December 2013: RUB 8 205 242 thousand). For details, please, refer to note 21.

26 Current accounts and deposits from customers

	2014 RUB'000	2013 RUB'000
Current accounts and demand deposits		
- Retail	4 374 344	4 971 504
- Corporate	13 594 354	17 989 348
Term deposits		
- Retail	54 258 564	45 508 173
- Corporate	12 270 452	12 901 099
	84 497 714	81 370 124

As at 31 December 2014, the Group has two groups of connected customers (2013: one customer), whose balances individually exceed 10% of equity. The amount owned comprised RUB 7 931 497 thousand (2013: RUB 8 186 316 thousand).

27 Debt securities issued

	2014 RUB'000	2013 RUB'000
Bonds	5 668 351	5 835 360
Promissory notes	838 240	268 701
	6 506 591	6 104 061

Bonds are presented by four issues: two of the Bank and the others of MA APB and MA APB 2.

In April 2012, the Group issued RUB 1 500 000 thousand of bonds with a coupon rate as at 31 December 2014 of 10.4%. These bonds mature on 30 April 2015.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature not later than 26 April 2045 (see note 18 for more details) with partially repayments each quarter.

In February 2013, the Group issued RUB 3 000 000 thousand of bonds with a coupon rate as at 31 December 2014 of 12.00%. These bonds mature on 19 February 2016. The part of the issue amounted to RUB 2 645 020 thousand has been repaid by the Group at the put-option date on 22 August 2014.

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9%. These securities mature not later than 1 October 2046 (see note 18 for more details) with partially repayments each quarter.

28 Subordinated borrowings

	2014 RUB'000	2013 RUB'000
Subordinated loan	4 021 246	986 344
	4 021 246	986 344

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 million from one of the Bank's shareholders - IFC. The loan with interest rate 10.92% as at 31 December 2014 mature by tranches until 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants. As at 31 December 2014 the Group breached one of the financial covenants. The Group and IFC is in process of negotiating the change of this covenant. Subordinated debt are not payable on demand as at 31 December 2014..

On 10 July 2014, the Group issued subordinated Loan Participation Notes in the amount of USD 42 million for 5.5 years with interest rate of 11.00% through SCI Finance B.V., partially consolidated structured entity incorporated in the Netherlands. This entity was partially consolidated because portion of the entity is a deemed separate entity which is in substance “ring-fenced” from the rest of the entity, and the Group has control over deemed separate entity. The Group consolidated only those assets and returns related to the issue of Loan Participation Notes.

29 Other liabilities

	2014 RUB'000	2013 RUB'000
Payables to employees	182 575	463 786
Other taxes payable	150 783	158 116
Advances from lessees received	145 759	211 944
Deferred commission on guarantees	77 123	49 011
Payables to creditors	44 527	70 459
Other liabilities	102 861	102 354
	703 628	1 055 670

30 Share capital

Issued capital

Movements in share capital for the years ended 31 December 2014 and 2013 are as follows:

	Shares (thousands)	Nominal amount, RUB'000	Inflation adjustment, RUB'000	Total, RUB'000
Balance as at 1 January 2013	4 949 019 820 939	554 290	8 022	562 312
Ordinary shares	4 858 303 245 205	544 130	7 875	552 005
Preferred shares	250	-	-	-
Purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 1 January 2014	4 949 019 820 939	554 290	8 022	562 312
Ordinary shares	4 858 303 245 205	544 130	7 875	552 005
Preferred shares	250	-	-	-
Purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Issue of ordinary shares	206 271 120 949	23 102	-	23 102
Balance as at 31 December 2014	5 155 290 941 888	577 392	8 022	585 414

On 14 April 2014 the Group issued 206 271 120 949 312 ordinary shares with a nominal value of RUB 0.000000112 per each share and total nominal value of RUB 23 102 thousand. Total value of shares at the price of issue is RUB 609 118 thousand.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the Russian Accounting Legislation. As at 31 December 2014, reserves available for distribution amounted to RUB 9 319 252 thousand (31 December 2013: RUB 9 143 040 thousand).

The share capital of the Bank was contributed by the shareholders in Russian Roubles and they are entitled to dividends and any capital distribution in Russian Roubles.

