BANK CENTER-INVEST

CENTER-INVEST BANK GROUP

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
31 December 2014

CONTENTS

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Independent Auditor's Report

To the Shareholders and Board of Directors of Center-invest Bank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

17 March 2015

Moscow, Russian Federation

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In thousands of Russian Roubles	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	11 454 902	6 998 761
Mandatory cash balances with the Central Bank of the Russian Federation		543 600	528 130
Trading securities and repurchase receivables	8	3 747 222	2 096 680
Due from other banks	9	300	1 100 300
Loans and advances to customers	10	71 456 556	60 928 483
Finance lease receivables	11	523 714	617 050
Investment in associate	12	332 202	337 295
Intangible assets	13	280 610	301 801
Premises and equipment	14	2 310 867	2 458 882
Other financial assets	15	417 308	294 522
Other assets	16	248 900	285 306
TOTAL ASSETS		**91 316 181**	**75 947 210**
LIABILITIES			
Due to the Central Bank of the Russian Federation	17	10 079 160	-
Due to other banks	18	1 529 410	519 993
Customer accounts	19	49 217 578	49 418 580
Debt securities in issue	20	9 060 314	9 031 093
Borrowings from international financial institutions	21	8 532 622	5 906 408
Subordinated debt	22	2 846 628	1 817 953
Other financial liabilities	23	171 600	126 338
Deferred tax liability	29	123 361	184 730
Other liabilities	24	170 031	189 708
TOTAL LIABILITIES		**81 730 704**	**67 194 803**
EQUITY			
Share capital	25	1 258 709	1 258 709
Share premium	25	1 646 428	1 646 428
Revaluation reserve for land and premises		1 229 040	1 327 697
Retained earnings		5 451 300	4 519 573
TOTAL EQUITY		**9 585 477**	**8 752 407**
TOTAL LIABILITIES AND EQUITY		**91 316 181**	**75 947 210**

17 March 2015

Открытое акционерное общество коммерческий банк "Центр-инвест" * Рег. №2225 * г. Ростов-на-Дону

Y.Y. Bogdanov
Chairman of the Executive Board

T.I. Ivanova
Chief Accountant

In thousands of Russian Roubles	Notes	2014	2013
Interest Income	26	9 489 711	8 179 845
Interest expense	26	(4 876 879)	(4 134 997)
Net interest income		**4 612 832**	**4 044 848**
Provision for impairment of loan portfolio and finance lease receivables	10, 11	(1 482 362)	(804 640)
Net interest income after impairment provisions		**3 130 470**	**3 240 208**
Fee and commission income	27	1 038 111	952 993
Fee and commission expense	27	(326 575)	(226 306)
Gains less losses from trading securities		(84 732)	6 244
Gains less losses from trading in foreign currencies		181 925	51 525
Foreign exchange translation gains less losses		135 083	36 060
Losses less gains from conversion operations on the interbank market		(216 367)	(8 266)
Other provisions and expenses		(129 671)	(123 812)
Repayment of debt written off		55 878	122 571
Other operating income		42 456	20 259
Contributions to the state deposit insurance scheme		(158 188)	(139 226)
Administrative and other operating expenses	28	(2 233 979)	(2 135 200)
Share of result of associate	12	(5 093)	4 529
Profit before tax		**1 429 318**	**1 801 579**
Income tax expense	29	(322 262)	(391 696)
Profit for the year		**1 107 056**	**1 409 883**
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**1 107 056**	**1 409 883**

In thousands of Russian Roubles	Notes	Share capital	Share premium	Revaluation reserve for land and premises	Retained earnings	Total equity
Balance at 1 January 2013		**1 258 709**	**1 646 428**	**1 356 247**	**3 331 891**	**7 593 275**
Profit		-	-	-	1 409 883	1 409 883
Total comprehensive income		-	-	-	**1 409 883**	**1 409 883**
Dividends declared						
- ordinary shares	30	-	-	-	(232 652)	(232 652)
- preference shares	30	-	-	-	(18 099)	(18 099)
Transfer of revaluation surplus on premises to retained earnings		-	-	(28 550)	28 550	-
Balance at 31 December 2013		**1 258 709**	**1 646 428**	**1 327 697**	**4 519 573**	**8 752 407**
Profit		-	-	-	1 107 056	1 107 056
Total comprehensive income		-	-	-	**1 107 056**	**1 107 056**
Dividends declared						
- ordinary shares	30	-	-	-	(255 917)	(255 917)
- preference shares	30	-	-	-	(18 099)	(18 099)
Other movements	30	-	-	-	30	30
Transfer of revaluation surplus on premises to retained earnings		-	-	(98 657)	98 657	-
Balance at 31 December 2014		**1 258 709**	**1 646 428**	**1 229 040**	**5 451 300**	**9 585 477**

In thousands of Russian Roubles	Notes	2014	2013
Cash flows from operating activities			
Interest received		9 245 897	8 032 229
Interest paid		(4 580 268)	(3 965 603)
Fees and commissions received		1 075 057	955 715
Fees and commissions paid		(324 156)	(226 074)
Losses less gains from trading securities		(16 489)	(1 986)
Income received from trading in foreign currencies		181 925	50 633
Losses less gains paid from conversion operations on the interbank market		(191 964)	(6 849)
Receipts from assignment of rights of claim		170 944	407 900
Repayment of debt written off		47 853	79 874
Other operating income received		29 215	20 114
Contributions to the state deposit insurance scheme		(154 099)	(132 932)
Staff costs paid		(1 403 142)	(1 306 448)
Operating expenses paid		(651 015)	(633 489)
Income tax paid		(431 830)	(372 135)
Cash flows from operating activities before changes in operating assets and liabilities		**2 997 928**	**2 900 949**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the Central Bank of the Russian Federation		(15 470)	24 724
Net change in trading securities and repurchase receivables		(1 721 479)	(377 004)
Net change in due from other banks		1 099 978	204 057
Net change in loans and advances to customers		(9 701 957)	(14 136 843)
Net change in finance lease receivables		82 345	9 525
Net change in other financial and other assets		4 298	92 787
Net change in due to other banks and due to the Central Bank of the Russian Federation		11 322 898	(202 330)
Net change in customer accounts		(2 200 635)	5 097 107
Net change in promissory notes issued		(205 458)	(119 644)
Net change in other financial and other liabilities		(31 472)	(41 301)
Net cash received from/(used in) operating activities		**1 630 976**	**(6 547 973)**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(102 407)	(95 340)
Proceeds from disposal of premises and equipment	14	541	5 008
Acquisition of intangible assets	13	(21 333)	(28 115)
Net cash used in investment activities		**(123 199)**	**(118 447)**
Cash flows from financing activities			
Issue of bonds	20	7 020 332	5 681 921
Repurchase and repayment of bonds	20	(6 810 889)	(1 529 097)
Borrowings from international financial institutions	21	3 523 408	4 121 615
Repayment of borrowings from international financial institutions	21	(2 345 574)	(1 411 235)
Repayment of subordinated debt	22	(172 075)	(162 273)
Dividends paid	30	(273 986)	(250 705)
Net cash from financing activities		**941 216**	**6 450 226**
Effect of exchange rate changes on cash and cash equivalents		**2 007 148**	**209 248**
Net increase/(decrease) in cash and cash equivalents		**4 456 141**	**(6 946)**
Cash and cash equivalents at the beginning of the year		6 998 761	7 005 707
Cash and cash equivalents at the end of the year	7	**11 454 902**	**6 998 761**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for OAO KB Center-invest Bank (the "Bank") and its 100% subsidiary OOO Center-Leasing (the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group's principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 31 December 2014, the Bank has nine (31 December 2013: nine) branches within the Russian Federation. Additionally, the Bank has representative office in Moscow and 110 (2013: 108) sub-branches in the Rostov, Volgograd, Stavropol and Krasnodar regions.

Registered address and place of business. The Bank's registered address is: 62 Sokolova street, Rostov-on-the Don, Russian Federation, 344000.

The average number of the Group's employees during 2014 was 1 544 (2013: 1 544).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 34). During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBRF exchange rate changed from RR 32.7292 to RR 56.2584 per USD;
- the CBRF key rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index decreased from 1 443 to 791;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

In 2015 the financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

2 Operating Environment of the Group (Continued)

The Bank operates primarily in the South of Russia. Due to a diversified by industry economic structure the South of Russia demonstrates more dynamic and stable development trends than most other Russian regions. The growth rate demonstrated by the main industry of the region, agriculture, significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises. The management believes that these developments improve competitive advantages of the South of Russia. The management believes that current events give competitive advantage for South of Russia.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group’s policies.

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group’s share of net assets of an associate are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at cost, fair value or amortised cost as described below.

3 Summary of Significant Accounting Policies (Continued)

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. Refer to Note 5.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid and received between parties to the contract that are an integral part of the effective interest.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss 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. A 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.

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 trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises 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 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.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank 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 amortised cost.

Mandatory cash balances with the Central Bank of Russian federation. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group’s day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets 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. normally within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

3 Summary of Significant Accounting Policies (Continued)

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 and other comprehensive income as interest income. Dividends are included in dividend income within other operating 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 consolidated statement of profit and loss and other comprehensive income as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of profit and loss and other comprehensive income 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- the borrower considers or is implementing financial restructuring, which may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);

3 Summary of Significant Accounting Policies (Continued)

- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

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.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised 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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in other assets and are subsequently remeasured and accounted for in accordance with the accounting policies for this category of assets.

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit 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 and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises and equipment (except for land and buildings of the Group) are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised 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.

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of profit and loss and other comprehensive income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	2% – 2.5%
Other	20%

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

Acquired computer software licences are capitalised 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. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

3 Summary of Significant Accounting Policies (Continued)

Operating leases. 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 for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. 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 recognised at commencement using a discount rate determined at inception.

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Inception of the lease. The inception of the lease is considered to be the date of the lease contract, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall set forth the principal terms of the transaction.

Revenue recognition. The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in consolidated statement of profit and loss and other comprehensive income when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised 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.

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

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

3 Summary of Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include promissory notes and debentures issued by the Group. Debt securities are stated at amortised 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 included in gains arising from early retirement of debt.

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement on profit and loss and other comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit and loss and other comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, 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 the consolidated financial statements are authorised 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 balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Group with account for IFRS profit are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of profit or loss and other comprehensive income for all debt instruments on an accruals 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 evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. 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 the 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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually 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 functional currency of the Bank and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

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 company's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of profit and loss and other comprehensive income.

As at 31 December 2014, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 56.2584, EUR 1 = RR 68.3427 (2013: USD 1 = RR 32.7292, EUR 1 = RR 44.9699).

3 Summary of Significant Accounting Policies (Continued)

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation of prior period financial statements. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised 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:

Impairment loss on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in consolidated statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from 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 methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 409 458 thousand (2013: RR 281 323 thousand), respectively.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Revaluation of premises and equipment. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Group and the independent appraiser have used professional judgements on comparability of existing real estate sale deals and available data on transactions with land and real estate between third parties. If the price per square meter of land had increased by 10%, the carrying value of land would have increased by RR 45 665 thousand (2013: RR 51 710 thousand). If the price per square meter of building had increased by 10%, the carrying value of building would have increased by RR 173 928 thousand (2013: RR 182 954 thousand).

