MAZARS

Hlynov Commercial Bank (Open Joint Stock Company) Group

Consolidated Financial Statements 31 December 2014 and Auditor's Report

Contents

Translation from the original in Russian language.

Translation from original in Russian

AUDIT OPINION

To the Shareholders of Open Joint Stock Company Commercial Bank "Hlynov"

Audited entity

Name: Commercial Bank "Hlynov" Open Joint Stock Company (OJSC CB "Hlynov").

Primary state registration number: 1024300000042.

Registration number in the CBR 254 dated 06.03.1990.

Location: 610002, Kirov, Uritskogo st., 40.

Auditor

Name: Joint Stock Company "Mazars" (JSC "Mazars").

Primary state registration number: 1027739734219.

Location: 5/19 Nizhniy Susalniy pereulok, Moscow, 105064.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - Noncommercial Partnership "Moscow Audit Chamber". The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 10303044761.

NIZHNIY SUSALNIY PEREULOK, 5/19, MOSCOW, 105064 - RUSSIA
TEL: +7 (495) 792 52 45/46 - FAX: +7 (495) 792 52 47 - WWW.MAZARS.RU

"MAZARS" JSC

We have audited the annual consolidated financial statements of OJSC CB "Hlynov", which is the managing credit organization of the banking group (the "Bank") which comprise of the consolidated statement of financial position as of December 31, 2014, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Consolidated Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these annual consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the annual 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 Bank'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 annual consolidated financial statements.

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

Opinion

In our opinion, the annual consolidated financial statements give a true and fair view of the consolidated financial position of the banking group, managing credit organization of which is the "Bank" as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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"MAZARS" JSC

MAZARS

The report on the audit results presented in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990

The Bank's management is responsible for the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of Russia, as well as for the conformity of the Bank's internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia.

We have tested the following within the scope of the Bank's annual audit of the annual consolidated financial statements for the year 2014 performed in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990:

- the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of Russia as of January 1, 2015;
- the conformity of banking group, the managing credit organization of which is the "Bank", internal control and risk management with the requirements imposed on analogous systems by the Bank of Russia.

The aforesaid audit has been limited to the procedures selected per auditor's professional judgement such as inquiries, analysis, review of documents, and comparison of the Bank's requirements, procedures and methodologies with the requirements set out by the Bank of Russia, as well as recalculations and correlation of quantitative data and other information.

Our audit disclosed the following:

- compliance with the mandatory regulations established by the Bank of Russia:
  - as of January 1, 2015 the indicators for mandatory standards stated by the Bank of Russia have remained within the limits established by the Bank of Russia

We have not conducted any procedures to evaluate the accounting data of the banking group, the managing credit organization of which is the "Bank", except for the procedures considered necessary for the purpose of expressing an opinion on whether the annual consolidated financial statements present fairly, in all material respects, its financial position as of December 31, 2014, the financial results of its activity and the cash flow for the year 2014 in accordance with International Financial Reporting Standards;

- conformity of the banking group, the managing credit organization of which is the "Bank", internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia:
  - as of December 31, 2014 the internal audit department of the Bank reports functionally and administratively to the Board in accordance with the requirements and recommendations of the Bank of Russia; the risk management department has not reported neither functionally nor administratively to the divisions taking pertinent risks; internal audit and risk managers meet qualification requirements established by the Bank of Russia;
  - internal banking documents valid as of December 31, 2014 that set up techniques for identifying and managing key business risks as regards to the banking group, the managing credit organization of which is the "Bank", including credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, and stress testings are all approved by competent governing authorities of the

banking group, the managing credit organization of which is the "Bank", in accordance with the requirements and recommendations of the Bank of Russia;

- existence of the aggregate reporting system for the Bank's key risks such as credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, as well as for the Bank's own funds (capital) as of December 31, 2014;
- frequency and consistency of the 2014 reports prepared by the Bank's risk and internal audit department that cover the process of managing credit, operational, market, interest, legal, liquidity and reputation risks of the banking group, the managing credit organization of which is the "Bank", have complied with internal documents of the Bank; these reports include the results on monitoring of the evaluation of the effectiveness of the Bank's applicable methodologies performed by the Bank's risk and internal audit management, as well as provide recommendations for their improvement;
- as of December 31, 2014 the Board and its executive committee's responsibilities include monitoring of the banking group, the managing credit organization of which is the "Bank", compliance with established risk limits and sufficiency of its own funds (capital). In order to monitor the effectiveness of the applicable procedures of risk monitoring and consistency of their application during 2014 within banking group, the managing credit organization of which is the "Bank", the Board and its executive committee have been periodically discussing the reports prepared by the risk and internal control management, have also been considering proposed corrective measures with the purpose of controlling the effectiveness and the consistency of the adopted risk management procedures.

Procedures for testing the internal control and risk management systems of the banking group, the managing credit organization of which is the "Bank" have been performed by us solely for the purpose of verifying the compliance of the banking group, the managing credit organization of which is the "Bank", internal control and risk management systems with the requirements imposed on analogous banking systems by the Bank of Russia.

JSC «Mazars»

Auditor

Акционерное общество * ОГРН 1027739373421 * "Мазар" "Mazars S.A." ИНН 7716057427 * Москва *

Lytov S.I.

(auditor's qualification certificate № 03-000074 issued in accordance with order of SRO MOAP #166 dd November 30, 2011, OPH3 20903038266 for unlimited period of time).

April 28, 2015

OJSC CB Hlynov
Consolidated Statement of Financial Position
as at 31 December 2014
(in thousands of Russian Roubles)

	Notes	2014	2013
Assets			
Cash and Cash Equivalents	5	1,483,593	2,238,315
Mandatory Balances with the CBRF	6	116,148	109,607
Due from Banks	7	123,931	170,898
Financial assets at fair value through profit or loss	8	2,391,410	1,864,953
Financial assets held to maturity	9	13,847	79,252
Loans and Advances to Customers	10	10,142,149	9,558,274
Net Investment in Financial Lease	11	209,255	213,487
Other Assets	12	224,705	130,731
Property, Plant and Equipment	13	366,706	370,749
Investment properties	13	4,356	3,059
Total Assets		**15,076,100**	**14,739,325**
Liabilities			
Due to Banks	14	357,616	558,831
Customer Accounts	15	12,164,066	11,957,744
Debt Securities Issued	16	132,076	10,000
Deferred Tax Liability	17	5,118	47,858
Other Liabilities	18	140,498	88,433
Total Liabilities		**12,799,374**	**12,662,866**
Equity			
Share Capital	19	620,283	620,283
Retained Earnings		1,570,905	1,374,246
Revaluation Reserve		85,538	81,930
Total Equity		**2,276,726**	**2,076,459**
Total Liabilities and Equity		**15,076,100**	**14,739,325**
Credit related commitments	20	**2,206,565**	**2,252,667**

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2015

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

ОАО КБ «ХЛЫНОВ»

OJSC CB Hlynov
Consolidated Statement of Profit or Loss and other Comprehensive Income
for the Year ended on 31 December 2014
(in thousands of Russian Roubles)

	Notes	2014	2013
Interest income			
Loans and advances to legal entities		1,012,622	921,808
Loans and advances to individuals		433,993	304,437
Investment in lease		38,630	37,966
Securities		188,691	191,105
Due from banks		4,592	5,055
		1,678,528	**1,460,371**
Interest expense			
Term deposits of individuals		(652,093)	(607,002)
Term deposits of legal entities		(56,650)	(67,137)
Due to banks		(44,520)	(33,206)
Current/settlement accounts' balances		(4,933)	(7,365)
Debt securities		(2,655)	(353)
		(760,851)	**(715,063)**
Net interest income		**917,677**	**745,308**
Allowance for impairment for loans and advances to customers, investment in lease	22	(239,649)	(137,579)
Net interest income less allowance for losses		**678,028**	**607,729**
Net fee and commission income	24	370,834	356,766
Gains less losses from trading with securities	23	(134,172)	9,758
Gains less losses from transactions with foreign currencies		(54,880)	(7,759)
Net gain / loss from revaluation of items in foreign currencies		116,341	52,541
Gains less losses from disposal of property, plant and equipment		(3,789)	(8,905)
Allowance for impairment for other assets		(27,866)	(25,925)
Other operating income		32,471	38,258
Operating income		**976,967**	**1,022,463**
Staff costs	25	(409,469)	(350,373)
Administrative and other operating costs	25	(281,387)	(240,139)
Depreciation and amortisation	13	(32,908)	(22,234)
Negative revaluation of fixed assets		(7,047)	-
Revaluation of investment properties	13	(44)	388
Operating expenses		**(730,855)**	**(612,358)**
Profit before tax		**246,112**	**410,105**
Income tax charge	17	(49,896)	(90,332)
Profit for the period		**196,216**	**319,773**
Other comprehensive income			
Gains on property revaluation, net of tax		4,051	8,481
Total comprehensive income for the year		**200,267**	**328,254**

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2015

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

The accompanying notes on pages 5 to 67 form an integral part of these consolidated financial statements

OJSC CB Hlynov
Consolidated Statement of Cash Flows for the Year Ended on 31 December 2014
(in thousands of Russian Roubles)

	Notes	2014	2013
Cash flows from operating activities			
Interest received from loans		1,587,629	1,234,712
Paid interest		(757,766)	(715,067)
Income from securities trading		54,519	195,984
Income from trading in foreign currencies		(54,880)	(7,602)
Commissions received		434,197	420,606
Commissions paid		(46,752)	(36,393)
Other operating incomes received		32,471	9,185
Other operating expenses paid		(685,294)	(550,354)
Income tax paid		(100,693)	(91,150)
Cash flows from operating activities received before changes in operating assets and liabilities		**463,431**	**459,921**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		(6,541)	2,661
Securities at fair value through profit or loss		(526,457)	(238,509)
Due from banks		37,618	(30,094)
Loans and advances to customers		(811,469)	(989,426)
Other assets		(112,530)	34,997
Net increase /(decrease) in operating liabilities			
Due to banks		(201,215)	38,010
Customers' accounts		205,787	1,544,538
Issued debt securities		119,526	(19,213)
Other liabilities		25,932	(24,512)
Net cash paid/(received) from operating activities		**(805,918)**	**778,373**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(31,069)	(25,569)
Disposal of property, plant and equipment		1,500	3,472
Purchase of financial assets HTM		65,405	(29,052)
Net cash paid in investing activities		**35,836**	**(51,149)**
Cash flows from financing activities			
Net investment in financial lease		(100,979)	(46,168)
Net cash received from financing activities		**(100,979)**	**(46,168)**
Effect of exchange rate on cash and cash equivalents		116,339	112,963
Net increase of cash and cash equivalents		**(754,722)**	**794,019**
Cash and cash equivalents for the beginning of the year	5	**2,238,315**	**1,444,296**
Cash and cash equivalents for the end of the year	5	**1,483,593**	**2,238,315**

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2015

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

ОАО КБ
«ХЛЫНОВ»

The accompanying notes on pages 5 to 67 form an integral part of these consolidated financial statements
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(in thousands of Russian Roubles)

	Share capital	Revaluation reserve	Retained earnings	Total for the Group
01 January 2013	**627,198**	**75,044**	**1,052,878**	**1,755,120**
Treasury shares	(6,915)	-	-	**(6,915)**
Total comprehensive income for the year	-	8,481	319,773	**328,254**
Write-off of revaluation reserve	-	(1,595)	1,595	**-**
31 December 2013	**620,283**	**81,930**	**1,374,246**	**2,076,459**
Total comprehensive income for the year		4,051	196,216	**200,267**
Write-off of revaluation reserve		(443)	443	**-**
31 December 2014	**620,283**	**85,538**	**1,570,905**	**2,276,726**

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Group must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Group's reserves.

As at 31 December 2014, the retained profit of the Group calculated in accordance with RAS was 1,449,586 (2013: 1,117,258).

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2015

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

РОССИЙСКАЯ ФЕДЕРАЦИЯ г. КИРОВ ОБЛАСТНОЙ КОММЕРЧЕСКИЙ БАНК "ХЛЫНОВ" ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
ОАО КБ «ХЛЫНОВ»

1. Principal Activities

These consolidated financial statements include the data of Hlynov commercial Bank (Open Joint Stock Company) ('the Bank') and its Subsidiaries (together 'Group'). The Bank was registered with the CBRF under the name "Kirovcoopbank" on 06 March 1990. In 1991 the Bank was renamed Commercial Bank Hlynov (Open Joint Stock Company).

The Bank conducts its business under licenses №254 from Bank of Russia issued on 17 May 2012 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank also has licenses of professional participants of the Securities Market allowing it to carry out depository functions, act as broker and dealer and provide services in managing securities.

The principal activity of the Group is to provide banking services to the population and legal entities in the Kirov district and the Mari El Republic.

The structure of the Bank comprises a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 30 supplementary offices, 1 'cash-in office', 1 stand-alone cash desk. The Bank does not have any branches.

As at 31 December 2014 the Group had 774 members of staff (2013: 734).

In the opinion of management due to the structure and nature of shareholders per note 19, the Group does not have an ultimate controlling party.

The Bank owns 100% of, and controls 'Leasing Hlynov' OOO which was purchased in 2004. The company is focused on providing financial lease services to corporate clients and has been consolidated.