31 Analysis by segment

The Group has seventeen divisions located in different regions of the Russian Federation, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units the chief operating decision maker reviews internal management reports on at least a monthly basis. The Group combined branches into three reporting units based on geographical location: Far East region, Siberia region and West region.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is set out below:

	2014 RUB'000	2013 RUB'000
ASSETS		
Far East region	55 172 615	54 460 162
West region	40 828 079	28 700 692
Siberia region	28 858 843	30 844 089
Total assets	124 859 537	114 004 943
LIABILITIES		
Far East region	70 014 400	63 081 318
West region	25 057 952	22 189 149
Siberia region	17 411 503	15 399 497
Total liabilities	112 483 855	100 669 964

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

RUB'000	Far East region	Siberia region	West region	Total
External interest income	8 602 826	5 574 917	1 514 577	15 692 320
Fee and commission income	2 926 263	677 143	191 960	3 795 366
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(3 740)	-	458 586	454 846
Net foreign exchange gain	50 072	402 481	166 024	618 577
Other operating income	487 268	230 008	7 391	724 667
Revenue	12 062 689	6 884 549	2 338 538	21 285 776
Impairment losses	3 797 289	4 380 666	497 040	8 674 995
Interest expense	4 477 173	1 186 407	1 579 725	7 243 305
Fee and commission expense	159 091	40 721	16 565	216 377
General administrative expenses	4 820 733	494 473	68 211	5 383 417
Segment result	(1 191 597)	782 282	176 997	(232 318)
Income tax expense				5 091
Loss for the year				(237 409)

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

RUB'000	Far East region	Siberia region	West region	Total
External interest income	7 751 161	4 725 247	1 347 077	13 823 485
Fee and commission income	2 871 730	2 235 229	184 563	5 291 522
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(3 376)	-	1 070 479	1 067 103
Net foreign exchange (loss) income	(667 027)	129 774	744 421	207 168
Other operating income	329 992	164 831	4 813	499 636
Revenue	10 282 480	7 255 081	3 351 353	20 888 914
Impairment losses	3 148 715	2 497 369	311 423	5 957 507
Interest expense	4 270 428	1 137 857	1 457 426	6 865 711
Fee and commission expense	111 019	48 155	19 357	178 531
General administrative expenses	3 589 811	1 362 129	240 245	5 192 185
Segment result	(837 493)	2 209 571	1 322 902	2 694 980
Income tax expense				665 338
Profit for the year				2 029 642

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2014 RUB'000	2013 RUB'000
Revenues		
Total revenues for reportable segments	21 285 776	20 888 914
IFRS accounting policy adjustments:		
- interest income on loans to customers and net investments in finance lease	1 016 336	504 521
- securities at fair value	(54 203)	28 686
- other adjustments	84 620	55 190
Consolidated revenues	22 332 529	21 477 311
Profit or loss		
Total (loss) profit for reportable segments	(237 409)	2 029 642
IFRS accounting policy adjustments:		
- interest income on loans to customers	506 799	261 899
- allowance for impairment of loans to customers, net investments in finance leases and other assets	(203 907)	699 982
- depreciation and amortisation of property and equipment and intangible assets	34 223	(35 434)
- securities at fair value	(54 203)	28 686
- other adjustments	4 478	128 185
Consolidated profit for the year	49 981	3 112 960

	2014 RUB'000	2013 RUB'000
Assets		
Total assets for reportable segments	124 859 537	114 004 943
IFRS accounting policy adjustments:		
- interest income on loans to customers	60 264	(141 092)
- allowance for impairment of loans to customers and net investments in finance leases	1 900 500	1 735 282
- allowance for impairment of other assets	268 487	636 507
- depreciation and amortisation of property and equipment and intangible assets and other adjustments to property cost	198 993	159 472
- securities at fair value	(283 964)	51 804
- double repo adjustment	(764 820)	(338 752)
- deferred tax asset	76 691	51 462
- revaluation of property and equipment	364 391	364 463
- other assets of subsidiaries (net of intragroup transactions)	3 855 272	2 447 172
- other adjustments	(68 508)	(414 999)
Consolidated assets	130 466 843	118 556 262
Liabilities		
Total liabilities for reportable segments	112 483 855	100 669 964
IFRS accounting policy adjustments:		
- accounting for deferred tax liability	313 697	435 961
- liabilities of subsidiaries (net of intragroup transactions)	3 672 069	2 524 792
- double repo adjustment	(764 820)	(338 752)
- other adjustments	(93 544)	673 879
Consolidated liabilities	115 611 257	103 965 844

Information about major customers and geographical areas

For the years ended 31 December 2014 and 2013, there were no corporate customers whose revenues individually exceed 10% of total revenue.