Impairment of investment in associate. The Group management considered impairment of investment in the associate (Note 12), taking into consideration valuation made by an independent appraiser and discussions of the value with potential investors in this industry. The valuation identified absence of any impairment. As a result of the analysis, the Group management concluded that no impairment of carrying value of this investment was required. This conclusion largely depends on the correct assessment of 1) further growth of tariffs for services of TEPTS, 2) further solvency of clients of TEPTS, 3) discount rate applied to future cash flows, 4) well proven practice of TEPTS of including bad debts into the future year tariffs. These parameters largely depend on the macroeconomic situation and the level of governmental regulation in the Russian Federation. Refer to Note 2. The Group set up a provision for non-performing receivables of TEPTS at the amount, which the management believes adequate.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 34.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances:(a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Group.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Group.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Group.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in 27 June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

6 New Accounting Pronouncements (Continued)

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

6 New Accounting Pronouncements (Continued)

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 14 "Regulatory deferral accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment is not expected to have any impact on the Group's consolidated financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). 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. The Group is currently assessing the impact of the amendments on its separate financial statements.

6 New Accounting Pronouncements (Continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2014**	**2013**
Cash on hand	4 720 123	3 037 536
Cash balances with the Central Bank of Russian Federation (other than mandatory reserve deposits)	2 228 952	1 911 359
Correspondent accounts and overnight placements with banks		
- Russian Federation	977 220	524 880
- other countries	2 930 852	1 452 965
- settlement accounts with trading systems	597 755	72 021
Total cash and cash equivalents	**11 454 902**	**6 998 761**

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2014 and 2013, is as follows:

In thousands of Russian Roubles	**Country**	**Rating Fitch/ S&P**	**2014**	**2013**
Bank 1	Russia	BBB	850 396	355 788
Bank 2	Russia	BBB-	12 330	35 711
Bank 3	Russia	BBB	2 920	54 290
Non-banking credit institutions	Russia	-	111 429	78 937
Other	Russia	-	145	154
Total for the Russian Federation			**977 220**	**524 880**
Bank 4	Austria	A	2 462 572	5 714
Bank 5	Germany	A+	284 137	1 022 097
Bank 6	US, UK	A	149 252	397 786
Others with a rating not lower than BBB		-	34 891	27 368
Total for other countries			**2 930 852**	**1 452 965**

Settlement accounts with trading systems represent balances on the Moscow Stock Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 32. Information on related party balances and transactions is disclosed in Note 38.

8 Trading Securities and Repurchase Receivables

In thousands of Russian Roubles	**2014**	**2013**
Repurchase receivables (corporate bonds)	3 259 442	-
Corporate bonds	487 780	2 038 905
Total debt financial instruments	**3 747 222**	**2 038 905**
Units of closed mutual funds	-	57 775
Total equity financial instruments	**-**	**57 775**
Total trading securities and repurchase receivables	**3 747 222**	**2 096 680**

Corporate bonds are interest bearing securities denominated in Russian Roubles and freely tradable on the Russian market. Corporate securities were mainly issued by large Russian companies and banks.

8 Trading Securities and Repurchase Receivables (Continued)

Trading securities and repurchase receivables are carried at fair value which also reflects any credit risk related write-downs. As trading securities and repurchase receivables are carried at their fair values, the Group does not analyse or monitor their impairment indicators.

The analysis by credit quality of debt securities (showing Fitch/S&P rating) at 31 December 2014 and 31 December 2013 is as follows:

	2014		**2013**	
In thousands of Russian Roubles	**Corporate bonds**	**Repurchase receivable**	**Corporate bonds**	**Repurchase receivable**
Neither past due nor impaired				
BBB+ rated	-	-	513 193	-
BBB rated	-	198 870	977 377	-
BBB- rated	-	47 835	548 335	-
BB- rated	487 780	3 012 737	-	-
Total debt securities and repurchase receivables	**487 780**	**3 259 442**	**2 038 905**	**-**

The debt securities are not collateralised. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets.

Repurchase receivables represent securities sold to the Central Bank of the Russian Federation under repurchase agreements. Refer to Note 17. The repurchase agreements are short-term in nature and mature by 14 January 2015.

The Group did not classify trading securities transferred under repurchase agreements into a separate category due to the short-term nature of the transactions. Interest rate analysis of trading securities is disclosed in Note 32.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

9 Due from Other Banks

In thousands of Russian Roubles	**2014**	**2013**
Long-term placements and margin deposits with other banks	300	300
Placements with the Central Bank of the Russian Federation	-	1 100 000
Total due from other banks	**300**	**1 100 300**

Analysis by credit quality of amounts due from other banks (showing Fitch/ S&P rating) outstanding at 31 December 2014, is as follows:

In thousands of Russian Roubles	**Placements with the Central Bank of the Russian Federation**	**Long-term placements with other banks**	**Total**
Neither past due nor impaired			
BBB	-	300	300
Total due from other banks	**-**	**300**	**300**

9 Due from Other Banks (Continued)

The Bank of Russia is not officially rated.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2013, is as follows:

In thousands of Russian Roubles	**Placements with the Central Bank of the Russian Federation**	**Long-term placements with other banks**	**Total**
Neither past due nor impaired			
Placements with the Central Bank of the Russian Federation	1 100 000	-	1 100 000
BBB	-	300	300
Total due from other banks	**1 100 000**	**300**	**1 100 300**

Carrying value of each class of amounts due from other banks approximates their fair value at 31 December 2014 and 31 December 2013. Refer to Note 36.

Interest rate analysis of due from other banks is disclosed in Note 32.

10 Loans and Advances to Customers

In thousands of Russian Roubles	**2014**	**2013**
Loans to small and medium size enterprises (SME loans)	30 467 136	27 431 220
Corporate loans	11 100 766	10 013 885
Loans to individuals - consumer loans and car loans	21 449 548	16 767 900
Loans to individuals - mortgage loans	12 533 690	9 528 709
Total loans and advances to customers before provision for loan impairment	**75 551 140**	**63 741 714**
Less: Provision for loan impairment	(4 094 584)	(2 813 231)
Total loans and advances to customers	**71 456 556**	**60 928 483**

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2014	1 027 779	740 726	692 885	351 841	2 813 231
Provision for loan impairment during the year	689 989	157 755	540 162	95 987	1 483 893
Provision on assigned loans written off	(33 268)	-	(1 757)	-	(35 025)
Amounts written off during the year as uncollectible	(107 632)	-	(50 588)	(9 295)	(167 515)
Provision for loan impairment at 31 December 2014	**1 576 868**	**898 481**	**1 180 702**	**438 533**	**4 094 584**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2013	**1 164 176**	**931 282**	**570 352**	**314 552**	**2 980 362**
Provision for loan impairment during the year	601 557	(108 803)	223 303	78 141	794 198
Provision on assigned loans written off	(35 410)	(25 466)	(1 281)	-	(62 157)
Amounts written off during the year as uncollectible	(702 544)	(56 287)	(99 489)	(40 852)	(899 172)
Provision for loan impairment at 31 December 2013	**1 027 779**	**740 726**	**692 885**	**351 841**	**2 813 231**

In 2014, the Group assigned its rights to overdue, impaired and written off loans totally amounting (before impairment provision) to RR 215 202 thousand (2013: RR 470 507 thousand) for RR 180 177 thousand (2013: RR 408 350 thousand).

Economic sector risk concentrations within the loan portfolio are as follows:

In thousands of Russian Roubles	2014		2013	
	Amount	%	Amount	%
Individuals (total), incl.	33 983 238	45.0	26 296 609	41.3
- consumer loans	*19 125 900*	*25.3*	*15 050 578*	*23.6*
- mortgage loans	*12 533 690*	*16.6*	*9 528 709*	*15.0*
- car loans	*2 323 648*	*3.1*	*1 717 322*	*2.7*
Trade	11 116 004	14.7	9 817 090	15.4
Agriculture	9 758 492	12.9	9 522 235	14.9
Manufacturing	9 007 700	11.9	7 587 481	11.9
Transport	4 808 532	6.4	3 790 226	5.9
Construction	2 651 185	3.5	2 413 220	3.8
Financial companies	192 302	0.3	223 164	0.4
Real estate	82 983	0.1	95 333	0.1
Energy	76 109	0.1	55 033	0.1
Other	3 874 595	5.1	3 941 323	6.2
Total loans and advances to customers before provision for loan impairment	**75 551 140**	**100.0**	**63 741 714**	**100.0**

At 31 December 2014 the Group had 10 major borrowers with aggregate loan amounts (including finance lease investments) of RR 11 297 041 thousand, or 14.8% of the loan portfolio and finance lease receivables before impairment (2013: RR 9 605 430 thousand, or 14.9%).

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2014 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	30 437 859	10 828 864	15 049 550	12 182 708	68 498 981
- real estate	*21 028 985*	*9 326 539*	*3 313 759*	*10 965 345*	*44 634 628*
- tradable securities	*160 661*	*28 256*	*5 000*	*-*	*193 917*
- motor vehicles	*3 928 745*	*635 817*	*6 210 176*	*29 460*	*10 804 198*
- agricultural equipment	*1 407 128*	*193 038*	*55 674*	*5 757*	*1 661 597*
- property	*1 519 035*	*325 373*	*196 698*	*80 801*	*2 121 907*
- pledge of rights	*105 333*	*-*	*666*	*85 353*	*191 352*
- goods in turnover	*797 755*	*159 472*	*2 119*	*-*	*959 346*
- third parties' guarantees	*1 490 217*	*160 369*	*5 265 458*	*1 015 992*	*7 932 036*
Unsecured loans	29 277	271 902	6 399 998	350 982	7 052 159
Total loans and advances to customers before provision for loan impairment	**30 467 136**	**11 100 766**	**21 449 548**	**12 533 690**	**75 551 140**

Information about collateral at 31 December 2013 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Loans collateralised by:	27 383 552	9 475 523	12 465 044	9 325 425	58 649 544
- real estate	*17 678 509*	*7 646 823*	*2 533 954*	*8 519 316*	*36 378 602*
- tradable securities	*399 803*	*-*	*-*	*-*	*399 803*
- motor vehicles	*3 866 340*	*341 575*	*5 299 346*	*13 846*	*9 521 107*
- agricultural equipment	*1 264 550*	*126 454*	*38 092*	*2 975*	*1 432 071*
- property	*1 650 635*	*329 883*	*226 853*	*79 457*	*2 286 828*
- pledge of rights	*86 092*	*-*	*-*	*74 754*	*160 846*
- goods in turnover	*819 529*	*264 789*	*2 563*	*-*	*1 086 881*
- third parties' guarantees	*1 618 094*	*765 999*	*4 364 236*	*635 077*	*7 383 406*
Unsecured loans	47 668	538 362	4 302 856	203 284	5 092 170
Total loans and advances to customers before provision for loan impairment	**27 431 220**	**10 013 885**	**16 767 900**	**9 528 709**	**63 741 714**

The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Loans to small and medium enterprises (SME)**	**Corporate loans**	**Consumer loans and car loans**	**Mortgage loans**	**Total**
Current and not impaired					
Individually significant borrowers					
- A1 rated	1 809 398	3 173 076	-	-	4 982 474
- A2 rated	1 615 387	3 383 990	-	-	4 999 377
- A3 rated	1 768 896	-	-	-	1 768 896
- B2 rated	7 071	899 384	-	-	906 455
			-	-	
Loans assessed on a portfolio basis			-	-	
- Agriculture	6 151 232	416 109	-	-	6 567 341
- Trade	8 476 118	540 439	-	-	9 016 557
- Manufacturing	3 616 059	1 367 463	-	-	4 983 522
- Other	4 906 025	601 325	-	-	5 507 350
- Mortgage loans	-	-	-	11 695 794	11 695 794
- Car loans	-	-	2 198 031	-	2 198 031
- Consumer loans	-	-	17 460 415	-	17 460 415
Total current and not impaired	**28 350 186**	**10 381 786**	**19 658 446**	**11 695 794**	**70 086 212**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	199 319	4 800	908 639	353 518	1 466 276
Total past due but not impaired	**199 319**	**4 800**	**908 639**	**353 518**	**1 466 276**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	520 554	-	-	520 554
Loans assessed on a portfolio basis					
- up to 180 days overdue	580 750	1 378	198 642	89 666	870 436
- over 181 days overdue	1 336 881	192 248	683 821	394 712	2 607 662
Total impaired loans and advances to customers	**1 917 631**	**714 180**	**882 463**	**484 378**	**3 998 652**
Total gross amount of loans and advances to customers	**30 467 136**	**11 100 766**	**21 449 548**	**12 533 690**	**75 551 140**
Less: Provision for impairment	(1 576 868)	(898 481)	(1 180 702)	(438 533)	(4 094 584)
Total loans and advances to customers	**28 890 268**	**10 202 285**	**20 268 846**	**12 095 157**	**71 456 556**