In August 2014 LLC "Khlynov-Invest" was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of "Khlynov-Invest" are real estate transactions, including the enforcement of claims received from the Bank through novation agreements. The main source of financing of LLC "Hlynov-Invest" are loans from the Bank.
Due to the fact that the total assets of "Khlynov-Invest" is less than 1% of the total assets of the Bank, the impact of the reported data of "Khlynov-Invest" on the Group's financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.
Information about the carrying value of assets and liabilities, income and expenses of "Khlynov-Invest", recognized in the financial statements of the Group is presented in Note 22.

2. Operating Environment of the Group

Operating environment in the Russian Federation during the 2014 remained subject to several negative factors. In particular, recent events in Ukraine, economic sanctions and the growing political uncertainty significantly impacted the dynamics of the Russian economy, what reflected in a fall of the currency and stock markets in Russia.

The United States and the European Union imposed sanctions on several Russian officials, businessmen and organizations in March and April 2014. In April 2014, the international rating agency Standard & Poor's downgraded the Russia's foreign currency sovereign rating from «BBB» to «BBB-» with a negative outlook and confirmed it in October 2014. In March 2014, the rating agency Fitch also revised its outlook on Russia's default rating from «BBB» stable to «BBB» negative. And in January 2015 the agency Fitch downgraded the Russia's foreign currency sovereign rating from «BBB» to «BBB-» with a negative outlook. These events, especially in case of a further escalation of sanctions, may cause shortness of access of Russian business to international capital and export markets, capital flight, devaluation of the Ruble and other negative economic consequences.

The accelerated pace of consumption and the lack of income growth significantly reduced the public's ability for savings. Growth rates of retail deposits slowed during 2014. At the same time, a significant weakening of the Russian Rouble increased the attractiveness of foreign currency.

Also the great influence on negative situation in Russian economy had the decreasing of oil price from 108 USD/barrel (BRENT) as at 01 January 2014 to 58 USD/ barrel (BRENT) as at 01 January 2015. The oil price remains one of the main factor which determinate the stable of Russian economy and exchange rates.

During 2014, population significantly increased purchases of foreign currencies, with the volume exceeding the level last seen during the financial crisis in the fourth quarter 2008. The growth rate in retail lending continued to slow reflecting a relatively high debt burden of individuals and increased banks' prudence on issuing new loans due to the deteriorating credit quality of loan portfolios. Growth rate of overdue retail loans accelerated in 2014. The Russian Ruble weakening caused additional inflationary expectations, which manifested themselves in accelerated increase in consumer prices during 2014. The Bank of Russia raised its key interest rate by 2.5 percentage points to 8.0% in July 2014, to 9.5% in November 2014, to 17.0% in December 2014. In accordance with decision of Central Bank of Russia such measures can help to stop further devaluation of the Russian Rouble. The currency interventions led to a shortage of the Russian Rouble liquidity which was mostly covered by increased banking sector borrowings from the Bank of Russia.

By 2015 Central Bank of Russia had planned to complete the transition to target inflation. Major objective of monetary policy the Bank of Russia was to maintain stable low price growth. But due to unstable economic situation and devaluation of Russian Rouble inflation index has grown from 6.45% in 2013 to 11.34% in 2014.

Bank of Russia completed the transition to a floating exchange rate, removed from the November 10, 2014 exchange rate corridor that existed in various forms for nearly 20 years - since 1995.

The Group's management is monitoring these developments in the current environment and taking actions where appropriate. The Group pays significant attention to analysis of risks of banking activity and disclosure in details risk policy in notes to financial statement.

3. Basis of Presentation

a) General

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

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

These consolidated financial statements are presented and rounded to thousands of Roubles (RUB) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Group's transactions are denominated, measured, or funded in RUB, hence it is both the functional and reporting currency. Transactions in other currencies other than RUB are treated as transactions in foreign currencies.

b) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. Further information concerning the most significant estimates and assumptions made by Management are set out below:

(i) Impairment of Loans
The Group reviews loans to customers on a regular basis for evidence of impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis (by industry and region of the borrower). When impairment is required to be recognised it is based for individually material loans on Management's estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Comprehensive Income for the year.

(ii) Impairment losses on receivables other than loans
The Group reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the statement of Profit or Loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows.

(iii) Fair values
Unless otherwise indicated, the financial instruments that the Group stated in the consolidated financial statements have been measured at fair value in accordance with IFRS 13 "Fair Value Measurement".
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

(iv) Related party transactions
In the normal course of business the Group enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non-market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non-related parties and effective interest rate analysis.

(v) Depreciation
The Group applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

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

c) Application of new and revised International Financial Reporting Standards (IFRSs)

New standards, interpretations and amendments effective from 2014:

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

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

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

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

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

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

These amendments do not have any effect on the Group's consolidated financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting. These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

There is no effect of these amendments on these consolidated financial statements as the Group does not apply hedge accounting.

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

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

New and revised IFRSs in issue but not yet effective

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

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*;
- IFRS 14 *Regulatory Deferral Accounts*;
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*;
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*;
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*;
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 9 *Financial Instruments*.

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

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

The five steps in the model are as follows:

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

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

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

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

The key requirements of IFRS 9 are:

Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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

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

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

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

Amendments to IAS 27 – Equity Method in Separate Financial Statements. The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted.

The Group will apply these Standards as they are enforced.

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, and therefore, the Group ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations as at 31 December 2003 and further are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

(in thousands of Russian Roubles)

e) *Reconciliation of RAS and IFRS equity and net income*

	31 December 2014		31 December 2013	
	Equity	Net profit	Equity	Net profit
RAS	**2,162,852**	**331,885**	**1,848,758**	**347,862**
Revaluation of financial assets at fair value through profit or loss at fair value	(77,013)	(77,013)	-	-
Additional allowance for loans, investments in lease	140,068	(65,030)	245,484	(6,832)
Additional allowance for other assets	32,440	(7,946)	-	-
Additional allowance for due from banks	(9,311)	(9,311)	-	-
Reassessment of investments in financial lease	(13,792)	1,129	(14,921)	(8,731)
Interest expense/income	26,101	1,054	25,047	358
Write-off low value assets	(1,043)	(575)	(468)	(227)
Additional depreciation	(15,078)	(12,362)	(7,710)	(8,719)
Disposal of subsidiary "Hlynov-dom"	-	-	-	(928)
Recovered fixed assets	31,477	12,748	23,723	11,664
Income tax expense	11,767	50,797	(47,858)	552
Deposit insurance system	(9,449)	(1,618)	(7,831)	(1,174)
Revaluation of fixed assets	28,261	(679)	13,429	(1,187)
Recognition of derivative financial instruments	-	157	(157)	(426)
Recognition of financial assets at amortised cost	(40)	248	(288)	(198)
Staff expenses	(25,774)	(4,926)	(20,848)	(5,033)
Commission on guarantees issued	(31,111)	(22,730)	(8,381)	(4,481)
Repairs of rented premises	(3,630)	384	(4,014)	(291)
Other	30,001	4	32,494	(2,436)
IFRS	**2,276,726**	**196,216**	**2,076,459**	**319,773**

f) *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle assets and liabilities net or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and other Comprehensive Income except when required or permitted by accounting standards or a related interpretation and such cases are disclosed in the Group's accounting policy.

4. Significant Accounting Policies

a) Consolidation

Subsidiaries and associates are represented by companies the financial and operational policies of which the Bank controls directly or indirectly. Subsidiaries are included in the consolidated financial statements from the date of transfer of control of their operations to the Group and are excluded from consolidated financial statements effective from the date of loss of control. Subsidiaries are included in the consolidated financial statements using the acquisition method. The cost of the acquisition is estimated at fair value of net assets for the date of the acquisition taking into consideration the cost of expenses for the company acquisition. The excess of acquisition cost over fair value of net assets acquired by the subsidiary is reflected as Goodwill. The transactions between companies of the Group, balances on corresponding accounts including the retained earnings and inter-company balances of the Group are excluded.

The accounting policies of the subsidiaries were changed wherever necessary in accordance with the policies of the Group.

b) Recognition of Financial Instruments

The Group recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Profit or Loss and other Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with CBRF

Mandatory balances represent mandatory reserve assets which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement

e) Due from Banks

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

f) Financial Assets at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value.
All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Profit or Loss and other Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Profit or Loss and other Comprehensive Income as interest income on securities.

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Available for Sale ("AFS") financial assets

AFS financial assets are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly. AFS financial assets are initially recognised at cost (which includes transaction costs) and are subsequently valued at market value with gains and losses taken through the Statement of Changes in Equity except for losses arising from impairment.

When a decline in fair value of AFS financial assets has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the Statement of Profit or Loss and other Comprehensive Income. Impairment losses recognised in this way for equity instruments are not reversed through the Profit or Loss and other Statement of Comprehensive Income.

In exceptional cases when market value is not available they are carried at fair value as assessed by Management. All regular way purchases and sales of investment financial assets available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

h) Financial Assets Held to Maturity ("HTM")

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

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

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of Profit or Loss and other comprehensive income for the period.

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

k) Loans and Advances to Customers

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

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Profit or Loss and other Comprehensive income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

l) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers' competitive position;
- Deterioration in the value of collateral;
- Information on the extent and tendency to violations of the conditions of the contract for similar financial assets by the issuer or borrower; and
- Downgrading in the CBR credit rating below III category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss and other Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Profit or Loss and other Comprehensive Income in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Profit or Loss and other Comprehensive Income – is removed from equity and recognised in the Statement of Profit or Loss and other Comprehensive Income. Impairment losses recognised in the Statement of Profit or Loss and other Comprehensive Income on equity instruments are not reversed through the Statement of Profit or Loss and other Comprehensive Income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Profit or Loss and other Comprehensive Income, the impairment loss is reversed through the Statement of Profit or Loss and other Comprehensive Income.

(iii) Renegotiated loans

When possible, the Group seeks to restructure loans rather than seizing collateral. Such restructuring may include an extension of maturity term and the arrangement of new loan conditions. After the renegotiation the loan is no longer overdue. Management continually reviews renegotiated loans to ensure that all conditions are met and and future payments are likely to occur. The loans continue to be reviewed for impairment individually or collectively.

m) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The recognised amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4l. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

n) Property, Plant and Equipment

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Profit or Loss and other Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicles	3 – 7

Land belonging to the Group on the basis of the right of ownership is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Profit or Loss and other Comprehensive Income in line "Gains less losses from disposal of property, plant and equipment" at the moment of their occurence.

o) Investment Property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered appraiser. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Profit or Loss and other Comprehensive Income.

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

p) Operating Leases

Leases of assets under which all the risks and rewards of ownership are retained by the lessor are classified as operating leases.
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Profit or Loss and other Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

q) Financial Leasing

In case the Group acts as a lessor, the discounted cost of leasing payments ('net investments in leasing') correspond to claims on receiving lease payments and are represented in the article "Net investments in financial leasing". The discrepancy between gross amount of claims on receiving lease payments and their discounted cost is disclosed as unearned finance income.

Leasing income is distributed over the course of the leasing period using the method of effective interest rate, which reflects a constant rate of profitability. Leasing income is reflected in consolidated Statement of Profit or Loss and other Comprehensive Income under "Interest income from leasing Investments". Net investments to financial leasing are reflected in the Statement of Financial Position less allowance for their impairment.

r) Due to Banks and Customers Accounts

Amounts due to credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of Profit or Loss and other Comprehensive Income over the period of borrowings using the effective interest method.

s) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

t) Provisions

Provisions for legal claims or other purposes are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to passage of time is recognised as interest expense.

u) Retirement and Other Benefit Obligations

Employee benefits in respect of services rendered during the reporting period, including accrued vacation pay and bonuses, as well as the corresponding payroll taxes, are recognized as an expense in the period in which they arise.

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

v) Share Capital

Share capital, share premium and treasury shares are recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

w) Dividends

Dividends are recognised as a reduction in equity in the period in which they are paid. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Group are the basis for profit distribution and other appropriations.

x) Taxation

The income tax charge in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

y) Interest Income and Expense

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

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(in thousands of Russian Roubles)

Fee and Commission Income

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

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

z) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Profit or Loss and other Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2014 and 31 December 2013 were RUB 56.2584 and 32.7292 RUB to 1 USD, respectively, and RUB 68.3427 and 44.9699 RUB to 1 EUR, respectively.

5. Cash and Cash Equivalents

	2014	2013
Cash on hand	729,500	767,047
Cash balances with the CBRF (other than mandatory reserve deposits)	442,587	510,085
Correspondent accounts with other banks		
Russian Federation	90,976	410,468
Other countries	47,141	449,804
	138,117	860,272
Other market placements	173,389	100,911
	1,483,593	**2,238,315**

As at 31 December 2014 the aggregate amount of NOSTRO accounts with the biggest counterparty (OCB "Metallurgicheskyi Investitsionnyi Bank" (PJSC)) amounted to 75,711 or 54.82% of total NOSTRO accounts (2013: VTB Deutschland AG 449,804 or 52.29%).

As at 31 December 2014 most of the balances of Other market placements are placements in NSCA "Payment Center" (LLC) amounted to 136,243 or 78.58% (2013: in NSCA "Payment Center" (LLC) 73,228 or 72.57%).

(in thousands of Russian Roubles)

Information about the credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	2014	2013
Rated BBB	-	462,900
Rated BB+	58,493	-
Rated BB	-	269,869
Rated BB-	97	-
Rated B	78,997	-
Other (including banks that do not have a credit rating)	530	127,503
	138,117	**860,272**

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 28.