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

32 Corporate governance, internal control and risk management

(a) Corporate governance framework

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

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

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

As at 31 December 2014, the Board of Directors includes:

Andrey Novikov – Chairman of the Board of Directors

Evgeniy Aksenov

Sergey Golubev

Jacobs Margo

Marc van der Plas

Stefan Dertnig

Andrey Vdovin

Alexander Murichev.

During the year ended 31 December 2014 the following changes occurred in composition of the Board of Directors: Kirill Yakubovskiy, Sergey Tyrtsev and Kestutis Sasnauskas left the Board, Andrey Novikov, Sergey Golubev and Jacobs Margo joined the Board.

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

As at 31 December 2014, the Management Board includes:

Andrey Vdovin – Chairman of the Management Board

Igor Abazov

Igor Zilberblum

Alexander Nepomnyashiy

Andrey Novikov

Mikhail Pavlov

Tatiana Chekonova

Andrey Frolov.

During the year ended 31 December 2014 the following changes occurred in composition of the Management Board: the new Chairman, Andrey Vdovin, was appointed instead of Sergey Tyrtsev, who left his position on 1 November 2014. Andrey Novikov, Tatiana Chekonova and Andrey Frolov joined the Board.

(b) Internal control policies and procedures

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

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorisation, processing and recording of transactions

- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorisation of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Board of Directors. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit and Risk Committee and the Board of Directors and senior management of the Bank.

The internal control system in the Bank comprises:

- the Board of Directors and its committees, including the Audit and Risk Committee
- the Chairman of the Management Board and the Management Board
- the Chief Accountant
- the Risk Department
- the security function, including IT-security
- the human resource function
- the Internal Audit Service
- the Internal Control (Compliance) Service
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
 - heads of branches and heads of business-units

- business processes managers
- the compliance officer and the compliance function, including the division responsible for compliance with anti-money laundering and anticorruption requirements
- professional securities market participant controller – an executive office responsible for compliance with the requirements for securities market participants
- the legal officer – employees and a division responsible for compliance with the legal and regulatory requirements
- other employees/divisions with control responsibilities.

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

The main functions of the Internal Audit Service include the following:

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

The Internal Control (Compliance) Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

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

- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation* establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, Heads of the Internal Audit Service, the Internal Control Service and the Risk Department and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

The Group calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 1 January 2015 and 2014 the mandatory ratios were in compliance with limits set by the CBR.

(c) **Risk management policies and procedures**

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

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2014, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Board of Directors and management bodies of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Board of Directors and management bodies of the Bank periodically receive reports prepared by the Internal Audit Service and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

In compliance with the Group’s internal documentation the Risk Department and Internal Audit Service frequently prepare reports, which cover the Group’s significant risks management. The reports include observations as to assessment of the effectiveness of the Group’s procedures and methodologies, and recommendations for improvement.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

The Group manages its market risk by setting open position limits in relation to financial instrument types stated above, value-at-risk based limits and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

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

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014			2013		
	Average effective interest rate, %			Average effective interest rate, %		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Interest bearing assets						
Term deposits with the CBR	16%	-	-	5%	-	-
Financial instruments at fair value through profit or loss	-	-	-	8%	-	-
Available-for-sale financial assets	9%	5%	-	8%	6%	-
Due from banks	-	5%	4%	5%	5%	6%
Amounts receivable under reverse repurchase agreements	15%	-	-	7%	-	-
Loans to customers						
- retail	19%	12%	-	23%	10%	-
- corporate	15%	10%	3%	13%	9%	10%
Net investments in finance leases	30%	23%	-	31%	23%	-
Held-to-maturity investments	8%	-	-	-	-	-
Interest bearing liabilities						
Deposits and balances from banks	13%	3%	4%	10%	3%	2%
Amounts payable under repurchase agreements	17%	-	-	6%	-	-
Term deposits from customers						
- retail	11%	4%	4%	9%	4%	4%
- corporate	15%	3%	5%	7%	5%	2%
Debt securities issued						
- promissory notes	11%	4%	-	7%	7%	-
- bonds	11%	-	-	11%	-	-
Subordinated borrowings	-	11%	-	-	11%	-

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2014 (31 December 2013: 100 basis points) is as follows:

	2014		2013	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
300/100 bp parallel fall	244 540	244 540	75 905	75 905
300/100 bp parallel rise	(244 540)	(244 540)	(75 905)	(75 905)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value through profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2014 and a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves (31 December 2013: 100 basis points) is as follows:

	2014		2013	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
300/100 bp parallel fall	-	331 612	85 409	135 200
300/100 bp parallel rise	-	(302 011)	(85 409)	(135 200)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2014:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS						
Cash and cash equivalents	9 114 896	2 511 488	1 337 295	666 199	343 144	13 973 022
Obligatory reserves with the Central Bank of the Russian Federation	896 191	-	-	-	-	896 191
Financial instruments at fair value through profit or loss	-	43 585	763	-	-	44 348
Available-for-sale financial assets	10 900 786	2 408 444	-	-	-	13 309 230
Due from banks	6 000	484 856	507 515	-	998	999 369
Amounts receivable under reverse repurchase agreements	1 560 811	-	-	-	-	1 560 811
Loans to customers	71 959 849	13 054 369	549 978	-	27 143	85 591 339
Net investments in finance leases	1 846 358	235 832	-	-	-	2 082 190
Held-to-maturity investments	5 544 648	-	-	-	-	5 544 648
Current tax asset	196 821	-	-	-	-	196 821
Deferred tax asset	76 691	-	-	-	-	76 691
Property, equipment, intangible assets and investment property	5 196 020	-	-	-	-	5 196 020
Other assets	933 746	54 735	7 639	-	43	996 163
Total assets	108 232 817	18 793 309	2 403 190	666 199	371 328	130 466 843

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	1 671	-	-	4 821	6 492
Deposits and balances from banks	6 831 982	1 957 124	1 899 275	-	33 251	10 721 632
Amounts payable under repurchase agreements	8 838 184	-	-	-	-	8 838 184
Current accounts and deposits from customers	72 315 830	9 277 676	1 930 372	640 808	333 028	84 497 714
Debt securities issued	6 381 422	125 169	-	-	-	6 506 591
Subordinated borrowings	-	4 021 246	-	-	-	4 021 246
Current tax liability	2 073	-	-	-	-	2 073
Deferred tax liability	313 697	-	-	-	-	313 697
Other liabilities	690 271	11 929	1 422	-	6	703 628
Total liabilities	95 373 459	15 394 815	3 831 069	640 808	371 106	115 611 257
Net position	12 859 358	3 398 494	(1 427 879)	25 391	222	14 855 586
The effect of derivatives held for risk management	2 046 840	(3 477 377)	1 407 860	-	22 677	-
Net position after derivatives held for risk management purposes	14 906 198	(78 883)	(20 019)	25 391	22 899	14 855 586

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2013:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS						
Cash and cash equivalents	8 260 640	1 163 681	580 340	7 106	74 013	10 085 780
Obligatory reserves with the Central Bank of the Russian Federation	1 078 793	-	-	-	-	1 078 793
Financial instruments at fair value through profit or loss	10 676 182	-	-	-	-	10 676 182
Available-for-sale financial assets	5 548 516	675 356	-	-	-	6 223 872
Due from banks	10 704	697 820	-	-	1 695	710 219
Amounts receivable under reverse repurchase agreements	335 720	-	-	-	-	335 720
Loans to customers	77 640 340	2 435 282	347 322	-	1 829	80 424 773
Net investments in finance leases	2 242 910	168 431	654	-	-	2 411 995
Current tax asset	27 549	-	-	-	-	27 549
Deferred tax asset	51 462	-	-	-	-	51 462
Property, equipment, intangible assets and investment property	5 005 641	-	-	-	-	5 005 641
Other assets	1 385 770	118 014	20 492	-	-	1 524 276
Total assets	112 264 227	5 258 584	948 808	7 106	77 537	118 556 262

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	12 118	-	3 870	442	16 430
Deposits and balances from banks	6 177 074	635 599	177 196	-	4 798	6 994 667
Amounts payable under repurchase agreements	6 809 841	-	-	-	-	6 809 841
Current accounts and deposits from customers	74 433 454	5 443 106	761 635	501 015	230 914	81 370 124
Debt securities issued	6 036 022	68 039	-	-	-	6 104 061
Subordinated borrowings	-	986 344	-	-	-	986 344
Current tax liability	184 630	-	-	-	-	184 630
Deferred tax liability	444 077	-	-	-	-	444 077
Other liabilities	1 050 006	1 361	4 297	-	6	1 055 670
Total liabilities	95 135 104	7 146 567	943 128	504 885	236 160	103 965 844
Net position	17 129 123	(1 887 983)	5 680	(497 779)	(158 623)	14 590 418
The effect of derivatives held for risk management	(2 681 668)	2 030 087	-	642 264	9 317	-
Net position after derivatives held for risk management purposes	14 447 455	142 104	5 680	144 485	(149 306)	14 590 418