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2013 is as follows:

In thousands of Russian Roubles	Loans to small and medium enterprises (SME)	Corporate loans	Consumer loans and car loans	Mortgage loans	Total
Current and not impaired					
Individually significant borrowers					
- A1 rated	3 264 114	5 257 403	-	-	8 521 517
- A3 rated	2 106 401	-	-	-	2 106 401
- B2 rated	1 075 430	592 480	-	-	1 667 910
Loans assessed on a portfolio basis					
- Agriculture	5 353 942	284 392	-	-	5 638 334
- Trade	6 624 566	216 369	-	-	6 840 935
- Manufacturing	3 111 921	2 005 968	-	-	5 117 889
- Other	4 604 602	856 354	-	-	5 460 956
- Mortgage loans				8 804 360	8 804 360
- Car loans	-	-	1 650 658	-	1 650 658
- Consumer loans	-	-	14 118 924	-	14 118 924
Total current and not impaired	**26 140 976**	**9 212 966**	**15 769 582**	**8 804 360**	**59 927 884**
Past due but not impaired					
Loans assessed on a portfolio basis					
- 1 to 90 days overdue	139 681	-	520 664	399 334	1 059 679
Total past due but not impaired	**139 681**	**-**	**520 664**	**399 334**	**1 059 679**
Impaired					
Individually significant borrowers					
- over 181 days overdue	-	520 554	-	-	520 554
Loans assessed on a portfolio basis					
- up to 180 days overdue	281 463	-	141 921	83 284	506 668
- over 181 days overdue	869 100	280 365	335 733	241 731	1 726 929
Total impaired loans and advances to customers	**1 150 563**	**800 919**	**477 654**	**325 015**	**2 754 151**
Total gross amount of loans and advances to customers	**27 431 220**	**10 013 885**	**16 767 900**	**9 528 709**	**63 741 714**
Less: Provision for impairment	(1 027 779)	(740 726)	(692 885)	(351 841)	(2 813 231)
Total loans and advances to customers	**26 403 441**	**9 273 159**	**16 075 015**	**9 176 868**	**60 928 483**

10 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due is the whole balance of such loans, not only the individual instalments that are past due.

Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Group in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and justified performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the movements for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Group by selling the available collateral.

10 Loans and Advances to Customers (Continued)

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

The financial effect of collateral is presented by disclosing collateral values separately for (1) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (2) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Assets (less provision for loan impairment)	Fair value of collateral	Assets (less provision for loan impairment)	Fair value of collateral
Loans to small and medium enterprises (SME)	14 076 617	30 757 049	14 813 651	6 973 531
Corporate loans	5 562 656	14 642 693	4 639 629	3 151 297
Consumer loans and car loans	13 248 691	29 874 667	7 020 156	822 376
Mortgage loans	11 546 850	34 453 890	548 307	192 647

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	Assets (less provision for loan impairment)	Fair value of collateral	Assets (less provision for loan impairment)	Fair value of collateral
Loans to small and medium enterprises (SME)	12 763 207	26 995 466	13 640 234	5 358 474
Corporate loans	5 459 931	14 176 919	3 813 228	1 546 627
Consumer loans and car loans	11 077 677	23 978 723	4 997 338	646 773
Mortgage loans	8 922 171	26 195 368	254 697	62 311

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. The fair value of these guarantees was RR 20 047 759 thousand at 31 December 2014 (2013: RR 21 988 196 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the credit department using analysis of comparable offers in the open market, subject to information available on specific features of assets being evaluated based on the Group's internal guidelines. In the current economic conditions there exists an uncertainty as to complete repossession of collateral. Provision for impairment reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan or the amount received from the disposal of the collateral will be insufficient.

At 31 December 2014 loans and advances to customers were pledged under sale and repurchase agreements with the Central Bank of the Russian Federation and other banks in the total amount RR 7 557 015 thousand (2013: RR 416 896 thousand. Refer to Notes 17, 18 and 34.

Carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2014 and 31 December 2013. Refer to Note 36.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on related party balances and transactions is disclosed in Note 38.

11 Finance Lease Receivables

In thousands of Russian Roubles	2014	2013
Total investments in finance lease	636 042	742 546
Less: Unearned future finance income	(110 597)	(122 234)
Less: Provision for impairment	(1 731)	(3 262)
Total finance lease receivables	**523 714**	**617 050**

The primary factor that the Group considers in determining whether a finance lease receivable is impaired is its overdue status. The rights to the leased assets revert to the Group in the event of default by the lessee.

Analysis by credit quality of finance lease receivables at 31 December 2014 is as follows:

In thousands of Russian Roubles	Corporate business	SME	Total
Current and not impaired	40 237	478 416	518 653
Total current and not impaired	**40 237**	**478 416**	**518 653**
Past due but not impaired			
- 1 to 90 days overdue	-	2 263	2 263
Total past due but not impaired	**-**	**2 263**	**2 263**
Impaired			
- 91 to 180 days overdue	-	2 056	2 056
- over 1 year overdue	-	2 473	2 473
Total impaired	**-**	**4 529**	**4 529**
Total finance lease receivables (gross)	**40 237**	**485 208**	**525 445**
Less: Provision for impairment	-	(1 731)	(1 731)
Total finance lease receivables	**40 237**	**483 477**	**523 714**

11 Finance Lease Receivables (Continued)

Analysis by credit quality of finance lease receivables at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Corporate business**	**SME**	**Total**
Current and not impaired	61 931	546 535	608 466
Total current and not impaired	**61 931**	**546 535**	**608 466**
Past due but not impaired			
- 1 to 90 days overdue	-	7 186	7 186
Total past due but not impaired	-	**7 186**	**7 186**
Impaired			
- over 1 year overdue	-	4 660	4 660
Total impaired	-	**4 660**	**4 660**
Total finance lease receivables (gross)	**61 931**	**558 381**	**620 312**
Less: Provision for impairment	-	(3 262)	(3 262)
Total finance lease receivables	**61 931**	**555 119**	**617 050**

The Group applies a single approach in assessing impairment of loans and advance to customers and finance lease receivables. General principles, individual and collective risk assessment, rating system and other components of assessment are the same. Individually significant loans related to leasing are determined based on initial investments under a finance lease. The Group believes that all lease receivables are collateralised.

Movements in the provision for uncollectible finance lease receivables during 2014 and 2013 are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Provision for impairment of finance lease receivables at 1 January	**3 262**	**23 601**
Provision for impairment of finance lease receivables during the year	(1 531)	10 442
Amounts written off during the year as uncollectible and provision repaid by selling assets	-	(30 781)
Provision for impairment of finance lease receivables at 31 December	**1 731**	**3 262**

11 Finance Lease Receivables (Continued)

Fair value of leased assets related to finance lease receivables at 31 December 2014 and 31 December 2013 is as follows:

In thousands of Russian Roubles	2014	2013
Motor vehicles	733 583	898 817
Industrial equipment	206 489	214 608
Agricultural equipment	123 020	81 951
Construction equipment	56 438	86 580
Office equipment	7 236	4 008
Real estate	2 500	22 422
Trading equipment	-	1 023
Fair value of collateral in respect of finance lease receivables	**1 129 266**	**1 309 409**

The collateral for finance lease receivables is also the asset for lease. All investments into finance lease are over-collateralised assets.

The structure of finance lease receivables by leased assets is as follows:

	2014		2013	
In thousands of Russian Roubles	Amount	%	Amount	%
Motor vehicles	331 980	63,2	440 032	70,9
Industrial equipment	87 419	16,7	108 141	17,4
Construction equipment	77 793	14,8	34 166	5,5
Agricultural equipment	21 637	4,1	26 991	4,4
Office equipment	5 894	1,1	2 083	0,3
Real estate	722	0,1	8 470	1,4
Trading equipment	-	0,0	429	0,1
Total finance lease receivables (before impairment)	**525 445**	**100.0**	**620 312**	**100.0**

The structure of finance lease receivables by economic sector is as follows:

	2014		2013	
In thousands of Russian Roubles	Amount	%	Amount	%
Trade	174 763	33,2	215 314	34,7
Agriculture	79 036	15,0	21 991	3,6
Transport	72 303	13,8	104 750	16,9
Construction	58 764	11,2	81 376	13,1
Manufacturing	58 650	11,2	57 308	9,2
Other	81 929	15,6	139 573	22,5
Total finance lease receivables (before impairment)	**525 445**	**100.0**	**620 312**	**100.0**

11 Finance Lease Receivables (Continued)

The analysis of investment in finance lease receivables by maturity is disclosed below:

In thousands of Russian Roubles	Due within 1 year	Due between 1 and 5 years	Total
Total investments in finance lease at 31 December 2014	**327 265**	**308 777**	**636 042**
Unearned finance income	(63 532)	(47 065)	(110 597)
Less: Provision for impairment	(869)	(862)	(1 731)
Finance lease receivables at 31 December 2014	**262 864**	**260 850**	**523 714**
Total investments in finance lease at 31 December 2013	**387 444**	**355 102**	**742 546**
Unearned finance income	(72 821)	(49 413)	(122 234)
Less: Provision for impairment	(1 654)	(1 608)	(3 262)
Finance lease receivables at 31 December 2013	**312 969**	**304 081**	**617 050**

The fair value of finance lease receivables is disclosed in Note 36.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on related party balances and transactions is disclosed in Note 38.

12 Investment in Associate

Before December 2007, OAO TEPTS “Teploenergo” was a subsidiary of the Group. Following the additional share issue in December 2007,the Group holds 47.31% in the charter capital of OAO TEPTS “Teploenergo” and EBRD holds a 25% share.

The table below summarises the movements in the carrying amount of the Group’s investment in the associate.

In thousands of Russian Roubles	2014	2013
Carrying amount at 1 January	337 295	332 766
Share of result of associate	(5 093)	4 529
Carrying amount at 31 December	**332 202**	**337 295**

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	2014	2013
Total current assets	310 144	298 274
Total non-current assets	775 969	786 484
Total current liabilities	(206 182)	(156 626)
Total non-current liabilities	(177 749)	(215 186)
Revenue	595 760	558 786
(Loss)/profit	(10 765)	9 574
% interest held	47.31%	47.31%

13 Intangible Assets

In thousands of Russian Roubles	Note	2014	2013
Carrying value			
Balance at 1 January		415 739	403 408
Additions		21 333	28 115
Disposal/fully amortised		(9 403)	(15 784)
Balance at 31 December		**427 669**	**415 739**
Accumulated depreciation			
Balance at 1 January		113 938	93 429
Amortisation charge	28	42 002	36 293
Disposal/fully amortised		(8 881)	(15 784)
Balance at 31 December		**147 059**	**113 938**
Net carrying amount at 31 December		**280 610**	**301 801**

Residual value of intangible assets includes investments into the following software: SAP for Banking, SAP Business Warehouse data storage, TranzWare processing centre, CFT settlement centre, SAP Process Integration, GEMINI IBSC remote banking service system, SAP Human Capital Management, Terrasoft XRM Bank and other. Amortisation on operating software was charged based on useful lives from 3 to 10 years.

