Absolut Bank Group

Consolidated financial statements

Year ended 31 December 2014

Contents

Independent auditor's report

Notes to consolidated financial statements

EY
Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the Shareholders and Board of Directors of Absolut Bank

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

Audited entity's responsibility for the consolidated financial statements

Management of Absolut Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as well as for the internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Ernst & Young LLC

2 March 2015

Moscow, Russia

Consolidated statement of financial position

As at 31 December 2014

(Millions of Russian rubles)

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	7	30,906	17,536
Mandatory cash balances with the Central Bank of the Russian Federation		1,416	604
Trading securities	8	2,342	603
Trading securities pledged under repurchase agreements	8	1,654	4,157
Reverse repurchase agreements	9	3,975	4,385
Due from other banks	10	12	2,013
Loans to customers	11	142,467	83,514
Investment securities available-for-sale	12	6,902	9,897
Investment securities available-for-sale pledged under repurchase agreements	12	25,966	1,110
Investment securities held-to-maturity	13	1,145	–
Investment securities held-to-maturity pledged under repurchase agreements	13	8,407	–
Investment property	14	8,942	954
Property and equipment	15	2,770	2,610
Intangible assets	15	588	511
Deferred income tax asset	30	516	516
Other financial assets	16	1,244	448
Other assets	16	1,050	699
Total assets		**240,302**	**129,557**
Liabilities			
Due to other banks	17	49,835	14,016
Customer accounts	18	133,421	63,285
Debt securities issued	19	29,710	33,047
Subordinated debt	20	–	221
Other financial liabilities	21	560	153
Other liabilities	21	1,149	778
Total liabilities		**214,675**	**111,500**
Equity			
Share capital	22	3,152	2,455
Share premium	22	14,341	14,341
Retained earnings		8,424	1,270
Revaluation deficit of investment securities available-for-sale		(290)	(9)
Total equity		**25,627**	**18,057**
Total equity and liabilities		**240,302**	**129,557**

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 37 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2014

(Millions of Russian rubles)

	Notes	2014	2013
Interest income	24	18,592	9,717
Interest expense	24	(11,051)	(5,738)
Net interest income		**7,541**	**3,979**
Allowance for loan impairment	11	(775)	(319)
Net interest income after allowance for loan impairment		**6,766**	**3,660**
Fee and commission income	25	1,327	1,125
Fee and commission expense	25	(318)	(172)
Net losses from operations with securities	26	(1,924)	(3)
Net gains/(losses) from operations with derivatives	27	2,588	(376)
Net gains from trading in foreign currencies		770	320
Net foreign exchange translation differences		(2,613)	1,039
Net other income	28	360	27
Non-interest income		**190**	**1,960**
Personnel expenses	29	(3,239)	(3,263)
Administrative and other operating expenses	29	(1,815)	(1,780)
Reversal/(accrual) of provision for losses from credit related commitments	21, 23	188	(158)
Losses from acquisitions and disposals of subsidiaries		(23)	–
Non-interest expense		**(4,889)**	**(5,201)**
Profit before income tax expense		**2,067**	**419**
Income tax expense	30	(186)	(99)
Profit for the year		**1,881**	**320**

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

Consolidated statement of comprehensive income

For the year ended 31 December 2014

(Millions of Russian rubles)

	Notes	2014	2013
Profit for the year		**1,881**	**320**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net change of the fair value of investment securities available-for-sale		(946)	(17)
Net change of the fair value of investment securities available-for-sale reclassified to profit or loss		609	5
Income tax effect		56	2
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(281)**	**(10)**
Other comprehensive income for the year, net of tax		**(281)**	**(10)**
Total comprehensive income for the year		**1,600**	**310**

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

Consolidated statement of changes in equity

For the year ended 31 December 2014

(Millions of Russian rubles)

	Notes	*Share capital*	*Share premium*	*Retained earnings*	*Revaluation surplus/(deficit) of investment securities available-for-sale*	*Total shareholders equity*
31 December 2012		**2,455**	**14,341**	**950**	**1**	**17,747**
Total comprehensive income for the year		–	–	320	(10)	**310**
31 December 2013		**2,455**	**14,341**	**1,270**	**(9)**	**18,057**
Merger of banks	1	697	–	5,273	–	**5,970**
Total comprehensive income for the year		–	–	1,881	(281)	**1,600**
As at 31 December 2014		**3,152**	**14,341**	**8,424**	**(290)**	**25,627**

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

Consolidated statement of cash flows

For the year ended 31 December 2014

(Millions of Russian rubles)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		17,283	9,619
Interest paid		(13,119)	(5,544)
Fees and commissions received		1,365	1,149
Fees and commissions paid		(318)	(172)
(Losses incurred) / income received on operations with securities		(1,313)	6
Income received / (losses incurred) on operations with derivatives		2,685	(373)
Income received from operations in foreign currencies		844	831
Other operating income received		358	27
Personnel expenses paid		(2,809)	(3,909)
Other operating expenses paid		(1,813)	(1,302)
Income tax paid		(183)	(93)
Cash flows from operating activities before changes in operating assets and liabilities		**2,980**	**239**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		445	15
Trading securities		1,827	(2,736)
Reverse repurchase agreements		408	(4,384)
Due from other banks		1,457	4,372
Loans to customers		(26,818)	(14,616)
Other financial assets		(600)	(79)
Other assets		103	88
Net increase/(decrease) in operating liabilities			
Due to other banks		32,301	(12,498)
Customer accounts		22,575	15,508
Promissory notes issued		(888)	1,572
Other financial liabilities		(1,047)	(21)
Other liabilities		180	(61)
Net cash from / (used in) operating activities		**32,923**	**(12,601)**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(26,871)	(10,876)
Acquisition of software		(223)	(138)
Purchase of property and equipment		(111)	(113)
Purchase (subsequent expenditures) of investment properties		(2,512)	(1)
Acquisition of associates		(23)	–
Proceeds from sale and redemption of investment securities available-for-sale		1,269	7,242
Purchase of investment securities held-to-maturity		(1,883)	–
Proceeds from sale of investment properties		97	–
Proceeds from sale of non-current assets held for sale		–	31
Proceeds from disposal of associates		38	–
Proceeds from sale of property and equipment		15	5
Net cash used in investing activities		**(30,204)**	**(3,850)**
Cash flows from financing activities			
Issue of bonds		5,922	21,494
Repayment of bonds		(8,934)	(1,621)
Repayment of subordinated loans		(10,218)	(1,721)
Net cash (used in)/from financing activities		**(13,230)**	**18,152**
Net cash inflow on merger		**20,533**	–
Effect of exchange rate changes on cash and cash equivalents		3,348	207
Net increase in cash and cash equivalents		**13,370**	**1,908**
Cash and cash equivalents, beginning	7	**17,536**	**15,628**
Cash and cash equivalents, ending	7	**30,906**	**17,536**

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 37 are an integral part of these consolidated financial statements.

(Millions of Russian rubles)

1. Principal activities

These consolidated financial statements comprise the accounts of Absolut Bank (the "Bank") and its subsidiaries (together the "Group"). The Bank is the parent company in the Group. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003.

The Bank has six (31 December 2013: 13) branches within the Russian Federation.

The Bank's registered address is: Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

As at December 31, there were the following shareholders of the Bank:

Shareholder	*2014 %*	*2013 %*
OJSC United Credit Systems (hereinafter, "OJSC UCS")	72.58	100.00
OJSC Russian Railways	5.30	–
Other	22.12	–
Total	**100.00**	**100.00**

The ultimate controlling party of the Bank is Non-State Pension Fund Blagosostoyanie (hereinafter – "Blagosostoyanie"), which does not have a single ultimate beneficiary.

KIT Finance Investment Bank (OJSC) merger. In 2013, Blagosostoyanie, the ultimate controlling party of Absolut Bank and KIT Finance Investment Bank, decided to reorganize the mentioned banks through merging KIT Finance Investment Bank with Absolut Bank in order to:

- use banks' capital (equity) more effectively;
- improve competitiveness of the combined bank's services in the financial services market;
- optimize the corporate governance structure;
- provide new opportunities for reducing cost and increasing the volume of provided services and profit.

The merger was finalized on 18 April 2014. Blagosostoyanie retained its control over the combined bank.

In the course of the reorganization process, additional 69,705,428 ordinary shares of the Bank with a nominal value of RUB 10 per share were issued. As a result, the share capital of the Bank increased from RUB 2,455 million to RUB 3,152 million. Shares are placed through conversion of the ordinary registered uncertified shares of KIT Finance Investment Bank.

Subsidiaries

As at 31 December 2014 the consolidated financial statements comprise financial statements of the following companies under the Bank's control:

Subsidiary	*2014, share, %*	*2013, share, %*	*Country of operation*	*Type of operation*
LLC "Absolut Leasing"	100	100	Russian Federation	Finance lease
LLC Leasing company "Absolut"	100	100	Russian Federation	Finance lease
CJSC "IA Absolut 1"	0, control	0, control	Russian Federation	Mortgage agent
CJSC "IA Absolut 2"	0, control	0, control	Russian Federation	Mortgage agent
LLC "IA Absolut 3"	0, control	–	Russian Federation	Mortgage agent
CUIF "Promising Investments Fund"	100	–	Russian Federation	Closed-end unit fund for venture investments
Closed-End Real Estate Unit Investment Fund "Long-Term Investments – Petrovsky Island"	100	–	Russian Federation	Closed-end real estate unit investment fund
CUIF "Strategic Investment Fund 9"	100	–	Russian Federation	Closed-end long-term direct investments unit investment fund

Mortgage agents. CJSC "IA Absolut 1" and CJSC "IA Absolut 2" are structured companies established in 2013 for mortgage loans securitization. LLC "IA Absolut 3" is a structured company established in 2014 for mortgage loans securitization.

(Millions of Russian rubles)

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain its accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

As at 31 December 2014, the principal rates of exchange used for translating foreign currency balances were RUB 56.2584 to USD 1 and RUB 68.3427 to EUR 1 (31 December 2013: RUB 32.7292 to USD 1 and RUB 44.9699 to EUR 1).

These consolidated financial statements are presented in millions of Russian rubles ("RUB"), unless otherwise indicated.

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC effective for annual periods beginning on or after 1 January 2014:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since the Group does not qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Group's financial position or performance.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Business combinations under common control

Business combinations under common control are accounted for using the pooling of interest method.

A business combination involving entities under common control is an acquisition of business in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Transactions under this category include transfers of subsidiary entities or businesses between entities within the same group.

The Group accounts for acquisitions of entities under common control in accordance with IAS 27 and IFRS 3 and applies the pooling of interest method affecting the consolidated financial statements as follows:

(1) The assets and liabilities of the combined entities are recorded at their carrying amounts, that is, no adjustments are made to record their fair values and to recognize any new assets or liabilities at the date of business combination. The carrying amounts of the merged entity are deemed equal to the carrying amounts of the entity recorded on the balance sheet of the Group's parent at the date of business combination. Adjustments are permitted only to harmonize accounting policies.

(2) Any difference between the consideration paid/ transferred and net assets "acquired" as a result of the business combination is taken to equity.

(3) The income statement reflects the financial results of the combined entities for the reporting period from the date of business combination.