6. Mandatory balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Group's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from Banks

	2014	2013
Interbank loans	100,000	170,040
Correspondent accounts with limited rights of use	29,880	-
Security deposits in other credit institutions	3,362	858
	133,242	**170,898**
Provision for impairment	(9,311)	-
	123,931	**170,898**

As at 31 December 2014 the aggregate amount of due from banks balances with the biggest counterparty (JSC "Sberbank") amounted to 100,000 or 80.69% of total due from banks.
As at 31 December 2014 the provision for impairment is created in the amount of 100.00% on balances in the amount of 9,311 in KB "SB Bank" (LLC).

As at 31 December 2013 the aggregate amount of due from banks balances with the biggest counterparty (OJSC "NOMOS-BANK") amounted to 100,000 or 58.51% of total due from banks.

Movements in the allowance for impairment due from banks are disclosed in Note 23.

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 28.

(in thousands of Russian Roubles)

8. Financial Assets at Fair Value through Profit or Loss

	2014	2013
Credit organisation bonds	1,073,118	1,063,257
Corporate bonds	421,950	327,667
Government and municipal bonds	391,958	381,808
Promissory notes	282,388	88,708
Eurobonds	218,500	-
Corporate equity securities	1,845	2,273
Shares in credit organizations	1,651	1,240
	2,391,410	**1,864,953**

The following table provides details of the Group's FVPL securities portfolio as at 31 December 2014:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Credit organizations bonds	03.03.2015	07.10.2024	7.7	12	B	BBB+
Corporate Bonds	21.09.2015	07.11.2028	7.7	9.5	Not rated	BBB
Government and municipal bonds	20.05.2016	31.07.2020	7.95	11.5	B+	BBB-
Eurobonds	25.04.2017	30.06.2035	6.25	9.25	B	B+

As at 31 December 2014 promissory notes comprise promissory notes issued by leading credit institutions of Russia nominated in roubles with coupon rates from 10.25% to 22.00% and maturity from 15 January 2015 till 25 March 2015.

As at 31 December 2013 promissory notes comprise promissory notes issued by leading credit institutions of Russia nominated in roubles with coupon rates from 7.35% to 9.75% and maturity from 14 January 2014 till 21 November 2014.

The following table provides details of the Group's FVPL securities portfolio as at 31 December 2013:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Credit organizations bonds	25.03.2014	30.05.2023	7,65	12,25	B+	BBB+
Corporate Bonds	20.10.2015	02.10.2023	7,75	10,50	Not rated	BBB
Government and municipal bonds	17.12.2014	31.07.2020	7,95	8,85	B+	BBB-

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

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

(in thousands of Russian Roubles)

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

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

	Level 1	Level 3	Total
Credit organisations bonds	1,073,118	-	1,073,118
Corporate Bonds	421,950	-	421,950
Government and municipal bonds	391,958	-	391,958
Promissory notes	-	282,388	282,388
Eurobonds	218,500	-	218,500
Corporate equity securities	1,841	4	1,845
Shares of credit organizations	1,651	-	1,651
	2,109,018	**282,392**	**2,391,410**

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

	Level 1	Level 3	Total
Credit organisations bonds	1,063,257	-	**1,063,257**
Corporate Bonds	327,667	-	**327,667**
Government and municipal bonds	381,808	-	**381,808**
Promissory notes	-	88,708	**88,708**
Corporate equity securities	2,269	4	**2,273**
Shares of credit organisations	1,240	-	**1,240**
	1,776,241	**88,712**	**1,864,953**

Reconciliation of Level 3 items in 2014 is presented below:

	Promissory notes	Corporate equity securities	Total
At 1 January 2014	**88,708**	**4**	**88,712**
Profit or loss (accrued income)	11,954	-	11,954
Purchases	641,256	-	641,256
Settlements	(459,530)	-	(459,530)
At 31 December 2014	**282,388**	**4**	**282,392**

(in thousands of Russian Roubles)

Reconciliation of Level 3 items in 2013 is presented below:

	Promissory notes	Corporate equity securities	Total
At 1 January 2013	**1,000**	**2**	**1,002**
Profit or loss (accrued income)	2,988	-	2,988
Purchases	1,144,557	2	1,144,559
Settlements	(1,059,837)	-	(1,059,837)
At 31 December 2013	**88,708**	**4**	**88,712**

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 28.

9. Financial Assets Held to Maturity

	2014	2013
Government and municipal bonds	13,847	27,727
Credit organisations bonds	-	51,525
	13,847	**79,252**

The following table provides details of the Group's HTM securities as at 31 December 2014:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Government and municipal bonds	05.11.2015	29.11.2016	8.75	9	BB+	BB+

The following table provides details of the Group's HTM securities as at 31 December 2013:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Government and municipal bonds	05.11.2015	29.11.2016	9,00	9,00	BB+	BB+
Credit organizations bonds	01.02.2015	01.02.2015	7,70	7,70	BBB-	BBB-

Geographical, currency, maturity and interest rate analyses of the financial assets held to maturity are disclosed in Note 28.

(in thousands of Russian Roubles)

10. Loans and Advances to Customers

	2014	2013
Loans and advances to customers	10,628,317	9,849,115
Mortgage loans for sale	455,639	568,694
Factoring	92,407	43,265
	11,176,363	**10,461,074**
Less: Provision for impairment	(1,034,214)	(902,800)
	10,142,149	**9,558,274**

The aggregate value of collateral received by the Group in respect of its lending operations amounts to 13,097,327 (2013: 14,298,050).

In the normal course of business the Group sells mortgage loans to LLC "Regional Investment Agency" (37.58% of total sales in 2014) and OJSC "Kirov Regional Mortgage Corporation (62.42% of total sales in 2014). These loans are therefore held on the SOFP for a relatively short period of time and have been described as mortgage loans for sale in these notes.

(in thousands of Russian Roubles)

The loan portfolio has been assigned to finance the following economic sectors:

	2014		2013	
Sector	**Amount**	**Provision**	**Amount**	**Provision**
Trade	3,216,387	213,509	3,292,690	205,132
Individuals	2,435,897	268,917	1,623,958	134,476
Manufacturing industry	1,857,333	94,021	1,575,771	85,907
Construction	1,171,134	56,115	1,006,939	38,878
Operations with immovable property, lease	609,508	96,741	550,700	132,965
Transport and communication	530,948	212,594	754,422	181,296
Agriculture	326,542	16,792	296,264	14,901
Light industry	188,640	5,972	238,316	7,528
Hotels	77,447	3,872	51,310	2,566
Timber	71,608	18,175	144,149	51,442
Car manufacturing	62,658	1,880	102,583	12,795
Production and distribution of electricity, gas and water	53,323	22,643	6,287	314
Financial	27,476	1,374	12,671	381
Maintenance of residential properties	26,551	1,328	28,033	1,402
Fuel and energy sector	21,948	6,585	10,337	517
Social and personal services, culture	19,022	1,493	28,473	1,960
Medicine and tourism	11,247	562	8,990	450
Mining	8,678	1,242	14,485	1,528
Polygraph	998	981	980	980
Sport	968	48	21,326	1,066
Professional legal assistance	936	834	12,827	12,827
Security services	576	29	777	39
Education	365	18	709	116
Publishing	338	17	4,101	573
Insurance	196	196	196	196
Municipal operation organs	-	-	90,605	4,530
Chemical	-	-	13,771	413
Dealers' activity	-	-	710	35
	10,720,724	**1,025,938**	**9,892,380**	**895,213**
Mortgage loans for sale	455,639	8,276	568,694	7,587
	11,176,363	**1,034,214**	**10,461,074**	**902,800**

Loans classified as current and unimpaired that had been subject to re-negotiation and would otherwise had been categorised as overdue comprised 10 loans for a total amount of 60,293 (2013: 18 loans for a total amount of 186,470).

Movements in the allowance for impairment on loans to customer are disclosed in Note 23.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 28. Loans granted to related parties are disclosed in Note 28. Information on loans provided by the Group to related parties is disclosed in Note 30.

(in thousands of Russian Roubles)

11. Net Investment in Financial Lease

	2014	2013
Minimum lease payments to be received	265,972	278,412
Less: future interest	(55,874)	(64,925)
	210,098	**213,487**
Less provision for losses	**(843)**	**-**
	209,255	**213,487**

The future minimum lease payments at 31 December 2014 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	125,547	92,041
Between 1 and 5 years	140,425	118,057
	265,972	**210,098**

The future minimum lease payments at 31 December 2013 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	130,104	94,124
Between 1 and 5 years	148,308	119,363
	278,412	**213,487**

The average interest rate implicit in the lease was 24.37% (2013: 25.27%).

12. Other Assets

	2014	2013
Repossessed collateral	180,750	79,446
Debtors and prepayments	76,178	53,490
Settlements with the budget	8,188	9,894
Other	2,863	13,826
	267,979	**156,656**
Less: Provision for impairment	(43,274)	(25,925)
	224,705	**130,731**

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land, which were obtained by the Group as repossessed collateral in respect of making recoveries for its lending operations for a total of 149,437 (2013: 76,454). As at the reporting date no decision has been made by Management as to how these assets will be utilised and accordingly they have not been shown in Property and Equipment or Investment Property.

Movements in the allowance for impairment on other assets are disclosed in Note 23.

Geographical, currency and maturity analyses of other assets are disclosed in Note 28.

(in thousands of Russian Roubles)

13. Property, Plant and Equipment

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost or valuation							
31 December 2012	**3,794**	**262,400**	**14,153**	**81,226**	**48,907**	**714**	**411,194**
Additions	-	-	543	15,440	8,870	-	**24,853**
Transfer	-	39,668	-	-	-	(505)	**39,163**
Disposals	(7)	(2,216)	(226)	(1,788)	(1,338)	-	**(5,575)**
Revaluation	-	10,681	-	-		-	**10,681**
Modernisation	-	-	-	599	117	-	**716**
31 December 2013	**3,787**	**310,533**	**14,470**	**95,477**	**56,556**	**209**	**481,032**
Additions	-	760	2,005	17,955	10,349	-	**31,069**
Transfer	-	-	-	-	-	-	**-**
Disposals	-	-	(10,474)	(1,235)	(1,269)	(209)	**(13,187)**
Revaluation	-	4,953	-	-	-	-	**4,953**
Modernisation	-	-	-	-	-	-	**-**
31 December 2014	**3,787**	**316,246**	**6,001**	**112,197**	**65,636**	**-**	**503,867**
Depreciation							
31 December 2012	-	**(11,507)**	**(3,663)**	**(35,373)**	**(36,389)**	**-**	**(86,932)**
Charge for the year	-	(4,771)	(2,347)	(10,169)	(4,947)	-	**(22,234)**
Depreciation of revalued part	-	(4,589)	-	-	-	-	**(4,589)**
Disposals	-	251	225	1,788	1,208	-	**3,472**
31 December 2013	-	**(20,616)**	**(5,785)**	**(43,754)**	**(40,128)**	**-**	**(110,283)**
Charge for the year	-	(5,231)	(2,389)	(19,130)	(6,158)	-	(32,908)
Depreciation of revalued part	-	(571)	-	-	-	-	(571)
Disposals	-	-	4,190	1,145	1,266	-	6,601
31 December 2014	-	**(26,418)**	**(3,984)**	**(61,739)**	**(45,020)**	**-**	**(137,161)**
Net Book Values							
31 December 2014	**3,787**	**289,828**	**2,017**	**50,458**	**20,616**	**-**	**366,706**
31 December 2013	**3,787**	**289,917**	**8,685**	**51,723**	**16,428**	**209**	**370,749**
31 December 2012	**3,794**	**250,893**	**10,490**	**45,853**	**12,518**	**714**	**324,262**

As at 31 December 2014 property, plant and equipment was insured to a value of 41,959 (2013: 35,817).

On 31 December 2014 the Group revalued buildings held by and used by the Group. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

If buildings had been carried at cost the carrying value would be 182,540 (2013: 181,780).

Investment properties

(in thousands of Russian Roubles)

Cost or Valuation	
31 December 2012	**50,839**
Additions	-
Transfer	(39,668)
Disposals	(8,500)
Revaluation	388
31 December 2013	**3,059**
Additions	1,341
Transfer	-
Disposals	-
Revaluation	(44)
31 December 2014	**4,356**

The Group revalued investment property on 31 December 2014. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

Accounting of investment property is carried at fair value, therefore no depreciation is charged during 2014 and 2013.

As at 31 December 2014 investment property includes two buildings (2013: one building), the first one was purchased under contract of sale, the second one was repossessed by the Group in respect of making recoveries for its lending operations. As at the reporting date one building is leased to third parties.

Rental income from investment properties was 0 (2013: 134). Direct operating expenses related to investment properties amounted to 64 in the year 2014 (2013: 43).

14. Due to Banks

	2014	2013
Due from other banks	354,318	354,612
VOSTRO accounts	3,298	4,219
Due from CBR	-	200,000
	357,616	**558,831**

As at 31.12.2014 and 31.12.2013 100% of the current term loans and deposits from other banks were represented by loans from OJSC "MSP Bank". Loans of "MSP Bank" are granted to finance lending to SMEs, providing the Bank meets the covenants of the rates of the funds, and of intended purpose utilization of the funds by SMEs (modernization of production, property, new equipment acquisition). Early termination of the loans is unlikely.