14 Premises and Equipment

In thousands of Russian Roubles	Note	Land	Premises	Other	Total
Residual value at 31 December 2012		**527 696**	**1 872 748**	**130 046**	**2 530 490**
Gross value					
Balance at the beginning of the year		527 696	1 928 877	976 971	3 433 544
Additions		-	34 655	85 890	120 545
Disposals		-	(3 927)	(59 440)	(63 367)
Transfer to other assets		(10 596)	(28 063)	-	(38 659)
Balance at the end of the year		**517 100**	**1 931 542**	**1 003 421**	**3 452 063**
Accumulated depreciation					
Balance at the beginning of the year		-	56 129	846 925	903 054
Depreciation charge	28	-	47 014	103 509	150 523
Disposals		-	-	(59 253)	(59 253)
Transfer to other assets		-	(1 143)	-	(1 143)
Balance at the end of the year		**-**	**102 000**	**891 181**	**993 181**
Residual value at 31 December 2013		**517 100**	**1 829 542**	**112 240**	**2 458 882**
Gross value					
Balance at the beginning of the year		517 100	1 931 542	1 003 421	3 452 063
Additions		-	23 521	81 069	104 590
Disposals		-	-	(16 561)	(16 561)
Transfer to other assets		(60 446)	(70 474)		(130 920)
Balance at the end of the year		**456 654**	**1 884 589**	**1 067 929**	**3 409 172**
Accumulated depreciation					
Balance at the beginning of the year		-	102 000	891 181	993 181
Depreciation charge	28	-	46 639	78 027	124 666
Disposals		-	-	(16 209)	(16 209)
Transfer to other assets		-	(3 333)	-	(3 333)
Balance at the end of the year		-	**145 306**	**952 999**	**1 098 305**
Residual value at 31 December 2014		**456 654**	**1 739 283**	**114 930**	**2 310 867**

Premises and land were independently valued at 31 December 2014 by an independent firm of valuers, ZAO BDO, Moscow, who hold a recognised and relevant professional qualification and who have recent professional experience in valuation of assets of similar location and category. The appraisal was based on the market value. As a result of the valuation the management of the Group made a conclusion that (1) land and premises are not impaired and (2) a revaluation of carrying amount not required considering the unstable situation in the real estate market. At 31 December 2013, independent valuation of premises and land was not performed, since there were no significant changes in the real estate market of the Southern Federal District in 2012-2013.

15 Other Financial Assets

In thousands of Russian Roubles	2014	2013
Trade receivables and prepayments	206 835	114 281
Plastic cards receivables	94 457	77 894
Endowment fund	71 244	64 767
Other	44 772	37 580
Total other financial assets	**417 308**	**294 522**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any.

Other financial assets are mainly neither overdue, nor impaired. There is no collateral on other financial assets.

Endowment Fund “Education and Science of SFD” initiated and co-founded by the Bank, commenced its work in May 2007. The Group made contributions to the Fund in the amount of RR 90 000 thousand on a repayable and interest free basis. Upon recognition these contributions were recorded at their fair value and further amortised at applicable effective interest rate.

Carrying value of each class of other financial assets approximates their fair value at 31 December 2014 and 31 December 2013. Fair value of other financial assets is disclosed in Note 36.

16 Other Assets

In thousands of Russian Roubles	2014	2013
Repossessed collateral	162 599	228 231
Prepayments to suppliers of equipment for leasing purposes	45 329	40 389
Equipment purchased for leasing purposes	32 659	49 959
Prepaid taxes and recoverable taxes (other than income tax)	21 056	22 606
Prepaid income tax	17 016	4 759
Other	46 414	51 172
Less impairment provision	(76 173)	(111 810)
Total other assets	**248 900**	**285 306**

Movements in the provision for impairment of other assets during 2014 and 2013 are as follows:

In thousands of Russian Roubles	2014	2013
Provision for other assets at 1 January	**111 810**	**80 270**
Charge to provision for other assets during the period	125 669	101 042
Amounts written off during the year as uncollectible and provision repaid by selling assets	(161 306)	(69 502)
Provision for other assets at 31 December	**76 173**	**111 810**

17 Due to the Central Bank of the Russian Federation

In thousands of Russian Roubles	Note	2014	2013
Short-term revolving borrowings		7 121 955	-
Sale and repurchase agreements	8, 34	2 957 205	-
Total due to the Central Bank of the Russian Federation		**10 079 160**	**-**

Carrying value of each class of amounts due to the Central Bank of the Russian Federation approximates their fair value at 31 December 2014 and 31 December 2013. Refer to Note 36.

18 Due to Other Banks

In thousands of Russian Roubles	2014	2013
Current term placements of other banks	1 529 311	519 416
Correspondent accounts of other banks	99	577
Total due to other banks	**1 529 410**	**519 993**

The structure of current term deposits of other banks as at 31 December 2014 and 31 December 2013:

In thousands of Russian Roubles	2014	2013
Loan from Erste bank	679 060	-
Loan from MSP bank under the SME lending programme	500 000	500 000
Short-term placements of Russian banks	320 757	-
Loans from Raiffesenlandesbank for trade financing	29 494	19 416
Total due to other banks	**1 529 311**	**519 416**

Carrying value of each class of amounts of other banks approximates their fair value at 31 December 2014 and 31 December 2013. Refer to Note 36.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on related party balances is disclosed in Note 38.

19 Customer Accounts

In thousands of Russian Roubles	2014	2013
State and public organisations		
- Current/settlement accounts	52 390	344 624
- Term deposits	17 626	11 295
Other legal entities		
- Current/settlement accounts	8 573 689	10 287 323
- Term deposits	2 978 978	1 182 658
Individuals		
- Current/demand accounts	4 285 272	4 863 110
- Term deposits	33 309 623	32 729 570
Total customer accounts	**49 217 578**	**49 418 580**

19 Customer Accounts (Continued)

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	37 594 895	76.4	37 592 680	76.1
Trade	3 066 457	6.2	3 260 650	6.6
Construction	1 730 598	3.5	1 841 691	3.7
Manufacturing	1 410 715	2.9	1 045 414	2.1
Agriculture	915 482	1.9	774 862	1.6
Financial sector	588 458	1.2	485 670	1.0
Transportation	459 662	0.9	464 844	0.9
Energy	209 561	0.4	152 467	0.3
Municipal organisations	78 432	0.2	200 180	0.4
Education	52 635	0.1	324 250	0.7
Telecommunication	9 907	0.0	34 053	0.1
Other	3 100 776	6.3	3 241 819	6.5
Total customer accounts	**49 217 578**	**100.0**	**49 418 580**	**100.0**

At 31 December 2014 the total aggregate balance of 10 largest clients of the Group was RR 2 672 831 thousand or 5.4% of customer accounts (2013: RR 2 996 934 thousand or 6.1% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2014 and 31 December 2013. Refer to Note 36.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on related party balances is disclosed in Note 38.

20 Debt Securities in Issue

In thousands of Russian Roubles	**2014**	**2013**
Bonds	8 831 394	8 582 801
Promissory notes	228 920	448 292
Total debt securities in issue	**9 060 314**	**9 031 093**

20 Debt Securities in Issue (Continued)

Each bond has a par value of RR 1 000 and an embedded put option at par value and exercisable at the moment of coupon income change.

Issue	CINBO-02	CINBO-BO1	CINBO-BO5	CINBO-BO2	CINBO-BO6	CINBO-BO3	CINBO-BO7	CINBO-BO10
Par value, RR	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Quantity	3 000 000	1 500 000	1 000 000	1 500 000	1 000 000	1 500 000	2 000 000	3 000 000
Initial placement date	June 2009	June 2011	June 2011	April 2012	March 2013	March 2013	November 2013	May 2014
Maturity	June 2014	June 2014	June 2014	April 2015	March 2016	March 2016	November 2018	May 2019
Next offer date	-	-	-	-	January 2015	January 2015	November 2015	May 2015
at 31 December 2014								
Number of bonds in issue	-	-	-	1 500 000	999 859	1 499 545	2 000 000	2 738 838
- including repurchased by subsidiary	-	-	-	10 599	-	2 000	3 917	505
Coupon rate, %	-	-	-	10.20	11.50	11.50	9.20	13.00
Weighted average price, RR	-	-	-	994.9	1000.0	1000.0	936.9	999.7
at 31 December 2013								
Number of bonds in issue	2 476 585	340	2	1 500 000	1 000 000	1 500 000	2 000 000	-
- including repurchased by subsidiary	7 092	-	-	-	1 561	4 500	-	-
Coupon rate, %	9.40	0.50	0.50	10.20	10.25	10.25	9.20	-
Weighted average price, RR	1005.0	992.8	1000.6	1016.0	1012.4	1003.0	998.3	-

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 32.

21 Borrowings from International Financial Institutions

In 2009-2014 the Group opened several credit lines with: International Finance Corporation ("IFC"), European Bank for Reconstruction and Development ("EBRD"), Austrian Bank of Economic Development (Oesterreichische Entwicklungsbank AG) (OeEB), Eurasian Bank for Development (EBD), funds Credit Suisse Microfinance Fund Management Company and responsAbility SICAV (Lux) (ResponsAbility), Black Sea Bank of Trade and Development (Greece) (BSTDB) and International Investment Bank.

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	**Currency**	**Original issue date**	**Repayable by tranches by:**	**Balance at 31 December 2014**	**Balance at 31 December 2013**
EBRD	Roubles	November 2009	June 2017	2 231 576	2 756 509
	USD	March 2009	April 2014	-	183 689
OeEB	USD	August 2009	April 2014	-	41 120
	EUR	September 2012	April 2019	1 373 707	674 726
BSTDB	EUR	February 2014	June 2019	1 364 522	-
IFC	Roubles	May 2010	February 2016	1 137 048	1 152 658
International Investment Bank	EUR	October 2014	October 2017	1 026 487	-
EBD	Roubles	June 2012	April 2016	902 913	601 337
ResponsAbility	Roubles	August 2013	February 2017	496 369	496 369
Total borrowings from international financial institutions				**8 532 622**	**5 906 408**

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2014 and 31 December 2013, as interest rate of these borrowings is floating. Refer to Note 36.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on covenants related to borrowings from international financial institutions is disclosed in Note 34. Information on related party balances is disclosed in Note 38.

22 Subordinated Debt

In thousands of Russian Roubles	**2014**	**2013**
Subordinated loan from DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	1 707 956	991 937
Subordinated loan from EBRD	1 138 672	661 334
Subordinated loan from BSTDB	-	164 682
Total subordinated debt	**2 846 628**	**1 817 953**

22 Subordinated Debt (Continued)

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date
Subordinated loan from DEG	30 000	June 2008	October 2018
Subordinated loan from EBRD	20 000	April 2008	October 2018
Subordinated loan from BSTDB	10 000	April 2007	April 2014

The carrying value of subordinated loans approximates fair value at 31 December 2014 and 31 December 2013, as interest rate of these loans is floating. Refer to Note 36.

The claims of other lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, maturity and interest rate analyses are disclosed in Note 32. Information on covenants related to borrowings is disclosed in Note 34. Information on related party balances is disclosed in Note 38.