(4) The financial data in the consolidated financial statements for the periods preceding the combination of entities under common control are not restated.

The assets and liabilities of the entity transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Comparative data in the consolidated financial statements are not restated as at the date it was originally acquired by the Predecessor.

Initial recognition of financial instruments

Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. Gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Date of recognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at settlement date, which is the date that the Group delivers a financial asset. All other purchases and sales are recognized on the settlement date with the change in value between the commitment date and settlement date not recognized for assets carried at cost or amortized cost; recognized in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are carried at amortized cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution 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.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Group’s intentions subsequently change, except for rare circumstances.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of profit or loss as interest income. Dividends are included in dividend income when the Group’s right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as net gains from operations with securities in the period in which they arise.

Financial assets held-to-maturity

A financial asset is classified as being held-to-maturity if the Group intends and is able to hold the investment to maturity. Only investments with a fixed maturity and fixed or determinable payments will be classified as held-to-maturity.

The held-to-maturity category is a typical category for bonds and other interest-bearing securities that fulfill the general requirements to be classified as held-to-maturity.

At the time of purchase, bonds and other interest-bearing securities are recorded at acquisition cost, including transaction costs and less subscription fees. The acquisition cost of securities purchased within the context of a public or private issue is equal to the issue price less any issue, placing and acquisition fees.

Subsequently, bonds and other interest-bearing securities are measured at amortized cost. The difference between the acquisition value and the redemption value is regarded as interest and is recorded on an accruals basis in the statement of profit or loss over the remaining term to maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Loans and receivables (continued)

Securities classified as loans and receivables are initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost. The difference between the acquisition cost and the redemption value is recognized as interest and recorded in the consolidated statement of profit or loss on an accruals basis over the remaining term to maturity. It is recognized in the consolidated statement of profit or loss, based on the effective rate of interest. Individual impairment losses for securities classified as loans and receivables are recognized – according to the same method as is used for amounts receivable as described below in this note – if there is evidence of impairment at reporting date.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss.

Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition financial assets available-for-sale are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in the consolidated statement of profit or loss.

Investment property

Real estate held to earn rentals or for capital appreciation is classified as investment property. Certain properties include a portion that is held to earn rentals or for capital appreciation or operational leasing purposes and another portion that is held for use in the supply of services or for administrative purposes. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held to be used in the supply of services or for administrative purposes.

Investment property is recognized only when it is probable that future economic benefits associated with the investment property will flow to the enterprise and the cost of the investment property can be measured reliably.

The investment property is measured initially at cost, including transaction costs. Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. It is depreciated according to the straight-line method over the economic life of the investment property concerned (i.e. 3% on a yearly basis for real estate). Depreciable leased assets are depreciated according to the normal depreciation policy for similar assets. Subsequent expenditure relating to investment property that has already been recognized is added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be availablefor immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realizability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Group obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower);
- the borrower considers bankruptcy or a financial reorganization or the Group has information on existence of the facts which may result in the borrower’s bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower’s market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/completely lost the collateral uncovered by insurance or insurance company refuses to pay.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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 and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognized through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Determination of fair value

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Promissory notes

Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian ruble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	% per year
Premises	2-3%
Equipment and vehicles	3-33%
Leasehold improvement	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalized computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalized costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful live.

Repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as "Reverse repurchase agreements". The difference between the first part and the second part of the transaction is treated as interest and accrued over the life of repo agreements using the effective yield method.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Debt securities issued

Debt securities in issue include promissory notes, loan participation or other notes, and bonds issued by the Group. Debt securities are stated at amortized cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of profit or loss.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Subordinated debt

Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortized cost.

Leases

i. Finance – Group as lessor

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of profit or loss.

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortized costs disclosed earlier in this note. Impairment losses are recognized through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

ii. Operating – Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment. At each reporting date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the reporting date. Fees received are amortized to income on a straight line basis over the life of the guarantee. Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions, supplemented by the judgment of management.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated statement of profit or loss except if it is recognized directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Russia also has various operating taxes that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

Retirement and other employee benefit obligations

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 significant post-retirement benefits.

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium in equity. Contributions paid by the shareholders as the additional paid in capital are recognized as share premium in equity.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Group’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Interest income and expense are recorded in the consolidated statement of profit or loss for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for considering loan applications, opening and servicing loan account, valuation and processing transaction documents. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian rubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Future changes in accounting policies

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early adoption permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- a performance condition must contain a service condition;
- a performance target must be met while the counterparty is rendering service;
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- a performance condition may be a market or non-market condition;
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Group is an existing IFRS preparer, this standard would not apply.

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods”. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase ‘and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant accounting judgments and estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(Millions of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

In 2014, the Group developed and implemented a segment LGD-model for assessing expected losses on corporate loan portfolio in the event of default of the counterparty. The primary objective of the model is applying LGD for calculating allowances, preparing financial statements and managing Bank’s corporate loan portfolio risks. The model is developed on the basis of internal historical data. According to methodology, it is planned to perform the annual review of this model comprising the calibration of the model and assessment of its performance.

In the course of preparation of the 2014 financial statements, allowance for corporate loans on a portfolio basis (for loans where there is not yet objective evidence of individual impairment) was calculated with account for the average LGD rate on the portfolio. The effect of this approach on the 2014 financial statements amounted to RUB 294 million.

Determination of control over investees

Due to adoption of the new standard IFRS 10 *Consolidated Financial Statements* by the Group since 1 January 2013 (refer to Note 3) the control indicators set out in Note 3 are subject to management’s judgment, which may have a significant effect on the Group’s interests in structured companies.

Mortgage agents, established for the purpose of securitization, sponsored by the Group under its securitization program are run according to pre-determined criteria that are part of the initial design of the structured company. Outside of the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are required only when receivables in the agents go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the structured companies through its holding of debt securities in them. As a result, the Group concluded that it controls these mortgage agents and they have been consolidated as of 31 December 2014.

Deferred tax

When determining the amount of deferred tax assets which may be recognized in the financial statements, the Group’s management assesses the probability of use of the deferred tax asset. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be used against it. When conducting such an assessment the management takes into account the planned write-off of deferred tax liability, future expected taxable profit, as well as tax planning strategies.

Based on the historical data on income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, the Group’s management considers it possible to use the deferred tax asset recognized in the Group’s financial statements.

(Millions of Russian rubles)

5. Changes in presentation

The following reclassifications are made in the consolidated statement of financial position as of 31 December 2013 to present them in accordance with the form of presentation as of 31 December 2014:

Reclassification item	*As previously reported*	*Reclassification amount*	*As adjusted*
Consolidated statement of financial position			
Assets			
Cash and cash equivalents	17,209	327	17,536
Derivative financial assets	24	(24)	–
Other assets	3,431	(2,732)	699
Investment property	–	954	954
Intangible assets	–	511	511
Deferred income tax asset	–	516	516
Other financial assets	–	448	448
Liabilities			
Derivative financial liabilities	35	(35)	–
Other liabilities	896	(118)	778
Other financial liabilities	–	153	153

Management decided not to present the consolidated statement of financial position as of 31 December 2012, as the effect of the above reclassification to the presentation of the financial position of the Group is considered not significant.

6. Segment information

For management purposes, the Group is organized into three operating segments based on products and services as follows:

- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals.
- Corporate – comprises lending to corporate clients, individual entrepreneurs and small and medium size entities, including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers, individual entrepreneurs and small and medium size entities.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.

Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements.

The Group allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Group allocates in its internal management accounting system major part of the Group's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses (e.g., property and equipment, intangible assets, investment property, long-term borrowings from shareholders and the Group's equity) that were not allocated have been presented as "unallocated" in the table below.

Segment liabilities comprise liabilities and equity presented as "unallocated".

"Income/(expense) from other segments" is defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues and expenses attributable to the assets and liabilities of the respective segment.

(Millions of Russian rubles)

6. Segment information (continued)

The Group allocates expenses on attraction and servicing of Bank's clients/products related to cost centers, which activities clearly correspond to segment activities. The remaining expense items (general banking expenses) are expenses related to management, maintenance and servicing of the Bank's infrastructure and they are not allocated.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2014:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Segment assets	56,937	90,415	65,441	27,509	**240,302**
Segment liabilities	44,711	76,052	76,044	43,495	**240,302**
Profit or loss items					
Interest income	6,139	8,497	3,953	3	**18,592**
Interest expense	(2,177)	(2,525)	(4,947)	(1,402)	**(11,051)**
Income/(expense) from other segments	(1,854)	(1,679)	2,123	1,410	**–**
Net interest income	**2,108**	**4,293**	**1,129**	**11**	**7,541**
Commission and dealing income	407	962	(1,550)	371	**190**
Operating income net of allowance	**2,515**	**5,255**	**(421)**	**382**	**7,731**
Operating expenses	(2,006)	(1,160)	(138)	(1,585)	**(4,889)**
Net income before allowance and tax	**509**	**4,095**	**(559)**	**(1,203)**	**2,842**
Allowance for loan impairment	(339)	(436)	–	–	**(775)**
Income tax expense	–	–	–	(186)	**(186)**
Net income	**170**	**3,659**	**(559)**	**(1,389)**	**1,881**

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2013:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Segment assets	46,334	40,840	36,344	6,039	**129,557**
Segment liabilities	25,727	31,474	45,207	27,149	**129,557**
Profit or loss items					
Interest income	5,177	3,579	961	–	**9,717**
Interest expense	(1,670)	(764)	(2,752)	(552)	**(5,738)**
Income/(expense) from other segments	(2,472)	(1,227)	3,293	406	**–**
Net interest income	**1,035**	**1,588**	**1,502**	**(146)**	**3,979**
Commission and dealing income	362	856	709	33	**1,960**
Operating income net of allowance	**1,397**	**2,444**	**2,211**	**(113)**	**5,939**
Operating expenses	(1,738)	(1,336)	(134)	(1,993)	**(5,201)**
Net income before allowance and tax	**(341)**	**1,108**	**2,077**	**(2,106)**	**738**
Allowance for loan impairment	91	(410)	–	–	**(319)**
Income tax expense	–	–	–	(99)	**(99)**
Net income	**(250)**	**698**	**2,077**	**(2,205)**	**320**

(Millions of Russian rubles)

7. Cash and cash equivalents

	31 December 2014	*31 December 2013*
Overnight deposits with other banks and the CBRF	8,500	4,420
Current accounts with other banks	7,209	4,940
Settlement accounts with trading systems	6,803	876
Current accounts with the CBRF	5,028	5,298
Cash on hand	3,366	2,002
Cash and cash equivalents	**30,906**	**17,536**

8. Trading securities

	31 December 2014	*31 December 2013*
Promissory notes	1,739	424
Municipal bonds	481	–
Corporate bonds	122	179
Trading securities	**2,342**	**603**
Corporate bonds	1,654	4,157
Trading securities pledged under repurchase agreements	**1,654**	**4,157**

As at 31 December 2014, corporate bonds were represented by Russian ruble denominated securities issued by top Russian companies (31 December 2013: corporate bonds were represented by Russian ruble denominated securities issued by top Russian companies and banks).