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 28.

(in thousands of Russian Roubles)

15. Customer accounts

	2014	2013
Individuals		
Current accounts	706,247	659,762
Term deposits	8,086,870	7,333,951
	8,793,117	7,993,713
Other legal entities		
Current accounts	2,190,762	3,031,927
Term deposits	1,084,698	855,933
	3,275,460	3,887,860
State and budgetary organisations		
Current accounts	43,377	69,065
Term deposits	52,112	7,106
	95,489	76,171
	12,164,066	**11,957,744**

The breakdown of customer accounts per sector is presented in the following table:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Individuals	8,793,117	72.3	7,993,713	66.9
Trade	958,426	7.9	1,108,445	9.3
Industry	718,285	5.9	691,734	5.8
Services	692,423	5.7	1,245,331	10.4
Construction	630,572	5.2	580,438	4.8
Transport and telecommunication	163,409	1.4	137,145	1.1
Financial	63,428	0.5	56,157	0.5
Other	60,331	0.5	46,488	0.4
Health facilities	25,318	0.2	39,595	0.3
Agriculture	28,678	0.2	25,592	0.2
Education	23,567	0.2	23,340	0.2
Insurance	2,960	0.0	8,988	0.1
Fuel and energy	3,552	0.0	778	0.0
Total customer accounts	**12,164,066**	**100,0**	**11,957,744**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 28.

Balances of term deposits and current accounts of related parties are disclosed in Note 30.

(in thousands of Russian Roubles)

16. Debt securities issued

	2014	2013
Promissory notes	132,076	10,000
	132,076	**10,000**

As at 31 December 2014, promissory notes issued by the Group were held by nineteen investors, the maximum share of one investor in total amount of issued promissory notes is 74.83% (2013: the maximum share of one investor in total amount of issued promissory notes is 50.00%. Promissory notes were purchased by three investors).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 28.

17. Taxation

The corporate income tax expense comprises:

	2014	2013
Current tax charge	100,693	91,030
Deferred tax relating to the origination and reversal of temporary differences	(50,797)	(698)
	49,896	**90,332**

The corporation tax rate applicable to the majority of the Group's income was 20% for 2014 (2013: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

	2014	2013
Profit before tax	**246,112**	**410,105**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	49,222	82,021
Tax on state securities income taxable at different rates	(2,254)	(3,980)
Nontaxable items	2,928	12,291
	49,896	**90,332**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2013: 20%).

(in thousands of Russian Roubles)

Deferred tax assets and (liabilities) comprise as at 31 December 2014:

Tax effect of deductible temporary differences	2014	Taken to equity	Movement in SOCI	2013
Assets				
Premises and equipment	(24,730)	(8,057)	(2,320)	(14,353)
Financial assets at fair value through profit or loss	18,661	-	18,661	-
Financial assets held to maturity	(242)	-	(242)	-
Loans and advances to customers	(5,315)	-	(5,315)	-
Investments in financing leasing	4,540		422	4,118
Investment properties	(145)	-	(145)	-
Debtors and prepayments	1,494	-	(7,972)	9,466
Obligations				
Provisions for impairment on loans and promissory notes	(26,343)	-	38,639	(64,982)
Provisions for impairment on other assets	7,713	-	7,713	-
Personnel expenses	5,155	-	5,155	-
Other	14,094	-	(3,799)	17,893
	(5,118)	**(8,057)**	**50,797**	**(47,858)**

Deferred tax assets and liabilities comprise as at 31 December 2013:

Tax effect of deductible temporary differences	31 Dec 13	Taken to equity	Movement in SOCI	31 Dec 12
Allowance for impairment on loans and promissory notes	(64,982)	-	(3,981)	(61,001)
Debtors and prepayments	9,466	-	16,980	(7,514)
Premises and equipment	(14,353)	(1,722)	(3,650)	(8,981)
Investments in financing leasing	4,118	-	1,644	2,474
Other assets	17,893		(10,295)	28,188
	(47,858)	**(1,722)**	**698**	**(46,834)**

18. Other Liabilities

	2014	2013
Accounts payable	47,775	22,795
Deferred income on guarantees issued	24,992	8,381
Deferred income	23,799	19,169
Operating taxes payable	21,899	15,311
Accounts payable to staff	19,905	20,915
Other	2,128	1,849
Dividends payable	-	13
	140,498	**88,433**

Geographical, currency and maturity analyses of other liabilities are detailed in Note 28.

(in thousands of Russian Roubles)

19. Share capital

Statutory share capital authorised, issued and fully paid comprises:

	2014			2013		
	Number of shares ('000)	Par value	Value	Number of shares ('000)	Par value	Value
Common shares	12,100	0.05	605,000	12,100	0.05	605,000
Repurchased shares			(6,915)			(6,915)
IAS 29 adjustments			22,198			22,198
Total share capital			**620,283**			**620,283**

All ordinary shares have a nominal value of RUB 50 (not thousands) per share, rank equally and carry one vote. In 2014 no dividends were declared (2013: no dividends).

In 2014 and 2013 the Group did not increase share capital.

	2014	2013
Dividends payable at 1 January	13	30
Dividends declared during the year	-	-
Dividends paid during the year	(5)	(17)
Write-off of expired dividends	(8)	
Dividends payable at 31 December	**-**	**13**

All dividends are paid and declared in Russian Roubles.

Shareholders of the Group were as follows:

Shareholder	**2014 %**	**2013 %**
Rekha Holdings Limited	20.0	20.0
LLC «Monolit»	10.5	10.5
LLC «Strike»	10.0	8.4
Quest Advisory Restructing Ltd.	9.3	9.3
LLC «Avangard»	8.9	8.9
LLC «Konkurent»	8.8	8.8
LLC «Norma»	8.4	10.0
LLC «Standart»	7.8	7.8
LLL «NTI»	6.6	6.6
Individuals with less than 5% each (132)	8.1	8.1
Legal entities with less than 5% each (14)	1.6	1.6
	100.0	**100.0**

20. Commitments and Contingencies

Legal actions

In the normal course of business the Group is rarely 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 of the Group.

(in thousands of Russian Roubles)

Operating lease commitments

The following are the minimal amounts payable under non-cancellable operating leases over the relevant time periods where the Group acts as a tenant:

	2014	2013
Not later than 1 year	33,823	23,290
Later than 1 year and not later than 5 years	58,228	37,582
Later than 5 years	4,957	9,955
	97,008	**70,827**

Capital commitments

As at 31 December 2014 and 31 December 2013 the Group had not entered into any capital commitments which would require disclosure or recognition in the consolidated financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

Credit related commitments comprise:

	2014	2013
Undrawn loan commitments	485,167	723,258
Unused limits of overdrafts	483,407	459,155
Guarantees	1,196,591	1,070,254
Letter of credit	16,450	-
	2,181,615	**2,252,667**

Derivatives

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2014 the Group had no financial instruments (2013: twelve financial instruments, swap transactions).

(in thousands of Russian Roubles)

	Notional amount		CBRF rate	
	31 Dec 14	**31 Dec 13**	**31 Dec 14**	**31 Dec 13**
Buy RUB sell USD				
Less than one month	-	199,975	56.2584	32.7292
Buy RUB sell EUR				
Less than one month	-	404,729	68.3427	44.9699

As at 31 December 2013 the corresponding fair value income and liability of 157 has been recorded in statement of Profit and Loss and other comprehensive income and in other liabilities.

21. Investment in subsidiaries

As at 31 December 2014 and 31 December 2013 the Bank had one consolidated subsidiary, "Leasing-Hlynov" OOO, a Russian domiciled company specialising in the provision of leasing services. As at 31 December 2014 and 31 December 2013 the Group's shareholding in the subsidiary was 100%.

22. Investment in unconsolidated structured entities

In August 2014 LLC "Khlynov-Invest" was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of "Khlynov-Invest" are real estate transactions, including the enforcement of claims received from the Bank through novation agreements. The main source of financing of LLC "Hlynov-Invest" are loans from the Bank.
Due to the fact that the total assets of "Khlynov-Invest" is less than 1% of the total assets of the Bank, the impact of the reported data of "Khlynov-Invest" on the Group's consolidated financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.
Information about the carrying value of assets and liabilities, income and expenses of "Khlynov-Invest", recognized in the consolidated financial statements of the Group is presented below:

Consolidated Statement of financial position as at 31 December 2014

	31 December 2014
Assets	
Financial assets at fair value through profit or loss	2
Loans and advances to customers	7 350
Total Assets	**7 352**
Liabilities	
Customer accounts	3
Total Liabilities	**3**
Credit related commitments	**0**

Consolidated Statement of profit or loss and comprehensive income for the period ended 31 December 2014

	2014
Interest income	
Loans and advances to legal entities	562
Net interest income	**562**
Provision for impairments on loans and advances to customers	8 087
Net interest income less after provision for losses	**8 649**
Commission income less commission expenses	13
Other operation income	19
Operation income	**8 681**
Administrative and other operating expenses	(1,709)
Operating expenses	**(780)**
Profit for the period	**6 972**
Total comprehensive income for the year	**6 972**

(in thousands of Russian Roubles)

The Group is not exposed to any other risks other than credit risk in respect of LLC "Khlynov-Invest".

23. Allowance for Impairment

The movements in allowance for impairment of assets were as follows:

	Due from Banks	Loans and advances to customers	Investments in lease	Other assets	Total
At 31 December 2012	**-**	**801,675**	**-**	**-**	**801,675**
Charge	-	137,579	-	25,925	163,504
Written-off	-	(36,454)	-	-	(36,454)
At 31 December 2013	**-**	**902,800**	**-**	**25,925**	**928,725**
Charge	9,311	238,806	843	18,555	267,515
Written-off	-	(107,392)	-	(1,206)	(108,598)
At 31 December 2014	**9,311**	**1,034,214**	**843**	**43,274**	**1,087,642**

Allowance for losses on debit balance sheet items are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of an authorised body of the credit institution and, in certain cases, based on the authorized government body.

24. Gains less Losses from Trading with Securities

Gains less Losses from trading with securities comprises of the following elements:

	2014	2013
Fair value adjustments	(125,738)	3,119
Gains less losses from sales and redemptions	(8,461)	6,528
Other gain from trading with securities	27	111
	(134,172)	**9,758**

(in thousands of Russian Roubles)

25. Commission Income and Expenses

	2014	2013
Commission income		
Settlements and foreign currency exchange transactions	188,563	163,347
Cash operations	120,310	148,908
Commission from insurance companies	54,314	39,282
Commission from transaction with plastic cards	32,759	22,800
Commission on guarantees	16,692	15,857
Commission from loans to customers	4,263	2,101
Commission on other operations	685	894
	417,586	**393,189**
Commission expense		
Settlements and foreign currency exchange transactions	(16,332)	(16,323)
Commission from transaction with plastic cards	(15,405)	(9,808)
Commission on collection	(6,824)	(6,520)
Insurance premium for creditor life insurance	(4,981)	(2,596)
Commission on mortgages sale	(1,517)	(371)
Cash operations	(1,102)	(366)
Other commissions	(591)	(439)
	(46,752)	**(36,423)**
	370,834	**356,766**

26. Staff, Administration and Other Operating Costs

	2014	2013
Salaries	201,670	174,302
Bonuses	121,375	102,889
Social funds	86,424	73,182
	409,469	**350,373**
Deposit insurance system payment	35,841	29,980
Buildings and land rent	28,577	22,470
Advertising and marketing	26,067	23,611
Repair of fixed assets	25,146	17,941
Software expenses	24,074	18,745
Taxes other than income tax	23,011	53,309
State duty paid	19,813	451
Maintenance of building	14,692	11,618
Stationery and personal computers	14,304	14,234
Postage, telephone, telegraph expenses	11,422	6,870
Security	9,564	9,874
Related to computers, ATMs, vehicles and information service	6,945	4,710
Printing expenses, document processing	5,353	4,708
Personnel training, travel and representative expenses	4,927	4,014
Insurance of property	432	348
Rating	213	367
Write-off of doubtful accounts	183	878
Personnel insurance	39	8
Disposal of subsidiary	-	928
Other	30,784	15,075
	281,387	**240,139**

27. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms' length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Group, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment.

Although, for estimating the fair value of financial instruments, management uses the most up to date market information, it may not always represent the value that can be realized in current conditions.

Financial instruments held at fair value

Cash and cash equivalents and financial assets and liabilities measured at fair value through profit or loss are recorded in the statement of financial position at fair value.

For some securities external market quotes are not available. The fair value of such assets was measured according to the results of recent sale of shares to third parties, analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions

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

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Management considers that the fair value of loans and advances to customers did not differ significantly from their book value as at 31 December 2014 and 31 December 2013. This is explained by an existing practice of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

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

28. Financial Risk Management

Main risks

Considering the structure and the nature of the Group's activities it is mainly influenced by banking risks (the possibility of losses due to occurrence of adverse events related to the internal and / or external factors' impact inherent in banking activities).

In accordance with the Letter of the Bank of Russia dated 23 June 2004 № 70-T "On typical banking risks" the Group considers credit risk, liquidity risk, market risk (including currency, interest rate and stock market risks), operational risk, reputation risk, legal and strategic risks as the main types of risk that the Group undertakes.