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2014 and 2013 would have (decreased) increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014		2013	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
20%/10% appreciation of USD against RUB	(12 621)	(12 621)	11 368	11 368
20%/10% appreciation of EUR against RUB	(3 203)	(3 203)	454	454

A strengthening of the RUB against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a system of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

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

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

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

For the analysis of concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 34.

As at 31 December 2014, the Group has no debtors or groups of connected debtors (31 December 2013: no debtors or group of debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

(f) Offsetting financial assets and financial liabilities

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

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

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

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

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

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

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements.

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

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

RUB'000	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Types of financial assets/liabilities						
Reverse sale and repurchase agreements	1 560 811	-	1 560 811	(1 560 811)	-	-
Total financial assets	1 560 811	-	1 560 811	(1 560 811)	-	-
Sale and repurchase agreements	(8 838 184)	-	(8 838 184)	8 838 184	-	-
Total financial liabilities	(8 838 184)	-	(8 838 184)	8 838 184	-	-

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

RUB'000	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Types of financial assets/liabilities						
Reverse sale and repurchase	335 720	-	335 720	(335 720)	-	-
Total financial assets	335 720	-	335 720	(335 720)	-	-
Sale and repurchase agreements	(6 809 841)	-	(6 809 841)	6 809 841	-	-
Total financial liabilities	(6 809 841)	-	(6 809 841)	6 809 841	-	-

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

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

(g) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term loans from other banks, core corporate and retail customer deposits. This policy is accompanied by diversified portfolios of highly liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department monitors liquidity position on a daily basis, aggregates information regarding the liquidity profile of assets and liabilities on past deals and receives from business units details of projected cash flows arising from future business.

The Treasury Department performs regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of balances on nostro accounts and short-term placements with other banks, liquid debt securities, stock exchange reverse repo deals, to ensure that sufficient liquidity is maintained within the Group as a whole both in normal and more severe market conditions.

Under the normal market conditions liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for liabilities as at 31 December 2014 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	1 237 856	2 323 252	2 094 915	6 302 245	73 195	12 031 463	10 721 632
Amounts payable under repurchase agreements	8 895 978	-	-	-	-	8 895 978	8 838 184
Current accounts and deposits from customers	19 172 754	17 344 735	40 228 193	11 671 563	-	88 417 245	84 497 714
Debt securities issued	854 947	123 136	2 550 009	3 700 492	23 724	7 252 308	6 506 591
Subordinated borrowings	-	-	240 593	3 063 537	2 493 878	5 798 008	4 021 246
Current tax liability	-	2 073	-	-	-	2 073	2 073
Other liabilities	373 382	142 328	171 331	16 587	-	703 628	703 628
Derivative liabilities							
Inflow	(1 542 262)	-	-	-	-	(1 542 262)	-
Outflow	1 548 754	-	-	-	-	1 548 754	6 492
Total liabilities	30 541 409	19 935 524	45 285 041	24 754 424	2 590 797	123 107 195	115 297 560
Credit related commitments	13 296 022	-	-	-	-	13 296 022	13 296 022

The maturity analysis for liabilities as at 31 December 2013 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	711 432	278 733	2 604 564	4 518 492	74 381	8 187 602	6 994 667
Amounts payable under repurchase agreements	6 823 433	-	-	-	-	6 823 433	6 809 841
Current accounts and deposits from customers	26 059 146	12 337 952	30 775 988	15 896 665	-	85 069 751	81 370 124
Debt securities issued	150 465	204 739	822 062	5 990 813	23 724	7 191 803	6 104 061
Subordinated borrowings	-	-	108 412	991 919	425 274	1 525 605	986 344
Current tax liability	-	184 630	-	-	-	184 630	184 630
Other liabilities	546 617	126 503	382 550	-	-	1 055 670	1 055 670
Derivative liabilities							
Inflow	(655 607)	(496 181)	(1 533 906)	-	-	(2 685 694)	-
Outflow	659 918	499 196	1 543 010	-	-	2 702 124	16 430
Total liabilities	34 295 404	13 135 572	34 702 680	27 397 889	523 379	110 054 924	103 521 767
Credit related commitments	9 664 217	-	-	-	-	9 664 217	9 664 217