23 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	Note	2014	2013
Deferred income on guarantees issued	34	67 398	36 260
Prepayment under lease contracts		29 416	53 092
Foreign exchange spot contracts	35	25 820	1 417
Trade payables		24 516	22 238
Plastic cards payables		11 762	7 703
Other accrued liabilities		12 688	5 628
Total other financial liabilities		**171 600**	**126 338**

As of 31 December 2014 and 31 December 2013, the estimated fair value of other financial liabilities is equal to the carrying value. Refer to Note 36.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	Note	2014	2013
Deposits insurance agency		40 902	36 813
Taxes payable other than on income		39 363	37 372
Provisions for contingent liabilities	34	15 028	18 682
Income tax liability		5 303	41 245
Other		69 435	55 596
Total other liabilities		**170 031**	**189 708**

24 Other Liabilities (Continued)

Movements in the provision for contingent liabilities during 2014 and 2013 are as follows:

In thousands of Russian Roubles	2014	2013
Provision for contingent liabilities at 1 January	18 682	6 835
Provision for liabilities and charges during the period	10 479	18 284
Use of provision during the period	(14 133)	(6 437)
Provision for contingent liabilities at 31 December	**15 028**	**18 682**

The provision for contingent liabilities includes a provision for legal claims brought against the Group by borrowers and lessees. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 34.

25 Share Capital

In thousands of Russian Roubles except for number of shares	Number of outstanding shares			Ordinary shares	Preference shares	Share premium	Total
	Ordinary shares	Preference shares with a par value of RR 4	Preference shares with a par value of RR 1 000				
At 1 January 2013, 31 December 2013 and 2014	**77 550 750**	**123 125**	**90 000**	**1 162 786**	**95 923**	**1 646 428**	**2 905 137**

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 866 000 thousand (2013: RR 866 000 thousand). At 31 December 2014 and 31 December 2013, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a par value of RR 10 per share (2013: RR 10 per share). Each share carries one vote.

The preference shares have a par value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Preference share dividends are set at 20% p.a. (2013: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

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

26 Interest Income and Expense

In thousands of Russian Roubles	2014	2013
Interest income		
Loans and advances to SME	3 935 395	3 378 106
Consumer loans and car loans	2 781 482	2 104 642
Mortgage loans	1 257 839	1 014 486
Corporate loans	1 021 374	1 166 871
Impaired loans	233 182	179 096
Finance income arising from leasing	106 762	123 343
Due from and accounts with other banks	77 010	58 007
Debt trading securities	76 667	155 294
Total interest income	**9 489 711**	**8 179 845**
Interest expense		
Term deposits of individuals	2 660 977	2 561 157
Bonds issued	893 327	712 041
Borrowings from international financial institutions and subordinated debt	820 635	570 510
Due to the Central Bank of the Russian Federation	154 593	3 734
Term deposits of legal entities	127 475	99 429
Term placements of other banks	102 677	66 955
Current accounts of legal entities	74 156	53 091
Promissory notes issued	43 039	68 080
Total interest expense	**4 876 879**	**4 134 997**
Net interest income	**4 612 832**	**4 044 848**

27 Fee and Commission Income and Expense

In thousands of Russian Roubles	2014	2013
Fee and commission income		
- Settlement transactions	431 627	403 245
- Plastic card transactions	272 337	241 518
- Cash transactions	207 112	197 438
- Guarantees issued	58 824	46 731
- Currency transactions	38 434	35 740
- Other	29 777	38 321
Total fee and commission income	**1 038 111**	**952 993**
Fee and commission expense		
- Plastic card transactions	135 637	101 408
- Settlement and currency transactions	61 452	51 749
- Cash collection	52 100	35 618
- Collection agencies	35 320	24 358
- Borrowings	16 616	6 591
- Other	25 450	6 582
Total fee and commission expense	**326 575**	**226 306**
Net fee and commission income	**711 536**	**726 687**

28 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2014	2013
Staff costs		1 377 736	1 290 603
Maintenance and rent of premises and equipment		220 419	205 807
Depreciation of premises and equipment	14	124 666	150 523
Taxes other than on income		91 103	86 102
Consulting and information services		75 520	77 435
Repair of premises and equipment		42 536	39 607
Amortisation of intangible assets	13	42 002	36 293
Benefits paid to the Board of Directors		37 722	35 693
Telecommunication and mail		37 576	29 451
Advertising and marketing services		35 604	28 806
Security		30 540	43 155
Staff costs other than salary		24 902	26 366
Insurance		17 216	15 494
Travel and representative expenses		16 466	16 574
Maintenance and repair of motor vehicles		14 184	14 383
Stationary		12 848	12 276
Other		32 939	26 632
Total administrative and other operating expenses		**2 233 979**	**2 135 200**

Included in staff costs are statutory pension contributions of RR 207 579 thousand, social security contributions and contributions to the obligatory medical insurance fund of RR 66 929 thousand (2013: RR 191 967 thousand and RR 59 689 thousand accordingly).

29 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In thousands of Russian Roubles	2014	2013
Current income tax	383 631	411 422
Deferred tax	(61 369)	(19 726)
Income tax expense for the year	**322 262**	**391 696**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group's income is 20% (2013: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

In thousands of Russian Roubles	2014	2013
Profit before tax	**1 429 318**	**1 801 579**
Theoretical tax charge at statutory rate (2014: 20%; 2013: 20%)	285 864	360 316
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	36 398	31 380
Income tax expense for the year	**322 262**	**391 696**

29 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2013: 20%).

In thousands of Russian Roubles	1 January 2014	Credited/ (charged) to profit or loss	31 December 2014
Loans and advances to customers	93 552	19 468	113 020
Other assets and accruals	40 425	(8 398)	32 027
Other liabilities and accruals	25 679	429	26 108
Other	5 678	16 283	21 961
Gross deferred tax asset	**165 334**	**27 782**	**193 116**
Premises and equipment	(268 195)	25 356	(242 839)
Investment in associate	(63 472)	1 019	(62 453)
Finance lease receivables	(7 184)	7 184	-
Other	(11 213)	28	(11 185)
Gross deferred tax liability	**(350 064)**	**33 587**	**(316 477)**
Less offsetting with deferred tax assets	165 334	27 782	193 116
Net deferred tax liability	**(184 730)**	**61 369**	**(123 361)**

In thousands of Russian Roubles	1 January 2013	Credited/(charged) to profit or loss	31 December 2013
Loans and advances to customers	95 058	(1 506)	93 552
Other assets and accruals	33 834	6 591	40 425
Other liabilities and accruals	11 661	14 018	25 679
Other	5 393	285	5 678
Gross deferred tax asset	**145 946**	**19 388**	**165 334**
Premises and equipment	(272 574)	4 379	(268 195)
Investment in associate	(62 566)	(906)	(63 472)
Finance lease receivables	(6 791)	(393)	(7 184)
Other	(8 471)	(2 742)	(11 213)
Gross deferred tax liability	**(350 402)**	**338**	**(350 064)**
Less offsetting with deferred tax assets	145 946	19 388	165 334
Net deferred tax liability	**(204 456)**	**19 726**	**(184 730)**

The main part of the net deferred tax liability is expected to be settled in the term more than 12 months, or has no stated maturity.

29 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

30 Dividends

	2014		2013	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends declared during the period	255 917	18 099	232 652	18 099
Dividends paid during the period	(255 887)	(18 099)	(232 606)	(18 099)

During 2014 the Bank declared and paid dividends on preference shares with a par value of RR 1 000 – RR 200 per share (2013: RR 200 per share) and on preference shares with a par value of RR 4 – RR 0.8 per share (2013: RR 0.8 per share). During 2014 the Bank declared and paid dividends on ordinary shares – RR 3.3 per share (2013: RR 3 per share). All dividends are declared and paid in Russian Roubles. The part of declared dividends was not claimed.

31 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the chief operating decision maker (CODM) are performed by the Management Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the following main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, private customers, deposits, investment savings products, custody, credit and debit cards, municipal payments.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail and plastic cards have been aggregated into one segment - retail banking.

In addition, the Bank's Executive Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance.

31 Segment Analysis (Continued)

Measurement of operating segment profit or loss, assets and liabilities

The Executive Board reviews financial information prepared based on Russian Accounting Standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted to statutory subsequent events is used;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
- income on impaired loans is not recognised;
- commission income related to lending and commission expenses on borrowings is recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- funds are generally reallocated between segments ignoring internal interest rates.

Information about reportable segment profit or loss, assets and liabilities

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

In thousands of Russian Roubles	**Lending**	**Treasury**	**Retail banking**	**Total**
2014				
External revenues:				
Interest income	8 670 974	153 661	86 672	8 911 307
Fee and commission income and other operating income	524 859	555 373	564 291	1 644 523
Total income	**9 195 833**	**709 034**	**650 963**	**10 555 830**
Interest expense	-	(2 191 627)	(2 681 131)	(4 872 758)
Provision for impairment	(1 281 958)	1 359	(660)	(1 281 259)
Losses less gains from trading securities	-	(83 368)	-	(83 368)
Fee and commission expenses and other expenses	(73 046)	(120 670)	(137 637)	(331 353)
Segment result	**7 840 829**	**(1 685 272)**	**(2 168 465)**	**3 987 092**
Total reportable segment assets	**72 016 447**	**4 558 228**	**-**	**76 574 675**
Total reportable segment liabilities	**-**	**(41 434 232)**	**(39 173 616)**	**(80 607 848)**

31 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Lending	Treasury	Retail banking	Total
2013				
External revenues:				
Interest income	7 439 984	217 875	22 293	7 680 152
Fee and commission income and other operating income	565 813	564 402	422 177	1 552 392
Gains less losses from trading securities	-	8 757	-	8 757
Total income	**8 005 797**	**791 034**	**444 470**	**9 241 301**
Interest expense	-	(1 577 323)	(2 569 692)	(4 147 015)
Provision for impairment	(650 470)	390	(1 126)	(651 206)
Fee and commission expenses and other expenses	(92 092)	(100 565)	(103 392)	(296 049)
Segment result	**7 263 235**	**(886 464)**	**(2 229 740)**	**4 147 031**
Total reportable segment assets	**61 670 795**	**3 736 073**	**-**	**65 406 868**
Total reportable segment liabilities	**-**	**(28 884 623)**	**(37 389 622)**	**(66 274 245)**

Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

In thousands of Russian Roubles	2014	2013
Total revenues for reportable segments	**10 555 830**	**9 241 301**
Effective interest rate method application	26 119	25 551
Fair value of trading securities portfolio recalculation	(31 026)	(5 600)
Recognition of interest income on impaired loans	206 445	117 659
Consolidation effect	11 255	(7 952)
Foreign exchange translation losses less gains	(135 083)	(36 060)
Gains less losses from conversion operations on the interbank market	191 964	6 849
Other	(17 423)	(8 311)
Total consolidated revenues	**10 808 081**	**9 333 437**

Total consolidated revenues comprise interest income, fee and commission income, gains less losses on transactions with trading securities, foreign currency, income from assignment, repayment of debt earlier written off and other operating income.

31 Segment Analysis (Continued)

In thousands of Russian Roubles	2014	2013
Total reportable segment result	**3 987 092**	**4 147 031**
Administrative expenses	(2 501 379)	(2 243 576)
Effective interest rate method application	33 971	34 673
Fair value of trading securities portfolio and other financial assets and liabilities recalculation	(51 041)	(7 017)
Recognition of interest income on impaired loans	206 445	117 659
Recognition of loan loss provision	(121 463)	(96 742)
Consolidation effect	(2 485)	9 911
Events after the end of the reporting period	(75 937)	(87 999)
Amortisation recalculation	(468)	(31 196)
Other	(45 417)	(41 165)
Profit before tax	**1 429 318**	**1 801 579**

In thousands of Russian Roubles	2014	2013
Total reportable segment assets	**76 574 675**	**65 406 868**
Unallocated assets	15 114 997	10 448 406
Recalculation of loan loss provision	(25 678)	128 670
Recognition of interest income on impaired loans	454 842	293 519
Application of effective interest rate method to fee and commission income	(291 008)	(313 635)
Finance lease adjustments	(145 223)	(175 483)
Fair value of trading securities portfolio recalculation	(9)	(8)
Consolidation effect	285 424	293 141
Other	(651 839)	(134 268)
Total consolidated assets	**91 316 181**	**75 947 210**

In thousands of Russian Roubles	2014	2013
Total reportable segment liabilities	**80 607 848**	**66 274 245**
Unallocated liabilities	1 223 687	1 016 248
Application of effective interest rate method to fee and commission expenses	(56 332)	(43 983)
Consolidation effect	(56 243)	(47 819)
Other	11 744	(3 888)
Total consolidated liabilities	**81 730 704**	**67 194 803**

Analysis of revenues by products and services

The Group’s revenues are analysed by products and services in Notes 26 and 27.