The sources of occurrence of the most significant risks of the Group are:

For credit risk - late and / or incomplete execution of the counterparty's (debtor's) obligations to the Bank / Lease company under the contracts;

For liquidity risk - the imbalance of financial assets and liabilities or unexpected need for immediate and one-off performance of the Group of its financial obligations;

For market risk - adverse changes in the market value of the financial instruments of the trading portfolio of the Group (under the influence of factors related to both the issuers and the general fluctuations in market prices), as well as foreign exchange rates for open positions of the Group;

For interest rate risk of the Group's portfolio - adverse changes in interest rates of assets, liabilities and off-balance sheet instruments of the Group;

For operational risk - the discrepancy nature and scale of the Group's operations or the requirements of current legislation of internal rules and procedures of banking operations and other transactions, their violation by the Group 's employees or other persons, the lack of features of information, technological and other systems used by the Group or violation of their functioning, the impact of external events.

The main provisions of the strategy in the field of risk and capital management

As the main strategic goal of risk management and capital preservation the Group sees maintaining business and strengthening its position in the market by improving the quality of its corporate governance and internal processes. The most important task in this context is to ensure sufficient stocks of the economic capital of the Group, which will cover both receiving and previously adopted risks without the threat of termination of the activity, as well as ensuring an adequate supply of liquidity in the face of increasing market volatility.

In order to ensure an effective system of risk management and capital management the Group develops and implements:

- a documented risk management policy at the Group level defining goals and objectives of the risk management system, the key principles of organization and operation of said system;
- a set of guidelines governing the interaction of units and personnel in the implementation of the risk management process in the context of each type of risk, penalties for non-compliance with the established limits, restrictions or other regulations controlling risks;
- internal capital adequacy assessment procedures adopted to cover the potential risks of the Group;
- a system of methods for calculating the level of risk by risk objects, with an indication of risk mitigation techniques;
- information technologies of management accounting, data collection and processing;
- systems of stress testing portfolios and the Group 's operations on exposure to unlikely but significant in terms of potential loss events;
- contingency plans to restore the activity of the Group in the event of an emergency contingency.

The main objectives of the risk management of the Group:

- Maintaining received risk at a level consistent with the strategic objectives of the Group;
- Maximizing the profitability of the business lines of the Group to the level of risk taken on by the Group;
- ensure safety of assets and capital in the implementation of adverse events for the Group.

Thus, the basis of the Group's risk management system are the prudential requirements of the Bank of Russia, as well as internal risk management approaches, allowing to estimate the Group's ability to compensate for losses that may arise as a result of risks and identify a set of actions that must be taken to reduce the level of risks to financial sustainability, conservation and development of the Group's capital.

Information about the structure and organization of the units engaged in risk management.

The risk management process is integrated into all business processes and activities of the Group. Identification, assessment and risk minimization is carried out at all levels, from ordinary employees to members of the Board of the Parent company of the Group, under the coordination of a single centre, which is a specialized risk-division.

The activities of the Group's risk department is focused on creating united standards and principles of risk management at the level of the Group, the construction of a centralized risk management system, within which the identification, assessment, control and minimization of the entire spectrum of risks is inherent in the Group. The objective of the risk department is to limit the total possible losses of the Group and implementation of procedures to reduce risks, improve the reliability of processes to achieve strategic objectives and established performance indicators.

In the construction of the Group's risk management system the Group adheres to the following principles:

- integration of risk management into the overall management of the Group;
- introduction and development of management processes designed on an ongoing basis to identify, measure, monitor and control all the risks inherent in its activities;
- formation of the management structure that clearly delineates areas of responsibility, authority and accountability;
- identify and control the scope of potential conflicts of interest divisions and employees of the Group's decision-making and risk management transactions;
- providing units involved in risk management, adequate and comprehensive information of financial and operational nature, information on compliance with the regulatory requirements, as well as received from outside market information about events and conditions that are relevant to decision-making; timely updating of policies, methodologies, techniques and procedures for risk management in accordance with changes in the business environment;
- implementation of international risk management practices.

Description of control procedures of undertaken risks on the part of the Bank's management and banking group's participants

Control over compliance with established rules and procedures for the management of banking risks is carried out in the framework of the internal control system.

Risk management is an integral part of management decision-making both at the Bank's level and Group's level. Specialized risk unit of the Group provides comprehensive risk report, containing indicators, events and processes that characterize the significant risks to the Bank's management bodies on a regular basis with the internal frequency regulations. A part of this report analyses the key factors for the overall risk and capital, credit and market risk, liquidity risk and non-financial risks, as well as the external environment in the framework of macro-economic conditions, financial markets and the banking system as a whole. Managerial bodies of the other Group's participants carry out continuous monitoring of the undertaken risks in their areas of activity.

Information about significant risks arising in the Group's activities

The Group's risk management system involves the construction of a detailed risk classification, reflecting the specificity of the Group's operations and services in the financial markets.

The main parameters used for the identification of the significance of certain types of risks are:

- the volume of the transactions in certain areas of activity and the volume of income received from those activities;
- the potential level of losses that may be caused by the realization of the estimated type of risk (set according to the results of stress-testing).

Each existing and potential risk is identified and taken into account when assessing the capital adequacy of the Group through internal procedures for assessing capital adequacy.

To assess bank's risk, the Group uses qualitative and quantitative parameters based on an assessment of macroeconomic and microeconomic factors using the theory of financial instruments with fixed income, probability theory, mathematical statistics.

Monitoring of banking risks is performed by regular studies of the system of indicators (including statistical, financial) of the Group's activities. The frequency of monitoring of banking risks is determined on the basis of significance of the particular risk for the relevant activities, internal process and info-technological systems.

The main methods of controlling and minimizing the risks of the Group are:

- establishing limits - on the kinds and types of risks, assessment of which may be expressed numerically;
- diversification - distribution of the total risk by individual objects in order to prevent its concentration on a single object or counterparty;
- creating provision for possible loss of value of assets of the Group as a result of the events of risks;
- to maintain capital adequacy in order to ensure the stability of its operations and protection of depositors and other creditors against possible losses;
- insurance.

On an ongoing basis the Group performs stress-testing procedures to identify, evaluate and take action to prevent non-recurring significant potential losses that could have disastrous consequences for the Group (discontinued operations - both in general and in certain areas of business). Objectives and results of the stress-tests are:

- assessment of crisis preparedness;
- the opportunity to plan the volume of capital needed to cover the identified risks;
- the opportunity to adjust the business model.

The main methods of stress-testing in the Group are as follows:

- scenario analysis (based on historical and hypothetical events);
- sensitivity analysis of the Bank's asset portfolio to changes in risk factors and the calculation of the maximum losses.

In order to ensure its sustainable operation on a continuous basis in the long term, including in stressful conditions, the Group determines the maximum size of the aggregate risk it is willing to accept on the basis of the goals established in its development strategy, targets of business development, current and expected risk structure (risk potential).

Risk potential is determined by the Group in the form of a set of qualitative and quantitative indicators. As a key indicator of risk potential the Group considers the ultimate level of adequacy of equity (capital) needed to cover all major types of risks. Limit level of the aggregate amount the risks the Group is willing to undertake (risk potential) is defined as the ratio of capital available to the Group to the value of marginal adequacy of its equity.

Additionally, the Group carries out the self-assessment procedure (method of assessing the maturity of the process by its' direct participants) to assess the conformity of the management of each individual risk system to the nature, scope and conditions of the Group's activities as a whole.

Credit risk

The most significant for the Group is credit risk, which arises mainly in the process of lending and investment activities in the implementation of documentary operations.

Documented procedures for credit risk management of the Group include:

- the procedure for granting loans and making decisions about their issue;
- methodology for assessing the financial position of counterparties (borrowers), loan quality, the methodology for determining the size requirements for equity (capital);
- methodology for determining and setting limits;
- standard requirements for collateral.

Credit risk is managed using the following measures.

Internal regulatory documents outline procedures for initial and subsequent analysis of the borrower, the quality of the documents provided for analysis, quality of collateral with professional judgment about the degree of credit risk and the value of an allowance for possible losses.

Credit risk assessment is carried out in the process of loan application review, in the subsequent monitoring, as well as in the process of reviewing complaints related to changes in the conditions of the original contract of the loan.

The decision on granting loans is made by the collegial body - the Credit Committee (for loans with low credit risk a simplified procedure for the approval of the authority within the limits of persons responsible is provided).

Compliance with the terms of each loan agreement, security and liquidity of the mortgaged property, the financial position of the borrower are constantly monitored.

In order to comprehensively assess the credit risk of the individual borrower, the Group developed a method for analysing groups of related organizations.

At the portfolio level lending operations are diversified by type of customer, industry sector of customers, types of collateral and so on.

Method of insurance is actively used (the mortgaged property, life and health of borrowers-individuals).

In order to minimize the effects of credit risks a specialized structural unit is formed to work with troubled assets.

Means of automatization of decision making can improve the quality and speed of the review process of loan applications without losing its reliability, create a friendly and transparent communication environment for the participants.

Programs of staff training can improve the quality of procedures and processes.

The Board of Directors of the Group's parent company approved a system of internal limits setting the maximum amount of the credit requirements for a single borrower (a group of related borrowers), the maximum amount of credit requirements for the persons related to the Group.

The Group strives to dissect the functions of loan officers by providing loans and functions for assigning internal credit rating of the borrower in order to eliminate conflicts of interest.

Information about the segmentation of credit risk by counterparty type and the structure of the concentration of customer loan portfolio by industries is shown in Note 10.

(in thousands of Russian Roubles)

Impairment policies

The result of the assessment of credit risk is the distribution of loan assets by categories of credit quality in accordance with the rating scale that reflects the level of credit risk.

Credit quality of the borrower, which is a tool that facilitates the definition of existence of the objective evidence of impairment, is based on the following criteria:

- assessment of the financial position of the borrower;
- assessment of the quality of service of the debt;
- any other significant factors.

RAS provisions are created in accordance with the regulations of the Bank of Russia (on loan and similar debts – CBR Provision from 26.03.2004 № 254-P "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loans and Similar Debts", on other assets – CBR Regulation from 20.03.2006 № 283-P "On the Loss Provisioning Procedure for Credit Institutions") and internal documents of the Bank.

Impairment testing is performed for financial reporting purposes in accordance with IFRS only for losses arising on the date of the financial statements, based on objective evidence of impairment.

A provision for impairment shown in the balance sheet under RAS is determined on the basis of the five risk categories. The largest reserve is created for the last two categories.

The table below shows the percentage of the Group's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

	31 December 2014			31 December 2013		
Risk category	Loans and advances (%)	Provision for impairment (%)	Overall provision rate (%)	Loans and advances (%)	Provision for impairment (%)	Overall provision rate (%)
I	0.43	0.00	0.00	0.20	-	-
II	71.22	12.54	1.80	86.28	21.09	2.56
III	20.21	16.81	8.50	5.85	13.55	24.31
IV	1.41	5.60	40.73	1.36	5.44	41.90
V	6.73	65.05	98.74	6.31	59.92	99.65
	100.00	**100.00**	**10.22**	**100.00**	**100.00**	**10.49**

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

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

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

(in thousands of Russian Roubles)

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Group's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

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

Loans and advances to customers include the following portfolios:

	2014	2013
Individuals (retail customers)		
Overdrafts	163,621	76,952
Term loan	2,272,277	1,541,006
Mortgage loans for sale	455,639	568,694
Other	-	6,000
	2,891,537	2,192,652
Legal entities		
Large corporate customers	2,033,298	1,467,794
SMEs	6,077,629	6,543,895
Federal and governmental organisations, local authorities	-	90,605
Factoring	92,407	43,265
Other	81,492	122,863
	8,284,826	8,268,422
	11,176,363	**10,461,074**
Less: Provision for impairment	(1,034,214)	(902,800)
	10,142,149	**9,558,274**

The loan portfolio of the Group is summarised as follows:

	2014		2013	
	Loans and advances to customers	**Due from banks**	**Loans and advances to customers**	**Due from banks**
Neither past due nor impaired	10,272,134	100,000	9,686,145	170,898
Past due but not impaired	813,372	-	562,465	-
Impaired	90,857	-	212,464	-
	11,176,363	**100,000**	**10,461,074**	**170,898**
Less: Provision for impairment	(1,034,214)	-	(902,800)	-
	10,142,149	**100,000**	**9,558,274**	**170,898**

a) *Loans and advances neither past due nor impaired*

(in thousands of Russian Roubles)

As at December 2014 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Other	Total
I	-	-	-	-	**-**
II	14,996	541,147	375,484	-	**931,627**
III	108,413	1,448,469	62,680	-	**1,619,562**
IV	651	6,263	3,640	-	**10,554**
V	575	13,756	900	-	**15,231**
	124,635	**2,009,635**	**442,704**	**-**	**2,576,974**

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

Risk category	Major corporate clients	SMEs	Federal and governmental organisations	Factoring	Other	Total
I	-	48,260	-	-	-	**48,260**
II	1,755,146	5,120,911	-	64,875	-	**6,940,932**
III	181,652	299,134	-	24,830	256	**505,872**
IV	96,500	4,856	-	-	-	**101,356**
V	-	64,027	-	-	34,713	**98,740**
	2,033,298	**5,537,188**	**-**	**89,705**	**34,969**	**7,695,160**

In summary (2014):