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 54 258 564 thousand (31 December 2013: RUB 45 508 173 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2014:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	13 954 862	18 160	-	-	-	-	13 973 022
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	896 191	896 191
Financial instruments at fair value through profit or loss	44 348	-	-	-	-	-	44 348
Available-for-sale financial assets	13 309 230	-	-	-	-	-	13 309 230
Due from banks	-	-	990 402	-	-	8 967	999 369
Amounts receivable under reverse repurchase agreements	1 560 811	-	-	-	-	-	1 560 811
Loans to customers	3 562 903	5 383 540	28 200 999	42 271 534	6 172 363	-	85 591 339
Net investments in finance leases	355 526	172 508	776 288	777 868	-	-	2 082 190
Held-to-maturity investments	-	-	665 118	4 568 153	311 377	-	5 544 648
Current tax asset	196 821	-	-	-	-	-	196 821
Deferred tax asset	-	-	-	-	-	76 691	76 691
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 196 020	5 196 020
Other assets	234 696	415 147	306 179	3 534	-	36 607	996 163
Total assets	33 219 197	5 989 355	30 938 986	47 621 089	6 483 740	6 214 476	130 466 843
LIABILITIES							
Derivative financial instruments	6 492	-	-	-	-	-	6 492
Deposits and balances from banks	1 212 886	2 187 821	1 735 417	5 512 313	73 195	-	10 721 632
Amounts payable under repurchase agreements	8 838 184	-	-	-	-	-	8 838 184
Current accounts and deposits from customers	19 065 898	16 298 624	38 244 261	10 888 931	-	-	84 497 714
Debt securities issued	849 260	121 468	2 444 706	3 067 433	23 724	-	6 506 591
Subordinated borrowings	-	-	8 191	1 687 752	2 325 303	-	4 021 246
Current tax liability	-	2 073	-	-	-	-	2 073
Deferred tax liability	-	-	-	-	-	313 697	313 697
Other liabilities	373 382	142 328	171 331	16 587	-	-	703 628
Total liabilities	30 346 102	18 752 314	42 603 906	21 173 016	2 422 222	313 697	115 611 257
Net position	2 873 095	(12 762 959)	(11 664 920)	26 448 073	4 061 518	5 900 779	14 855 586

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2013:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	10 083 520	2 260	-	-	-	-	10 085 780
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	1 078 793	1 078 793
Financial instruments at fair value through profit or loss	8 262 499	2 413 683	-	-	-	-	10 676 182
Available-for-sale financial assets	6 223 872	-	-	-	-	-	6 223 872
Due from banks	-	-	695 157	-	-	15 062	710 219
Amounts receivable under reverse repurchase agreements	335 720	-	-	-	-	-	335 720
Loans to customers	3 448 367	4 695 986	23 647 019	41 177 357	7 456 044	-	80 424 773
Net investments in finance leases	349 363	184 675	831 039	1 046 918	-	-	2 411 995
Current tax asset	27 549	-	-	-	-	-	27 549
Deferred tax asset	-	-	-	-	-	51 462	51 462
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 005 641	5 005 641
Other assets	512 414	501 979	457 432	14 844	-	37 607	1 524 276
Total assets	29 243 304	7 798 583	25 630 647	42 239 119	7 456 044	6 188 565	118 556 262
LIABILITIES							
Derivative financial instruments	4 313	3 015	9 102	-	-	-	16 430
Deposits and balances from banks	693 822	186 457	2 187 063	3 853 609	73 716	-	6 994 667
Amounts payable under repurchase agreements	6 809 841	-	-	-	-	-	6 809 841
Current accounts and deposits from customers	26 025 930	12 158 258	29 580 979	13 604 957	-	-	81 370 124
Debt securities issued	141 523	161 342	459 397	5 318 075	23 724	-	6 104 061
Subordinated borrowings	-	-	4 468	589 126	392 750	-	986 344
Current tax liability	-	184 630	-	-	-	-	184 630
Deferred tax liability	-	-	-	-	-	444 077	444 077
Other liabilities	546 617	126 503	382 550	-	-	-	1 055 670
Total liabilities	34 222 046	12 820 205	32 623 559	23 365 767	490 190	444 077	103 965 844
Net position	(4 978 742)	(5 021 622)	(6 992 912)	18 873 352	6 965 854	5 744 488	14 590 418

In accordance with the Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 54 258 564 thousand (31 December 2013: RUB 45 508 173 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2014 RUB'000	2013 RUB'000
Demand and less than 1 month	5 571 514	4 762 801
From 1 to 3 months	12 085 929	9 719 809
From 3 to 12 months	26 339 184	18 007 057
From 1 to 5 years	10 261 937	13 018 506
	54 258 564	45 508 173

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Overdue and impaired loans are included in from 3 months to 1 year category based on past experience analysis of their recoverability;
- Financial instruments at fair value through profit or loss (except for promissory notes and derivative financial instruments): as at 31 December 2013 management held a portfolio of trading securities that are readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these trading securities, totalling RUB 6 480 114 thousand were included in the demand and less than 1 month category.

Contractual maturities of trading securities are as follows:

	2014 RUB'000	2013 RUB'000
From 3 to 12 months	-	-
From 1 to 5 years	-	3 383 512
More than 5 years	-	3 096 602
No maturity	-	-
	-	6 480 114

- Available-for-sale financial assets: management holds a portfolio of other securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale securities, totalling RUB 13 309 230 thousand (31 December 2013: RUB 6 223 872 thousand) are included in the demand and less than 1 month category.

Contractual maturities of available-for-sale securities are as follows:

	2014 RUB'000	2013 RUB'000
From 1 to 3 months	1 293 431	9 241
From 3 to 12 months	6 368 162	384 834
From 1 to 5 years	5 270 668	2 484 856
More than 5 years	376 969	3 344 941
	13 309 230	6 223 872

- In accordance with the Russian legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts for the year ended 31 December 2014, totalling RUB 8 699 497 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category (2013: RUB 6 650 000 thousand in the category from 3 to 12 months).

The Group maintains unused lines of credit from the CBR and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from the CBR, mentioned above.

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

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 1 January 2015 and 2014. The following table shows the mandatory liquidity ratios calculated as at 1 January 2015 and 2014.

	Requirement	2014, %	2013, %
Instant liquidity ratio (N2)	Not less than 15%	79.5	48.7
Current liquidity ratio (N3)	Not less than 50%	97.7	63.3
Long-term liquidity ratio (N4)	Not more than 120%	82.5	87.0

(h) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

33 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Till 31 December 2013 the Group calculated amount of capital in accordance with Provision of the CBR dated 10 February 2003 No 215-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations* (Provision of the CBR No 215-P) and since 1 January 2014 – in accordance with Provision of the CBR dated 28 December 2012 No 395-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)* (Provision of the CBR No 395-P).

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

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

The Group provides the territorial CBR that supervises the Bank with information on mandatory ratios in accordance with set form. The Bank’s Financial-Analytical Department controls on a daily basis compliance with capital adequacy ratios.

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

The calculation of capital adequacy for the Group based on requirements set by the CBR as at 1 January 2015 is as follows:

	2014 RUB'000
Base capital	10 583 112
Additional capital	-
Main capital	10 583 112
Supplementary capital	4 706 475
Own funds (capital)	15 289 587
Risk-weighted assets	130 176 800
Ratio N20.1 (%)	8.23
Ratio N20.2 (%)	8.23
Ratio N20.0 (%)	11.75

The calculation of capital adequacy based on requirements set by the CBR as at 1 January 2014 is as follows:

	2013 RUB'000
Main Capital	13 993 666
Supplementary capital	893 507
Own funds (capital)	14 887 173
Risk-weighted assets	113 436 010
 Ratio N1 (%)	 13.1

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

34 Commitments

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

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

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

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

	2014 RUB'000	2013 RUB'000
Contracted amount		
Guarantees and letters of credit	7 835 975	2 965 647
Undrawn overdraft facilities	4 025 655	5 959 238
Loan and credit line commitments	1 434 392	739 332
	13 296 022	9 664 217

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

There is no significant credit risk concentration as at 31 December 2014 and 31 December 2013.

As at 31 December 2014, the Group has a commitment to purchase 3 573 kg of gold and 147 kg of silver (31 December 2013: 1 738 kg of gold) under contracts to be settled at the market price at the date of maturity.