As at 31 December 2014, promissory notes were represented by Russian ruble denominated securities issued by top Russian banks and a Russian company with a discount to face value (31 December 2013: promissory notes were represented by Russian ruble denominated securities issued by top Russian banks with a discount to face value). These securities are traded over-the-counter.

As at 31 December 2014, trading securities with the fair value of RUB 1,358 million or 58% of the total amount of trading securities were represented by promissory notes of one issuer (31 December 2013: trading securities with the fair value of RUB 110 million or 18% of the total amount of trading securities were represented by corporate bonds issued by one issuer).

As of 31 December 2014 trading securities pledged under repurchase agreements with the fair value of RUB 535 million or 32% of the total amount of the trading securities pledged under repurchase agreements were represented by corporate bonds of one issuer (31 December 2013: trading securities pledged under repurchase agreements with the fair value of RUB 332 million or 8% of the total amount of the trading securities pledged under repurchase agreements were represented by corporate bonds of one issuer).

In accordance with amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, the Group reclassified certain financial assets represented by corporate bonds that meet the definition of financial assets held-to-maturity from the trading securities category to the investment securities held-to-maturity category. The Group has an intention and ability to hold these assets for the foreseeable future or until maturity. The assets were reclassified in December 2014 at fair value at the date of reclassification. The impact of reclassification is as follows:

	2014
Fair value at the date of reclassification	1,942
Carrying amount of reclassified assets as at 31 December 2014	1,737
Fair value of reclassified assets as at 31 December 2014	1,684
Fair value loss on reclassified assets, which were recognized before the reclassification for the year ended 31 December 2014	(187)
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2014 if the reclassification had not been made	(53)
Gain recognized after the reclassification in the statement of profit or loss for the year ended 31 December 2014	4
Interest rate effective at the reclassification date	5.2%-10.2%
Cash flows expected to be recovered at the reclassification date	2,607

(Millions of Russian rubles)

8. Trading securities (continued)

The Group reclassified certain financial assets represented by Russian Federation debt securities, municipal bonds and corporate bonds from the trading securities category to the investment securities available-for-sale category at fair value at the date of reclassification. As at 31 December 2014, the fair value of these securities is equal to their carrying amount and amounts to RUB 23,287 million.

9. Reverse repurchase agreements

	31 December 2014	*31 December 2013*
Reverse repurchase agreements with banks	–	3,318
Reverse repurchase agreements with clients	3,975	1,067
Reverse repurchase agreements	**3,975**	**4,385**

As at 31 December 2014, there were no repurchase agreements with banks. As at 31 December 2013, reverse repurchase agreements with banks were represented by the agreements concluded with the related party of the Group and secured with corporate bonds. As at 31 December 2013, the fair value of corporate bonds pledged under reverse repurchase agreements with banks was RUB 3,649 million, out of which the corporate bonds with the fair value of RUB 2,230 million were transferred as a collateral under repurchase agreements.

As at 31 December 2014, reverse repurchase agreements with clients were represented by the agreements concluded with Russian companies, including a related party, which were secured by Russian Federation debt securities and corporate bonds. As at 31 December 2014, the fair value of Russian Federation debt securities and corporate bonds pledged under reverse repurchase agreements with clients was RUB 1,010 million and RUB 3,088 million, respectively, out of which the corporate bonds with the fair value of RUB 2,479 million were transferred as a collateral under repurchase agreements.

As at 31 December 2013, reverse repurchase agreements with clients were represented by the agreements concluded with Russian companies not related to the Group and secured by own promissory notes issued. As at 31 December 2013, the carrying amount of own promissory notes issued pledged under reverse repurchase agreements with clients equaled to RUB 1,071 million.

As at 31 December 2014 and 31 December 2013, collateral for separate reverse repurchase agreements equals to or exceeds the amount of claims.

10. Due from other banks

As at 31 December 2014 and 2013, due from other banks comprised term deposits with other banks in the amount of RUB 12 million and RUB 2,013 million, respectively.

As at 31 December 2014, term deposits with other banks did not include subordinated loans. As at 31 December 2013, term deposits with other banks included a subordinated loan granted to the related party of the Group in the amount of RUB 1,006 million or 50% of total amount of term deposits with other banks.

11. Loans to customers

Loans to customers by class comprise:

	31 December 2014	*31 December 2013*
Loans to legal entities		
Corporate loans	83,222	34,652
Finance lease receivables	1,209	1,029
SME loans	840	2,047
Corporate bonds	26	26
Trade finance	6,301	2,298
Loans to individuals		
Mortgage loans	49,710	39,320
Car loans	2,949	4,191
Cash loans	1,416	896
SME loans	933	1,912
Credit cards	471	487
Gross loans to customers	**147,077**	**86,858**
Less – allowance for impairment	(4,610)	(3,344)
Loans to customers	**142,467**	**83,514**

(Millions of Russian rubles)

11. Loans to customers (continued)

As at 31 December 2014, mortgage loans with the carrying amount of RUB 20,668 million were pledged as collateral for bonds issued by the Group, refer to Note 19 (31 December 2013: mortgage loans with the carrying amount of RUB 17,778 million were pledged as collateral for bonds issued by the Group).

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	At 1 January 2014	*Inflow of reserves at the merger*	*Charge/ (reversal) for the year*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2014*
Loans to legal entities							
Corporate loans	1,682	1,048	435	(24)	(531)	(33)	2,577
Trade finance	1,035	–	33	–	–	–	1,068
SME loans	25	20	(14)	–	–	–	31
Corporate bonds	26	–	–	–	–	–	26
Finance lease receivables	63	–	(7)	–	–	–	56
Loans to individuals							
Mortgage loans	289	148	234	–	(227)	(7)	437
Car loans	21	–	23	–	–	–	44
Credit cards	165	–	39	–	–	–	204
SME loans	24	–	(11)	–	–	–	13
Cash loans	14	97	43	–	–	–	154
Total	**3,344**	**1,313**	**775**	**(24)**	**(758)**	**(40)**	**4,610**

	At 1 January 2013	*Reversal for the year*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2013*
Loans to legal entities						
Corporate loans	1,650	373	(74)	(116)	(151)	1,682
Trade finance	1,019	118	–	(102)	–	1,035
SME loans	164	(10)	–	(110)	(19)	25
Corporate bonds	158	(87)	–	(45)	–	26
Finance lease receivables	62	15	(3)	(11)	–	63
Loans to individuals						
Mortgage loans	517	(113)	–	(111)	(4)	289
Car loans	181	(23)	–	(136)	(1)	21
Credit cards	156	16	–	(1)	(6)	165
SME loans	93	10	–	(74)	(5)	24
Cash loans	–	20	–	(6)	–	14
Total	**4,000**	**319**	**(77)**	**(712)**	**(186)**	**3,344**

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

	31 December 2014	*31 December 2013*
Loans assessed for impairment on portfolio basis	139,941	82,291
Individually determined to be impaired	5,487	3,799
Past due but not impaired	1,649	768
Gross loans to customers	**147,077**	**86,858**
Less – allowance for impairment of loans assessed for impairment on portfolio basis (including past due but not impaired)	(1,219)	(690)
Less – allowance for impairment of loans individually determined to be impaired	(3,391)	(2,654)
Loans to customers	**142,467**	**83,514**

(Millions of Russian rubles)

11. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2014, the Group had a concentration of loans represented by RUB 34,792 million due from the ten largest third party borrowers (23.7% of gross loan portfolio) (2013: RUB 13,990 million or 16.1% of gross loan portfolio). An allowance of RUB 418 million (2013: RUB 1,113 million) was recognized against these loans.

Loans are made principally within Russia in the following industry sectors:

	31 December 2014	*31 December 2013*
Individuals	55,479	46,806
Manufacturing	35,116	16,623
Trade	17,011	11,508
Finance	13,068	2,830
Construction	10,171	5,389
Real estate	9,703	1,581
Services	5,517	1,794
Agriculture	502	–
Other	510	327
Gross loans to customers	**147,077**	**86,858**

During 2014, the Group sold corporate loans carried at RUB 4,795 million, retail loans carried at RUB 320 million (2013: corporate loans carried at RUB 833 million, retail loans carried at RUB 334 million and corporate bonds carried at RUB 132 million) to third parties for a consideration of RUB 4,269 million and 101 million, respectively (2013: RUB 178 million, RUB 272 million and RUB 93 million, respectively). Allowances recognized against the abovementioned loans amounted to RUB 941 million and RUB 248 million, respectively (2013: RUB 656 million, RUB 67 million and RUB 39 million, respectively) The Group has determined that substantially all risks and rewards of the respective loans have been transferred, therefore these loans were derecognized. The respective financial result has been recognized in the consolidated statement of comprehensive income.

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2014 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Finance lease receivables	682	891	**1,573**
Unearned future finance income on finance lease	(117)	(247)	**(364)**
	565	**644**	**1,209**
Less – allowance for impairment	(7)	(49)	**(56)**
Net investments in finance lease	**558**	**595**	**1,153**

The analysis of finance lease receivables at 31 December 2013 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Finance lease receivables	579	657	**1,236**
Unearned future finance income on finance lease	(82)	(125)	**(207)**
	497	**532**	**1,029**
Less – allowance for impairment	(11)	(52)	**(63)**
Net investments in finance lease	**486**	**480**	**966**

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

(Millions of Russian rubles)

12. Investment securities available-for-sale

	31 December 2014	*31 December 2013*
Corporate bonds	3,957	3,743
Russian Federation debt securities	2,603	6,012
Municipal bonds	235	–
Corporate shares	107	142
Investment securities available-for-sale	**6,902**	**9,897**
Corporate bonds	18,361	1,110
Russian Federation debt securities	5,798	–
Municipal bonds	1,661	–
Corporate shares	146	–
Investment securities available-for-sale pledged under repurchase agreements	**25,966**	**1,110**

As at 31 December 2014, corporate bonds were represented by Russian ruble and US dollar denominated securities issued by top Russian companies and banks (31 December 2013: corporate bonds were represented by Russian ruble denominated securities issued by top Russian companies and banks).

As at 31 December 2014, corporate shares were represented by shares of top Russian companies and banks (31 December 2013: corporate shares were represented by shares of top Russian mining company).

As at 31 December 2014, investment securities available-for-sale were represented by bonds of one issuer with the fair value of RUB 2,969 million or 43% of the total amount of investment securities available-for-sale.

As at 31 December 2013, investment securities available-for-sale were represented by corporate bonds of one issuer with the fair value of RUB 1,949 million or 20% of the total amount of investment securities available-for-sale.

As at 31 December 2014, investment securities available-for-sale pledged under repurchase agreements were represented by corporate bonds of one issuer with the fair value of RUB 7,286 million or 28% of the total amount of investment securities available-for-sale. As at 31 December 2013, investment securities available-for-sale pledged under repurchase agreements were represented by corporate bonds of one issuer with the fair value of RUB 1,110 million or 100% of the total amount of investment securities available-for-sale.