Risk category	Individuals	Legal entities	Total
I	-	48,260	**48,260**
II	931,627	6,940,932	**7,872,559**
III	1,619,562	505,872	**2,125,434**
IV	10,554	101,356	**111,910**
V	15,231	98,740	**113,971**
	2,576,974	7,695,160	**10,272,134**

As at December 2013 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Other	Total
I	-	-	-	-	**-**
II	61,103	1,312,246	517,524	-	**1,890,873**
III	5,186	65,026	23,024	6,000	**99,236**
IV	595	7,206	4,084	-	**11,885**
V	1,859	7,878	5,096	-	**14,833**
	68,743	**1,392,356**	**549,728**	**6,000**	**2,016,827**

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

(in thousands of Russian Roubles)

Risk category	Major corporate clients	SMEs	Federal and governmental organisations	Factoring	Other	Total
I	-	21,729	-	-	-	**21,729**
II	1,342,857	5,557,420	90,605	42,230	7,650	**7,040,762**
III	4,500	471,217	-	-	-	**475,717**
IV	110,000	3,915	-	902	-	**114,817**
V	-	14,751	-	-	1,542	**16,293**
	1,457,357	**6,069,032**	**90,605**	**43,132**	**9,192**	**7,669,318**

In summary (2013):

Risk category	Individuals	Legal entities	Total
I	-	21,729	**21,729**
II	1,890,873	7,040,762	**8,931,635**
III	99,236	475,717	**574,953**
IV	11,885	114,817	**126,702**
V	14,833	16,293	**31,126**
	2,016,827	**7,669,318**	**9,686,145**

b) *Loans and Advances Past due, but Not Impaired:*

As at 31 December 2014 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Overdrafts	13,729	4,056	2,165	18,548	**38,498**	-
Term loans	76,683	22,448	10,950	147,567	**257,648**	7,730
Mortgage loans	4,155	2,116	522	5,498	**12,291**	-
Legal entities						
SMEs	18,857	48,241	7,572	427,696	**502,366**	259,192
Factoring	2,569	-	-	-	**2,569**	-
Other	-	-	-	-	**-**	-
	115,993	**76,861**	**21,209**	**599,309**	**813,372**	**266,922**

(in thousands of Russian Roubles)

As at 31 December 2013 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Overdrafts	4,068	1,135	1,003	1,917	**8,123**	-
Term loans	34,219	6,091	8,426	87,519	**136,255**	10,600
Mortgage loans	12,795	-	-	6,171	**18,966**	14,200
Legal entities						
Small and medium enterprises	17,552	17,018	-	330,151	**364,721**	200,410
Other	-	-	-	34,400	**34,400**	-
	68,634	**24,244**	**9,429**	**460,158**	**562,465**	**225,210**

c) Loans and Advances Individually Impaired

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

	2014		2013	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Overdrafts	488	-	86	-
Term loans	4,994	-	12,395	-
Mortgage loans	644	-		
Legal entities				
Large corporate clients	-	-	10,437	-
SMEs	38,075	-	110,142	11,200
Factoring	133	-	133	-
Other	46,523	-	79,271	-
Total	**90,857**	**-**	**212,464**	**11,200**

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

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2014	4,711	128,265	7,587	1,500	**142,063**
Charge for the period	14,057	128,403	689	-	**143,149**
Loans written off	-	(6,518)	-	-	**(6,518)**
Amounts recovered	-	-	-	(1,500)	**(1,500)**
As at 31 December 2014	**18,768**	**250,150**	**8,276**	**-**	**277,194**

(in thousands of Russian Roubles)

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

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
As at 1 January 2014	82,179	561,185	4,530	1,563	111,280	**760,737**
Charge for the period	52,792	75,156	-	7,576	-	**135,524**
Loans written-off	(10,437)	(89,040)	-	-	(1,397)	**(100,874)**
Amounts recovered	-	-	(4,530)	-	(33,837)	**(38,367)**
As at 31 December 2014	**124,534**	**547,301**	**-**	**9,139**	**76,046**	**757,020**

In summary:

	Individuals	Legal entities	Total
As at 1 January 2014	142,063	760,737	**902,800**
Charge for the period	143,149	135,524	**278,673**
Loans written-off	(6,518)	(100,874)	**(107,392)**
Amounts recovered	(1,500)	(38,367)	**(39,867)**
As at 31 December 2014	**277,194**	**757,020**	**1,034,214**

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

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2013	115	114,192	8,199	-	**122,506**
Charge for the period	4,596	15,605	(612)	1,500	**21,089**
Loans written-off	-	(1,532)	-	-	**(1,532)**
Amounts recovered	-	-	-	-	**-**
As at 31 December 2013	**4,711**	**128,265**	**7,587**	**1,500**	**142,063**

(in thousands of Russian Roubles)

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

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
As at 1 January 2013	74,490	523,230	5,321	2,874	73,254	**679,169**
Charge for the period	7,689	70,612	(791)	139	38,841	**116,490**
Loans written-off	-	(32,657)	-	(1,450)	(815)	**(34,922)**
Amounts recovered	-	-	-	-	-	**-**
As at 31 December 2013	**82,179**	**561,185**	**4,530**	**1,563**	**111,280**	**760,737**

In summary (2013):

	Individuals	Legal entities	Total
As at 1 January 2013	122,506	679,169	**801,675**
Charge for the period	21,089	116,490	**137,579**
Loans written-off	(1,532)	(34,922)	**(36,454)**
Amounts recovered	-	-	**-**
As at 31 December 2013	**142,063**	**760,737**	**902,800**

Information about the amount of credit risk mitigation

The Group is developing a number of policies and practices to mitigate credit risk. The most traditional are collateral and guarantees, which are common practice. The main types of collateral for loans are real estate, vehicles, equipment, inventory, goods in turnover.
Deposits bearing market risk, occupy an insignificant share in the structure of collateral (as at 31 December 2014 0; at 31 December 2013 0.1% of the book value of the assets accepted as collateral).

The proposed collateral in terms of property and property rights must comply with such requirements as: lack of legal prohibitions and restrictions of the Group to perform security transactions, no restrictions to the rights of the lender in the event of the need for the proposed foreclosure of the mortgaged property, the value of collateral should cover the amount owed and must be liquid.

In general collateral can be divided into the following risk groups: the collateral of high-risk group (goods for sale, raw materials, claims); average-risk group (unfinished construction, machinery and equipment, vehicles, etc.); low-risk group (property complexes, real estate, securities, etc.).

Depending on the object of collateral, requirements of the Group and the law, the evaluation of the collateral is provided by: department of the collateral, economists and independent appraisers.

Evaluation of collateral is carried out: pre (to determine the possibility of adopting the proposed customer property as collateral for a loan under consideration), and during the term of the loan agreement.

(in thousands of Russian Roubles)

The frequency of collateral objects' inspection during the term of the loan agreement is defined by the economist and depends on the information available on the state, maintenance, usage of the collateral. In cases where there is no negative information about the content and operation with the collateral, the useful life of the collateral object is much higher than the period of the loan agreement, collateral object inspection is performed at least once a year. Mandatory inspection of availability and condition of the collateral is carried out when the borrower provides an application for renewal. Monitoring I and II category of quality collateral is carried out on a regular basis, but not less than once a quarter.

The following table shows the types of assets accepted as collateral as of December 31, 2014 and December 31, 2013 and their carrying value:

	2014	2013
Real estate	6,157,192	7,575,579
Goods in turnover	3,095,276	3,082,905
Vehicles	1,942,361	2,049,917
Fixed assets and equipment	947,622	815,442
Securities	954,876	774,207
Total amount of collateral	**13,097,327**	**14,298,050**

The following table presents an analysis of the present value of loans to customers, by collateral:

	2014	2013
Loans secured by real estate and rights to it	3,349,513	3,766,757
Loans secured by vehicles	1,080,931	1,639,907
Other collateral (including manufacturing equipment, other equipment and inventory)	2,594,582	2,246,307
Unsecured loans	4,151,337	2,808,103
	11,176,363	**10,461,074**
Less: Provision for impairment	(1,034,214)	(902,800)
	10,142,149	**9,558,274**

During 2014 the Group foreclosed the collateral in order to recover from credit transactions in the amount of 108,908 (2013: 9,813). These assets are included in other assets (see Note 12). The Group's policy with regard to the realization of such collateral assets usually involves selling them to third parties at the highest possible fair value.

Geographical risk

Geographical risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Group operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Group are set out in Note 2. The Group has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible.

(in thousands of Russian Roubles)

The geographical concentration of the Group's assets and liabilities as at 31 December 2014 is set out below:

	Russia	OECD	Non - OECD	Total
Assets				
Cash and cash equivalents	1,436,452	47,141	-	**1,483,593**
Mandatory balances with the CBRF	116,148	-	-	**116,148**
Due from banks	123,931	-	-	**123,931**
Financial assets at FVPL	2,172,910	218,500	-	**2,391,410**
Financial assets HTM	13,847	-	-	**13,847**
Loans and advances to customers	10,142,149	-	-	**10,142,149**
Net investment in finance lease	209,255	-	-	**209,255**
Other assets	224,705	-	-	**224,705**
Property, plant and Equipment	366,706	-	-	**366,706**
Investment property	4,356	-	-	**4,356**
	14,810,459	**265,641**	**-**	**15,076,100**
Liabilities				
Due to banks	357,616	-	-	**357,616**
Customer accounts	12,160,576	344	3,146	**12,164,066**
Debt securities issued	132,076	-	-	**132,076**
Taxation	5,118	-	-	**5,118**
Other liabilities	140,498	-	-	**140,498**
	12,795,884	**344**	**3,146**	**12,799,374**
Net balance sheet position	**2,014,575**	**265,297**	**(3,146)**	**2,276,726**

As at 31 December 2013, the Group had the following positions in geographical concentration:

	Russia	OECD	Non - OECD	Total
Net on-balance sheet position	**1,630,967**	**448,186**	**(2,694)**	**2,076,459**

Market Risk

The Group takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

To assess the market risk such measurement methods as VaR, GAP, spread, estimating the change in net interest income, scenario analysis are used.

Market risk management of the Group is based on the following principles:

- the adequacy of the nature and extent of activities, in accordance with which the Group maintains its market risk management infrastructure in a state of sufficient quality for the organization of the process;
- segregation of the sources of market risk;

- responsibility for the accepted risk, according to which units empowered to carry out operations related to market risk, are responsible for the effective use of these powers;
- centralization of market risk management and continuous monitoring;
- limiting potential losses, according to which the total amount of the established limits should not exceed those of the Bank of Russia and regulatory ratios of the internal documents.

As the measures taken to minimize market risks, the Group:

- annually approves a common strategy of actions on the securities market, providing a number of constraints on the structure and quality of the trading portfolio;
- carries out periodic monitoring of the markets (money, foreign exchange, stock), by monitoring the magnitude and rate of change of market indicators according to the approved list;
- establishes and maintains constant monitoring of limits for issuers of securities that form the trading portfolio, carries out an assessment of risks of individual portfolio issuers' activities;
- limits the size of the open currency position (OCP) in volumes that allow limiting the scale of the negative impact on the Group's position on non-critical levels even in the case of the most negative scenarios in the foreign exchange market (sharp changes in exchange rates, devaluation of the ruble, etc.);
- supports the sign of the cumulative gap between interest-bearing assets and liabilities in accordance with the current trend of changes in interest rates (in terms of interest rate risk).

An important component of market risk limits is a system of limitations on the counterparties (the issuers), the volume and types of operations, liability limits and stop loss and stop out limits. All kinds of limits are established by the authorized body of the Group, which the attention of the information on their compliance is brought to. Monitoring the compliance with the limits is carried out on a regular basis.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

Identification of this risk involves monitoring the stock market price of the trading portfolio instruments, information about the volumes of trading in securities on the organized securities market, as well as gathering information on the key macro indicators, which may affect the change in market prices (price dynamics).

In order to manage price risk estimation and risk of the issuer and compliance with the limits monitoring is carried out.

Risk of the issuer is the risk of impairment of securities as a result of deterioration in the financial position of the issuer and (or) its business reputation. To minimize the risk of the issuer, these factors are monitored on a regular basis.

The main tool for managing price risk is a system of limits.
When forming a portfolio of securities, preference is given to highly reliable and liquid securities.

Securities transactions are a source of income assuming the investment risk tolerance and sustainable liquidity ratios of the Bank and Group as a whole.

The Group expects to use the securities portfolio as a tool to regulate liquidity, including the use of securities to raise funds in the interbank market and refinancing operations of the Bank of Russia.
In this regard, the basis of the portfolio consists of securities included in the Lombard list of the Bank of Russia.

To ensure a balance of assets and liabilities by maturity during the formation of a portfolio of securities newly purchased securities must be evenly distributed by maturity (offers), without creating a concentration of the individual time intervals, except in cases when such a concentration is justified by the need to cover liquidity shortages.

(in thousands of Russian Roubles)

The Group's assets subject to price risk are presented in Note 8.

An analysis of sensitivity of the Group's net profit before tax and equity to changes in quoted debt securities, based on positions existing as at 31 December 2014 and 31 December 2013 is presented in the table below. Sensitivity analysis is performed for three possible scenarios: fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation on the markets in financial instruments, taking into account the events that took place in the Russian economy in 2014.