Major customers

The Group does not have customers, revenues from which exceed 10% the total revenues.

32 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, business event (including legal, strategic and reputational risks) and system risk.

The Bank's risk management function is viewed as a full set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by adequate reserves level;
- Covering risks by adequate capital level;
- Monitoring compliance with internal procedures and regulations.

The Bank manages risks on the basis of the document "Risk Management Policy of OAO KB Center-invest" approved by the Bank's Board of Directors in February 2009. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures; mandatory business lines and types of risks for monitoring; interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Accepting risks on the basis of the level of profitability and risks associated with business lines;
- Priority of lending operations development;
- Evaluation of market risks associated with assets on a regular basis;
- Consideration of the risk level in evaluating business lines' efficiency;
- Capital and reserves management.

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.

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Diversifying the loan portfolio;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving the methods of reviewing borrowers' financial and business activity enabling adequate evaluation of the level of risk associated with loans and other credit instruments;

32 Financial Risk Management (Continued)

- Regular monitoring of borrowers' financial position, condition of collateral and debt servicing;
- Using same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level;
- Performing preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

Such risks are monitored on a regular basis.

Lending transactions are approved according to individual decision-making limits and the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million (2013: RR 10 million) (without positive credit history) and RR 20 million (2013: RR 20 million) (with positive credit history) to 25% (2013: 25%) of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million (2013: RR 10 million) (without positive credit history) and RR 20 million (2013: RR 20 million) (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

Transactions of borrowers and groups of related borrowers - legal entities and entrepreneurs with an aggregate debt of up to RR 3 million (2013: RR 3 million) on standard loan programmes are approved by sole decisions of authorised persons who are confirmed by the order of the Chairman of the Bank's Executive Board.

Transactions of borrowers and groups of related borrowers - individuals on standard loan programmes are approved by authorised persons within the limits set by the order of the Chairman of the Bank's Executive Board.

Loan applications originated by relevant client relationship managers are considered on the basis of standardised procedures and passed on to an individual having a personal decision-making limit or to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk, credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by the appropriate Credit Committee, the Risk Management Committee and the Committee for Problem Loans. The Group uses formalised internal credit ratings in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and implements a set of measures aimed at collection of overdue debts.

32 Financial Risk Management (Continued)

Additionally, in 2013, to minimize credit risks the Bank set up a control group comprised of most experienced employees of the Head Office and branches. Loans are allocated among them at random and through a random sampling technique on a monthly basis. The control group reviews compliance of an issued loan with the Bank's requirements (decision of an authorised body, correct and full documentation, quality of monitoring, etc.). The Group's credit departments review ageing analysis of outstanding loans and follow up past due balances. The ageing and other information about credit risk is disclosed in Note 10.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the 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 assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

The Bank manages market risks and monitors corresponding limits on a regular basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading operations;
- Setting limits on financial investments;
- Setting limits on homogeneous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2014, the level of market risk was RR 400 812 thousand under a limit of RR 1 524 659 thousand (2013: RR 86 645 thousand under a limit of RR 1 353 206 thousand).

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to the risks associated with changes in precious metals' prices due to the absence of such transactions.

As at 31 December 2014, the ten day VAR level was RR 17 024 thousand (2013: RR 1 152 thousand).

32 Financial Risk Management (Continued)

Since VAR is used for management of certain risks, for the purpose of this consolidated financial statements the level of currency risk is examined based on the basis of simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	At 31 December 2014				**At 31 December 2013**			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**
Russian Roubles	78 242 381	(70 603 630)	(1 131 454)	**6 507 297**	66 673 833	(61 225 492)	286 721	**5 735 062**
US Dollars	5 671 882	(5 151 527)	(408 954)	**111 401**	4 346 064	(4 035 675)	(301 653)	**8 736**
Euro	4 117 952	(5 568 567)	1 514 588	**63 973**	1 518 748	(1 545 396)	13 515	**(13 133)**
Other	111 387	(87 768)	-	**23 619**	25 281	(12 385)	-	**12 896**
Total	**88 143 602**	**(81 411 492)**	**(25 820)**	**6 706 290**	**72 563 926**	**(66 818 948)**	**(1 417)**	**5 743 561**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets will not give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	2014		**2013**	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 72% (2013: 20%)	64 167	64 167	1 747	1 747
US dollar weakening by 72% (2013: 20%)	(64 167)	(64 167)	(1 747)	(1 747)
Euro strengthening by 52% (2013: 20%)	26 613	26 613	(2 627)	(2 627)
Euro weakening by 52% (2013: 20%)	(26 613)	(26 613)	2 627	2 627

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. *The Group* takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

The management monitors exposure to interest rate risk on a quarterly basis and sets limits on the level of interest rate risk that may be undertaken.

The Group evaluates new products from the point of their impact on interest rate risk. Treasury department of the Group operates daily within approved limits on the level of interest rate risk whereas Risk Management department independently monitors compliance of actual level of interest rate to the approved limits.

32 Financial Risk Management (Continued)

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Non-interest bearing assets	Total
31 December 2014							
Total financial assets	22 490 455	4 132 828	4 888 598	19 200 446	37 425 278	5 997	88 143 602
Total financial liabilities	(23 267 716)	(12 463 278)	(12 473 797)	(7 015 718)	(26 216 803)	-	(81 437 312)
Net interest sensitivity gap at 31 December 2014	**(777 261)**	**(8 330 450)**	**(7 585 199)**	**12 184 728**	**11 208 475**	**5 997**	**6 706 290**
31 December 2013							
Total financial assets	10 218 691	6 064 964	6 317 857	13 873 735	36 024 907	63 772	72 563 926
Total financial liabilities	(18 128 626)	(3 782 858)	(7 280 785)	(7 344 837)	(30 283 259)	-	(66 820 365)
Net interest sensitivity gap at 31 December 2013	**(7 909 935)**	**2 282 106**	**(962 928)**	**6 528 898**	**5 741 648**	**63 772**	**5 743 561**

All of the Group's debt instruments reprice within 5 years (2013: all reprice within 5 years).

At 31 December 2014, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 438 789 thousand (2013: if interest rates had been 200 basis points higher/lower, profit would have been RR 261 143 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

32 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Group:

	2014				2013			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash balances with the CBRF	0.0	-	-	-	0.0	-	-	-
Correspondent accounts and overnight placements with other banks	0.5	0.0	0.0	0.3	0.0	0.1	0.0	0.0
Debt trading securities	13.6	-	-	-	7.4	-	-	-
Due from other banks								
- Placements with the Central Bank of the Russian Federation	-	-	-	-	4.5	-	-	-
- Placements with other banks	1.0	-	-	-	1.0	-	-	-
Loans and advances to customers:								
- Corporate loans	11.5	7.9	-	-	11.3	7.8	7.6	-
- Loans to SME	13.5	6.7	7.0	-	13.3	6.6	6.5	-
- Loans to individuals - consumer loans	16.4	10.1	-	-	16.0	11.7	-	-
- Loans to individuals - car loans	14.7	-	-	-	14.2	-	-	-
- Loans to individuals - Mortgage loans	12.6	12.9	-	-	12.5	11.9	-	-
Finance lease receivables	18.4	8.0	15.1	-	18.5	11.6	13.2	-
Liabilities								
Due to the Central Bank of the Russian Federation	16.2	-	-	-	-	-	-	-
Due to other banks	13.5	-	1.9	-	9.3	-	3.3	-
Customer accounts								
- Current accounts of legal entities	0.6	0.0	0.0	0.0	0.6	0.0	0.0	0.0
- Demand deposits of individuals	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
- Term deposits of legal entities	11.2	1.7	3.2	-	8.0	1.4	2.1	-
- Term deposits of individuals	10.9	2.9	2.2	1,0	8.6	3.4	2.9	1.0
Promissory notes issued	9.2	-	-	-	8.2	-	-	-
Bonds issued	12.3	-	-	-	9.7	-	-	-
Loans from international financial institutions	16.0	-	4.1	-	10.3	6.3	4.1	-
Subordinated debt	-	6.3	-	-	-	6.1	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group has limited exposure to equity price risk. Transactions with equity instruments are monitored and authorised by the Group's Treasury.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity for the year and at the reporting date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the early repayment amount is at or close to the amortised cost of loans and advances to customers.

32 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2014 is set out below:

In thousands of Russian Roubles	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	8 524 050	88 265	2 836 104	6 483	11 454 902
Mandatory cash balances with the Central Bank of the Russian Federation	543 600	-	-	-	543 600
Trading securities and repurchase receivables	3 747 222	-	-	-	3 747 222
Due from other banks	300	-	-	-	300
Loans and advances to customers	70 309 750	-	1 146 806	-	71 456 556
Finance lease receivables	523 714	-	-	-	523 714
Other financial assets	415 752	-	1 556	-	417 308
Total financial assets	**84 064 388**	**88 265**	**3 984 466**	**6 483**	**88 143 602**
Other assets	3 172 579	-	-	-	3 172 579
Total assets	**87 236 967**	**88 265**	**3 984 466**	**6 483**	**91 316 181**
Liabilities					
Due to the Central Bank of the Russian Federation	10 079 160	-	-	-	10 079 160
Due to other banks	820 851	-	708 554	5	1 529 410
Customer accounts	49 157 274	2 475	24 585	33 244	49 217 578
Debt securities in issue	9 060 314	-	-	-	9 060 314
Borrowings from international financial institutions	1 026 487	1 137 048	5 466 174	902 913	8 532 622
Subordinated debt	-	-	2 846 628	-	2 846 628
Other financial liabilities	171 584	-	16	-	171 600
Total financial liabilities	**70 315 670**	**1 139 523**	**9 045 957**	**936 162**	**81 437 312**
Other liabilities	293 392	-	-	-	293 392
Total liabilities	**70 609 062**	**1 139 523**	**9 045 957**	**936 162**	**81 730 704**
Net position	**16 627 905**	**(1 051 258)**	**(5 061 491)**	**(929 679)**	**9 585 477**
Credit related commitments (Note 34)	**12 080 035**	-	-	-	**12 080 035**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

32 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2013 is disclosed in table below:

	Russia	USA	Europe	Other	Total
Assets					
Cash and cash equivalents	5 545 796	395 750	1 054 655	2 560	6 998 761
Mandatory cash balances with the Central Bank of the Russian Federation	528 130	-	-	-	528 130
Trading securities	1 841 909	-	-	254 771	2 096 680
Due from other banks	1 100 300	-	-	-	1 100 300
Loans and advances to customers	60 113 545	-	814 938	-	60 928 483
Finance lease receivables	617 050	-	-	-	617 050
Other financial assets	283 409	5	105	11 003	294 522
Total financial assets	**70 030 139**	**395 755**	**1 869 698**	**268 334**	**72 563 926**
Other assets	3 383 284	-	-	-	3 383 284
Total assets	**73 413 423**	**395 755**	**1 869 698**	**268 334**	**75 947 210**
Liabilities					
Due to other banks	500 028	-	19 416	549	519 993
Customer accounts	49 354 242	2 453	27 860	34 025	49 418 580
Debt securities in issue	9 031 093	-	-	-	9 031 093
Borrowings from international financial institutions	-	1 152 658	4 152 413	601 337	5 906 408
Subordinated debt	-	-	1 817 953	-	1 817 953
Other financial liabilities	126 338	-	-	-	126 338
Total financial liabilities	**59 011 701**	**1 155 111**	**6 017 642**	**635 911**	**66 820 365**
Other liabilities	374 438	-	-	-	374 438
Total liabilities	**59 386 139**	**1 155 111**	**6 017 642**	**635 911**	**67 194 803**
Net position	**14 027 284**	**(759 356)**	**(4 147 944)**	**(367 577)**	**8 752 407**
Credit related commitments (Note 33)	**8 692 655**	**-**	**-**	**-**	**8 692 655**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of capital. Refer to Note 10.

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

32 Financial Risk Management (Continued)

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Audit and Compliance Committee of the Board of Directors, regularly controlled by the Asset and Liability Committee and are used in the current operations of the Bank.

The table below shows liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities						
Due to the Central Bank of the Russian Federation	4 993 900	5 237 208	-	-	-	10 231 108
Due to other banks	325 045	14 495	723 806	27 116	564 381	1 654 843
Customer accounts	14 469 010	2 249 572	2 774 522	6 014 805	30 057 370	55 565 279
Debt securities in issue	2 697 453	52 058	4 584 945	2 083 132	66 836	9 484 424
Borrowings from international financial institutions	32 904	8 666 680	-	-	-	8 699 584
Subordinated debt	-	2 850 951	-	-	-	2 850 951
Gross settled foreign exchange spot contracts	2 000 862	-	-	-	-	2 000 862
Contingent credit related commitments	844 051	3 289 841	1 311 475	4 054 783	2 579 885	12 080 035
Other financial liabilities	76 202	2 180	-	-	-	78 382
Total potential future payments for financial obligations	**25 439 427**	**22 362 985**	**9 394 748**	**12 179 836**	**33 268 472**	**102 645 468**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

32 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities							
Due to other banks	577	11 404	7 861	27 116	629 915	-	676 873
Customer accounts	16 131 548	1 659 043	2 506 027	5 527 114	27 511 469	-	53 335 201
Debt securities in issue	430 025	128 254	2 755 161	2 815 904	4 692 475	-	10 821 819
Borrowings from international financial institutions	100 237	636 859	839 927	1 303 916	3 748 270	86 036	6 715 245
Subordinated debt	82 013	-	135 862	52 210	2 053 283	-	2 323 368
Gross settled foreign exchange spot contracts	315 182	-	-	-	-	-	315 182
Contingent credit related commitments	338 347	884 620	1 173 548	3 129 566	3 166 574	-	8 692 655
Other financial liabilities	74 845	13 816	-	-	-	-	88 661
Total potential future payments for financial obligations	**17 472 774**	**3 333 996**	**7 418 386**	**12 855 826**	**41 801 986**	**86 036**	**82 969 004**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

32 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2014:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	11 454 902	-	-	-	-	-	-	11 454 902
Mandatory cash balances with the Central Bank of the Russian Federation	543 600	-	-	-	-	-	-	543 600
Trading securities	3 747 222	-	-	-	-	-	-	3 747 222
Due from other banks	300	-	-	-	-	-	-	300
Loans and advances to customers	1 640 782	4 291 997	5 185 981	17 446 006	32 497 809	10 393 981	-	71 456 556
Finance lease receivables	21 986	50 488	68 327	122 932	259 981	-	-	523 714
Investments in associate	-	-	-	-	-	-	332 202	332 202
Intangible assets	-	-	-	-	-	-	280 610	280 610
Premises and equipment	-	-	-	-	-	-	2 310 867	2 310 867
Other financial assets	205 403	36 403	3 248	64 224	102 033	-	5 997	417 308
Other assets	11 698	50 258	51 709	42 947	92 288	-	-	248 900
Total assets	**17 625 893**	**4 429 146**	**5 309 265**	**17 676 109**	**32 952 111**	**10 393 981**	**2 929 676**	**91 316 181**
Liabilities								
Due to the Central Bank of the Russian Federation	4 965 342	5 113 818	-	-	-	-	-	10 079 160
Due to other banks	320 855	417	708 138	-	500 000	-	-	1 529 410
Customer accounts	4 648 427	1 987 091	2 365 862	5 030 670	35 185 528	-	-	49 217 578
Debt securities in issue	2 581 118	127 665	4 318 429	1 971 786	61 316	-	-	9 060 314
Borrowings from international financial institutions	29 293	959 263	1 235 950	1 004 949	5 303 167	-	-	8 532 622
Subordinated debt	-	-	38 030	-	2 808 598	-	-	2 846 628
Other financial liabilities	102 317	8 756	1 241	13 262	46 024	-	-	171 600
Deferred income tax liability	-	-	-	-	-	-	123 361	123 361
Other liabilities	66 642	47 292	10 004	15 582	30 511	-	-	170 031
Total liabilities	**12 713 994**	**8 244 302**	**8 677 654**	**8 036 249**	**43 935 144**	**-**	**123 361**	**81 730 704**
Net liquidity gap at 31 December 2014	**4 911 899**	**(3 815 156)**	**(3 368 389)**	**9 639 860**	**(10 983 033)**	**10 393 981**	**2 806 315**	**9 585 477**
Cumulative liquidity gap at 31 December 2014	**4 911 899**	**1 096 743**	**(2 271 646)**	**7 368 214**	**(3 614 819)**	**6 779 162**	**9 585 477**	**-**

32 Financial Risk Management (Continued)

The above analysis is based on expected maturities. Therefore, (1) the entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's liquidity, and (2) borrowings from international financial institutions and subordinated debt are stated on the basis of contractual maturities, i.e., without taking into consideration the impact of non-compliance with the covenants (Note 34) because on the basis of negotiations with the creditors the Group's management estimated at 31 December 2014 the probability of early repayment as low and (3) the part of customer accounts is classified to later time periods since diversification of customer accounts by amounts and types and continuous attracting of new clients indicate that customer accounts represent a long-term and stable source of funding. The expected negative gap in the table above is planned to be covered by (1) continuous attracting of customer accounts, (2) financing through repo transactions and (3) financing from the Central Bank of the Russian Federation secured by pledge of loans and advances to customers.

The expected maturities are as follows at 31 December 2013:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	6 998 761	-	-	-	-	-	-	6 998 761
Mandatory cash balances with the Central Bank of the Russian Federation	528 130	-	-	-	-	-	-	528 130
Trading securities	2 096 680	-	-	-	-	-		2 096 680
Due from other banks	1 100 300	-	-	-	-	-	-	1 100 300
Loans and advances to customers	1 244 551	4 637 584	4 162 705	13 126 907	28 786 409	8 970 327	-	60 928 483
Finance lease receivables	35 606	60 974	82 536	135 505	302 429	-	-	617 050
Investments in associate	-	-	-	-	-	-	337 295	337 295
Intangible assets	-	-	-	-	-	-	301 801	301 801
Premises and equipment	-	-	-	-	-	-	2 458 882	2 458 882
Other financial assets	134 184	8 938	3 125	47 292	94 986	-	5 997	294 522
Other assets	28 616	41 435	25 126	65 168	124 961	-	-	285 306
Total assets	**12 166 828**	**4 748 931**	**4 273 492**	**13 374 872**	**29 308 785**	**8 970 327**	**3 103 975**	**75 947 210**
Liabilities								
Due to other banks	577	-	132	-	519 284	-	-	519 993
Customer accounts	4 243 646	1 371 053	2 063 036	4 766 716	36 974 129	-	-	49 418 580
Debt securities in issue	430 025	68 691	2 527 214	2 510 616	3 494 547	-	-	9 031 093
Borrowings from international financial institutions	99 001	584 635	712 269	1 092 544	3 339 364	78 595	-	5 906 408
Subordinated debt	81 823	-	105 134	-	1 630 996	-	-	1 817 953
Other financial liabilities	76 273	14 914	2 339	12 956	19 856	-	-	126 338
Deferred income tax liability	-	-	-	-	-	-	184 730	184 730
Other liabilities	64 296	99 111	35	14 049	12 217	-	-	189 708
Total liabilities	**4 995 641**	**2 138 404**	**5 410 159**	**8 396 881**	**45 990 393**	**78 595**	**184 730**	**67 194 803**
Net liquidity gap at 31 December 2013	**7 171 187**	**2 610 527**	**(1 136 667)**	**4 977 991**	**(16 681 608)**	**8 891 732**	**2 919 245**	**8 752 407**
Cumulative liquidity gap at 31 December 2013	**7 171 187**	**9 781 714**	**8 645 047**	**13 623 038**	**(3 058 570)**	**5 833 162**	**8 752 407**	**-**

32 Financial Risk Management (Continued)

The management believes that the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the successful management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial liquidity gap, diversification of liabilities by number and type of creditors, the past experience and liability dynamics in 2015 would indicate that these funds provide a stable source of funding for the Group.

Operational risk. To ensure efficient risk management, the Bank has created an operational risk management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank’s Management Board. This activity includes the following:

- Collecting information on operating losses;
- Identifying sources of operational risk in the credit institution’s activity;
- Identifying and preventing fraud in banking transactions;
- Developing regulations and actions for decreasing the level of operational risk;
- Coverage of risks by maintenance of adequate level of capital.

The Bank implemented an efficient system for identifying and preventing fraud transactions with plastic cards.

The Bank’s information security and continuity are ensured by the Bank’s Information Security Policy developed on the basis of ISO and approved by the Board of Directors. The Bank has adopted the set of documents on the Central Bank of Russian Federation on standardisation “Ensuring Information Security of the Banking System of the Russian Federation”. The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank’s property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

Offsetting financial assets and liabilities. Repurchase receivables are subject to offsetting with liabilities from sale and repurchase agreements in case of non-fulfilment of contractual obligations.

33 Management of Capital

The Group’s objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman of the Executive Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group’s capital calculated in accordance with Basel I is as follows:

33 Management of Capital (Continued)

In thousands of Russian Roubles	2014	2013
Tier 1 capital		
Share capital	1 258 709	1 258 709
Share premium	1 646 428	1 646 428
Retained earnings	5 451 300	4 519 573
Total tier 1 capital	**8 356 437**	**7 424 710**
Tier 2 capital		
Revaluation reserve for premises and equipment	1 229 040	1 327 697
Subordinated debt	2 133 131	1 573 456
Total tier 2 capital	**3 362 171**	**2 901 153**
Total capital	**11 718 608**	**10 325 863**

At 31 December 2014 the Bank's capital adequacy ratio, calculated in accordance with Basel I is 14.5% (2013: 15.6%).

Management of the Bank believes that the Group and the Bank complied with all regulatory capital requirements throughout 2014 and 2013. Information on compliance with the covenants related to borrowings is disclosed in Note 34.

34 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2014, the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. A provision of RR 15 028 thousand (2013: RR 18 862 thousand) has been made as internal professional advice has indicated that it is likely that a liability will eventuate.

Tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice.

34 Contingencies and Commitments (Continued)

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital expenditure commitments. At 31 December 2014, the Group did not have contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets (2013: nil).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a claim of early repayment of the loan.

At 31 December 2014 the Group did not comply with covenants regarding the capital adequacy ratio, risk per borrower or a group of related borrowers and cumulative liquidity gap with 30% permanent customer accounts. The reasons for non-compliance are attributable to crisis developments in the banking system. The Group started negotiations with relevant creditors regarding this situation once the non-compliance was identified.

Documentation on a temporary softening of these covenants to the level acceptable for the Group was signed with some creditors in 2015. On the basis of current negotiations with the creditors the management of the Group is confident that 1) all necessary documentation on softening of these covenants will be signed in the nearest future, and 2) the incurred cases of non-compliance will not result in claims of early repayment of obligation of the Group.

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 letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits and, therefore, carry less risk than a direct borrowing.

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 are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Guarantees issued	3 334 958	2 074 005
Guarantees to other banks	2 380 445	-
Total credit related commitments	**5 715 403**	**2 074 005**

The total outstanding contractual amount of undrawn contractual guarantees and warranties does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 67 398 thousand at 31 December 2014 (2013: RR 36 260 thousand). Credit related commitments are denominated in currencies as follows:

34 Contingencies and Commitments (Continued)

In thousands of Russian Roubles	2014	2013
Russian Roubles	5 640 357	2 017 594
US Dollars	45 215	42 085
Euro	29 831	14 326
Total	**5 715 403**	**2 074 005**

The Group has loan commitments of RR 6 364 632 thousand (2013: RR 6 618 63 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		31 December 2014		31 December 2013	
In thousands of Russian Roubles	Note	Asset pledged	Related liability	Asset pledged	Related liability
Repurchase receivables	8, 17	3 259 442	2 957 205	-	-
Loans and advances to customers	10, 17,18	7 557 015	5 313 870	416 896	500 000
Total		**10 816 457**	**8 271 075**	**416 896**	**500 000**

At 31 December 2014 due from other banks balances in the amount of RR 113 942 thousand (2013: RR 53 649 thousand) are placed as a cover for international payment cards transactions. Also, mandatory cash balances with the CB RF in the amount of RR 543 600 thousand (2013: RR 528 130 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations.

35 Foreign Exchange Spot Contracts

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange spot contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

	Note	2014		2013	
In thousands of Russian Roubles		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange spot contracts: fair values, at the end of the reporting period, of	32				
- USD receivable on settlement (+)		-	22 805	-	-
- USD payable on settlement (-)		(431 759)	-	-	(301 653)
- Euros receivable on settlement (+)		-	1 514 588	-	13 515
- RR receivable on settlement (+)		437 650	-	-	(13 528)
- RR payable on settlement (-)		-	(1 569 104)	-	300 249
Net fair value of foreign exchange spot contracts	**23**	**5 891**	**(31 711)**	**-**	**(1 417)**

35 Foreign Exchange Spot Contracts (Continued)

Foreign exchange spot contracts entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The contracts have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of foreign exchange spot contracts can fluctuate significantly from time to time.

36 Fair Value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (1) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (2) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (3) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of Russian Roubles	**31 December 2014**				**31 December 2013**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Trading securities and repurchase receivables								
- Corporate bonds	-	487 780	-	487 780	2 038 905	-	-	2 038 905
- Repurchase receivables	-	3 259 442	-	3 259 442	-	-	-	
- Units of closed mutual funds	-	-	-	-	49 942	7 833	-	57 775
Other financial assets								
- Other securities at fair value through profit or loss	-	-	5 997	5 997	-	-	5 997	5 997
NON-FINANCIAL ASSETS								
- Premises and land (note 4)	-	-	2 195 937	2 195 937	-	-	2 346 642	2 346 642
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**3 747 222**	**2 201 934**	**5 949 156**	**2 088 847**	**7 883**	**2 352 639**	**4 449 319**

36 Fair Value (Continued)

In thousands of Russian Roubles	31 December 2014				31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
LIABILITIES CARRIED AT FAIR VALUE								
Other financial liabilities								
- Foreign exchange spot contracts	-	25 820	-	25 820	-	1 417	-	1 417
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**25 820**	**-**	**25 820**	**-**	**1 417**	**-**	**1 417**

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2014			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents	4 720 123	6 734 779	-	11 454 902
Mandatory cash balances with the Central Bank of the Russian Federation	543 600	-	-	543 600
Due from other banks	300	-	-	300
Loans and advances to customers	-	-	70 234 188	71 456 556
- Loans to small and medium entities	-	-	*28 414 824*	*28 890 268*
- Corporate loans	-	-	*10 069 284*	*10 202 285*
- Loans to individuals – consumer and car loans	-	-	*19 718 077*	*20 268 846*
- Loans to individuals -mortgage loans	-	-	*12 032 003*	*12 095 157*
Finance lease receivables	-	-	520 326	523 714
Other financial assets	-	-	411 311	411 311
TOTAL	**5 264 023**	**6 734 779**	**71 165 825**	**84 390 383**

	31 December 2013			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents	3 037 536	3 961 225	-	6 998 761
Mandatory cash balances with the Central Bank of the Russian Federation	528 130	-	-	528 130
Due from other banks	1 100 300	-	-	1 100 300
Loans and advances to customers	-	-	60 316 343	60 928 483
- Loans to small and medium entities	-	-	*26 165 970*	*26 403 441*
- Corporate loans	-	-	*9 227 503*	*9 273 159*
- Loans to individuals – consumer and car loans	-	-	*15 735 338*	*16 075 015*
- Mortgage loans	-	-	*9 187 532*	*9 176 868*
Finance lease receivables	-	-	609 327	617 050
Other financial assets	-	-	288 525	288 525
TOTAL	**4 665 966**	**3 961 225**	**61 214 195**	**70 461 249**

36 Fair Value (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2014			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES				
Due to the Central Bank of the Russian Federation	-	-	10 074 572	10 079 160
Due to other banks	-	-	1 529 410	1 529 410
Customer accounts	-	-	46 480 147	49 217 578
Debt securities in issue	8 751 390	-	228 920	9 060 314
- Promissory notes	*-*	*-*	*228 920*	*228 920*
- Bonds issued on domestic market	*8 751 390*	*-*		*8 831 394*
Borrowings from international financial institutions	-	-	8 501 518	8 532 622
Subordinated debt	-	-	2 852 721	2 846 628
Other financial liabilities	-	-	145 780	145 780
TOTAL	**8 751 390**	**-**	**69 813 068**	**81 411 492**

	31 December 2013			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES				
Due to other banks	-	-	519 993	519 993
Customer accounts	-	-	49 418 580	49 418 580
Debt securities in issue	8 638 586	-	448 292	9 031 093
- Promissory notes	*-*	*-*	*448 292*	*448 292*
- Bonds issued on domestic market	*8 638 586*	*-*	*-*	*8 582 801*
Borrowings from international financial institutions	-	-	5 906 408	5 906 408
Subordinated debt	-	-	1 817 953	1 817 953
Other financial liabilities	-	-	124 921	124 921
TOTAL	**8 638 586**	**-**	**58 236 147**	**66 818 948**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

36 Fair Value (Continued)

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. These main discount rates are analysed below:

In thousands of Russian Roubles	**2014**	**2013**
RR		
Loans and advances to customers		
Loans to small and medium entities	13.8% - 16.3%	8.6% - 15.3%
Corporate loans	13.0% - 17.1%	9.1% - 14.0%
Loans to individuals - consumer loans	13.5% - 17.5%	10.8% - 16.7%
Loans to individuals - car loans	12.3% - 15.4%	12.6% - 14.3%
Loans to individuals - mortgage loans	10.5% - 12.2%	10.8% - 12.3%
Finance lease receivables	19.7% - 19.8%	19.9%
Customer accounts		
Term deposits of individuals	7.0% - 17.0%	2.0 - 10,5%
Term deposits of enterprises	7.0% - 15.1%	3.8 - 10.0%
Due to the Central Bank of the Russian Federation	18.75%	-
Borrowings from international financial institutions	25.4% - 28.3%	8.7 - 10.5%
Currency		
Loans and advances to customers		
Corporate loans and loans to SME	6.1%	6.4% - 8.5%
Loans to individuals – consumer loans	10.0%	10.0%
Mortgage loans	9.0%	9.0%
Finance lease receivables	8.0%	11.8%
Customer accounts		
Term deposits of individuals	1.0% - 2.6%	1.0 - 6.8%
Borrowings from international financial institutions	3.8% - 4.6%	4.1% - 6.8%
Subordinated debt	6.4%	3.3 - 6.4%

Current rates on the Group's other liabilities approximate market rates as they relate to short-term instruments or instruments with floating rates.

The Group’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

37 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement IAS 39 “Financial Instruments: Recognition and Measurement” classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (1) assets designated as such upon initial recognition, and (2) those classified as held for trading.

As at 31 December 2014 and 31 December 2013, all financial assets were designated as “Loans and receivables” except for trading securities and repurchase receivables (Note 8) and other securities (Note 15) at fair value through profit or loss. All of the Group’s financial liabilities except for foreign exchange spot contracts (Note 35) were carried at amortised cost.

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can 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.

The Group's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

The consolidated financial statements of the Group include the following significant transactions and balances with related parties:

	2014			2013		
In thousands of Russian Roubles	**Significant shareholders**	**Associate**	**Management and Board of Directors**	**Significant shareholders**	**Associate**	**Management and Board of Directors**
Correspondent accounts with banks	2 462 572	-	-	5 714	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2014: 8% - 16%; 2013: 8% - 12.5%)	-	67 967	8 238	-	31 856	8 425
Customer accounts (contractual interest rate: 2014: 0.1% - 17%; 2013: 0.1% - 9.8%)	-	5 110	278 031	-	4 330	213 470
Due to other banks (contractual interest rate: 2014: 1.8%; 2013: -)	679 060	-	-	-	-	-
Borrowings from international financial institutions (contractual interest rate: 2014: 13.2% - 29.1%; 2013: 6.6% - 10.6%)	2 231 576	-	-	2 940 198	-	-
Subordinated loans (contractual interest rate: 2014: 6.3%; 2013: 6.4%)	2 846 628	-	-	1 653 271	-	-

38 Related Party Transactions (Continued)

In thousands of Russian Roubles	2014 Significant shareholders	2014 Associate	2014 Management and Board of Directors	2013 Significant shareholders	2013 Associate	2013 Management and Board of Directors
Interest income	-	10 231	838	-	7 227	752
Interest expense	(424 224)	-	(21 338)	(364 362)	(16)	(11 739)
Fee and commission income	-	1 137	13	-	1 082	18
Administrative expenses excluding management remuneration	-	-	(3 197)	-	-	(2 347)

The major shareholders of the Bank at 31 December 2014 and 31 December 2013 are as follows:

Shareholder	**2014 Equity share, %**	**2014 Voting rights, %**	**2013 Equity share, %**	**2013 Voting rights, %**
European Bank for Reconstruction and Development	24.58	27.45	24.58	27.45
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	20.10	22.45	20.10	22.45
Erste Bank	9.80	9.80	9.80	9.80
Firebird funds	8.87	9.90	8.87	9.90
Vysokov Vasiliy Vasilievich	8.07	9.01	8.07	9.01
Vysokova Tatiana Nikolaevna	7.91	8.83	7.91	8.83
Rekha Holdings Limited	7.29	8.15	7.29	8.15

Key management compensation is presented below:

In thousands of Russian Roubles	**2014 Expense**	**2014 Accrued liability**	**2013 Expense**	**2013 Accrued liability**
Short-term benefits:				
- Salaries	22 371	-	21 682	-
- Short-term and other bonuses	92 772	-	82 469	-
- Long-term bonus scheme	15 416	26 490	4 768	11 074
Post-employment benefits	1 059	-	-	-
Total	**131 618**	**26 490**	**108 919**	**11 074**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

In 2014, the Board of Directors consisted of 7 persons (2013: 7 persons). As at the end of 2014, the Executive Board consisted of 5 persons (2013: 4 persons).