35 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

36 Contingencies

(a) Insurance

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

(b) Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

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

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

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

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

37 Related party transactions

(a) Control relationships

The Group’s parent company is LLC “PPFIN Region” (Russian Federation). As at 31 December 2014, the ultimate beneficial owners of the Group were Mr. Andrey Vdovin (the owner of 22.528%), Mr. Alexey Maslovsky (the owner of 22.528%), Mr. Peter Hambro (the owner of 22.528%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17.91%), International Finance Corporation (6.71%).

In October 2014, Mr. Kirill Yakubovsky sold his stake in the Group to the other ultimate beneficial owners (Mr. Andrey Vdovin, Mr. Alexey Maslovsky and Mr. Peter Hambro) in equal portions.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2014 and 2013 is as follows:

	2014 RUB’000	2013 RUB’000
Short term employee benefits	87 171	351 065
	87 171	351 065

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2014 and 2013 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2014 RUB’000	Average effective interest rate, %	2013 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	298	21.67%	821	19.42%
Other assets	1 498	-	392	-

	2014 RUB'000	Average effective interest rate, %	2013 RUB'000	Average effective interest rate, %
LIABILITIES				
Current accounts and deposits from customers	198 257	11.54%	636 539	6.41%
Other liabilities	4 349	-	11 628	-
Commitments				
Credit commitments	1 200	-	-	-

Other amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2014 RUB'000	2013 RUB'000
Consolidated statement of of profit or loss and other comprehensive income		
Interest income	34	-
Interest expense	(44 142)	(30 836)
Commission income	-	26
Impairment losses	(2)	-
Other expenses (payments to the Board of Directors)	(3 919)	(9 852)

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2014 and 2013 for transactions with shareholders owning more than 10% share capital are as follows:

	2014 RUB'000	Average effective interest rate, %	2013 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	4 643 669	9.88%	-	-
LIABILITIES				
Current accounts and deposits	6	-	79	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2014 RUB'000	2013 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	221 417	-
Impairment losses	(85 153)	-

During 2013 the Group made cash distribution to shareholders in the amount of RUB 37 230 thousand.

(d) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the ultimate beneficial owners of the Group.

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

	2014 RUB'000	Average effective interest rate, %	2013 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Cash and cash equivalents	1 754	-	3 336	-
Loans to customers	1 198 149	9.59%	149 880	13.96%
Other assets	2 446	-	292	-
LIABILITIES				
Deposits and balances from banks	24 663	3.70%	2 179	0.26%
Current accounts and deposits from customers	2 941 155	7.88%	1 020 127	6.30%
Other liabilities	1 317	-	482	-
Debt securities issued	-	-	101 623	9.28%
Commitments				
Undrawn loan commitments and overdraft	226 484	-	90 000	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2014 RUB'000	2013 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	35 248	36 823
Interest expense	(36 315)	(42 483)
Commission income	217 796	4 674
Other income	571	6 788
Other expense	(5 613)	(8 699)
Impairment (losses) recovery	(20 244)	7 911

38 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of all financial instruments as at 31 December 2013 approximates their carrying value.

The estimated fair value of all financial instruments as at 31 December 2014 approximates their carrying value except for the following financial instruments:

RUB'000	Balance value	Fair value
Loans to customers	85 591 339	82 544 928
Held-to-maturity investments	5 544 648	5 016 710
Deposits and balances from banks	10 721 632	10 201 941
Current accounts and deposits from customers	84 497 714	79 482 302
Debt securities issued	6 506 591	6 243 933

(b) Fair value hierarchy

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

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

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the Deputy Chairman of the Management Board, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing

- re-performance of model valuations
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	44 348	44 348
- Derivative liabilities	-	(6 492)	(6 492)
Available-for-sale financial assets			
- Debt and other fixed income instruments	13 309 230	-	13 309 230

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	6 480 114	4 196 068	10 676 182
- Derivative liabilities	(3 878)	(12 552)	(16 430)
Available-for-sale financial assets			
- Debt and other fixed income instruments	6 223 872	-	6 223 872

39 Events after the reporting date

On 12 February 2015, the Board of Directors of the Bank approved acquisition of shares of OJSC M2M Private Bank, the company controlled by the ultimate beneficial owners of the Group. At the date of signing financial statements the deal was not finalized.

In March 2015 the Group received cash contribution from its beneficiaries in the amount RUB 1 500 000 thousand.