	2014		2013	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
10% increase in quoted securities prices	238,791	191,033	186,144	148,915
20% increase in quoted securities prices	477,582	382,066	372,288	297,830
40% increase in quoted securities prices	955,164	764,132	744,576	595,661
10% decrease in quoted securities prices	(238,791)	(191,033)	(186,144)	(148,915)
20% decrease in quoted securities prices	(477,582)	(382,066)	(372,288)	(297,830)
40% decrease in quoted securities prices	(955,164)	(764,132)	(744,576)	(595,661)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The basic procedure to identify the factors of foreign exchange risk for individual operations and transactions, as well as in certain areas of activity is the monitoring of exchange rates, the prices of forward exchange instruments.
The main instruments of regulation of currency risk are single exchange rate policy and control system of OCP (open currency position). The Group performs daily assessment and monitoring OCP, carries out its forecast and regulation.
Single exchange rate policy is carried out for the appointment of exchange rates to the operations of the client conversion, rate of cash currency exchange at the box office box office and additional offices outside the vault, the conversion rate for calculation on plastic cards. The financial results of operations with foreign currencies are calculated daily, allowing to monitor the adequacy of the exchange rate policy of the authorized departments of the Group.
OCP monitoring system includes the establishment and control of the following parameters:

- a set of pairs of currencies, which are allowed to conduct operations in;
- a list of types of operations with specific currencies (current, term, supplies, indices);
- limits on the size of the OCP, whose limit for banks in accordance with the requirements of the Bank of Russia is 10% of equity (capital). The Group pursues a conservative policy regarding OCP, holding OCP within 2% of the equity (capital). Compliance with limits of OCP is monitored on a daily basis. Any detected deviation is immediately brought to the attention of the authorized body of the Group. In practice, the Group seeks to minimize the risk by maintaining the OCP at a level below the required limits through foreign exchange transactions in the interbank market.

Foreign currency transactions in the interbank market are conducted primarily to meet the needs of customers during the currency exchange and non-cash exchange transactions. When carrying out its own foreign currency transactions the Group focuses on minimizing currency risk, priority is given to the mechanisms that hedge currency risks.

(in thousands of Russian Roubles)

As at 31 December 2014, the Group had the following positions in currencies:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	1,152,477	175,200	155,916	**1,483,593**
Mandatory balances with the CBRF	116,148	-	-	**116,148**
Due from banks	100,202	23,729	-	**123,931**
Financial assets at FVPL	2,172,910	218,500	-	**2,391,410**
Financial assets HTM	13,847	-	-	**13,847**
Loans and advances to customers	10,142,149	-	-	**10,142,149**
Net investment in financial lease	209,255	-	-	**209,255**
Other assets	224,705	-	-	**224,705**
Property, Plant and Equipment	366,706	-	-	**366,706**
Investment property	4,356	-	-	**4,356**
	14,502,755	**417,429**	**155,916**	**15,076,100**
Liabilities				
Due to banks	357,616	-	-	**357,616**
Customer accounts	11,564,933	444,982	154,151	**12,164,066**
Debt securities issued	132,076	-	-	**132,076**
Deferred tax liability	5,118	-	-	**5,118**
Other liabilities	139,332	1,166	-	**140,498**
	12,199,075	**446,148**	**154,151**	**12,799,374**
Net on-balance sheet position	**2,303,680**	**(28,719)**	**1,765**	**2,276,726**

As at 31 December 2013, the Group had the following positions in currencies:

	RUB	USD	EUR	Total
Net on-balance sheet position	**1,492,769**	**179,845**	**403,845**	**2,076,459**

The table bellow shows the parameters characterizing the sensitivity of the Group's capital to the fluctuation of the ruble against the US dollar and the Euro in the range of 10% (increase or decrease) in the range of 20% (increase or decrease), and the range of 40% (increase or decrease) while all other variables remain constant. Fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation in the currency markets and is based on real events that took place in the Russian economy in 2014. The sensitivity analysis indicated below includes only the analysis of open foreign currency positions of the Bank at the balance sheet date and shows what effect would have currency fluctuations in the range of 10%, 20%, 40%.

(in thousands of Russian Roubles)

	As at 31 December 2014		As at 31 December 2013	
	Effect on profit after tax	Effect on equity	Effect on profit after tax	Effect on equity
Strengthening of USD for 10%	(2,872)	(2,298)	17,985	14,388
Strengthening of USD for 20%	(5,744)	(4,595)	35,969	28,775
Strengthening of USD for 40%	(11,488)	(9,190)	71,938	57,550
Weakening of USD for 10%	2,872	2,298	(17,985)	(14,388)
Weakening of USD for 20%	5,744	4,595	(35,969)	(28,775)
Weakening of USD for 40%	11,488	9,190	(71,938)	(57,550)
Strengthening of Euro for 10%	177	141	40,385	32,308
Strengthening of Euro for 20%	353	282	80,769	64,615
Strengthening of Euro for 40%	706	565	161,538	129,230
Weakening of Euro for 10%	(177)	(141)	(40,385)	(32,308)
Weakening of Euro for 20%	(353)	(282)	(80,769)	(64,615)
Weakening of Euro for 40%	(706)	(565)	(161,538)	(129,230)

Liquidity Risk

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

To identify the liquidity risk the Group determines a set of absolute and relative parameters. Their change during transactions related to in- and outflows of cash and other assets by maturity and by currency, identifies the change in liquidity risk.
The basic procedure of liquidity risk management by the Group, applied on a regular basis, includes the following steps:

- identification and assessment of risk factors for liquidity;
- analysis of the sources of liquidity risk and its impact on the Bank's and Group's activity;
- preparation of proposals to minimize liquidity risk;
- dissemination of information to the competent authorities of the Group;
- implementation of measures to reduce liquidity risk.

The Group continuously monitors threats to liquidity. In the event of their occurrence or the assumption of possible occurrence an action plan aimed at restoring liquidity gas been developed.

Identification of liquidity risk is carried out:

- during the preparation of the planned volume of active and passive operations;
- on the basis of the current volume of attracted and placed funds in terms by their structure and dynamics;
- on the basis of immediate, current, short, medium and long-term liquidity forecast for ensuring the continuity of the Bank's and Group's activities, as well as providing a source of coverage for liquidity risk;
- based on the values of instant, current and long-term liquidity for compliance with acceptable levels;
- in the implementation of activities by the interaction of all involved in the internal divisions of the Group;
- during stress testing of liquidity risk.

The following methods are used to assess and monitor liquidity:

- coefficient method (regulatory approach), which includes a daily calculation and analysis of the actual values of the required liquidity ratios established by the Bank of Russia, as well as assessment of instant, current and long-term liquidity;
- method of assessing the gap in maturities of assets and liabilities, including modelling of alternative scenarios with the calculation of liquidity indicators: excess (deficit) liquidity, ratio of surplus (deficit) liquidity and its limits;

(in thousands of Russian Roubles)

- forecasting cash flows;
- balance sheet analysis for compliance with the optimal structure of assets grouped by areas of investments, and liabilities grouped by source of funds, with the calculation of liquidity ratios;
- stress testing - assessment of the sustainability of the Group, as well as putting individual portfolios in the "extreme" segment; the amount of equity capital required to cover the liquidity risk is determined on the basis of the results.

The main objective of the Group's operations in the financial markets is to provide a stable liquidity and solvency. Raising funds and assets' allocation is aimed at such times and under such conditions that will form a balanced structure of assets and liabilities in order to ensure the liquidity and solvency of the Group, as well as ensure compliance with liquidity ratios set by the Bank of Russia.

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

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

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Group would indicate that deposits provide a relatively long-term and stable source of funding for the Group, although under crisis conditions this could change.

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

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

The Group was in compliance with the above ratios during the year ended 31 December 2014 and year ended 31 December 2013.

The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2014 and 31 December 2013:

	Requirement	31 December 2014	31 December 2013
Instant liquidity ratio (N2)	Minimum 15%	46.7%	56.8%
Current liquidity ratio (N3)	Minimum 50%	104.6%	85.9%
Long-term liquidity ratio (N4)	Maximum 120%	72.0%	83.1%

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

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2014. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Group manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

(in thousands of Russian Roubles)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	13,637	20,858	27,148	384,600	-	**446,243**
Customer accounts	3,872,615	3,389,171	3,012,29	2,555,491	-	**12,829,569**
Debt securities issued	100,448	8,606	16,882	8,933	-	**134,869**
Other liabilities	88,092	22,720	14,322	15,364	-	**140,498**
Deferred tax liability	-	-	-	-	5,118	**5,118**
Total liabilities	4,074,792	3,441,355	3,070,644	2,964,388	**5,118**	**13,556,297**
Assets held for managing liquidity risk	**4,515,495**	**3,025,637**	**3,867,708**	**4,686,854**	**1,004,218**	**17,099,912**
Credit Related Commitments	**296,246**	**333,564**	**624,693**	**952,062**	**-**	**2,206,565**

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

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	249,614	8,723	10,467	290,027	-	**558,831**
Customer accounts	4,586,806	2,709,211	3,180,148	1,992,385	-	**12,468,550**
Debt securities issued	10,000	-	-	-	-	**10,000**
Other liabilities	56,912	16,382	7,549	7,590	-	**88,433**
Taxation	-	-	-	-	47,858	**47,858**
Total liabilities	**4,903,332**	**2,734,316**	**3,198,164**	**2,290,002**	**47,858**	**13,173,672**
Assets held for managing liquidity risk	**4,536,101**	**2,868,906**	**3,477,700**	**4,652,666**	**1,055,965**	**16,591,338**
Credit Related Commitments	**281,544**	**624,916**	**782,242**	**563,965**	**-**	**2,252,667**

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2014 and at 31 December 2013, and IFRS 7 revised does not require such reconciliation. Management considers that loans should be included in assets held for managing liquidity risk.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

(in thousands of Russian Roubles)

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

Interest Rate Risk

Interest rate risk - the risk of adverse changes in interest rates when the maturities of assets, liabilities and off-balance sheet instruments are imbalanced.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The majority of the Group's assets and liabilities are priced on a fixed rate basis.

Identification of interest rate risk by the Group involves monitoring the monetary policy of the Bank of Russia, the current level of the key interest rate, inflation rate, information on the maximum interest rates of 10 largest credit institutions, attracting the largest amount of money, market interest rates in the region for all operations and activities.

The main methods of assessment and monitoring of interest rate risk are:

• determining the amount of the interest margin (spread), the calculation and assessment of the current and sufficient spread;
• definition of the gap (GAP) between assets and liabilities sensitive to changes in interest rates, and evaluation of sensitivity to changes in interest rates.

Interest rate risk management of the Group is built on a common policy of setting interest rates, optimizing the structure of assets and liabilities, which are exposed to interest rate risk, compliance with the limits on active operations, control of size of sufficient interest spread and GAP.

Combining data on weighted average rate of borrowed and invested assets with the analysis of GAP-breaks and analysis of market conditions, the Group determines the areas, most vulnerable to interest rate risk and applies methods for their prevention, including determining the optimal value of the interest rates for its' instruments.

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2014 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	17.00	-	-	-	-
Financial assets at a fair value through profit or loss	9.15	16.04	-	-	-
Financial assets held to maturity	-	-	9.20	9.48	-
Loans and advances to customers	13.53	13.71	13.31	15.25	25.41
Net investment in financial lease	25.55	25.48	25.07	23.54	-
Liabilities					
Due to banks	8.37	8.00	8.00	8.62	-
Customer accounts	10.30	10.84	9.64	10.20	-
Debt securities issued	11.91	8.06	8.41	8.38	-

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2013 is presented below.

On demand or less than	1 to 6 months	6 months to 1 year	Over 1 year	Overdue

	1 month				
Assets					
Due from banks	5.00	-	-	-	-
Financial assets at a fair value through profit or loss	8.95	9.60	-	-	-
Financial assets held to maturity	-	-	-	8.93	-
Loans and advances to customers	11.94	11.68	12.40	14.40	14.18
Net investment in financial lease	25.92	26.00	26.46	24.45	-
Liabilities					
Due to banks	6.12	8.00	8.00	8.36	-
Customer accounts	1.91	8.73	8.98	8.14	-
Debt securities issued	-	-	-	-	-

Assuming the financial assets and liabilities as at 31 December 2013 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 5% in market interest rates across all maturities and currencies would decrease profit for the current year by approximately 41,374 as a result of higher interest expense (2013: decrease by 55,911 as a result of higher interest expense).