In accordance with amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, the Group reclassified certain financial assets represented by Russian Federation debt securities and corporate bonds that meet the definition of financial assets held-to-maturity from the securities available-for-sale category to the investment securities held-to-maturity category. The Group has an intention and ability to hold these assets for the foreseeable future or until maturity. The assets were reclassified in October 2014 at fair value at the date of reclassification. The impact of reclassification is as follows:

	2014
Fair value at the date of reclassification	5,116
Carrying amount of reclassified assets as at 31 December 2014	5,651
Fair value of reclassified assets as at 31 December 2014	5,066
Fair value loss on reclassified assets, which were recognized before the reclassification for the year ended 31 December 2014	(84)
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2014 if the reclassification had not been made	(585)
Gain recognized after the reclassification in the statement of profit or loss for the year ended 31 December 2014	115
Interest rate effective at the reclassification date	3.25%-9.89%
Cash flows expected to be recovered at the reclassification date	7,570

(Millions of Russian rubles)

13. Investment securities held-to-maturity

Investment securities held-to-maturity comprise:

	2014	*2013*
Russian Federation debt securities	978	–
Corporate bonds	167	–
Investment securities held-to-maturity	**1,145**	**–**
Russian Federation debt securities	6,311	–
Corporate bonds	2,096	–
Investment securities held-to-maturity pledged under repurchase agreements	**8,407**	**–**

As at 31 December 2014, corporate bonds were represented by US dollar denominated securities issued by the top Russian mining company.

As at 31 December 2014, investment securities held-to-maturity pledged under repurchase agreements included corporate bonds of one issuer with the amortized cost of RUB 952 million or 11% of the total amount of investment securities available-for-sale.

14. Investment property

As at 31 December 2014, investment property comprised land plots and buildings with the residual value of RUB 8,942 million. As at 31 December 2013, investment property comprised buildings with the residual value of RUB 954 million.

As at 31 December 2014, units of Closed-End Real Estate Unit Investment Fund “Long-Term Investments – Petrovsky Island” (the “Fund”) were recognized in the Bank’s balance sheet. As at the reporting date, the only significant asset included in property of the Fund are land plots located on Petrovsky Island, Saint Petersburg.

Before the merger of Absolut Bank and KIT Finance Investment Bank (18 April 2014), the abovementioned land plots were accounted for in the consolidated financial statements of KIT Finance Investment Bank as investment property items recognized at fair value in accordance with IAS 40 *Investment Properties*. The fair value of the land plots as at 31 December 2013 was measured by an independent appraiser, who has a recognized qualification and recent experience in valuation of similar property in terms of its location and category.

As the accounting policy of the Group provides for using the cost model to account for investment property, and assets and liabilities of KIT Finance Investment Bank were recognized at their carrying amounts recorded in the financial statements of the merged bank at the moment of merger, the land plots of Closed-End Real Estate Unit Investment Fund “Long-Term Investments – Petrovsky Island” are recognized at their cost in the consolidated statement of financial position.

Subsequently, this item of investment property will be accounted for at cost less any accumulated impairment losses under the Group’s accounting policy.

(Millions of Russian rubles)

14. Investment property (continued)

Movements in investment property are as follows:

	2014	*2013*
Cost		
1 January	**1,072**	**1,037**
Additions (subsequent expenditure)	–	38
Proceeds from the merger	8,299	–
Disposals	(97)	(3)
31 December	**9,274**	**1,072**
Accumulated depreciation		
1 January	**111**	**89**
Depreciation/Amortization charge	23	22
Disposals	–	–
31 December	**134**	**111**
Accumulated impairment		
1 January	**7**	**–**
Impairment recognized in retained earnings at the merger	186	–
Impairment	5	7
31 December	**198**	**7**
Net book value		
1 January	**954**	**948**
31 December	**8,942**	**954**

15. Property and equipment and intangible assets

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Other*	*Total property and equipment*	*Intangible assets*
Cost						
31 December 2013	**2,851**	**50**	**1,367**	–	**4,268**	**840**
Additions	1	1	106	14	**122**	221
Proceeds from the merger	–	51	11	220	**282**	18
Impairment	–	(8)	(1)	–	**(9)**	–
Disposals	–	(53)	(52)	–	**(105)**	(37)
31 December 2014	**2,852**	**41**	**1,431**	**234**	**4,558**	**1,042**
Accumulated depreciation						
31 December 2013	**473**	**48**	**1,137**	–	**1,658**	**329**
Depreciation charge	72	26	108	14	**220**	162
Disposals	–	(43)	(47)	–	**(90)**	(37)
31 December 2014	**545**	**31**	**1,198**	**14**	**1,788**	**454**
Net book value						
31 December 2013	**2,378**	**2**	**230**	**–**	**2,610**	**511**
As at 31 December 2014	**2,307**	**10**	**233**	**220**	**2,770**	**588**

(Millions of Russian rubles)

15. Property and equipment and intangible assets (continued)

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Total*
Cost				
31 December 2012	**2,850**	**63**	**1,310**	**4,223**
Additions	1	–	112	**113**
Disposals	–	(13)	(55)	**(68)**
31 December 2013	**2,851**	**50**	**1,367**	**4,268**
Accumulated depreciation				
31 December 2012	**400**	**59**	**1,074**	**1,533**
Depreciation charge	73	2	113	**188**
Disposals	–	(13)	(50)	**(63)**
31 December 2013	**473**	**48**	**1,137**	**1,658**
Net book value				
31 December 2012	**2,450**	**4**	**236**	**2,690**
31 December 2013	**2,378**	**2**	**230**	**2,610**

As at 31 December 2014 property and equipment contain fully depreciated assets in the amount of RUB 1,871 million (31 December 2013: RUB 952 million).

16. Other assets

	31 December 2014	*31 December 2013*
Other financial assets		
Settlements	958	143
Precious coins	167	256
Restricted cash	22	25
Derivative financial assets	97	24
Total other financial assets	**1,244**	**448**
Other assets		
Property to transfer to leasing	346	21
Prepayments	226	240
Inventories	153	–
Foreclosed assets	87	314
VAT on leasing operations	75	2
Prepaid taxes other than income tax	56	39
Accrued income	6	3
Due from employees	1	1
Other	100	79
Other assets	**1,050**	**699**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

(Millions of Russian rubles)

16. Other assets (continued)

As at 31 December 2014 and 2013, the Group has positions in the following types of derivatives:

	31 December 2014			31 December 2013		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Interest rate contracts						
Swaps – foreign counterparty	–	–	–	218	–	(8)
Securities contracts						
Equity warrants	98	–	–	57	–	–
Debt forwards	–	38	–	–	–	–
Foreign exchange contracts						
Swaps – foreign counterparty	1,857	–	(42)	550	–	(1)
Swaps – domestic counterparty	1,243	44	(3)	7,531	3	(26)
Forwards – foreign counterparty	14	–	–		–	–
Forwards – domestic counterparty	1,408	15	(161)	2,312	21	–
Total derivative assets/liabilities		**97**	**(206)**		**24**	**(35)**

Foreign and domestic counterparty in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

17. Due to other banks

	31 December 2014	31 December 2013
Repurchase agreements	36,583	6,367
Term deposits and loans	12,351	6,221
Trade finance	881	683
Current accounts and overnight placements of other banks	20	745
Due to other banks	**49,835**	**14,016**

As at 31 December 2014, repurchase agreements were represented by agreements with the CBRF and the central counterparty (31 December 2013: only with the CBRF). As at 31 December 2014, securities pledged under these agreements included bonds and shares with the fair value of RUB 32,468 million and 146 million, respectively, and corporate bonds with fair value of RUB 2,479 million received based on the first part of reverse repurchase agreements (without initial recognition). As at 31 December 2013, securities pledged included corporate bonds with the fair value of RUB 5,267 million and corporate bonds transferred to the Group under the first part of reverse repurchase agreements (without initial recognition) with the fair value of RUB 2,230 million.

As at 31 December 2014, term deposits and loans due to other banks included short-term funds, placed by the CBRF and other banks, comprising 41% and 59% respectively of total term deposits and loans due to other banks. As at 31 December 2013 term deposits and loans due to other banks included short-term funds, placed by the related party of the Group and the CBRF, comprising 37% and 24% respectively of total term deposits and loans due to other banks.

(Millions of Russian rubles)

17. Due to other banks (continued)

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment. Funds mature in 2015 and have interest rates from 0.88% to 4.73% per annum as at 31 December 2014 (31 December 2013: from 0.88% to 4.74% per annum).

During 2013, the Group made an early repayment of loans from one foreign bank, granted to the Group under credit line facility agreement for the special purposes, such as mortgage lending programs and programs for development of small business in the private sector in the Russian Federation.

18. Customer accounts

	31 December 2014	*31 December 2013*
State and public organizations		
Current accounts	2	4
Legal entities		
Current accounts	16,061	11,903
Term deposits	72,898	25,598
Individuals		
Current accounts	4,371	3,947
Term deposits	40,089	21,833
Customer accounts	**133,421**	**63,285**

As at 31 December 2014, customer accounts of RUB 24,098 million or 18.1% (of total customer accounts) were due to the ten largest third party customers (31 December 2013: RUB 11,582 million or 18.3%).

An analysis of customer accounts by economic sector follows:

	31 December 2014	*31 December 2013*
Individuals	44,460	25,780
Financial services	33,870	11,797
Transport	12,133	4,648
Mining	9,096	–
Trade	8,291	6,563
Services	4,376	2,516
Manufacturing	4,119	2,056
Construction / real estate	3,469	5,630
Insurance	3,433	2,077
Oil and gas	1,787	134
Telecom	1,419	100
Agriculture	38	28
Other	6,930	1,956
Customer accounts	**133,421**	**63,285**

Included in term deposits are deposits of individuals in the amount of RUB 40,089 million (2013: RUB 21,833 million). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

As at 31 December 2014, customer accounts included deposits of RUB 1,607 million representing collateral for irrevocable liabilities under import letters of credit (31 December 2013: RUB 1,153 million).

(Millions of Russian rubles)

19. Debt securities issued

	31 December 2014	*31 December 2013*
Bonds secured by mortgage loans	12,797	14,899
Bonds	9,959	14,977
Promissory notes	6,954	3,171
Debt securities issued	**29,710**	**33,047**

In December 2014, the Group issued bonds secured by mortgage loans on the Russian stock exchange with the nominal amount of RUB 5,922 million. Bonds have effective interest rate of 10.50% per annum and mature in 2042 with an option of early redemption quarterly, starting from May 2015. As at 31 December 2014, the bonds were carried at RUB 2,974 million (31 December 2013: null).

In December 2013, the Group issued bonds secured by mortgage loans on the Russian stock exchange with the nominal amount of RUB 6,909 million. Bonds have effective interest rate of 9.55% per annum and mature in 2041 with an option of early redemption quarterly, starting from May 2014. As at 31 December 2014, the bonds were carried at RUB 4,357 million (31 December 2013: RUB 6,890 million).

In March 2013, the Group issued bonds secured by mortgage loans on the Russian stock exchange with the nominal amount of RUB 9,584 million. Bonds have effective interest rate of 9.90% per annum and mature in 2040 with an option of early redemption quarterly, starting from August 2013. As at 31 December 2014, the bonds were carried at RUB 5,466 million (31 December 2013: RUB 8,009 million).

In May 2013, the Group issued bonds on the Russian stock exchange with the nominal amount of RUB 5,000 million. Bonds have effective interest rate of 9.66% per annum and mature in 2018 with an option of early redemption in November 2014. As at 31 December 2014, the bonds were carried at RUB 4,938 million (31 December 2013: RUB 5,030 million).

In March and December 2012, the Group issued two tranches of the market bonds on the Russian stock exchange with the nominal amount of RUB 8,000 million. Bonds have effective interest rates from 9.6% to 11.2% per annum and mature in 2015 with an option of early redemption in March and June 2014. As at 31 December 2014, the bonds were carried at RUB 4,670 million (31 December 2013: RUB 8,091 million).

In August 2011, the Group issued bonds on the Russian stock exchange with the nominal amount of RUB 1,800 million. Bonds have effective interest rate of 11.1% per annum and mature in 2016 with an option of early redemption in July 2014. As at 31 December 2014, the bonds were carried at RUB 351 million (31 December 2013: RUB 1,856 million).

Promissory notes are represented by debt securities issued by the Group in Russian Rubles and foreign currencies with a discount to face value or payment of interest upon bill presentation.

20. Subordinated debt

	31 December 2014	*31 December 2013*
USD 20 million subordinated loan	–	221
Subordinated debt	**–**	**221**

In August 2006, the Group entered into a subordinated loan agreement with a foreign financial institution for the amount of USD 20 million. The loan was to be repaid in 6 semi-annual installments starting from 15 February 2012 and had a floating interest rate of six-months LIBOR + 3.95% per annum. As at 31 December 2013, the interest rate was 4.41% per annum.

During 2014, the Group early repaid a subordinated loan in the amount of USD 20 million, received in August 2006 from a foreign financial institution.

(Millions of Russian rubles)

21. Other liabilities

	31 December 2014	*31 December 2013*
Other financial liabilities		
Accounts payable	354	118
Derivative financial liabilities	206	35
Total other financial liabilities	**560**	**153**
Other liabilities		
Accrued bonuses and unused vacations including social security costs	677	245
Provisions for guarantees and commitments	135	213
Deferred income	94	53
Finance lease payments received in advance	96	20
Other accrued expenses	78	48
Taxes payable other than income tax	55	138
provision for legal claims	11	61
Income tax payable	3	–
Total other liabilities	**1,149**	**778**

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*
31 December 2012	**4**	**55**
Utilization	(6)	–
Charge	63	158
31 December 2013	**61**	**213**
Utilization	(2)	–
Reversal	(48)	(78)
31 December 2014	**11**	**135**

22. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares in issue (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*	*Share premium*
1 January 2013	**184.5**	**1,845**	**610**	**2,455**	**14,341**
31 December 2013	**184.5**	**1,845**	**610**	**2,455**	**14,341**
Share issue	69.7	697	–	**697**	–
31 December 2014	**254.2**	**2,542**	**610**	**3,152**	**14,341**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL.

In April, due to the Bank's reorganization in the form of a merger with KIT Finance Investment Bank, 69,705,428 ordinary shares with a nominal value of RUB 10 have been issued additionally.

(Millions of Russian rubles)

23. Commitments and contingencies

Operating environment

In 2014, the Russian economy was much affected by the collapse of crude oil prices and the Russian ruble devaluation as well as by the sanctions imposed against Russia by a number of countries. These trends have resulted in the reduction of capital availability, increase in cost of capital, inflation growth and uncertainty regarding future economic growth, which could negatively affect the Group's financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, including compliance with the prudential ratios.

Legal

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

As at 31 December 2014, the Group was engaged in a number of litigation proceedings. Provision of RUB 11 million has been made as it is likely that such an amount of loss will occur (Refer to Note 21).

Taxation

The Group's business activity is carried out in the territory of the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Therefore, the Group management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal regulatory authorities at any time in the future. The tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation, in performing tax reviews and assessing additional taxes. It is therefore possible that transactions, activities and tax accounting methods of the Group that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2014, management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments

As at 31 December 2014 and 2013, the Group had no contractual capital expenditure commitments in respect of premises and equipment and investment property.

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2014	*31 December 2013*
Not later than 1 year	125	79
Later than 1 year and not later than 5 years	44	122
Later than 5 years	37	43
Total operating lease commitments	**206**	**244**

(Millions of Russian rubles)

23. Commitments and contingencies (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments of the Group are as follows:

	31 December 2014	***31 December 2013***
Undrawn credit lines	38,802	48,435
Guarantees issued	20,987	14,711
Import letters of credit	2,093	2,396
	61,882	**65,542**
Less: provisions	(135)	(213)
Total credit related commitments	**61,747**	**65,329**

Fiduciary assets

The Group provides depositary services to its customers. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group.

Trust activities

The assets under management are not reported on the Group's consolidated statement of financial position as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programs. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

	31 December 2014	***31 December 2013***
Corporate bonds	16	131
Cash at brokers	17	20
Corporate shares	15	36
Total assets under management	**48**	**187**

(Millions of Russian rubles)

24. Interest income and expense

	2014	*2013*
Interest income		
Loans to customers	14,591	8,748
Investment securities available-for-sale	1,357	590
Reverse repurchase agreements	367	20
Due from other banks	259	115
Investment securities held-to-maturity	93	–
Current accounts with other banks	3	2
	16,670	**9,475**
Debt trading securities	1,922	242
Interest income	**18,592**	**9,717**
Interest expense		
Term deposits of legal entities	3,500	1,248
Debt securities issued	2,713	2,038
Term deposits of individuals	2,179	1,672
Repurchase agreements	1,985	–
Term placements of other banks	473	745
Subordinated debt	200	28
Current accounts of other banks	1	7
Interest expense	**11,051**	**5,738**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2014, comprised RUB 24 million (2013: RUB 77 million). Refer to Note 11.

25. Fee and commission income and expense

	2014	*2013*
Settlement transactions	352	388
Guarantees issued	286	130
Commission on plastic cards settlements	235	235
Cash transactions	157	166
Acting as currency control agent	102	100
Safe deposits rental income	38	40
Letters of credit	26	32
Commission on cash collection	7	9
Asset management	2	6
Other	122	19
Fee and commission income	**1,327**	**1,125**
Plastic card	98	86
Settlement transactions	50	47
Transactions with securities	22	8
Cash transactions	16	11
Guarantees	14	7
Letters of credit	2	6
Other	116	7
Fee and commission expense	**318**	**172**

(Millions of Russian rubles)

26. Net losses from operations with securities

	2014	*2013*
Investment securities available-for-sale:		
- Corporate bonds	(312)	(4)
- Corporate shares	49	–
- Regional government and municipal bonds	(26)	–
- Government bonds	(320)	(1)
Trading securities:		
- Corporate bonds	(609)	(2)
- Promissory notes	(15)	1
- Regional government and municipal bonds	(19)	–
- Government bonds	(664)	3
Other	(8)	–
Net losses from operations with securities	**(1,924)**	**(3)**

27. Net gains/(losses) from operations with derivatives

	2014	*2013*
Net gains/losses from operations with swaps and forwards on foreign currency	2,608	(375)
Net losses from operations with interest rate swaps	(20)	(1)
Net losses from operations with derivatives	**2,588**	**(376)**

28. Net other income

	2014	*2013*
Net income from activity of non-financial entities	172	–
Rental income	125	39
Income from operations with precious coins	4	2
Other income/(expense)	59	(14)
Net other income	**360**	**27**

Rental income received from investment property for the year ended 31 December 2014 amounted to RUB 23 million (2013: RUB 36 million).

29. Personnel, administrative and other operating expenses

	2014	*2013*
Fixed wages and salaries, bonuses and unused vacations	2,644	2,585
Social security costs	529	555
Severance payments	33	84
Other employee benefits	33	39
Personnel expenses	**3,239**	**3,263**
Taxes other than on income	230	227
Depreciation of premises and equipment	220	188
Other expenses related to premises and equipment	210	186
Amortization of software	162	122
Advertising and marketing services	161	195
IT expenses	157	209
Contribution to the state deposit insurance system	144	103
Rent	129	109
Professional services	109	72
Communication expenses	73	74
Net loss from operations with foreclosed assets	40	57
Security services	33	48
Business trip expenses	26	22
Depreciation of investment property	23	22
Mailing and postal services	13	12
Personnel related expenses	12	19
Provision for impairment of investment property and other non-current assets	9	7
Other	64	108
Administrative and other operating expenses	**1,815**	**1,780**

(Millions of Russian rubles)

30. Taxation

The corporate income tax expense/(benefit) comprise:

	2014	*2013*
Current tax charge	186	99
Income tax expense/(benefit)	**186**	**99**

Russian legal entities must file individual tax declarations with the tax authorities. The tax rate for companies (including banks) was 20% for 2014 and 2013. In 2014 and 2013, the corporate income tax rate applicable to interest (coupon) income on state bonds and mortgage-backed bonds was 15%, while the corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. Dividends are subject to Russian income tax at a standard rate 9%, which in certain circumstances can be decreased to 0%. Income of a mortgage agent received in course of chartered activities is not subject to income tax.

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

	2014	*2013*
Profit before tax	**2,067**	**419**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**413**	**84**
Change in unrecognized deferred tax assets	(250)	3
State securities income taxed at different rates	(54)	(31)
Non-deductible expenses less income	71	37
Other non-temporary differences	6	6
Income tax expense	**186**	**99**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	31 December 2012	*In the profit or loss*	*In other comprehensive income*	*31 December 2013*	*Merger of banks*	*In the profit or loss*	*In other comprehensive income*	*31 December 2014*
Tax effect of deductible temporary differences								
Unutilized tax losses (begin to expire in 2018)	445	151	–	596	2,000	384	–	2,980
Deferred income / accrued expenses	356	(180)	–	176	38	21	–	235
Effective interest rate accrual	108	(46)	–	62	(52)	413	–	423
Allowance for loan impairment and other provisions	–	9		9	–	(9)	–	–
Securities	–	5	2	7	–	(7)	–	–
Derivatives	–	1	–	1	–	(1)	–	–
Deferred tax asset, gross	**909**	**(60)**	**2**	**851**	**1,986**	**801**	–	**3,638**
Unrecognized deferred tax asset	(232)	(3)	–	(235)	(2,031)	250	(56)	(2,072)
Deferred tax asset	**677**	**(63)**	**2**	**616**	**(45)**	**1,051**	**(56)**	**1,566**
Tax effect of taxable temporary differences								
Property and equipment	(91)	(9)	–	(100)	5	82	–	(13)
Allowance for loan impairment and other provisions	(72)	72	–	–	40	(298)	–	(258)
Securities	–	–	–	–	–	(835)	56	(779)
Deferred tax liability	**(163)**	**63**	**–**	**(100)**	**45**	**(1,051)**	**56**	**(1,050)**
Deferred tax asset, net	**514**	**–**	**2**	**516**	**–**	**–**	**–**	**516**

As at 31 December 2014, the Group has RUB 2,980 million of tax losses carried forwards which start to expire in 2018, if not utilised (31 December 2013: RUB 596 million).

(Millions of Russian rubles)

31. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing soundness and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk (both trading and non-trading) and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process and so-called 'risk scans'.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committees

The Risk Committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions. The Risk Committees of the Group include:

- Main Credit Committee;
- Small Credit Committee;
- Credit Committee of Retail business;
- Assets and Liabilities Committee;
- Problem loans Management Committee.

Risk Management

The "Risks" Domain is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Compliance

Compliance function in the Group is performed by a number of units involved in the process in accordance with regulations approved by the Board of Directors and is particularly dedicated to comprehensive control in the meaning of identification, assessment and analysis of the risks linked to the following domains:

- Anti-money laundering and counter – terrorism financing;
- Investor protection, i.e. market abuse (insider trading and market manipulation), transactions with financial instruments including personal transactions and incompatibility of mandates, conflicts of interests, interests of borrowers;
- Data protection, including personal data, banking secrecy, duty of confidentiality etc.;
- Ethics and anti-fraud fighting.

Asset and Liability Management Department

Asset and Liability Management Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity and funding risks of the Group.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee assists the Board of Directors. It does this by supervising, on behalf of the Board, the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit, Risk and Compliance Committee also oversees the company's processes to comply with laws and regulations.

(Millions of Russian rubles)

31. Risk management (continued)

Risk management structure (continued)

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk Measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For the purposes of managing market risk (both trading and non-trading) the Group's statement of financial position was virtually split into two parts: the Banking Book and the Trading Book.

Trading book – includes the Group's proprietary positions in financial instruments which are intentionally acquired for short-term resale and/or which are taken on by the Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices.

Banking (non-trading) book – includes everything, except for the assets and liabilities of the Trading book, both financial assets and liabilities and financial commitments and contingencies.

The split of the books reflects not only the split of the items in statement of financial position, but also the risks and the limits for them. Within the Banking book all the market risks are minimized.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. On a monthly basis this information is presented to the Management. Audit, Risk and Compliance Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on all relevant risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies rates.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive Risk Concentration

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

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

(Millions of Russian rubles)

31. Risk management (continued)

Credit risk

The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

Credit risk management in the Bank is carried out by the "Risks" Domain subordinated to the Deputy Chairman of the Board responsible for the risk management. The following units of the "Risks" Domain are involved in credit risk management: Credit Committee of Retail business responsible for review of corporate borrowers' risks; Retail Lending Department responsible for review of retail clients' risks; Counterparties' and Issuers' Risks Division and Aggregate Risks Department covering portfolio risks review, reporting, modeling and credit risks methodology. The above mentioned units serve as the second line of credit risk management. The functions of the first line are assigned to the business-units.

Individual credit limits (per borrower, or groups of borrowers) are set in the Group by the Credit committees (collegial bodies) in accordance with the approved competences.

In 2014, the Group had the following committees whose competence included setting individual credit risk limits:

- Main Credit Committee (major areas of competence cover review and approval of any credit limits and approval of limits for transactions with banking counterparties);
- Small Credit Committee (major areas of competence cover review and approval of credit limits up to RUB 600 million for transactions with corporate clients);
- Credit Committee of Retail business and SME (areas of competence cover review and approval of all credit limits for transactions with retail and SME clients).

Also Bank's employees have individual powers for approval of credit limits on Retail clients, delegated by the Credit Committee of Retail business.

All the committees operate at the Head office of the Group.

A decision on credit risk limits is taken on the basis of analyzing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both static and dynamic. When analyzing financial position of individuals, the Group pays special attention to confirmation of the borrower's claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. All information on material risks relating to the customers whose credit status is deteriorating is timely analyzed by the management.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Corporate borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

The Group accepts the following assets for pledge as collateral: residential and non-residential properties, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the Group's revenue generating or asset holding companies are accepted as additional collateral for loans. The Group usually uses a combination of different types of collateral and applies certain discounts to the value of collateral pledged. Mortgage pledge under a risk of loss or damage is insured by one of the insurance companies accredited by the Group.

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

Credit risk for financial commitments and contingencies is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial assets through established credit approvals, risk control limits and monitoring procedures.

The Group implements on a revolving basis methodological principles and procedures focused on credit risk measurement, controlling and risk mitigation.

(Millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The Group analyses the credit quality of debt securities and counterparties in transactions on financial markets based on analysis of the companies' (groups of companies) financial statements, as well as international ratings of the issuers.

For the purpose of credit risk restriction the Group implemented the system of limits, which allows to control credit risk for a particular issuer/counterparty or a group of counterparties/issuers.

In addition to the above mentioned limits the Group sets portfolio limits for investments in securities and transactions on financial markets.

As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA – the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA – differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A – more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB – exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB – less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B – more vulnerable to nonpayment than obligations rated 'BB', but the obligator currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Analysis by international ratings of debt investment securities available-for-sale, debt trading securities and due from other banks outstanding at 31 December 2014 and 2013 is as follows:

	31 December 2014				*31 December 2013*			
	Debt trading securities	***Debt investment securities available-for-sale***	***Debt investment securities held-to-maturity***	***Due from other banks***	***Debt trading securities***	***Debt investment securities available-for-sale***	***Debt investment securities held-to-maturity***	***Due from other banks***
BBB+ to BBB-	1,794	26,117	9,552	10	2,770	9,899	–	1,007
BB+ to BB-	2,196	5,922	–	2	1,880	–	–	–
B+ to B-	–	576	–	–	110	–	–	1,006
Unrated	6	–	–	–	–	966	–	–
Total	**3,996**	**32,615**	**9,552**	**12**	**4,760**	**10,865**	**–**	**2,013**

The credit quality of loans to customers is managed by the Group based on credit ratings set in accordance with internal PD model. PD model was applied by the Group in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

(Millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

Probability of Default (PD) – is the probability of insolvency of the counterparty for a specified period. In the practice of the Group the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD-rating) – is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale.

The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*
1	Up to 0.1
2	from 0.1 to 0.2
3	from 0.2 to 0.4
4	from 0.4 to 0.8
5	from 0.8 to 1.6
6	from 1.6 to 3.2
7	from 3.2 to 6.4
8	from 6.4 to 12.8
9	from 12.8 to 100
10	100
11	100
12	100

The PD-ratings 10, 11 and 12 are not calculated using the PD-model, but are assigned according to definition of default, non-performing and uncollectable loans approved by the Bank.

The table below shows the summarized credit quality of loans to customers based on PD ratings as at 31 December 2014.

	Neither past due nor impaired loans									*Loans past due but not*	*Individually Impaired loans*	
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Unrated*	*impaired*	*(10-12)*	*Total*
Corporate loans	–	590	3,317	5,015	11,395	26,310	19,599	13,611	451	251	2,683	**83,222**
Trade finance	–	–	–	91	401	4,806	–	–	–	–	1,003	**6,301**
SME loans	–	10	94	262	348	5	–	–	44	25	52	**840**
Finance lease receivables	82	22	–	80	380	171	177	126	3	–	168	**1,209**
Corporate bonds	–	–	–	–	–	–	–	–	–	–	26	**26**
Mortgage loans	19,439	–	98	22,791	13	2,728	2	2,225	31	1,283	1,100	**49,710**
Car loans	1,170	–	1,208	78	141	90	68	93	–	34	67	**2,949**
SME loans	–	–	36	390	389	2	1	–	108	4	3	**933**
Credit cards	–	–	–	112	–	87	–	41	–	19	212	**471**
Cash loans	–	–	–	–	–	–	–	–	1,210	33	173	**1,416**
Total	**20,691**	**622**	**4,753**	**28,819**	**13,067**	**34,199**	**19,847**	**16,096**	**1,847**	**1,649**	**5,487**	**147,077**

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as at 31 December 2013.

	Neither past due nor impaired loans									*Loans past due but not*	*Individually Impaired loans*	
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Unrated*	*impaired*	*(10-12)*	*Total*
Corporate loans	298	100	1,061	4,178	8,316	6,858	6,436	5,360	–	126	1,919	**34,652**
Trade finance	–	–	–	126	1,056	–	49	64	–	–	1,003	**2,298**
SME loans	–	17	272	822	796	56	–	–	62	9	13	**2,047**
Finance lease receivables	141	11	23	276	238	92	11	24	–	–	213	**1,029**
Corporate bonds	–	–	–	–	–	–	–	–	–	–	26	**26**
Mortgage loans	8,856	–	55	24,153	24	3,747	7	1,501	–	552	425	**39,320**
Car loans	2,062	–	1,383	204	243	79	68	97	–	36	19	**4,191**
SME loans	–	3	112	819	851	4	1	1	120	–	1	**1,912**
Credit cards	–	–	–	153	1	93	1	43	2	25	169	**487**
Cash loans	–	–	–	–	–	–	–	–	865	20	11	**896**
Total	**11,357**	**131**	**2,906**	**30,731**	**11,525**	**10,929**	**6,573**	**7,090**	**1,049**	**768**	**3,799**	**86,858**

(Millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans to customers

	Less than 30 days	*31 to 90 days*	*91 to 365 days*	*More than 365 days*	*Total 2014*
Corporate loans	251	–	–	–	**251**
SME loans	29	–	–	–	**29**
Mortgage loans	1,218	46	19	–	**1,283**
Car loans	33	1	–	–	**34**
Credit cards	19	–	–	–	**19**
Cash loans	32	1	–	–	**33**
Total	**1,582**	**48**	**19**	**–**	**1,649**

	Less than 30 days	*31 to 90 days*	*More than 365 days*	*Total 2013*
Corporate loans	126	–	–	**126**
SME loans	7	2	–	**9**
Mortgage loans	528	14	10	**552**
Car loans	34	2	–	**36**
Credit cards	25	–	–	**25**
Cash loans	20	–	–	**20**
Total	**740**	**18**	**10**	**768**

Collateral and other credit enhancements

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount applied to these prices is from 20 to 50%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of carrying amounts, warehouse accounting prices, etc. with more substantial discounts. For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in general less than the discounted value of collateral, if not decided otherwise. Credit cards loans and the majority of consumer loans are not collateralized.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

Allowances assessed on portfolio basis

Allowances are assessed on portfolio basis for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The assessment on portfolio basis takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

The geographical concentration of the Group's financial assets and liabilities is set out below:

	31 December 2014				*31 December 2013*			
	Russia	***OECD***	***Other***	***Total***	***Russia***	***OECD***	***Other***	***Total***
Assets								
Cash and cash equivalents	27,592	3,313	1	**30,906**	14,165	3,369	2	**17,536**
Mandatory cash balances with the Central Bank of the Russian Federation	1,416	–	–	**1,416**	604	–	–	**604**
Trading securities	2,342	–	–	**2,342**	603	–	–	**603**
Trading securities pledged under repurchase agreements	1,494	–	160	**1,654**	4,157	–	–	**4,157**
Reverse repurchase agreements	3,975	–	–	**3,975**	4,385	–	–	**4,385**
Due from other banks	10	2	–	**12**	1,938	75	–	**2,013**
Loans to customers	139,175	3,136	156	**142,467**	83,514	–	–	**83,514**
Investment securities available-for-sale	6,703	176	23	**6,902**	9,897	–	–	**9,897**
Investment securities available-for-sale pledged under repurchase agreements	24,279	1,687	–	**25,966**	1,110	–	–	**1,110**
Investment securities held-to-maturity	978	167	–	**1,145**	–	–	–	**–**
Investment securities held-to-maturity pledged under repurchase agreements	6,431	1,976	–	**8,407**	–	–	–	
Other financial assets	1,244	–	–	**1,244**	448	–	–	**448**
	215,639	**10,457**	**340**	**226,436**	**120,821**	**3,444**	**2**	**124,267**
Liabilities								
Due to other banks	46,970	2,845	20	**49,835**	12,892	1,124	–	**14,016**
Due to customers	131,354	1,671	396	**133,421**	61,800	1,236	249	**63,285**
Debt securities issued	29,710	–	–	**29,710**	33,047	–	–	**33,047**
Subordinated debt	–	–	–	**–**	–	221	–	**221**
Other financial liabilities	517	43	–	**560**	144	9	–	**153**
	208,551	**4,559**	**416**	**213,526**	**107,883**	**2,590**	**249**	**110,722**
Net position	**7,088**	**5,898**	**(76)**	**12,910**	**12,938**	**854**	**(247)**	**13,545**
Financial commitments and contingencies	**59,726**	**2,016**	**5**	**61,747**	**64,062**	**1,267**	**–**	**65,329**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. To limit this risk, the Group maintains sustainable funding base comprising of term deposits of legal entities and individuals and debt securities issued. The Group invests funds to the diversified portfolios of liquid assets to be able to easily meet unforeseen liquidity needs.

The management also manages assets taking into account the liquidity concept and daily monitoring of future cash flows. This incorporates an assessment of expected cash flows and the availability of high quality collateral which could be used to secure additional funding, if required.

(Millions of Russian rubles)

31. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed based on certain liquidity ratios established by the CBRF and internal regulations of the Group, including liquidity stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and cash equivalents and bonds of high quality Russian issuers.

- The Group maintains a required level of cash and cash equivalents to ensure continuous operations and solvency of the Group.
- Banking (non-trading) portfolio comprising of bonds of high quality Russian issuers is a liquidity reserve which, if required, can be used as collateral under transactions with the CBRF, or realised shortly with a minimum discount.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013, based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Due to other banks	46,543	2,480	1,601	–	**50,624**
Foreign exchange derivative contracts					
- Contractual amounts payable	2,838	279	–	–	**3,117**
- Contractual amounts receivable	(2,679)	(269)	–	–	**(2,948)**
Due to customers	68,914	47,074	23,752	113	**139,853**
Debt securities issued	2,853	10,589	21,016	–	**34,458**
Total undiscounted financial liabilities	**118,469**	**60,153**	**46,369**	**113**	**225,104**

As at 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Due to other banks	13,416	143	525	–	**14,084**
Foreign exchange derivative contracts					
- Contractual amounts payable	7,433	–	–	–	**7,433**
- Contractual amounts receivable	(7,406)	–	–	–	**(7,406)**
Due to customers	47,436	14,759	16,047	–	**78,242**
Debt securities issued	4,227	18,891	12,820	1,782	**37,720**
Subordinated debt	114	112	–	–	**226**
Total undiscounted financial liabilities	**65,220**	**33,905**	**29,392**	**1,782**	**130,299**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
2014	10,477	44,297	7,099	9	**61,882**
2013	9,022	30,223	26,297	–	**65,542**

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

(Millions of Russian rubles)

31. Risk management (continued)

Liquidity risk and funding management (continued)

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and security prices. The Group classifies exposures to market risk into either trading or banking (non-trading) portfolios, which is in line with the generally accepted practice. The market risk for the trading and banking positions are managed and monitored by setting up appropriate limits and applying sensitivity analysis.

The responsible collegial bodies set limits on the level of risk that may be accepted. The Group applies sensitivity analysis both for assessment of positions subject to market risk and estimation of the potential economic losses.

For managing the price, interest rate and currency risk the sensitivity of the portfolio of homogeneous financial instruments to the reasonable possible change (RPC) of market index, yield curve and interest rates are applied.

Market risk – Trading

Price risk

There were no material equity positions in the Trading book in 2014 and 2013.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the Trading book.

	Increase in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2014***	***2013***	***2014***	***2013***
RUB	399	182	(91)	(71)

	Decrease in basis points		***Sensitivity of profit/loss before tax***	
Currency	***2014***	***2013***	***2014***	***2013***
RUB	(399)	(182)	91	71

Market risk – Non-trading

Price risk

As at 31 December 2014, the Group has equity instruments sensitive to market position changes. The Group applies VaR (Value at Risk) model for assessment of price risk for equity instruments. VaR allows estimating the maximum probable future losses within the set period of time with the set probability.

Financial instrument	***VaR (99%, 1 month), 2014***	***VaR (99%, 1 month), 2013***
Ordinary shares	36	21

(Millions of Russian rubles)

31. Risk management (continued)

Market risk (continued)

Interest rate risk

The sensitivity of net interest income (NII) before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity (defined based on maturity of financial instruments/duration) estimates revaluation of fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points		*Sensitivity of NII before tax*		*Sensitivity of equity*	
Currency	***2014***	***2013***	***2014***	***2013***	***2014***	***2013***
RUB	399	182	(18)	32	(1,114)	(169)

	Decrease in basis points		*Sensitivity of NII before tax*		*Sensitivity of equity*	
Currency	***2014***	***2013***	***2014***	***2013***	***2014***	***2013***
RUB	(399)	(182)	18	(32)	1,114	169

Currency risk

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

The Group sets limits for each currency on currency positions both for trading and banking portfolios. The limits are monitored on a daily basis. The Group maintains the currency risk at a low level through transactions with derivatives.

The tables below indicate the currencies to which the Group had significant exposure as at 31 December 2014 and 2013. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUB on the financial performance of the Group.

	Increase in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2014***	***2013***	***2014***	***2013***
USD	28.5	10.2	(59)	(69)
EUR	29.6	8.6	35	4

	Decrease in currency rate in %		*Effect on profit/(loss) before tax*	
Currency	***2014***	***2013***	***2014***	***2013***
USD	(28.5)	(10.2)	59	69
EUR	(29.6)	(8.6)	(35)	(4)

Operational risk

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In course of operational risk management the Group considers legal risk, risk of fraud, but it does not include business risk, strategic risk and reputation risk.

The Bank currently tailors an operational risk management framework to the new management and shareholder. The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers ('LORM') and is supervised by the Deputy Chairman of the Board responsible for the risk management and the Chairman of the Board. Concrete risk mitigating measures are taken either via line management or by the collegial management bodies. The LORMs are specifically trained employees who also keep business functions.

(Millions of Russian rubles)

31. Risk management (continued)

Operational risk (continued)

The framework consists of a number of building blocks for managing operational risks. These building blocks are described in the ORM Policy, which also includes the methodology applied to define the operational risk capital charge. The building blocks consist of:

- The loss events information: since 2009 all operational losses of EUR 1,000 or more, resulted from operational risks, are recorded in a central database and reported to the Management Board monthly;
- New products (services) approval process in terms of operational risk: the main process aim is identification and evaluation all inherent risks before new product launch. Approval of a new product/amendment of the existing one is made based on risks revealed.
- Key Risk Indicators ('KRI') – selected parameters, tailored to selected business processes or areas, which are assumed to have a signaling function regarding changes in the operational risk profile or adequacy of existing controls. In 2014, the following KRIs were applied:
  - For fraud control in plastic cards, internet banking and credit products,
  - For information security incidents monitoring,
  - Others.

It is an ongoing process of redevelopment of indicators (correction of calculation algorithms and thresholds) and implementation of new KRIs for other processes.

32. Fair values of financial instruments

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. The table below analyses the fair values of assets and liabilities by the level in the fair value hierarchy as of 31 December 2014, and compares by classes the carrying amounts and fair values of the Group's assets and liabilities.

	Fair value measurement using					
	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total fair value*	*Carrying amount*	*Unrecognized gain/(loss)*
Assets measured at fair value						
Trading securities	603	1,739	–	**2,342**	2,342	**–**
Trading securities pledged under repurchase agreements	1,654	–	–	**1,654**	1,654	**–**
Derivative financial assets	–	97	–	**97**	97	**–**
Investment securities available-for-sale	6,902	–	–	**6,902**	6,902	**–**
Investment securities available-for-sale pledged under repurchase agreements	25,966	–	–	**25,966**	25,966	**–**
Assets for which fair values are disclosed						
Cash and cash equivalents	30,906	–	–	**30,906**	30,906	**–**
Mandatory cash balances with the Central Bank of the Russian Federation	1,416	–	–	**1,416**	1,416	**–**
Reverse repurchase agreements	–	–	3,975	**3,975**	3,975	**–**
Investment securities held-to-maturity	1,106	–	–	**1,106**	1,145	**(39)**
Investment securities held-to-maturity pledged under repurchase agreements	7,473	–	–	**7,473**	8,407	**(934)**
Due from other banks	–	–	12	**12**	12	**–**
Loans to customers	–	–	136,046	**136,046**	142,467	**(6 421)**
Liabilities measured at fair value						
Derivative financial liabilities	–	206	–	**206**	206	**–**
Liabilities for which fair values are disclosed						
Due to other banks	–	–	49,835	**49,835**	49,835	**–**
Due to customers	–	–	129,297	**129,297**	133,421	**4,124**
Debt securities issued	23,000	6,954	–	**29,954**	29,710	**(244)**
Total unrecognized change in fair value						**(3,514)**

(Millions of Russian rubles)

32. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level in the fair value hierarchy as at 31 December 2013:

	Fair value measurement using					
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total f fair value***	***Carrying amount***	***Unrecognized gain/(loss)***
Assets measured at fair value						
Trading securities	603	–	–	**603**	603	**–**
Trading securities pledged under repurchase agreements	4,157	–	–	**4,157**	4,157	**–**
Derivative financial assets	–	24	–	**24**	24	**–**
Investment securities available-for-sale	9,897	–	–	**9,897**	9,897	**–**
Investment securities available-for-sale pledged under repurchase agreements	1,110	–	–	**1,110**	1,110	**–**
Assets for which fair values are disclosed						
Cash and cash equivalents	17,536	–	–	**17,536**	17,536	**–**
Mandatory cash balances with the Central Bank of the Russian Federation	604	–	–	**604**	604	**–**
Reverse repurchase agreements	–	–	4,385	**4,385**	4,385	**–**
Due from other banks	–	–	2,013	**2,013**	2,013	**–**
Loans to customers	–	–	83,233	**83,233**	83,514	**(281)**
Investment property	–	–	1,067	**1,067**	954	**113**
Liabilities measured at fair value						
Derivative financial liabilities	–	35	–	**35**	35	**–**
Liabilities for which fair values are disclosed						
Due to other banks	–	–	14,017	**14,017**	14,016	**(1)**
Due to customers	–	–	63,285	**63,285**	63,285	**–**
Debt securities issued	30,075	3,171	–	**33,246**	33,047	**(199)**
Subordinated debt	–	222	–	**222**	221	**(1)**
Total unrecognized change in fair value						**(369)**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange forward and spot rates, as well as interest rate curves.

Fair values of financial assets and liabilities, not recorded at fair value

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets.

Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortized cost, which approximates their current fair value.

(Millions of Russian rubles)

32. Fair values of financial instruments (continued)

Fair values of financial assets and liabilities, not recorded at fair value (continued)

Loans and receivables carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The Group believes that the carrying amount of due from other banks and reverse repurchase agreements balances closely approximates their fair value as all such transactions are either of a short term nature, or were performed shortly before the reporting date.

Liabilities carried at amortized cost

The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Fair values of non-financial assets, not recorded at fair value

Fair value of investment property was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property.

33. Transferred financial assets not derecognized in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as at 31 December 2014 and 2013:

		Trading securities	*Available-for-sale*			*Held-to-maturity*		
31 December 2014	***Transferred financial asset***	***Corporate bonds***	***Corporate bonds***	***Debt securities issued by the government***	***Other securities***	***Debt securities issued by the government***	***Corporate bonds***	***Total***
Carrying amount of assets	Repurchase agreements	1,654	18,361	5,798	1,807	6,311	2,096	**36,027**
Total		**1,654**	**18,361**	**5,798**	**1,807**	**6,311**	**2,096**	**36,027**
Carrying amount of associated liabilities	Repurchase agreements	1,683	19,099	6,615	1,647	5,602	1,937	**36,583**
Total		**1,683**	**19,099**	**6,615**	**1,647**	**5,602**	**1,937**	**36,583**

As at 31 December 2014, securities pledged under repurchase agreements included bonds and shares with fair value of RUB 32,468 and 146 million, respectively, and corporate bonds with fair value of RUB 2,479 million received based on the first part of reverse repurchase agreements (without initial recognition).

31 December 2013	***Transferred financial asset***	***Trading securities*** ***Corporate bonds***	***Available-for-sale*** ***Corporate bonds***	***Total***
Carrying amount of assets	Repurchase agreements	4,157	1,110	**5,267**
Total		**4,157**	**1,110**	**5,267**
Carrying amount of associated liabilities	Repurchase agreements	3,357	1,000	**4,357**
Total		**3,357**	**1,000**	**4,357**

(Millions of Russian rubles)

33. Transferred financial assets not derecognized in their entirety (continued)

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group.

As at 31 December 2014, the fair value of securities sold under repurchase agreements was RUB 35,093 thousand (2013: RUB 5,267 thousand), of which securities with a fair value of RUB 1,654 thousand (2013: RUB 4,157 thousand) were classified as trading, securities with a fair value of RUB 25,966 thousand (2013: RUB 1,110 thousand) were classified as available-for-sale and securities with a fair value of RUB 7,473 thousand (2013: null) were classified as held-to-maturity.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2014 as amounts due to other banks for RUB 36,583 thousand (2013: RUB 4,357 thousand).

34. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Group uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

The tables below show an analysis of financial assets and liabilities as at 31 December 2014 and 2013 according to when they are contracted to be recovered or settled, except for mortgage loans, which are divided based on recursion model, which uses statistic data for period of 1 year for estimation of future payments, and bonds issued secured with mortgage loans, which are divided based on maturity analysis of related mortgage loans.

In addition, a conservative assumption that repayable liabilities are not extended should be considered in the analysis of assets and liabilities by maturity.

(Millions of Russian rubles)

34. Maturity analysis of assets and liabilities (continued)

See Note 31 for the Group's contractual undiscounted repayment obligations.

31 December 2014	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*No stated maturity*	*Total*
Cash and cash equivalents	30,906	–	–	–	–	–	–	**30,906**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	–	1,416	**1,416**
Trading securities	2,342	–	–	–	–	–	–	**2,342**
Trading securities pledged under repurchase agreements	1,654	–	–	–	–	–	–	**1,654**
Reverse repurchase agreements	3,975	–	–	–	–	–	–	**3,975**
Due from other banks	12	–	–	–	–	–	–	**12**
Loans to customers	5,996	24,868	40,531	57,119	12,993	960	–	**142,467**
Investment securities available-for-sale	6,902	–	–	–	–	–	–	**6,902**
Investment securities available-for-sale pledged under repurchase agreements	25,966	–	–	–	–	–	–	**25,966**
Investment securities held-to-maturity	–	–	–	978	167	–	–	**1,145**
Investment securities held-to-maturity pledged under repurchase agreements	–	–	–	3,952	4,455	–	–	**8,407**
Other financial assets	1,239	5	–	–	–	–	–	**1,244**
Total financial assets	**78,992**	**24,873**	**40,531**	**62,049**	**17,615**	**960**	**1,416**	**226,436**
Due to other banks	38,071	8,056	2,128	1,580	–	–	–	**49,835**
Due to customers	55,622	13,104	43,450	21,157	88	–	–	**133,421**
Debt securities issued	1,224	1,512	9,260	17,714	–	–	–	**29,710**
Subordinated debt	–	–	–	–	–	–	–	**–**
Other financial liabilities	407	125	28	–	–	–	–	**560**
Total financial liabilities	**95,324**	**22,797**	**54,866**	**40,451**	**88**	**–**	**–**	**213,526**
Net liquidity gap	**(16,332)**	**2,076**	**(14,335)**	**21,598**	**17,527**	**960**	**1,416**	**12,910**
Securities available for repurchase transactions within 12 months	**13,436**	**–**	**–**	**–**	**–**	**–**	**–**	
Cumulative liquidity gap	**(2,896)**	**(820)**	**(15,155)**	**6,443**	**23,970**	**24,930**	**26,346**	

(Millions of Russian rubles)

34. Maturity analysis of assets and liabilities (continued)

31 December 2013	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*No stated maturity*	*Total*
Cash and cash equivalents	17,536	–	–	–	–	–	–	**17,536**
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	–	604	**604**
Trading securities	603	–	–	–	–	–	–	**603**
Trading securities pledged under repurchase agreements	4,157	–	–	–	–	–	–	**4,157**
Reverse repurchase agreements	4,077	308	–	–	–	–	–	**4,385**
Due from other banks	1,007	–	–	–	1,006	–	–	**2,013**
Loans to customers	3,738	10,615	23,173	36,018	9,646	324	–	**83,514**
Investment securities available-for-sale	9,897	–	–	–	–	–	–	**9,897**
Investment securities available-for-sale pledged under repurchase agreements	1,110	–	–	–	–	–	–	**1,110**
Other financial assets	413	28	7	–	–	–	–	**448**
Total financial assets	**42,538**	**10,951**	**23,180**	**36,018**	**10,652**	**324**	**604**	**124,267**
Due to other banks	11,855	1,524	123	514	–	–	–	**14,016**
Due to customers	24,896	9,840	14,126	14,423	–	–	–	**63,285**
Debt securities issued	630	511	6,551	23,932	1,423	–	–	**33,047**
Other financial liabilities	143	2	–	8	–	–	–	**153**
Subordinated debt	–	113	108	–	–	–	–	**221**
Total financial liabilities	**37,524**	**11,990**	**20,908**	**38,877**	**1,423**	**–**	**–**	**110,722**
Net liquidity gap	**5,014**	**(1,039)**	**2,272**	**(2,859)**	**9,229**	**324**	**604**	**13,545**
Cumulative liquidity gap	**5,014**	**3,975**	**6,247**	**3,388**	**12,617**	**12,941**	**13,545**	

35. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Millions of Russian rubles)

35. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are presented in the table below. As at 31 December 2014, other related parties are companies under control of one of the members of the Board of Directors of the Bank. As at 31 December 2013, other related parties are companies under significant influence of the ultimate controlling party.

	2014				*2013*			
	Parent	*Other related parties*	*Entities under common control*	*Key manage-ment personnel*	*Parent*	*Other related parties*	*Entities under common control*	*Key manage-ment personnel*
Consolidated statement of financial position								
Due from other banks (contractual interest rates: 2014: null; 2013: 9.08% p.a.)	–	–	–	–	–	–	1,006	–
Reverse repurchase agreements (contractual interest rates: 2014: 17.75% p.a.; 2013: 5.8%-10.5% p.a.)	–	–	2,385	–	–	–	3,318	–
Gross amount of loans and advances to customers (contractual interest rates: 2014: 2.99%-30.71%; 2013: 9.2%-17% p.a.)	–	–	366	37	–	–	1,282	2
Allowance for impairment of loans to customers	–	–	(5)	–	–	–	(8)	–
Derivative financial assets	–	–	38	–	–	–	4	–
Investment securities available-for-sale (contractual interest rates: 2014: null; 2013: 10% p.a.)	–	–	–	–	–	–	966	–
Due to other banks (contractual interest rates: 2014: null; 2013: 0-7.5% p.a.)	–	–	–	–	–	–	3,046	–
Customer accounts (contractual interest rates: 2014: 0.01%-18.50%; 2013: 0.12%-10.50% p.a.)	26,545	288	1,906	729	–	6	9,242	349
Securities issued	–	–	1,731	–				
Other liabilities	–	–	2	–	–	–	–	3
Consolidated statement of profit or loss								
Interest income	–	–	362	3	12	–	77	1
Interest expense	(1,185)	(37)	(197)	(37)	(478)	(1)	(530)	(9)
Allowance for loan impairment	–	–	(5)	–	–	–	(8)	–
Fee and commission income	–	–	–	–	–	–	–	–
Fee and commission expense	–	–	–	–	–	–	–	–
Net (losses)/gains from trading in foreign currencies	–	–	–	–	(4)	–	–	–
Net gains/(losses) from operations with derivatives	–	–	50	–	11	–	4	–
Administrative and other operating expenses	–	–	–	–	–	–	–	–
Credit related commitments								
Undrawn credit lines	–	–	–	–	–	–	1,558	4
Guarantees issued	–	–	2,070	–	–	82	–	–

Compensation to key management personnel comprises the following:

	2014	*2013*
Salaries and other short-term benefits	519	145
Social security costs	70	13
Total key management compensation	**589**	**158**

(Millions of Russian rubles)

36. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel II Capital Accord and the ratios established by the CBRF in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio under Basel II Capital Accord

The Group applies guidelines set out in June 2006 by the Basel Committee of Banking Regulation and Supervision in "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("Basel II").

The Group uses following approaches stipulated by the Basel II:

- The minimum capital requirements for credit risk are calculated based on the standardized approach supported by an external rating assessment;
- The minimum capital requirements for market risk are calculated under standardized measurement method of assessment of weighted risk assets;
- The minimum capital requirements for operational risk are calculated based on Basic Indicator Approach.

The Group's capital adequacy ratio, computed in accordance with the Basel II Capital Accord as at 31 December 2014 and 2013, comprised:

	31 December 2014	***31 December 2013***
Regulatory capital	**25,627**	**18,082**
Weighted risks		
Credit risk	166,783	95,601
Market risk	4,741	3,313
Operational risk	10,287	9,999
Total weighted risk volume	**181,811**	**108,913**
Total capital ratio	14.1%	16.6%

37. Subsequent events

On 20 January 2015, the extraordinary meeting of shareholders decided to increase the share capital by RUB 3 billion through additional issue of 43,340,076 common book-entry shares with a par value of RUB 10. Procedures on issue will be finished by 1 July 2015.

Approved for issue and signed on behalf of the Management Board on 2 March 2015

A.V. Degtyarev
Chairman of the Board, CEO

O.N. Prigornitskaya
Chief Accountant