In the table below given is the analysis of the interest rate fluctuation risk to which the Group is exposed as at 31 December 2014. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	100,000	-	-	-	-	**100,000**
Financial assets at a fair value through profit or loss	2,165,203	222,711	-	-	-	**2,387,914**
Financial assets held to maturity	-	-	6,333	7,514	-	**13,847**
Loans and advances to customers	379,799	2,348,817	3,280,203	3,502,538	220,613	**9,731,970**
Net investment in financial lease	11,005	38,189	42,478	117,583	-	**209,255**
	2,656,007	**2,609,717**	**3,329,014**	**3,627,635**	**220,613**	**12,442,986**
Liabilities						
Due to banks	10,339	8,723	10,467	324,789	-	**354,318**
Customer accounts	1,363,536	3,031,317	2,754,619	2,462,375	-	**9,611,847**
Debt securities issued	101,651	3,598	15,516	7,525	-	**128,290**
	1,475,526	**3,043,638**	**2,780,602**	**2,794,689**	**-**	**10,094,455**
Net liquidity	**1,180,481**	**(433,921)**	**548,412**	**832,946**	**220,613**	**2,348,531**
Accumulated gap as at 31 December 2014	**1,180,481**	**746,560**	**1,294,972**	**2,127,918**	**2,348,531**	
Accumulated gap as at 31 December 2013	**(1,695,717)**	**(2,130,344)**	**(2,410,806)**	**234,304**	**310,736**	

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2014	2013

(in thousands of Russian Roubles)

	RUB	USD	Euro	RUB	USD	Euro
Interest bearing assets						
Due from banks	17.00	-	-	5.00	-	-
Financial assets at a fair value through profit or loss	10.02	7.50	-	8.97	-	-
Financial assets held to maturity	9.35	-	-	8.93	-	-
Loans and advances to customers	14.75	-	-	13.24	-	-
Net investment in financial lease	24.37	-	-	25.27	-	-
Interest bearing liabilities						
Due to banks	8.58	-	-	7.35	-	-
Customer accounts	10.63	4.44	3.53	6.51	3.50	3.02
Debt securities issued	11.17	-	-	-	-	-

Operational risk

Operational risk – defined as the risk of loss resulting from incompliance with the type and scale of the Group's activity and /(or) with requirements of current legislation of internal policies and from violations by the Group's employees and /(or) other individuals (due to incompetence, unintentional or deliberate acts), lack of functional capabilities of the Group's information, technological and other types of systems and /(or) their failures, and also from the influence of external events. When the control system stops functioning, operational risks can damage Group's reputation; have legal consequences or lead to financial loss.

The Group manages operational risk on an ongoing basis. The main method of measuring operational risk is - identification of operational risk events and evaluation of indicators (database of events and indicators of operational risk, as well as losses from the sale of operational risk is generated).

The main methods the Group uses to minimise operational risk are the following:

- development of organizational structure, internal rules and procedures of banking operations and other transactions in such a way as to eliminate or minimise the possibility of operational risk. Observance of the principles of segregation of duties, authorisation procedure (approval) and reporting on Group's transactions;
- modernisation of banking systems automation and information protection. Minimisation of manual document processing;
- effective realisation of the Group's human resources practice in a sphere of personnel rationalisation, training, hiring, motivation and increasing of corporate culture of all Group's employees;
- organisation of work on developing employees' awareness of operational risk, that might arise from their working performance;
- usage of traditional types of property and life insurance by the Group;
- system of measures development to provide going concern of Group's operations, including plans of action in case of unexpected circumstances.

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2014 is presented in the following table:

	2013	2012	2011
Net interest income	738,586	576,683	454,444
Net non-interest income	429,507	356,311	286,153
Income	**1,168,093**	**932,994**	**740,597**

Operational risk as at 31 December 2014 is 142,084.

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2013 is presented in the following table:

(in thousands of Russian Roubles)

	2012	2011	2010
Net interest income	576,683	454,444	344,570
Net non-interest income	356,311	286,153	291,719
Income	**932,994**	**740,597**	**636,289**

Operational risk as at 31 December 2013 is 115,494.

29. Capital Management

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets capital requirements to the Group and monitors compliance with these requirements. Currently, under requirements of the Central Bank of the Russian Federation, the Group has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2014, this minimum level was 10% (2013: 10%).

The regulatory capital on the basis of the Group's reports prepared under Russian legislation as at 31 December 2014 and 31 December 2013 is presented in the following table:

	As at 31 December 2014	As at 31 December 2013
Common Equity Tier 1	**1,735,935**	**1,760,543**
Share capital	590,327	590,327
Funds	90,775	90,775
Previous year's profit	1,117,258	769,396
Current year profit	-	347,862
Indicators, reducing the amount of base capital, incl.:	62,425	37,817
- current year loss	55,396	30,786
- the Bank's shares owned by subsidiary	6,915	6,915
- investments in the shares in equity of the subsidiary	100	100
- intangible assets	14	16
Additional Tier 1	-	-
Tier 1 capital	**1,735,935**	**1,760,543**
Tier 2 capital	**426,917**	**88,215**
Additional capital formed by capitalisation of property revaluation	14,773	14,773
Property surplus due to revaluation	69,596	73,442
Retained profit for the current year	343,714	-
Indicators, reducing the amount of capital and additional capital, incl.:	1,166	-
- overdue receivables more than 30 days	1,166	-
Total regulatory capital	**2,162,852**	**1,848,758**

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these consolidated financial statements is an additional provision for loans and other assets, recognised under the RAS, fair value measurement of financial assets FVTPL, which were reclassified by the Group on 31 December 2014 under RAS, when adopting the norms of the Bank of Russia Ordinance No. 3498-U, dated 18 December 2014, "On Reclassification of Securities".

(in thousands of Russian Roubles)

During 2014 and 2013 the Group's capital adequacy ratio was in line with regulations.

Capital (net assets) deficit of a nonconsolidated structured entity LLC "Khlynov-Invest" on 31 December 2014 amounted to 12,612 (31 December 2013: 10,588).

The minimum values of capital adequacy requirements for banking groups, set by the Bank of Russia are as follows:

- base capital adequacy ratio, set at 5%,
- capital adequacy ratio, set at 5,5%,
- equity capital adequacy ratio, set at 10%.

The values of capital adequacy ratios of the Group were as presented below:

Capital adequacy ratio	Value of the ratio as at 31 December 2014	Value of the ratio as at 31 December 2013
H20.1 base capital adequacy ratio	10,5%	11,4%
H20.2 capital adequacy ratio	10,5%	11,4%
H20.0 equity capital adequacy ratio	13,0%	11,9%

(in thousands of Russian Roubles)

Information on the amount of the Group's assets, risk weighted (under RAS)

Indicator		31 December 2014	31 December 2013
Total assets, risk weighted for purposes of calculating the base capital adequacy ratio (Ap_1)		10,010,141	9,481,090
	$Ap1_1$	-	-
	$Ap2_1$	181,490	200,834
	$Ap3_1$	67,835	10,197
	$Ap4_1$	9,760,816	9,270,059
	$Ap5_1$	-	-
Total assets, risk weighted for purposes of calculating the capital adequacy ratio (Ap_2)		10,010,141	9,480,997
	$Ap1_2$	-	-
	$Ap2_2$	181,490	200,834
	$Ap3_2$	67,835	10,197
	$Ap4_2$	9,760,816	9,269,966
	$Ap5_2$	-	-
Total assets, risk weighted for purposes of calculating the equity capital adequacy ratio (Ap_0)		10,094,510	9,554,439
	$Ap1_0$	-	-
	$Ap2_0$	181,490	200,834
	$Ap3_0$	67,835	10,197
	$Ap4_0$	9,845,185	9,343,408
	$Ap5_0$	-	-
Assets with high risk factor for the purposes of calculating the base capital adequacy ratio		839,143	621,061
Assets with high risk factor for the purposes of calculating the capital adequacy ratio		839,143	621,061
Assets with high risk factor for the purposes of calculating the equity capital adequacy ratio		839,143	621,061
Consumption loans - $ПКр_1$		667,753	272,842
Consumption loans - $ПКр_2$		667,753	272,842
Consumption loans - $ПКр_0$		667,753	272,842
Market risk for the purposes of calculating the base capital adequacy ratio, including		1,673,666	2,200,988
	interest rate risk	133,335	175,517
	stock market risk	559	562
Market risk for the purposes of calculating the capital adequacy ratio, including		1,673,666	2,200,988
	interest rate risk	133,335	175,517
	stock market risk	559	562
Market risk for the purposes of calculating the equity capital adequacy ratio, including		1,673,666	2,200,988
	interest rate risk	133,335	175,517
	stock market risk	559	562
Amount of credit risk for credit related commitments:		X	X
- for the purposes of calculating the base capital adequacy ratio		1,336,047	1,124,346
- for the purposes of calculating the capital adequacy ratio		1,336,047	1,124,346
- for the purposes of calculating the equity capital adequacy ratio		1,336,047	1,124,346
Amount of operational risk		142,084	115,494

The Group can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Group's long-term management plans and prospects are taking into calculation. The Group's capital management and its distribution are regularly analysed by the Directors of the Bank during the review and approval of annual budget.

Risk and Capital Management are carried out by the Group also through internal capital adequacy assessment procedures (VPODK). Acting as basis for the development of VPODK are guidelines for the development of business and planned (target) levels of capital as defined in the Group's development strategy. Results of VPODK, in turn, are used in the development of future policies and the establishment of the Group's risk potential.

In order to implement the current assessment of the Group's needs of capital the Group sets methods for determining the amount of capital required to cover possible losses from the realization of each of the major types of risks in their internal documents.

In order to assess the adequacy of internal capital, the Group uses standard (baseline) risk assessment techniques, the use of which is established by the Bank of Russia regulations, procedures and the results of stress testing the stability of the Group in relation to internal and external risk factors.

30. Related Party Transactions

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

During the reporting period the Group entered into a number of banking transactions in the normal course of business with various related parties.

(in thousands of Russian Roubles)

The total outstanding balances as at 31 December 2014 and the related income and expense transactions during 2014 with related parties were as follows:

	Share-holders	Subsidiaries	Key manage-ment personnel	Other related parties	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	6,437	1,716	**8,153**	**10,461,074**
Granted during the year	-	-	31,054	463,482	**494,536**	**-**
Repaid during the year	-	-	(15,768)	(137,653)	**(153,421)**	**-**
At the end of the year	**-**	**-**	**21,723**	**327,545**	**349,268**	**11,176,363**
Provision for losses	**-**	**-**	**(1,042)**	**(56,184)**	**(57,226)**	**(1,034,214)**
Current accounts						
At beginning of the year	3,126	-	3,539	5,017	**11,682**	**3,760,754**
Opened during the year	154,498	-	144,833	1,795,993	**2,095,324**	**-**
Repaid during the year	(157,447)	-	(141,613)	(1,797,483)	**(2,096,543)**	**-**
At the end of the year	**177**	**-**	**6,759**	**3,527**	**10,463**	**2,940,386**
Term deposits						
At beginning of the year	-	-	5,945	**-**	**5,945**	**8,196,990**
Opened during the year	-	-	20,542	13,323	**33,865**	**-**
Repaid during the year	-	-	(14,008)	(2,013)	**(16,021)**	**-**
At the end of the year	-	-	**12,479**	**11,310**	**23,789**	**9,223,680**
Guarantees issued	**-**	**-**	**-**	5,000	**5,000**	**1,221,541**
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans	-	-	2,582	19,889	**22,471**	**1,446,615**
Income from bank guarantees issuance	-	-	-	81	**81**	**16,692**
Commission income						
From settlement operations	21	-	39	1,189	**1,249**	**188,563**
Interest expense						
Term deposits	-	-	634	77	**711**	**708,743**
On current accounts	-	-	150	67	**217**	**4,933**
Salary and bonuses	**-**	**-**	72,869	2,039	**74,908**	**323,045**

(in thousands of Russian Roubles)

The total outstanding balances as at 31 December 2013 and the related income and expense transactions during 2013 with related parties were as follows:

	Share-holders	Subsidiaries	Key manage-ment personnel	Other related parties	Total Related party balance/result	Total per category in the consolidated financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	6,237	456,527	**462,764**	**9,573,107**
Granted during the year	-	-	6,951	91,628	**98,579**	**n/a**
Repaid during the year	-	-	(6,751)	(546,439)	**(553,190)**	**n/a**
At the end of the year	**-**	**-**	**6,437**	**1,716**	**8,153**	**10,461,074**
Provision for losses	**-**	**-**	**(89)**	**(429)**	**(518)**	**(902,800)**
Current accounts						
At beginning of the year	4,822	-	3,955	1,227	**10,004**	**3,255,334**
Opened during the year	427,626	-	48,012	2,066,332	**2,541,970**	**n/a**
Repaid during the year	(429,322)	-	(48,428)	(2,062,542)	**(2,540,292)**	**n/a**
At the end of the year	**3,126**	**-**	**3,539**	**5,017**	**11,682**	**3,760,754**
Term deposits						
At beginning of the year	-	-	1,886	-	**1,886**	**7,158,201**
Opened during the year	-	-	8,846	-	**8,846**	**n/a**
Repaid during the year	-	-	(4,787)	-	**(4,787)**	**n/a**
At the end of the year	**-**	**-**	**5,945**	**-**	**5,945**	**8,196,990**
Guarantees issued	**-**	**-**	**-**	**482**	**482**	**1,070,254**
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans	-	-	768	35,796	**36,564**	**1,226,245**
Income from bank guarantees issuance	-	-	-	85	**85**	**15,857**
Commission income						
From settlement operations	222	-	27	1,067	**1,316**	**163,347**
Interest expense						
Term deposits	-	-	278	-	**278**	**674,139**
On current accounts	1	-	57	3	**61**	**7,365**
Salary and bonuses	-	-	37,087	-	**37,087**	**277,191**

In 2014 salaries and other short term payments to the members of Board of Directors and members of the Executive Board amounted to 35,821 (2013: 33,988), including 10,888 (2013: 9,872) salaries, other short term payments 24,933 (2013: 24,116). Other short term payments to the members of the Executive Board and members of Executive Board, who are not employed with the Group, amounted to 3,302 (2013: 3,099).

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2015

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant