Public Joint Stock Company
“The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements in accordance with International Financial Reporting Standards and Auditors’ Report

31 December 2014

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Auditors' Report

To the Shareholders and Board of Directors

Public Joint Stock Company "The Ural Bank for Reconstruction and Development"

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "The Ural Bank for Reconstruction and Development" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Public Joint Stock Company "The Ural Bank for Reconstruction and Development".

Registered by the Central Bank of the Russian Federation on 16 August 2012 Licence № 429 (reissued on 6 February 2015).

Registered in the Unified State Register of Legal Entities on 23 August 2002 by Department of the Ministry for Taxes and Duties of Sverdlovsk region, Registration No. 1026600000350, Certificate series 66 No. 003024035.

Address of audited entity: 67, Sakko and Vancetti st., Yekaterinburg, Russia 620014.

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

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

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

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

Opinion

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

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

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

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

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

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

Our findings from the procedures performed are reported below.

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

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

- Based on our procedures with respect to compliance of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2014, the Group's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
- the Group's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2014, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2014, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.
- as at 31 December 2014, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2014 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

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

Kim A.A.

Director, power of attorney dated 16 March 2015 No. 11/15

JSC "KPMG"

2 April 2015

Moscow, Russian Federation

(in thousands of Russian Roubles)	**Notes**	**31 December 2014**	**31 December 2013**
ASSETS			
Cash and cash equivalents	6	27 951 963	15 396 115
Mandatory cash balances with the Central Bank of the Russian Federation		1 565 338	1 224 444
Trading securities	7	-	10 764
Other securities at fair value through profit or loss	8	11 470 736	18 929 659
Investment securities held to maturity	9	28 324 182	28 508 359
Due from other banks	10	4 402 169	8 395 437
Loans and advances to customers	11	144 143 402	108 769 379
Finance lease receivables	12	1 417 298	1 502 734
Goodwill		162 122	162 122
Property and equipment	13	5 772 968	5 470 564
Intangible assets	14	273 325	264 203
Investment property	15	5 805 432	5 972 382
Advances to real estate developers	16	2 163 158	2 274 576
Current income tax asset		12 288	12 027
Deferred tax asset	30	526 184	494 767
Other assets	17	12 957 616	4 548 609
Assets held for sale	18	664 443	552 348
TOTAL ASSETS		**247 612 624**	**202 488 489**
LIABILITIES			
Due to other banks	20	52 195 971	40 740 015
Customer accounts	21	149 104 314	125 003 002
Debt securities in issue	22	19 259 085	19 189 266
Current income tax liability		145 748	86 327
Deferred tax liability	30	432 605	431 795
Other liabilities	23	1 565 959	1 581 196
Other borrowed funds	24	12 726 969	4 324 551
TOTAL LIABILITIES		**235 430 651**	**191 356 152**
EQUITY			
Share capital	25	3 634 812	3 634 812
Share premium	25	1 581 956	1 581 956
Additional capital	25	3 423 503	2 379 203
Revaluation reserve for property and equipment		1 207 532	1 297 849
Cumulative translation reserve		(100 169)	(32 964)
Retained earnings		2 434 339	2 271 481
TOTAL EQUITY		**12 181 973**	**11 132 337**
TOTAL LIABILITIES AND EQUITY		**247 612 624**	**202 488 489**

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 2 April 2015.

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

(in thousands of Russian Roubles)	Notes	2014	2013
Interest income	27	26 689 640	21 769 793
Interest expense	27	(16 554 284)	(11 871 158)
Net interest income		**10 135 356**	**9 898 635**
(Provision for)/recovery of the allowance for impairment:			
- Loans and advances to customers	11	(12 730 350)	(6 368 694)
- Finance lease receivables	12	(19 844)	(33 419)
- Due from other banks	10	82	91
Net interest (expense)/income after allowance for impairment		**(2 614 756)**	**3 496 613**
Fee and commission income	28	5 001 361	5 691 062
Fee and commission expense	28	(586 176)	(459 651)
Loss from trading securities		(930)	(56 368)
Loss from other securities at fair value through profit or loss		(984 589)	(200 296)
Income from securities available-for-sale		-	1 509
(Loss)/Income from trading in foreign currencies		(3 196 480)	253 047
(Loss)/Income from trading in precious metals		(258 414)	104 527
Income on revaluation of foreign currency		10 796 899	148 293
Rental income		17 217	16 183
Loss from investment property operations	15	(99 490)	(91 530)
(Loss)/Income from assignment of loans		(76 748)	681 259
Other operating income		159 587	55 841
Loss from termination of lease agreements		(5 822)	(2 705)
Administrative and other operating expenses	29	(7 367 683)	(7 061 073)
Profit before tax		**783 976**	**2 576 711**
Income tax expense	30	(310 853)	(508 297)
Profit		**473 123**	**2 068 414**

Soloviev A.U.
President

Sirazov M.R.
Chief Accountant

(in thousands of Russian Roubles)	2014	2013
Profit	**473 123**	**2 068 414**
Other comprehensive loss less deferred income tax		
Items that are or may be reclassified subsequently to profit or loss:		
Realised revaluation reserve for securities available-for-sale	-	(1 236)
Foreign currency translation difference	(67 205)	(24 420)
Other comprehensive loss less deferred income tax	**(67 205)**	**(25 656)**
Total comprehensive income	**405 918**	**2 042 758**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

(in thousands of Russian Roubles)	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Revaluation reserve for securities available-for-sale	Cumulative translation reserve	Retained earnings	Total equity
Balance as at 1 January 2013		**3 634 812**	**1 581 956**	**2 379 203**	**1 378 827**	**1 236**	**(8 544)**	**422 525**	**9 390 015**
Other comprehensive (loss)/income less deferred income tax									
Items that are or may be reclassified subsequently to profit or loss:									
Realised revaluation reserve for securities available-for-sale		-	-	-	-	(1 236)	-	-	(1 236)
Foreign currency translation difference		-	-	-	-	-	(24 420)	-	(24 420)
Items that can not be subsequently reclassified to profit or loss:									
Realised revaluation reserve for property and equipment		-	-	-	(80 978)	-	-	80 978	-
Other comprehensive (loss)/income less deferred income tax		-	-	-	**(80 978)**	**(1 236)**	**(24 420)**	**80 978**	**(25 656)**
Profit		-	-	-	-	-	-	2 068 414	2 068 414
Total comprehensive (loss)/income		-	-	-	**(80 978)**	**(1 236)**	**(24 420)**	**2 149 392**	**2 042 758**
Transactions with owners, recorded directly in equity									
Dividends declared	26	-	-	-	-	-	-	(300 436)	(300 436)
Balance as at 31 December 2013		**3 634 812**	**1 581 956**	**2 379 203**	**1 297 849**	-	**(32 964)**	**2 271 481**	**11 132 337**

(in thousands of Russian Roubles)	Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Cumulative translation reserve	Retained earnings	Total equity
Other comprehensive (loss)/income less deferred income tax								
Items that are or may be reclassified subsequently to profit or loss:								
Foreign currency translation difference		-	-	-	-	(67 205)	-	(67 205)
Items that can not be subsequently reclassified to profit or loss:								
Realised revaluation reserve for property and equipment		-	-	-	(90 317)	-	90 317	-
Other comprehensive (loss)/income less deferred income tax		**-**	**-**	**-**	**(90 317)**	**(67 205)**	**90 317**	**(67 205)**
Profit		-	-	-	-	-	473 123	473 123
Total comprehensive (loss)/income		**-**	**-**	**-**	**(90 317)**	**(67 205)**	**563 440**	**405 918**
Transactions with owners, recorded directly in equity								
Dividends declared	26	-	-	-	-	-	(400 582)	(400 582)
Additional funding from the controlling shareholder	25	-	-	1 044 300	-	-	-	1 044 300
Balance as at 31 December 2014		**3 634 812**	**1 581 956**	**3 423 503**	**1 207 532**	**(100 169)**	**2 434 339**	**12 181 973**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

(in thousands of Russian Roubles)	Notes	2014	2013
Cash flows from operating activities			
Interest received		25 987 033	19 527 175
Interest paid		(16 399 453)	(11 693 156)
Fees and commissions received		5 009 544	5 680 317
Fees and commissions paid		(579 308)	(462 205)
Payments on trading securities		(3 392)	(59 887)
Payments on other securities at fair value through profit or loss		(720 050)	(162 835)
Payments on securities available-for-sale		-	(34)
(Payments)/receipts from foreign currencies		(3 896 009)	284 120
(Payments)/receipts from precious metals		(62 402)	4 128
Administrative and other operating expenses paid		(6 400 638)	(6 665 675)
Income tax paid		(265 499)	(298 701)
Proceeds from assignment of loans		1 399 802	1 088 557
Other operating income received		169 588	39 420
Cash flows from operating activities before changes in operating assets and liabilities		**4 239 216**	**7 281 224**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(340 894)	(84 258)
Trading securities		-	184 753
Other securities at fair value through profit or loss		6 904 962	8 251 791
Securities available-for-sale		-	54 974
Due from other banks		8 482 122	(8 262 808)
Loans and advances to customers		(27 438 587)	(40 874 231)
Finance lease receivables		65 592	(696 799)
Advances to real estate developers		156 025	298 046
Other assets		(6 714 907)	(1 368 609)
Assets held for sale		141 540	21 936
Increase/(decrease) in operating liabilities			
Due to other banks		10 235 066	13 951 501
Customer accounts		13 033 568	28 631 094
Promissory notes in issue (included in debt securities in issue)		2 260 126	2 216 420
Other liabilities		(287 779)	1 181 602
Cash flows from operating activities		**10 736 050**	**10 786 636**
Cash flows from investing activities			
Acquisition of property and equipment		(669 702)	(1 098 113)
Proceeds from disposal of property and equipment		36 327	13 134
Acquisition of intangible assets		(71 346)	(129 269)
Acquisition of investment property		(10 127)	(23 768)
Proceeds from disposal of investment property		26 779	108 578
Acquisition of investment securities held to maturity		(3 340 880)	(20 738 013)
Proceeds from investment securities held to maturity		3 515 580	990 873
Cash flows used in investing activities		**(513 369)**	**(20 876 578)**

(in thousands of Russian Roubles)	Notes	2014	2013
Cash flows from financing activities			
Dividends paid		(400 159)	(300 199)
Additional funding from the controlling shareholder	25	1 044 300	-
Proceeds from bonds issued on domestic market (included in debt securities in issue)		5 153 614	5 799 600
Repayment/purchase of bonds issued on domestic market (included in debt securities in issue)		(7 281 585)	(1 640 209)
Proceeds from Euro commercial securities (included in debt securities in issue)		-	3 005 883
Repayment of Euro commercial securities (included in debt securities in issue)		(1 738 779)	(1 589 028)
Proceeds from Loan participation notes (included in debt securities in issue)		-	2 204 180
Proceeds from subordinated loans (included in other borrowed funds)		2 616 002	1 591 253
Proceeds from syndicated loans (included in other borrowed funds)		1 148 542	-
Repayment of syndicated loans (included in other borrowed funds)		(144 076)	-
Cash flows from financing activities		**397 859**	**9 071 480**
Effect of exchange rate changes on cash and cash equivalents		**1 935 308**	**249 187**
Net increase/(decrease) in cash and cash equivalents		**12 555 848**	**(769 275)**
Cash and cash equivalents at the beginning of the period		15 396 115	16 165 390
Cash and cash equivalents at the end of the period	6	**27 951 963**	**15 396 115**

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant

1 Introduction

These consolidated financial statements of Public Joint Stock Company "The Ural Bank for Reconstruction and Development" (the Bank) and its subsidiaries, special purpose entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a public joint-stock company set up in accordance with regulations of the Russian Federation.

Due to the coming into force from 1 September 2014 of the Federal law No. 99-FZ *On modification of chapter 4 part one of the Civil code of the Russian Federation and on expire of separate provisions of acts of the Russian Federation dated 5 May 2014*, the name of the Bank was changed. From 24 February 2015 a new full trade name of the Bank is Public Joint Stock Company "The Ural Bank for Reconstruction and Development" (short trade name is UBRD, PJSC). The previous full trade name is Joint Stock Company "The Ural Bank of Reconstruction and Development" (short trade name of UBRD, JSC).

Principal activity. The Bank's principal business activity is commercial and retail banking transactions within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBRF) on 16 August 2012. Due to the change of the Bank's trade name the license was renewed on 6 February 2015. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law No.177-FZ *On deposits of individuals insurance in Russian Federation* as at 23 December 2003 (as amended on 29 December 2014). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 1 400 thousand per individual in case of the withdrawal of a license of a bank or CBRF imposed moratorium on payments.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

As at 31 December 2014 the ultimate controlling party of the Bank, Mr. I.A. Altushkin, affiliated with ZAO "Russian Copper Company", ultimately controls 85.86% (31 December 2013: 85.86%) of the share capital of the Bank.

The Bank has 13 (2013: 13) branches and 346 (2013: 506) additional and operational offices in the Russian Federation.

The average number of employees during 2014 was 6,750 (2013: 6 339).

Registered address and place of business. The Bank's registered address and place of business is 620014, 67, Sakko and Vancetti st., Yekaterinburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand).

2 Operating environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this country. The Government continues implementation of economic reforms and development of its legal, tax and regulatory legislation. Current actions of the Government are focused on modernisation of the Russian economy, aimed at increasing productivity and product quality, as well as increasing the share of industries producing high-tech products and services. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The stability of the Russian economy in the future is dependent significantly upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the Government.

2 Operating environment (continued)

In 2014 the pace of economic growth has slowed down sharply along with a decreasing consumer demand and capital investments. Moreover, political uncertainty in Ukraine had a significant influence on Russian economy. The weakening of the Russian national currency in relation to the main world currencies observed during 2014 was caused by high geopolitical risks, essential decrease in the world prices for oil and the increased demand of the credit organisations for currency liquidity. In April 2014 Standard & Poor's has decreased country's rating thus inhibiting access to foreign capital markets for Russian companies. The CBRF has been adjusting exchange rate policy parameters during 2014 both for further increase in exchange rate flexibility within the framework of the project to establish inflation targeting, and for delivering financial stability. At the end of November - the beginning of December, 2014 devaluation expectations increased, and rouble exchange rate significantly deviated from fundamentally reasonable level. For stabilisation of situation in the domestic currency market within flexible exchange-rate regime the CBRF has been carrying out interventions. Moreover, due to increased inflationary risks in 2014 the CBRF has been raising the key rate for six times: from 5.5%, effective at the beginning of the year, to 17% - at year end. In 2014 banking sector assets grew by 35.2%, the growth rate of lending to corporate clients amounted to 31.3%, and the retail lending market experienced a 13.8% growth rate. The amount of deposits from individuals increased by 9.4%, and from legal entities - by 56.9%.

There is uncertainty about the future growth of the Russian economy and the ability of the Group and its counterparties to raise new borrowings at reasonable rates, which in turn can affect the financial position, results of operations and business prospects. Despite this, management believes that in the current situation they have taken all necessary measures to support the sustainability and growth of the business. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

3 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that land and premises and financial instruments at fair value through profit or loss are stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3 Summary of significant accounting policies (continued)

Operations between participants of the Group, the balances on the corresponding accounts and the unrealised income on operations between the enterprises of the Group are mutually excluded. Unrealised expenses also are mutually excluded, except cases when expenses cannot be compensated. The Bank and all its subsidiaries apply the uniform principles of accounting policies according to policy of the Group.

Main approaches to an assessment. Financial instruments are reflected at fair value or the amortised cost depending on their classification. The description of these assessment methods is given below.

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

If an asset or a liability valued at a fair value, has both bid and ask prices, then short-term and long-term positions are valued at the ask price.

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 of assets and liabilities.

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 of instrument. 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 or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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.

3 Summary of significant accounting policies (continued)

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 that 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 and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss for the period.

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with CBRF and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value these include interbank placements and receivables on repurchase agreements with other banks with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. 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 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 securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities held to maturity. Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that according to intention and ability of the Group will be held to maturity. Management determines the classification of investment securities held to maturity at the time of initial recognition. Investment securities held to maturity are carried at amortised cost.

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.

Loans and advances to customers. The credits and advance payments to clients are reflected in financial statements when the Group provides money to clients in the form of advance payments for the purpose of acquisition or creation of the receivables which are not connected with derivative financial instruments and not having quotations in the open market, subject to repayment on the determined or defined date, and thus the Group has no intention to carry out trade operations with these receivables. The credits and advance payments to clients are considered at the amortised cost.

If at revision of conditions concerning financial assets the reconsidered conditions considerably differ from previous, the new asset originally admits at fair value.

The Group sales various loan portfolios. In case these transactions do not satisfy the derecognition criteria according to the IFRS, the Group continues to recognise the sold loans in the consolidated statement of financial position at the amortised cost and recognises liabilities for the sold loans in the amount of the consideration received. Subsequently the Group recognises interest income on the transferred assets and interest expenses on the recognised liabilities.

3 Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment of principal or interest is overdue
- 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 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
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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 from 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 have influence on the current period.

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, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the period. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Transactions on contracts of sale and return repayment 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. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

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

3 Summary of significant accounting policies (continued)

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses (if any). An impairment loss in respect of goodwill is not reversed.

The Group tests goodwill for impairment at each reporting date and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Property and equipment. Property and equipment 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, or revalued amounts, as described below, less accumulated depreciation and allowance for impairment, where required.

The Group's premises are regularly revaluated. Frequency of revaluation depends on change of fair value of these objects. The increase in balance cost of buildings as a result of revaluation is reflected in structure of the other cumulative income. However, this increase is subject to recognition in profit or loss to the extent in which it reverses the loss from revaluation on the same asset which is earlier recognised in profit or loss.

Reduction of balance cost of buildings as a result of revaluation is subject to recognition in profit or loss. However, the loss from revaluation has to be reflected in structure of the other cumulative income to the extent in which it reverses the previous increase in cost on the same asset which is earlier recognised in other cumulative income.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	1.3 - 2.5%
Equipment	11.8 – 33.3%

3 Summary of significant accounting policies (continued)

Intangible assets. All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses 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 its expected useful life of 4 years.

Investment property. The property intended for receiving profit on leasing and/or increase in its market cost, instead of for sale in the course of usual economic activity, use by production or delivery of goods, rendering services or for administrative activity belongs to investment real estate. The investment real estate is estimated at acquisition cost less the saved-up depreciation and losses from depreciation (if any). If nature of using an item of investment real estate changes, it is subject to reclassification in category of fixed assets at balance cost for date of reclassification. The depreciation calculation method and depreciation rates on investment properties are similar to the method and rates of depreciation accrual on items of fixed assets from the category "Premises"

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

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

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less impairment where required. Upon completion the real estate items are included in investment property or assets held for sale, depending on the Group's intentions in respect of these items.

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 on a straight-line basis over the period of the lease.

Finance leases. 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 the date of emergence of the rent relations using a discount rate defined at the date of the rent transaction (the date of the rent transaction is a date of the lease contract or date of confirmation by participants of the rent relations of basic rent provisions depending on which date came earlier).

The difference between not discounted cost of future rent payments and the sum of receivables represents the uncollected financial income. This income is recognised during the rent term using a method of an effective interest rate (before taxation) which assumes a fixed rate of return during all period of validity of the lease contract. The additional expenses which are directly connected with arranging rent relations are included in the initial sum of receivables on financial lease and reduce the income recognised during the lease period. The financial income on lease is recognised in "Interest income" item in profit or loss for the period.

Losses from impairment are recognised in profit or loss for the period as they occur as a result of one or more events (loss events) which occurred after initial recognition of financial lease receivables. For definition of existence of objective evidences of a loss from impairment the Group uses the same main criteria as for the above described loans and advances to customers carried at the amortised cost.

3 Summary of significant accounting policies (continued)

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their carrying value and fair value less costs to sell as at the reclassification date. Assets held for sale are not depreciated.

Due to other banks. Amounts due to other banks are represented in the consolidated financial statements when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include promissory notes and bonds 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.

Other borrowed funds. Other borrowed funds include the subordinated and syndicated loans which are presented in the consolidated statement of financial position at amortised cost. Interest expenses on these liabilities are recorded in profit or loss. Subordinated debt ranks after all other creditors in case of the Group’s liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. All derivative instruments are recognised 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 profit or loss. The Group does not apply hedge accounting.

Forward transactions with precious metals. Forward transactions with precious metals include forward contracts for purchase/sale of precious metals denominated in cash. Balances on these transactions are measured at fair value changes of which are recognised in profit or loss for the period on gain / losses arising from transactions with precious metals.

Income tax. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss in full except amounts related to transactions recodnised in other comprehensive income or transactions with shareholders recognised directly in equity, which are recognised within other comprehensive income or directly within equity respectively.

Operating costs on income tax are represented in the consolidated financial statements according to requirements of the legislation of the Russian Federation, using tax rates and legislative norms which are in the effect or actually came into force for reporting date. The current income tax is calculated based on the amounts payable to tax authorities or subject to be compensated by tax authorities concerning taxable profit or loss for current and previous periods. The taxable profit or loss are based on estimated indicators if the consolidated financial statements are approved before submission of the relevant tax declarations. Other tax expenses, except for income tax, are recognised in administrative and other operating expenses.

The deferred income tax is calculated in terms of temporary differences between the taxable base of assets and liabilities and their balance cost according to the consolidated financial statements. The deferred tax is not considered in terms of temporary differences arising at the initial recognition of an asset or liability if this transaction at the initial recognition does not have an impact neither on accounting, nor taxable income, except cases of the initial recognition resulting from the merger of companies.

Assets and liabilities for the deferred taxation are measured at tax rates of the taxation enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences or the deferred tax losses will be utilised. Deferred tax assets and liabilities are offset only within each separate company of the Group. Deferred tax assets for temporary differences reducing taxable base, and deferred tax losses are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The deferred income tax is calculated in terms of retained income of subsidiaries made after their acquisition except those cases when the Group controls the subsidiary’s policy concerning dividends and there is a probability that temporary differences will not be reckoned in the near future in dividends or otherwise.

3 Summary of significant accounting policies (continued)

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

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

Share premium. When shares are issued, the excess of contributions received (net of transaction costs), over the nominal value of the shares issued is recorded as share premium in equity.

Other reserves. Other reserves of the Group comprise revaluation reserve for property and equipment and cumulative translation reserve. The revaluation reserve for property and equipment included in other comprehensive income 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. In case of a subsidiary or special purpose entity disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

Income and expense recognition. Interest income and expense are recorded in profit or loss for all financial instruments on an accrual basis. This method includes, 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 for the period.

The Bank receipts fee and commission income from the sale of package of banking services to customers, which are borrowers on consumer loans. Within purchase of package of services the customer has the right to join to the collective insurance programs, where the Bank is the policyholder and the insurance company assumes the insurance risk associated with the life, health and ability, job loss. Borrower determines for himself (herself) the necessity to purchase a package of banking services. The decision of the borrower in respect of the purchase of such package does not affect the interest rate offered to him (her). In case of purchase by a customer the package of banking services the Bank has a fee and commission income from the sale of this package, which is not an integral part of the overall profitability of consumer loans and recognised in profit or loss immediately at the moment the payment from the customers for banking services was made.

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.

3 Summary of significant accounting policies (continued)

Foreign currency translation. The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; and except for differences recognised cumulative translation reserve.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2014 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 56.2584 (31 December 2013: USD 1 = RUB 32.7292).

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 as fee and commission income in profit or loss for the period.

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.

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

3 Summary of significant accounting policies (continued)

Change of accounting policies and comparative data representation. Some comparative data were reclassified to comply with changes in presentation of the consolidated financial statements in the current year.

In particular, to increase the validity and reliability of disclosed information the following changes were made to these consolidated financial statements in Note 17 "Other assets":

(in thousands of Russian Roubles)	**Balance as at December 31, 2013 (previously reported)**	**Adjustment**	**The balance as at December 31, 2013 (restated)**
Receivables under commission agreements	-	1 735 663	1 735 663
Settlements on cash and other operations	136 261	-	136 261
Investments in nonconsolidated subsidiaries	88 571	-	88 571
Credit and depit card receivables	59 370	-	59 370
Receivables for operations with securities, precious metals and foreign currencies	43 763	-	43 763
Forward contracts with precious metals	15 652	-	15 652
Foreign currency forward contracts	4 969	-	4 969
Other	942	-	942
Total other financial assets	**349 528**	**1 735 663**	**2 085 191**
Prepayments for administrative services	3 095 967	(1 735 663)	1 360 304
Equipment purchased for finance lease	529 810	-	529 810
Prepaid taxes other than income tax	213 558	-	213 558
Prepayments for construction in progress	203 124	-	203 124
Precious metals	38 314	-	38 314
Deferred expenses	16 888	-	16 888
Other	101 420	-	101 420
Total other non-financial assets	**4 199 081**	**(1 735 663)**	**2 463 418**
Total	**4 548 609**	**-**	**4 548 609**

The group adopted the following new standards and amendments to standards, including any subsequent amendments to other standards, with date of the first adoption January 1, 2014.

Amendments to IFRS (IAS) 32 *Financial instruments: representation - Offsetting financial assets and financial liabilities* do not introduce new rules on offsetting financial assets and liabilities, and contain explanations of offsetting criteria to eliminate discrepancies in their application. Amendments specify that the enterprise currently has legally valid right to make offsetting if this right does not depend on future events, and also is valid both during implementation of the current operating activities, and in case of non-execution of obligations (default), insolvency or bankruptcy of the enterprise and all its contractors.

Amendments to IFRS (IAS) 36 *Depreciation of assets* cancel the requirement about disclosure of information on the compensated cost if the unit generating cash flows includes goodwill or intangible assets with uncertain useful life, and thus there is non-depreciated.

The Group considers that these amendments will not have essential impact on the consolidated financial statements.

4 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in accordance with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of land and premises. Over 9% (31 December 2013: 11%) of equity is represented by revaluation reserve for property and equipment. As at 31 December 2014 the Group analysed price dynamics on the office property market in 2013-2014. Based on the results of the analysis there were no significant changes in fair value of property during this period, so no revaluation was made as at 31 December 2014 and 2013.

Impairment losses on loans and advances to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, 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 and leases before the decrease can be identified with an individual loan or lease 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 (refer to Note 11).

Special purpose entities. Information on professional judgements in respect of asseeement of control over special purpose entities is disclosed in Note 37.

Fee and commission income from the sale of package of banking services. Information on the basis on which this commission income is recognised in profit or loss is disclosed in Note 3.

5 New or revised standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. Analysis of possible impact of new standards on consolidated financial statement of the Group has not been performed yet.

IFRS 9 *Financial Instruments*, published in July 2014, is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6 Cash and cash equivalents

(in thousands of Russian Roubles)	2014	2013
Placements with other banks with original maturities of less than three months	11 528 356	1 414 139
Cash on hand	6 515 750	6 119 771
Balances with the CBRF (other than mandatory reserves)	5 546 040	4 518 805
Correspondent accounts and overnight placements with banks:		
- Russian Federation	681 856	1 240 228
- other countries	3 535 638	1 638 239
Settlement accounts with trading systems	144 323	464 933
Total	**27 951 963**	**15 396 115**

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks with ratings from "not rated" to "AA- ". The ratings are defined according to the criteria accepted in the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's. The geographical analysis, the analysis of cash and their equivalents on structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

7 Trading securities

(in thousands of Russian Roubles)	2014	2013
Corporate shares	-	10 764
Total	**-**	**10 764**

As at 31 December 2013 corporate shares are represented by shares of Russian regional energy, mining and oil companies traded on the domestic market.

Analysis by credit quality of trading securities as at 31 December 2013 is as follows:

(in thousands of Russian Roubles)	2013
- Rated BBB- to BBB+	5 192
- Rated from BB- to BB+	4 672
- Not rated	900
Total	**10 764**

The ratings given in the table above are defined according to the criteria accepted in the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

As at 31 December 2013 the Group had no trading securities pledged on sales and repurchase agreements.

The geographical analysis, the analysis of trade securities on the structure of currencies and terms of placement are disclosed in Note 32.

8 Other securities at fair value through profit or loss

(in thousands of Russian Roubles)	2014	2013
Corporate bonds	11 306 293	18 716 721
Russian government bonds	153 941	212 938
Municipal bonds	617	-
Total debt securities	**11 460 851**	**18 929 659**
Corporate shares	9 885	-
Total	**11 470 736**	**18 929 659**

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these of investments based on their fair value in accordance with a documented strategy.

As at 31 December 2014 corporate bonds are represented by the securities issued by the Russian banks, the mortgage lending agency, the companies operating in ferrous and nonferrous metallurgy, energy, transport, oil and gas and other economic sectors with face value in Russian roubles. The repayment periods of these bonds are from March 2015 till June 2032, the coupon yield is from 7.90% to 12.15% p.a. and market yield to maturity as at 31 December 2014 is from 6.88% to 17.49% p.a. depending on the type of bond issue.

As at 31 December 2014 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds mature in October 2018, the coupon yield is up to 5.00% p.a. and market yield to maturity as at 31 December 2014 is 7.13% p.a.

As at 31 December 2014 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of Moscow and the Government of the Republic of Bashkortostan. These bonds mature from September 2016 till November 2016, the coupon yield is from 7.00% to 8.75% p.a. and market yield to maturity as at 31 December 2014 is from 8.13% to 9.04% p.a.

As at 31 December 2014 corporate shares are represented by shares of Russian regional energy, mining and oil companies traded on the domestic market.

As at 31 December 2013 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, a mortgage lending agency, industrial and other companies. These bonds have maturity dates ranging from April 2014 till June 2032, coupon rates ranging from 7.40% to 10.65% p.a. and market yields to maturity as at 31 December 2013 ranging from 5.99% to 9.96 % p.a. depending on the type of bond issue.

As at 31 December 2013 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature in October 2018 with a coupon rate of 6.00% p.a. and market yield to maturity as at 31 December 2013 of 5.6% p.a.

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2014 is as follows:

(in thousands of Russian Roubles)	Corporate bonds	Russian government bonds	Municipal bonds	Corporate shares	Total
- Rated from A- to A+	1 057	-	-	-	1 057
- Rated BBB- to BBB+	11 292 167	153 941	617	5 354	11 452 079
- Rated from BB- to BB+	4 380	-	-	3 799	8 179
- Rated from B- to B+	8 689	-	-	-	8 689
- Not rated	-	-	-	732	732
Total	**11 306 293**	**153 941**	**617**	**9 885**	**11 470 736**

8 Other securities at fair value through profit or loss for the period (continued)

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2013 is as follows:

(in thousands of Russian Roubles)	**Corporate bonds**	**Russian government bonds**	**Total**
- Rated from A- to A+	630 765	-	630 765
- Rated BBB- to BBB+	18 005 902	212 938	18 218 840
- Rated from BB- to BB+	6 574	-	6 574
- Rated from B- to B+	73 480	-	73 480
Total	**18 716 721**	**212 938**	**18 929 659**

The ratings given in tables above are defined according to the criteria accepted in the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody’s.

The table below shows carrying amount of other securities at fair value through profit or loss pledged under sales and repurchase agreements as at 31 December 2014 and 2013 (Note 19).

(in thousands of Russian Roubles)	**2014**	**2013**
Corporate bonds	11 289 535	12 164 459
Russian government bonds	153 941	-
Total	**11 443 476**	**12 164 459**

The geographical analysis, the analysis of the other securities at fair value through profit and loss, on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

9 Investment securities held to maturity

(in thousands of Russian Roubles)	**2014**	**2013**
Corporate bonds	27 178 955	26 376 406
Municipal bonds	1 145 227	2 131 953
Total	**28 324 182**	**28 508 359**

As at 31 December 2014 corporate bonds are represented by the securities issued by the mortgage lending agency, Russian corporation of nanotechnologies, banks and financial institutions, the companies operating in the ferrous metallurgy, the mining industry, telecommunications, transport, oil and gas sectors with face value in Russian roubles. These bonds have maturity dates ranging from February 2015 till September 2032, the coupon yield is from 7.25% to 14.50% p.a. and market yield to maturity as at 31 December 2014 is from 5.50% to 25.56% depending on the type of the bond issue.

As at 31 December 2014 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of the Republic of Sakha (Yakutia), administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tver areas. These bonds have maturity dates ranging from December 2015 till December 2017, the coupon yield is from 7.49% to 9.55% p.a. and market yield to maturity as at 31 December 2014 is from 13.24% to 18.96% p.a.

9 Investment securities held to maturity (continued)

As at 31 December 2013 corporate bonds are represented by the securities issued by the mortgage lending agency, companies operating in industrial and other sectors, Russian corporation of nanotechnologies with face value in Russian roubles. These bonds have maturity dates ranging from February 2014 till September 2032, the coupon yield is ranging from 6.90% to 13.75% and market yield to maturity as at 31 December 2013 is from 5.41% to 9.96% p.a. depending on the type of the bond issue.

As at 31 December 2013 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of the Republic of Sakha (Yakutia), administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tver areas. These bonds have maturity dates ranging from April 2014 till December 2017, the coupon yield is from 7.49% to 9.95% and market yield to maturity as at 31 December 2013 is from 7.11% to 8.48% p.a.

Analysis by credit quality of investment securities held to maturity outstanding at 31 December 2014 is as follows:

(in thousands of Russian Roubles)	**Corporate bonds**	**Municipal bonds**	**Total**
- Rated from A- to A+	608 256	-	608 256
- Rated BBB- to BBB+	12 885 819	125 987	13 011 806
- Rated from BB- to BB+	8 381 534	960 851	9 342 385
- Rated from B- to B+	5 303 346	58 389	5 361 735
Total	**27 178 955**	**1 145 227**	**28 324 182**

Analysis by credit quality of other securities held to maturity outstanding at 31 December 2013 is as follows:

(in thousands of Russian Roubles)	**Corporate bonds**	**Municipal bonds**	**Total**
- Rated from A- to A+	607 604	-	607 604
- Rated BBB- to BBB+	14 357 001	342 964	14 699 965
- Rated from BB- to BB+	10 636 773	1 699 492	12 336 265
- Rated from B- to B+	775 028	89 497	864 525
Total	**26 376 406**	**2 131 953**	**28 508 359**

The ratings given in tables above are defined according to the criteria accepted in the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

The table below shows carrying amount of investment securities held to maturity pledged under sales and repurchase agreements as at 31 December 2014 and 2013 (see Note 19).

(in thousands of Russian Roubles)	**2014**	**2013**
Corporate bonds	27 178 955	26 376 406
Municipal bonds	1 145 227	2 042 457
Total	**28 324 182**	**28 418 863**

The geographical analysis, the analysis of the securities held to maturity on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

10 Due from other banks

(in thousands of Russian Roubles)	2014	2013
Short-term placements with other banks with original maturities of more than three months	4 406 749	8 400 099
Allowance for impairment	(4 580)	(4 662)
Total	**4 402 169**	**8 395 437**

As at 31 December 2014 and 31 December 2013 due from other banks are represented by the current term deposits and promissory notes of other banks with face value in Russian roubles placed in the Russian Federation.

Movements in the allowance for impairment for due from other banks are as follows:

(in thousands of Russian Roubles)	2014	2013
Allowance for impairment as at 1 January	**4 662**	**4 753**
Recovery	(82)	(91)
Allowance for impairment as at 31 December	**4 580**	**4 662**

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2014 and 2013 is as follows:

(in thousands of Russian Roubles)	2014	2013
- Rated from A- to A+	2 821 389	6 543 945
- Rated BBB- to BBB+	3 627	1 648 045
- Rated from BB- to BB+	94 482	199 375
- Rated from B- to B+	1 482 671	4 072
- Not rated	4 580	4 662
Total due from other banks before allowance for impairment	**4 406 749**	**8 400 099**

As at 1 December 2014 the Group has two counterparties (31 December 2013: two counterparties) with balances over RUB 1 000 000 thousand. The aggregate balances with these counterparties amount to RUB 3 896 378 thousand (31 December 2013: RUB 8 190 189 thousand), or 88% of total balances from other banks (31 December 2013: 98%).

The ratings given in the table above are defined according to the criteria accepted in the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's. Due from other banks are not collateralised.

The geographical analysis, the analysis of due from other banks on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

11 Loans and advances to customers

(in thousands of Russian Roubles)	2014	2013
Loans to legal entities		
- Related parties	11 456 981	9 855 766
- Corporate loans	69 767 408	33 476 967
- Small and medium size businesses	6 270 177	8 067 850
Total loans to legal entities	**87 494 566**	**51 400 583**
Loans to individuals		
- Express loans	16 469 798	15 293 418
- Loans to employees participating in payroll projects	7 220 531	6 297 168
- Unsecured consumer loans	40 812 181	38 349 861
- Collateralised consumer loans	6 262 147	5 584 214
Total loans to individuals	**70 764 657**	**65 524 661**
Total loans and advances to customers before allowance for impairment	**158 259 223**	**116 925 244**
Allowance for impairment	(14 115 821)	(8 155 865)
Total	**144 143 402**	**108 769 379**

Since 2012, the Group chose crediting of a segment of loyal and low risky borrowers as a main market strategy of individual crediting. Being guided by the specified strategy, the Group increased a loan portfolio for individuals for 2014, mainly due to issuing loans to loyal customers having a credit history in the Bank.

Information concerning the loans and advance payments to customers transferred without derecognition is represented in Note 19.

In 2014 under assignment agreements, the Group sold loan receivables from individuals overdue over 211 days with the total loan amount before impairment allowance of RUB 7 065 947 thousand (2013: RUB 2 522 818 thousand). The allowance for impairment of these receivables sale comprised RUB 5 599 223 thousand (2013: RUB 2 115 519 thousand). Receipts from sale of these loans equal to RUB 1 399 442 thousand (2013: RUB 1 075 360 thousand), the loss on these operations recognised in the consolidated statement of profit or loss for 2014 is RUB 67 282 thousand (2013: profit RUB 668 061 thousand).

Movements in the allowance for impairment for loans to legal entities during the year 2014 are as follows:

(in thousands of Russian Roubles)	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2014	**21 042**	**532 032**	**829 460**	**1 382 534**
Charge of provision	8 213	226 909	433 258	668 380
Write offs	-	(35 327)	(4 154)	(39 481)
Allowance for impairment as at 31 December 2014	**29 255**	**723 614**	**1 258 564**	**2 011 433**

11 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to individuals during the year 2014 are as follows:

(in thousands of Russian Roubles)	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2014	**3 953 631**	**157 684**	**2 267 944**	**394 072**	**6 773 331**
Charge of provision	5 623 781	203 233	5 454 771	780 185	12 061 970
Write offs	(4 803 819)	(103 544)	(1 817 825)	(5 725)	(6 730 913)
Allowance for impairment as at 31 December 2014	**4 773 593**	**257 373**	**5 904 890**	**1 168 532**	**12 104 388**

Movements in the allowance for impairment for loans to legal entities during the year 2013 are as follows:

(in thousands of Russian Roubles)	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2013	**29 670**	**492 620**	**283 306**	**805 596**
(Recovery)/charge of provision	(8 628)	146 202	564 051	701 625
Write offs	-	(106 790)	(17 897)	(124 687)
Allowance for impairment as at 31 December 2013	**21 042**	**532 032**	**829 460**	**1 382 534**

Movements in the allowance for impairment for loans to individuals during the year 2013 are as follows:

(in thousands of Russian Roubles)	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2013	**2 297 438**	**93 428**	**737 918**	**113 888**	**3 242 672**
Charge of provision	3 358 986	109 525	1 896 404	302 154	5 667 069
Write offs	(1 702 793)	(45 269)	(366 378)	(21 970)	(2 136 410)
Allowance for impairment as at 31 December 2013	**3 953 631**	**157 684**	**2 267 944**	**394 072**	**6 773 331**

11 Loans and advances to customers (continued)

Key assumptions and judgments for estimating the loan impairment

Loans to legal entities

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated.

The objective indicators of loan impairment for loans to legal entities include the following:

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

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate, equipment and vehicles. For loans not assessed on an individual basis valuations for real estate are estimated at market value with discount rates from 0.2 to 0.4
- the historic actual recovery rate of loans overdue more than 90 days was taken into account when estimating future recoveries on overdue loans including economic sectors specifics
- the value of real estate, equipment and vehicle collateral used in discounted future cash flows for the calculation of the allowance on individually assessed impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2014 would be lower/higher than RUB 854 831 thousand (31 December 2013: RUB 500 180 thousand).

Loans to individuals

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan.

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months
- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

11 Loans and advances to customers (continued)

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2014 would be lower/higher than RUB 586 603 thousand (31 December 2013: RUB 587 513 thousand).

The loan portfolio structure as at 31 December by economic sectors is as follows:

	2014		2013	
(in thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Individuals	70 764 657	44.7	65 524 661	56.0
Trade	45 533 360	28.8	21 554 441	18.4
Metallurgy and metals trade	15 884 507	10.0	11 754 634	10.1
Services	14 025 724	8.9	12 560 092	10.7
Manufacturing	5 148 866	3.3	4 088 916	3.5
Construction	1 038 147	0.7	929 017	0.8
Other	5 863 962	3.6	513 483	0.5
Total loans and advances to customers before allowance for impairment	**158 259 223**	**100.0**	**116 925 244**	**100.0**

As at 31 December 2014 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 11 456 981 thousand, or 7% of the gross loan portfolio (31 December 2013: RUB 9 855 766 thousand, or 8% of the gross loan portfolio).

At 31 December 2014 the Group has 26 borrowers (31 December 2013: 20 borrowers) with aggregated loan amounts above RUB 500 000 thousand. The total aggregate amount of these loans is RUB 70 885 129 thousand (31 December 2013: RUB 31 571 018 thousand), or 45% (31 December 2013: 27%) of the gross loan portfolio.

11 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

(in thousands of Russian Roubles)	**Express loans**	**Loans to employees participating in payroll projects**	**Unsecured consumer loans**	**Collateralised consumer loans**	**Total loans to individuals**
Loans to individuals					
Current and not overdue:	7 790 561	6 601 473	28 620 771	4 103 012	47 115 817
- with credit history of less than 90 days	2 821 328	758 862	1 946 300	682 305	6 208 795
- with credit history of more than 90 days	4 969 233	5 842 611	26 674 471	3 420 707	40 907 022
Overdue:	8 679 237	619 058	12 191 410	2 159 135	23 648 840
- loans overdue less than 30 days	1 506 243	214 525	1 945 056	344 820	4 010 644
- loans overdue 31 to 90 days	1 961 270	139 859	2 787 904	425 684	5 314 717
- loans overdue 91 to 210 days	1 833 349	137 721	3 395 019	430 220	5 796 309
- loans overdue 211 to 360 days	2 700 608	76 455	3 401 114	454 573	6 632 750
- loans overdue over 360 days	677 767	50 498	662 317	503 838	1 894 420
Total loans to individuals before allowance for impairment	**16 469 798**	**7 220 531**	**40 812 181**	**6 262 147**	**70 764 657**
Allowance for impairment	(4 773 593)	(257 373)	(5 904 890)	(1 168 532)	(12 104 388)
Total	**11 696 205**	**6 963 158**	**34 907 291**	**5 093 615**	**58 660 269**
Allowance for impairment to gross loans, %	28.98	3.56	14.47	18.66	17.11

(in thousands of Russian Roubles)	**Related parties**	**Corporate loans**	**Small and medium size businesses**	**Total loans to legal entities**
Loans to legal entities				
Current and individually not impaired	11 456 981	68 867 046	3 991 785	84 315 812
Overdue:	-	900 362	2 278 392	3 178 754
- loans overdue less than 30 days	-	35 399	269 227	304 626
- loans overdue 31 to 90 days	-	-	192 803	192 803
- loans overdue 91 to 180 days	-	2 878	249 278	252 156
- loans overdue 181 to 360 days	-	203 207	632 589	835 796
- loans overdue over 360 days	-	658 878	934 495	1 593 373
Total loans to legal entities before allowance for impairment	**11 456 981**	**69 767 408**	**6 270 177**	**87 494 566**
Allowance for impairment	(29 255)	(723 614)	(1 258 564)	(2 011 433)
Total	**11 427 726**	**69 043 794**	**5 011 613**	**85 483 133**
Allowance for impairment to gross loans, %	0.26	1.04	20.07	2.30

11 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

(in thousands of Russian Roubles)	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
Loans to individuals					
Current and not overdue:	6 724 113	5 896 771	32 050 426	4 724 459	49 395 769
- with credit history of less than 90 days	2 019 737	1 077 644	9 421 481	785 757	13 304 619
- with credit history of more than 90 days	4 704 376	4 819 127	22 628 945	3 938 702	36 091 150
Overdue:	8 569 305	400 397	6 299 435	859 755	16 128 892
- loans overdue less than 30 days	1 632 232	180 311	2 291 139	228 826	4 332 508
- loans overdue 31 to 90 days	1 948 519	85 987	1 893 197	166 287	4 093 990
- loans overdue 91 to 210 days	2 297 902	63 724	1 136 445	215 790	3 713 861
- loans overdue 211 to 360 days	1 780 430	40 513	573 250	139 629	2 533 822
- loans overdue over 360 days	910 222	29 862	405 404	109 223	1 454 711
Total loans to individuals before allowance for impairment	**15 293 418**	**6 297 168**	**38 349 861**	**5 584 214**	**65 524 661**
Allowance for impairment	(3 953 631)	(157 684)	(2 267 944)	(394 072)	(6 773 331)
Total	**11 339 787**	**6 139 484**	**36 081 917**	**5 190 142**	**58 751 330**
Allowance for impairment to gross loans, %	25.85	2.50	5.91	7.06	10.34

(in thousands of Russian Roubles)	Related parties	Corporate loans	Small and medium size businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	9 855 766	32 763 005	6 637 221	49 255 992
Overdue:	-	713 962	1 430 629	2 144 591
- loans overdue less than 30 days	-	10 260	288 008	298 268
- loans overdue 31 to 90 days	-	-	234 815	234 815
- loans overdue 91 to 180 days	-	3 944	262 222	266 166
- loans overdue 181 to 360 days	-	45 195	303 989	349 184
- loans overdue over 360 days	-	654 563	341 595	996 158
Total loans to legal entities before allowance for impairment	**9 855 766**	**33 476 967**	**8 067 850**	**51 400 583**
Allowance for impairment	(21 042)	(532 032)	(829 460)	(1 382 534)
Total	**9 834 724**	**32 944 935**	**7 238 390**	**50 018 049**
Allowance for impairment to gross loans, %	0.21	1.59	10.28	2.69

11 Loans and advances to customers (continued)

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit needs. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the loans to individuals as current and not impaired if there is no overdue amount as at the reporting date, and no evidence that individuals will not be able to meet their obligations to repay of the loans in full and on time.

The Group assesses the credit quality of current and not impaired loans to legal entities by analysing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower
- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower
- the borrower is not sued for defaults on loans granted by other credit institutions
- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

Current and individually not impaired loans to legal entities are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as overdue under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are overdue.

Analysis of collateral

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. The fair value of the collateral is determined by the Risk Department of the Bank based on market data and internal guidelines of the Group. As part of the assessment the comparative method is mainly used. The fair value of commodities in circulation is determined on the date of the loan by the Risk Department of the Bank and is not subsequently updated.

The fair value of collateral in respect of loans to legal entities as at 31 December 2014 is described below.

Loans without collateral and unsecured portions of partially secured exposures are presented in the category “No collateral or other credit enhancement”.

Corporate guarantees represented in the tables below are unrated at the international level. These guarantees are represented by large and medium sized Russian and international companies in trading, production, construction, metallurgy and other industries.

11 Loans and advances to customers (continued)

(in thousands of Russian Roubles)	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as at reporting date	Fair value of collateral – for collateral assessed as at loan inception date
Current and individually not impaired			
Securities	15 209 815	11 696 075	3 513 740
Real estate	3 464 294	3 453 635	10 659
Motor vehicles	423 892	246 666	177 226
Finished goods and inventories	353 008	206 582	146 426
Equipment	2 183 959	2 156 553	27 406
Property rights	2 431 447	2 387 688	43 759
Corporate guarantees	12 007 762	-	-
Guarantees of individuals	5 470 544	-	-
No collateral or other credit enhancement	42 645 522	-	-
Total	**84 190 243**	**20 147 199**	**3 919 216**
Overdue			
Real estate	394 665	393 808	857
Motor vehicles	174 338	92 402	81 936
Equipment	13 821	12 378	1 443
Finished goods and inventories	23 780	22 234	1 546
Guarantees of individuals	426 166	-	-
Corporate guarantees	164 161	-	-
No collateral or other credit enhancement	95 959	-	-
Total	**1 292 890**	**520 822**	**85 782**
Total loans to legal entities net of allowance for impairment	**85 483 133**	**20 668 021**	**4 004 998**

11 Loans and advances to customers (continued)

The fair value of collateral in respect of loans to corporate customers as at 31 December 2013 is as follows:

(in thousands of Russian Roubles)	**Carrying amount of loans to customers**	**Fair value of collateral - for collateral assessed as at reporting date**	**Fair value of collateral – for collateral assessed as at loan inception date**
Current and individually not impaired			
Securities	9 111 932	9 111 932	-
Real estate	3 320 203	3 038 901	281 302
Motor vehicles	699 650	305 742	393 908
Finished goods and inventories	534 148	264 521	269 627
Equipment	364 594	252 791	111 803
Property rights	169 479	164 497	4 982
Other collateral	2 416	-	2 416
Corporate guarantees	9 492 167	-	-
Guarantees of individuals	6 748 764	-	-
No collateral or other credit enhancement	18 570 795	-	-
Total	**49 014 148**	**13 138 384**	**1 064 038**
Overdue			
Real estate	122 083	87 816	34 267
Motor vehicles	39 156	22 143	17 013
Equipment	29 205	27 716	1 489
Finished goods and inventories	47 916	45 942	1 974
Guarantees of individuals	355 451	-	-
Corporate guarantees	111 525	-	-
No collateral or other credit enhancement	298 565	-	-
Total	**1 003 901**	**183 617**	**54 743**
Total loans to legal entities net of allowance for impairment	**50 018 049**	**13 322 001**	**1 118 781**

The tables above exclude the effects of over collateralisation.

The recoverability of current and individually not impaired loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral. The current value of the collateral does not impact the impairment assessment.

Loans to individuals are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors market prices with the same frequency as for loans issued to legal entities and adjusts the fair value of collateral if significant changes in market prices are observed. The Group performs a valuation of the fair value of collateral for impaired loans to retail customers also every six months, using the same methods as for corporate loans.

Loans to individuals secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in “Collateralised consumer loans”. Loans to individuals included in “Express loans” and “Loans to employees participating in payroll projects” are not secured.

11 Loans and advances to customers (continued)

The analysis of the fair value of collateral in respect of loans to individuals overdue more than 30 days as at 31 December 2014 and 2013 is as follows:

(in thousands of Russian Roubles)	2014	2013
Real estate	81 269	32 222
Motor vehicles	55 428	13 727
Other collateral	12 857	2 665
Total	**149 554**	**48 614**

The tables above show the fair value of collateral excluding the effects of over collateralisation.

As at 31 December 2014, for collateralised consumer loans that are neither overdue or overdue less than 30 days management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The actual net realisable value of the collateral on loans to legal entities and individuals can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

The geographical analysis, the analysis of loans and advances to customers on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32. Information on related parties transactions is disclosed in Note 38.

12 Finance lease receivables

Finance lease receivables as at 31 December 2014 of RUB 1 012 820 thousand (2013: RUB 1 125 950 thousand), RUB 699 246 thousand (31 December 2013: RUB 781 623 thousand) and RUB 67 715 thousand (31 December 2013: RUB 75 767 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values as at 31 December 2014 and 2013 are as follows:

(in thousands of Russian Roubles)	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Finance lease payments receivable at 31 December 2014	**805 290**	**951 815**	**22 676**	**1 779 781**
Unearned finance income	(62 471)	(274 517)	(11 681)	(348 669)
Allowance for impairment	(9 428)	(4 384)	(2)	(13 814)
Present value as at 31 December 2014	**733 391**	**672 914**	**10 993**	**1 417 298**
Finance lease payments receivable at 31 December 2013	**830 774**	**1 102 976**	**49 590**	**1 983 340**
Unearned finance income	(76 037)	(358 268)	(28 121)	(462 426)
Allowance for impairment	(9 779)	(8 397)	(4)	(18 180)
Present value as at 31 December 2013	**744 958**	**736 311**	**21 465**	**1 502 734**

12 Finance lease receivables (continued)

Analysis of changes in the allowance for impairment of finance lease receivables is as follows:

(in thousands of Russian Roubles)	2014	2013
Allowance for impairment as at 1 January	**18 180**	**13 139**
Charge of provision	19 844	33 419
Write offs	(24 210)	(28 378)
Allowance for impairment as at 31 December 2014	**13 814**	**18 180**

Analysis by credit quality of finance lease receivables outstanding as at 31 December 2014 and 2013 is as follows:

(in thousands of Russian Roubles)	2014	2013
Not overdue finance lease receivables	1 231 231	1 469 691
Overdue finance lease receivables:	199 881	51 223
- overdue less than 30 days	102 381	11 237
- overdue 31-90 days	44 026	1 893
- overdue 91-210 days	40 251	5 429
- overdue 211-360 days	841	26 370
- overdue more than 360 days	12 382	6 294
Total finance lease payments receivable before allowance for impairment	**1 431 112**	**1 520 914**
Allowance for impairment	(13 814)	(18 180)
Total	**1 417 298**	**1 502 734**

Information about the fair value of collateral is as follows:

(in thousands of Russian Roubles)	2014	2013
Motor vehicles	788 905	853 326
Equipment	527 985	596 235
Premises	51 313	50 639
Total	**1 368 203**	**1 500 200**

The table above reflects the fair value of collateral excluding the effects of overcollateralisation.

The fair value of collateral as at 31 December 2014 and 2013 is estimated by the Bank's Risk department based on current market prices.

The geographical analysis, the analysis of receivables on financial lease on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

13 Property and equipment

(in thousands of Russian Roubles)	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
Cost or valuation as at 1 January 2013		3 688 315	1 648 274	266 294	5 602 883
Accumulated depreciation		(28 437)	(749 747)	-	(778 184)
Carrying amount as at 1 January 2013		**3 659 878**	**898 527**	**266 294**	**4 824 699**
Additions		177 798	324 480	527 350	1 029 628
Transfers		29 509	167 538	(197 047)	-
Transfer to "Investment Property"	15	(19 095)	-	-	(19 095)
Transfer from “Investment Property”	15	9 347	-	-	9 347
Disposals – cost		(31 501)	(93 350)	-	(124 851)
Disposals - accumulated depreciation		10 974	75 931	-	86 905
Depreciation charge	29	(116 619)	(219 450)	-	(336 069)
Carrying amount as at 31 December 2013		**3 720 291**	**1 153 676**	**596 597**	**5 470 564**
Cost or valuation as at 31 December 2013		3 854 120	2 046 942	596 597	6 497 659
Accumulated depreciation		(133 829)	(893 266)	-	(1 027 095)
Carrying amount as at 31 December 2013		**3 720 291**	**1 153 676**	**596 597**	**5 470 564**
Additions		293 008	461 574	62 692	817 274
Transfers		128 838	462 619	(591 457)	-
Transfer to "Investment Property"	15	19 607	-	-	19 607
Disposals – cost		(34 828)	(134 284)	-	(169 112)
Disposals - accumulated depreciation		403	102 509	-	102 912
Depreciation charge	29	(125 681)	(342 596)	-	(468 277)
Carrying amount as at 31 December 2014		**4 001 638**	**1 703 498**	**67 832**	**5 772 968**
Cost or valuation as at 31 December 2014		4 260 745	2 836 851	67 832	7 165 428
Accumulated depreciation		(259 107)	(1 133 353)	-	(1 392 460)
Carrying amount as at 31 December 2014		**4 001 638**	**1 703 498**	**67 832**	**5 772 968**

Construction in progress consists of construction and refurbishment of office premises. Upon completion, the assets are transferred to “Premises and land” or “Office and computer equipment”.

The fair value of premises is included in Level 3 in the fair value hierarchy (see Note 36).

13 Property and equipment (continued)

As at 31 December 2014 the Group analysed price dynamics on the office property market in 2013-2014. Based on the results of the analysis there were no significant changes in fair value of land and premises during stated periods, so no revaluation was made as at 31 December 2013 and 2014. As at 31 December 2013 and 2014, the carrying value of land and premises approximately equals their fair value.

Land and premises were revalued as at 1 December 2012 by an independent appraiser LCC “SRG-Appraisal” who has appropriate professional qualifications and recent experience in appraisal of similar objects of property.

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

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

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties’ rental rates
- the vacancy rate of 9.1% was assumed for the properties located in Ekaterinburg; the vacancy rate of 4.8% was assumed for the properties located in other regions
- capitalisation rates from 8.4% to 13.3% were assumed depending on size and location of the property.

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

Changes in the estimates above could effect the value of land and premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the valuation of land and premises as at 31 December 2014 would be RUB 107 671 thousand higher/lower (2013: RUB 106 702 thousand).

In case the premises were recognised at initial cost less the depreciation and losses from depreciation, their balance cost as at 31 December 2014 made RUB 3 208 043 thousand (as at 31 December 2013: RUB 2 813 804 thousand).

14 Intangible assets

(in thousands of Russian Roubles)	Notes	Software licenses
Cost as at 1 January 2013		263 834
Accumulated amortisation		(81 923)
Carrying amount as at 1 January 2013		**181 911**
Additions		129 269
Disposals - cost		(107)
Disposals - accumulated amortisation		24
Amortisation charge	29	(46 894)
Carrying amount as at 31 December 2013		**264 203**
Cost as at 31 December 2013		392 996
Accumulated amortisation		(128 793)
Carrying amount as at 31 December 2013		**264 203**
Additions		71 346
Disposals – cost		(25 143)
Disposals - accumulated amortisation		25 143
Amortisation charge	29	(62 224)
Carrying amount as at 31 December 2014		**273 325**
Cost as at 31 December 2014		439 199
Accumulated amortisation		(165 874)
Carrying amount as at 31 December 2014		**273 325**

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

15 Investment property

(in thousands of Russian Roubles)	Notes	Land and buildings
Cost as at 1 January 2013		6 047 817
Accumulated depreciation		(92 612)
Carrying amount as at 1 January 2013		**5 955 205**
Transfer from "Assets held for sale"		222 584
Transfer to "Assets held for sale "		(85 411)
Transfer from "Property and equipment"	13	19 095
Transfer to "Property and equipment"	13	(9 347)
Additions		23 768
Disposals – cost		(65 072)
Disposals - accumulated depreciation		1 441
Depreciation charge		(89 881)
Carrying amount as at 31 December 2013		**5 972 382**
Cost as at 31 December 2013		6 152 980
Accumulated depreciation		(180 598)
Carrying amount as at 31 December 2013		**5 972 382**
Transfer to "Property and equipment"	13	(19 607)
Additions		10 127
Disposals – cost		(66 729)
Disposals - accumulated depreciation		847
Depreciation charge		(91 588)
Carrying amount as at 31 December 2014		**5 805 432**
Cost as at 31 December 2014		6 075 246
Accumulated depreciation		(269 814)
Carrying amount as at 31 December 2014		**5 805 432**

Information about the investment property of RUB 5 586 861 thousand transferred without derecognition is presented in Note 19.

As at 31 December 2013 investment property with carrying amount of RUB 5 710 719 thousand is pledged under repurchase agreements.

The fair value of investment property as at 31 December 2014 is RUB 6 686 627 thousand (31 December 2013: RUB 6 789 000 thousand). Fair values are estimated based on actual market data by an independent appraiser with appropriate professional qualifications and recent experience in appraisal of similar objects of investment property.

The fair value of investment property is included in Level 3 in the fair value hierarchy (see Note 36).

The assessment was carried out with use of a market approach and income direct capitalisation approach (income method) weighed in a 50% / 50% basis.

The market approach is based upon an analysis of the results of comparable sales or offers of similar buildings. Adjustments were applied for size, condition, class and bargain discount.

15 Investment property (continued)

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties’ rental rates
- management and maintenance expenses, underutilisation of investment property and loss during collection of rent payments was assumed in the range from 18.1 % to 22.2 % depending on the item (31 December 2013: from 19.5 % to 23.3 %)
- capitalisation rates from 8.3 % to 14.4 % were assumed depending on function of property (31 December 2013: from 8.3 % to 14.4 %).

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

The following table shows profit and losses from operations with investment property for 2014 and 2013.

(in thousands of Russian Roubles)	**2014**	**2013**
Income		
Rental income	284 618	217 963
Income from disposal	26 779	108 578
Total	**311 397**	**326 541**
Expenses		
Expenses from disposal	65 882	63 631
Property tax	116 467	118 139
Utility costs and repairs	108 967	107 069
Depreciation	91 588	89 881
Advertising and marketing services	20 244	35 195
Other	7 739	4 156
Total	**410 887**	**418 071**
Loss from operation with investment property	**(99 490)**	**(91 530)**

16 Advances to real estate developers

Advances to real estate developers represent investments in investment contracts for construction of apartment buildings, business centres, hotels and other properties in Moscow, Yekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group generally intends to sell the majority of these investments close to completion stage. However, during 2014, the Group changed intentions concerning one project, and upon completion of construction the real estate object was transferred to the Group and transferred in assets held for sale. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts, which is recognised as interest income.

The consolidated statement of profit or loss for 2014 as part of interest income includes the income in the amount of RUB 6 536 thousand relating to the above stated investments (2013: nil).

Advances to real estate developers are neither overdue or impaired as at 31 December 2014 and 2013. These investments are secured by the underlying real estate. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

The geographical analysis, the analysis of advances to real estate developers on the structure of currencies and terms of placement, as well as the analysis of interest rates are disclosed in Note 32.

17 Other assets

(in thousands of Russian Roubles)	Note	2014	2013 (restated)
Receivables under commission agreements		7 516 673	1 735 663
Receivables for operations with securities, precious metals and foreign currencies		1 359 590	43 763
Foreign currency forward contracts	35	595 301	4 969
Settlements on cash and other operations		174 120	136 261
Credit and debit card receivables		164 075	59 370
Investments in non-consolidated subsidiaries		89 000	88 571
Currency options	35	82 387	-
Forward contracts with precious metals	35	2 474	15 652
Other		776	942
Total other financial assets		**9 984 396**	**2 085 191**
Prepayments for administrative services		1 132 533	1 360 304
Equipment purchased for finance lease		1 246 735	529 810
Prepaid taxes other than income tax		76 055	213 558
Prepayments for construction in progress		73 393	203 124
Precious metals		65 151	38 314
Deferred expenses		18 095	16 888
Other		361 258	101 420
Total other non-financial assets		**2 973 220**	**2 463 418**
Total		**12 957 616**	**4 548 609**

As at 31 December 2014 receivables under commission agreements are non-overdue unsecured receivables for transferred commodities payment from one counterparty with maturity less than 1 year (31 December 2013: two counterparties).

As at 31 December 2014 receivables of RUB 1 341 898 thousand within receivables for operations with securities, precious metals and foreign currencies are non-overdue unsecured receivables on conversion operations with one counterparty with maturity less than 1 year (31 December 2013: nil).

As at 31 December 2014 receivables of RUB 123 163 thousand within prepayments on operating activities represented by advances given on supply agreements for equipment for further resale (31 December 2013: RUB 575 558 thousand).

The geographical analysis, the analysis of other financial assets on the structure of currencies and terms of placement are disclosed in Note 32. Information on related party operations is disclosed in Note 38.

18 Assets held for sale

(in thousands of Russian Roubles)	2014	2013
Premises and land	641 969	454 227
Motor vehicles	15 729	34 108
Other property	6 745	64 013
Total	**664 443**	**552 348**

The property acquired as a result of transactions on settlement agreements and pledge agreements is recognised in assets held for sale.

Management believes that fair value of assets held for sale as at 31 December 2014 and 31 December 2013 is not different significantly from carrying amount. Fair value of assets held for sale is estimated based on market data and internal assessment of the Group. As part of the evaluation, the comparative method is mainly used.

18 Assets held for sale (continued)

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in the consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2014 and 2013. These assets are expected to be sold within 1 year.

19 Transfer of financial and non-financial assets

The financial and non-financial assets transferred without derecognition as at 31 December 2014 are shown in the table below:

(in thousands of Russian Roubles)	Other securities at fair value through profit or loss	Investment securities held to maturity	Loans and advances to customers	Investment property
Balance value of assets	11 443 476	28 324 182	5 942 007	5 586 861
Balance value of related liabilities	10 482 396	24 417 243	6 029 817	7 066 205

The financial and non-financial assets transferred without derecognition as at 31 December, 2013 are shown in the table below:

(in thousands of Russian Roubles)	Other securities at fair value through profit or loss	Investment securities held to maturity	Investment property
Balance value of assets	12 164 459	28 418 863	5 710 719
Balance value of related liabilities	10 675 384	24 987 099	6 543 912

Securities

The Group has transactions to sell securities under sale and repurchase as well as purchase and resale agreements.

The securities sold under sale and repurchase agreements are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties even in the case of absence of default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in Notes 8 and 9. The Group recognises a financial liability for cash received within due to other banks (see Note 20). As at 31 December 2014 financial liabilities under second part of the sale and repurchase agreements amount to RUB 34 899 639 thousand (31 December 2013: RUB 35 662 483 thousand), including financial liabilities with the CBRF of RUB 26 452 879 thousand (31 December 2013: RUB 28 322 135 thousand).

These transactions are conducted under generally accepted lending terms, as well as under the requirements determined by exchanges where the Group acts as intermediary.

Credits and advance payments to customers

During 2014 the Group sold under assignment agreements loans from "Express loans" and "Unsecured consumer loans" portfolios and received cash.

These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. The assignee has the right to demand repayment of the loan in case loan overdue over 1 day / 29 days depending on thr terms of the assignment agreement.

Respectively, the Group continues to recognise these loans in the consolidated statement of financial position until the expiration of the loan/assignment agreement. For the received cash, the Group recognises financial liabilities within the due to other banks and customer accounts. As at 31 December 2014 the balance value of sold loans without derecognition before impairment allowance deduction amounts to RUB 5 942 007 thousand, the balance value of the corresponding liabilities recognised within due to other banks – RUB 5 760 035 thousand (see Note 20), the balance value of the liabilities recognised within customer accounts as term deposits – RUB 269 782 thousand (see Note 21).

19 Transfer of financial and non-financial assets (continued)

Investment real estate

In December 2014 the Group sold investment property of RUB 5 586 861 thousand balance value and at the same time signed the forward contract for repurchase of this property. These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. Respectively, the Group continues to recognise these assets in the statement of financial position within investment property and recognises financial liabilities for the cash received from sale of these assets in customer accounts as other funds. Balance value of the recognised liabilities as at 31 December 2014 amounts to 7 066 205 thousand (see Note 21).

As at 31 December 2013 in customer accounts the Group recognised financial liabilities in respect of cash received under second part of sale and repurchase agreements in the amount of RUB 6 543 912 thousand secured by investment property. Investment property sold under sale and repurchase agreements was transferred to a third party and the Group received cash. These items may be repledged or sold by counterparties, even in the case of absence of default by the Group of its obligations, but the counterparty has an obligation to return them when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to this investment property and therefore has not derecognised it. These properties are presented as “pledged under sale and repurchase agreements” in Note 15.

20 Due to other banks

(in thousands of Russian Roubles)	2014	2013
Sale and repurchase agreements on securities	34 899 639	35 662 483
Short-term deposits	10 885 177	4 718 389
Correspondent accounts and overnight placements	651 120	359 143
Other funds	5 760 035	-
Total	**52 195 971**	**40 740 015**

As at 1 December 2014 the Group has four counterparties (31 December 2013: five counterparties) with balances over RUB 1 000 000 thousand. The aggregate balances from these counterparties amount to RUB 38 012 500 thousand (31 December 2013: RUB 38 317 494 thousand), or 97% of total balances from other banks (31 December 2013: 97%).

Information concerning obligations under securities sale and repurchase agreements, as well as concerning the other funds is disclosed in Note 19.

The geographical analysis, the analysis of due to other banks on the structure of currencies and repayment periods, as well as the analysis of interest rates are disclosed in Note 32.

21 Customer accounts

(in thousands of Russian Roubles)	2014	2013
State and public organisations		
- Current/settlement accounts	11 359	14 874
Other legal entities		
- Current/settlement accounts	12 480 339	11 272 044
- Term deposits	30 093 071	22 042 701
- Other funds	7 066 205	6 543 912
Individuals		
- Current/demand accounts	5 732 163	6 646 747
- Term deposits	93 721 177	78 482 724
Total	**149 104 314**	**125 003 002**

State and public organisations exclude government owned profit oriented businesses.

Information concerning the other funds is disclosed in Note 19.

21 Customer accounts (continued)

As at 31 December 2014 the Group has 16 customers (31 December 2013: 18 customers) with balances above RUB 300 000 thousand. The aggregate balances from these customers are RUB 20 341 020 thousand (31 December 2013: RUB 19 152 452 thousand), or 14 % (31 December 2013: 15%) of total customer accounts.

As at 31 December 2014 customer accounts include deposits of RUB 620 173 thousand (31 December 2013: RUB 9 579 thousand) held as collateral for irrevocable commitments under import letters of credit.

The economic sector concentrations as at 31 December within customer accounts are as follows:

	2014		2013	
(in thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Individuals	99 453 340	66.7	85 129 471	68.1
Services	22 671 819	15.2	14 181 757	11.3
Trade	7 675 905	5.1	12 488 216	10.0
Manufacturing	7 512 268	5.0	5 048 825	4.0
Construction	4 380 047	2.9	3 907 344	3.1
Other	7 410 935	5.1	4 247 389	3.5
Total	**149 104 314**	**100.0**	**125 003 002**	**100.0**

The geographical analysis, the analysis of customer accounts on the structure of currencies and repayment periods, as well as the analysis of interest rates are disclosed in Note 32. Information on related parties transactions is disclosed in Note 38.

22 Debt securities in issue

(in thousands of Russian Roubles)	**2014**	**2013**
Promissory notes	9 189 032	7 031 457
Bonds issued on the domestic market	6 176 641	8 328 163
Loan participation notes	3 788 985	2 199 697
Deposit certificates	104 427	-
Euro commercial securities	-	1 629 949
Total	**19 259 085**	**19 189 266**

As at 31 December 2014 debt securities of the Group in issue are represented by Russian Rouble denominated bonds in amount of RUB 6 176 641 thousand (31 December 2013: RUB 8 328 163 thousand).

The following table provides information on the above stated bonds:

Issuer		UBRD, PJSC	
Series	BO-1	BO-5	BO-8
Issue, thousand roubles	2 000 000	2 000 000	3 000 000
Nominal value, roubles	1 000	1 000	1 000
Date of issue	October 2012	April 2013	September 2013
Maturity date	September 2015	April 2020	September 2016
Interest rate of the first two coupons, % p.a.	12.50	11.15	10.75
Interest rate of other coupons, % p.a.	determined by the issuer	determined by the issuer	determined by the issuer
Quantity of coupon period	6	14	6
Coupon period	182 days	182 days	6 months
Date of offer	-	22.04.2015	24.03.2015

In 2014 the Group repaid bonds of the BO-08 series submitted to the offer. As at December 31 2014 the nominal value of the repaid bonds is RUB 970 150 thousand.

22 Debt securities in issue (continued)

On 5 May 2014 the Group repaid at maturity bonds of the 02 series of nominal value RUB 2 000 000 thousand.

On 27 June 2013 the Group issued loan participation notes in the amount of USD 68 million for the period of 5.5 years at a fixed interest rate of 12% p. a. The issuer is the structured entity UBRD Capital Limited. As at 31 December 2014 these loan participation notes are stated at amortised cost of RUB 3 788 985 thousand (31 December 2013: RUB 2 199 697 thousand).

In 2014 the Group repaid at maturity three series of Euro commercial papers in the amount of USD 50.8 million. As at 31 December 2013 these Euro commercial papers were accounted at amortised cost in debt securities in issue in the amount of RUB 1 629 949 thousand.

The geographical analysis and the analysis of the debt securities in issue on the structure of currencies and repayment periods, as well as the analysis of interest rates are disclosed in Note 32. Information on related party transactions is disclosed in Note 38.

23 Other liabilities

(in thousands of Russian Roubles)	Notes	2014	2013
Trade payables		650 889	805 274
Foreign currency forward contracts	35	114 623	19 082
Payables on mandatory insurance of deposits		93 105	82 078
Settlements on plastic cards		6 669	4 599
Precious metals forward contracts	35	3 859	6 576
Income of future periods on the other placements		-	45 597
Other		90 212	51 815
Total other financial liabilities		**959 357**	**1 015 021**
Advance payments under sale agreements		410 618	410 618
Taxes other than income tax payable		136 932	78 549
Advance payments under lease agreements		8 537	37 882
Settlements with staff on payroll and other		362	285
Provision for financial guaranties contracts		-	34 442
Other		50 153	4 399
Total other non-financial liabilities		**606 602**	**566 175**
Total		**1 565 959**	**1 581 196**

As at 31 December 2014 RUB 481 188 thousand included in trade payables is represented by trade payables on cession agreements (31 December 2013: RUB 481 188 thousand) and RUB 6 434 thousand is represented by trade payables on commission agreements (31 December 2013: RUB 163 368 thousand)

The geographical analysis and the analysis of other financial liabilities on the structure of currencies and repayment periods are disclosed in Note 32. Information on related party transactions is disclosed in Note 38.

24 Other borrowed funds

(in thousands of Russian Roubles)	**2014**	**2013**
Subordinated loans	11 089 323	4 324 551
Syndicated loans	1 637 646	-
Total	**12 726 969**	**4 324 551**

The following table provides information about subordinated loans as at 31 December 2014 and 2013:

Amounts of loan in USD	25 000 000	40 000 000	30 000 000	20 000 000	30 000 000	50 000 000
Issue date	31.12.2014	20.06.2014	30.12.2013	28.02.2013	27.12.2012	21.12.2007
Maturity	6 years	6 years	6 years	6 years	6 years	10 years
Lender	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	The Royal Bank of Scotland
Interest rate as at 31 December 2014, % p.a	10.25	10.25	8.25	8.25	8.25	9.83
Interest rate as at 31 December 2013, % p.a	-	-	8.25	8.25	8.25	9.89
Carrying value as at 31 December 2014, (in thousands of Russian Roubles)	1 406 460	2 257 293	1 688 134	1 146 332	1 689 373	2 901 731
Carrying value as at 31 December 2013, (in thousands of Russian Roubles)	-	-	982 100	673 229	982 794	1 686 428

In the event of the Bank's liquidation the creditors under these subordinated debts would be the last ones entitled to receive repayment.

In April 2014 the Group attracted a syndicated loan in the amount of USD 33.8 million for 5 years. The loan was granted by AKA Export Finance Bank and Commerzbank at the contract interest rate which is a cumulative rate of six-month's LIBOR and the margin equal to 2% p.a.

The geographical analysis and the analysis of other borrowed funds on the structure of currencies and maturity, as well as the analysis of interest rates are disclosed in Note 32.

25 Share capital, share premium and additional capital

(in thousands of Russian Roubles)	**Number of outstanding shares**	**Ordinary shares**
As at 1 January 2013	1 001 454 334	3 634 812
As at December 2013	1 001 454 334	3 634 812
As at December 2014	1 001 454 334	3 634 812

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2014 and 2013 all outstanding shares were authorised, issued and fully paid in.

25 Share capital, share premium and additional capital (continued)

As at 31 December 2014 all ordinary shares have a nominal value of RUB 3 per share (31 December 2013: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

In 2014 additional capital was increased by RUB 1 044 300 thousand represented by additional gratuitous finance contributions made by the controlling shareholder. As at 31 December 2014 additional capital amounts to RUB 3 423 503 thousand (31 December 2013: RUB 2 379 203 thousand).

26 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2014 are RUB 8 411 762 thousand (31 December 2013: RUB 6 787 705 thousand) (calculation of the reserves under Russian Accounting Rules is unaudited by AO KPMG).

On 20 May 2014 at annual shareholders' meeting dividends on the results of 2013 were declared at the rate of RUB 0.40 to one issued ordinary share of the Bank. The total amount of dividends is RUB 400 582 thousand.

On 30 September 2013 at extraordinary shareholders' meeting dividends on the results of the first 6 months of 2013 were declared at the rate of RUB 0.30 to one issued ordinary share of the Bank. The total amount of dividends is RUB 300 436 thousand.

27 Interest income and expense

(in thousands of Russian Roubles)	**2014**	**2013**
Interest income		
Loans and advances to customers	21 906 693	17 473 536
Investment securities held to maturity	2 326 255	1 963 874
Other securities at fair value through profit or loss	2 009 204	1 972 789
Finance lease receivables	281 946	215 992
Correspondent accounts with other banks	85 604	2 725
Due from other banks	73 402	140 877
Advances to real estate developers	6 536	-
Total	**26 689 640**	**21 769 793**
Interest expense		
Term deposits of individuals	7 370 963	6 490 666
Sale and repurchase agreements	3 263 608	1 782 299
Debt securities in issue	1 766 267	1 448 260
Term placements of legal entities	1 762 041	1 429 348
Term placements of other banks	992 676	216 011
Other attracted funds from banks	587 238	-
Subordinated loans	534 223	286 928
Current/settlement accounts	237 237	205 916
Syndicated loans	31 886	-
Correspondent accounts of other banks	8 145	11 730
Total	**16 554 284**	**11 871 158**
Net interest income	**10 135 356**	**9 898 635**

The information on related party transactions is disclosed in Note 38.

28 Fee and commission income and expense

(in thousands of Russian Roubles)	2014	2013
Fee and commission income		
Client service packages	2 727 571	3 533 412
Transactions with plastic cards and cheques	887 590	786 835
Settlement transactions	614 490	485 972
Trade finance transactions	392 166	516 325
Cash transactions	150 063	115 261
Guarantees issued	84 845	58 958
Cash collection	28 869	25 934
Transactions with securities	2 405	3 364
Fiduciary activities	513	1 044
Other	112 849	163 957
Total	**5 001 361**	**5 691 062**
Fee and commission expense		
Transactions with plastic cards and cheques	297 781	201 869
Trade finance transactions	97 885	59 452
Cash collection	85 164	84 841
Settlement transactions	69 155	58 879
Currency transactions	18 666	12 222
Transactions with securities	13 717	12 442
Transactions with precious metals	3 168	4 669
Other	640	25 277
Total	**586 176**	**459 651**
Net fee and commission income	**4 415 185**	**5 231 411**

Fee and commission income, included in line "Client service packages", are commission for insurance services, granting access to the system of remote banking and other services (see Note 3). The information on related party transactions is disclosed in Note 38.

29 Administrative and other operating expenses

(in thousands of Russian Roubles)	Notes	2014	2013
Staff costs		4 115 229	3 905 129
Operating lease expense for property and equipment		754 030	591 077
Depreciation of property and equipment	13	468 277	336 069
Contributions to State deposit insurance system		363 369	300 492
Other costs of property and equipment		314 235	220 807
Advertising and marketing services		271 044	522 611
Professional services		222 455	259 767
Information and communication services		144 536	161 942
Taxes other than income tax		105 413	110 303
Acquisition of fittings and materials		92 862	209 706
Computer software maintenance		78 658	29 573
Insurance of employees and business property		77 114	31 594
Amortisation of intangible assets	14	62 224	46 894
Security services		14 539	85 604
Other		283 698	249 505
Total		**7 367 683**	**7 061 073**

Included in staff costs are statutory social security and pension contributions of RUB 852 365 thousand (2013: RUB 780 581 thousand).

30 Income tax expense

Income tax expense comprises the following:

(in thousands of Russian Roubles)	**2014**	**2013**
Current income tax	243 361	301 930
Income tax under/(over) provided in prior years	81 298	(765)
Deferred income tax	(13 806)	207 132
Income tax expense for the year	**310 853**	**508 297**

The income tax rate applicable to the majority of income is 20% (2013: 20%). A reconciliation between the expected and the actual tax expense is provided below.

(in thousands of Russian Roubles)	**2014**	**2013**
Profit before tax	**783 976**	**2 576 711**
Theoretical tax at applicable rate	156 795	515 342
Non-deductible costs	85 927	18 041
Income on state securities taxed at lower tax rates	(11 792)	(15 211)
Income tax under/(over) provided in prior years	81 298	(765)
Other differences	(1 375)	(9 110)
Income tax expense	**310 853**	**508 297**

As at 31 December 2014 increase in deferred tax asset of RUB 16 801 thousand (31 December 2013: increase of deferred tax asset of RUB 6 414 thousand) is recorded directly in other comprehensive income in respect of the cumulative translation reserve and revaluation of securities available-for-sale.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for 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%).

30 Income tax expense (continued)

(in thousands of Russian Roubles)	**Deferred tax asset**		**Deferred tax liability**		**Net position**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Trading and other securities at fair value through profit or loss	7 885	52 054	(1 235 838)	-	(1 227 953)	52 054
Investment securities held to maturity	21 620	18 483	-	-	21 620	18 483
Due from other banks	977	942	-	-	977	942
Loans and advances to customers	227 600	221 485	(1 352 489)	(111 675)	(1 124 889)	109 810
Finance lease receivables	1 276	4 749	(51 685)	(28 452)	(50 409)	(23 703)
Property and equipment	43 841	14 433	(188 849)	(272 969)	(145 008)	(258 536)
Intangible assets	-	-	(36 099)	(39 272)	(36 099)	(39 272)
Investment property	175 523	163 540	-	(2 039)	175 523	161 501
Advances to real estate developers	-	-	(51 870)	(51 870)	(51 870)	(51 870)
Assets held for sale	56 354	44 925	-	-	56 354	44 925
Due to other banks	1 151 353	-	-	-	1 151 353	-
Customer accounts	1 467 197	-	-	-	1 467 197	-
Debt securities in issue	-	18 026	(3 892)	-	(3 892)	18 026
Other borrowed funds	1 535	-	(6 001)	(2 129)	(4 466)	(2 129)
Tax losses carry-forward	119 032	87 054	-	-	119 032	87 054
Foreign currency translation difference	25 041	8 240	-	-	25 041	8 240
Other	20 520	7 551	(299 452)	(70 104)	(278 932)	(62 553)
Total	**3 319 754**	**641 482**	**(3 226 175)**	**(578 510)**	**93 579**	**62 972**
Including:						
Deferred tax asset					**526 184**	**494 767**
Deferred tax liability					**(432 605)**	**(431 795)**

The tax losses carry-forward expire in year 2024.

Movements in temporary differences during 2014 and 2013 are presented as follows.

(in thousands of Russian Roubles)	**31 December 2013**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2014**
Trading and other securities at fair value through profit or loss	52 054	(1 280 007)	-	(1 227 953)
Investment securities held to maturity	18 483	3 137	-	21 620
Due from other banks	942	35	-	977
Loans and advances to customers	109 810	(1 234 699)	-	(1 124 889)
Finance lease receivables	(23 703)	(26 706)	-	(50 409)
Property and equipment	(258 536)	113 528	-	(145 008)
Intangible assets	(39 272)	3 173	-	(36 099)
Investment property	161 501	14 022	-	175 523
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	44 925	11 429	-	56 354
Due to other banks	-	1 151 353	-	1 151 353
Customer accounts	-	1 467 197	-	1 467 197
Debt securities in issue	18 026	(21 918)	-	(3 892)
Other borrowed funds	(2 129)	(2 337)	-	(4 466)
Tax losses carry-forward	87 054	31 978	-	119 032
Foreign currency translation difference	8 240	-	16 801	25 041
Other	(62 553)	(216 379)	-	(278 932)
Total	**62 972**	**13 806**	**16 801**	**93 579**

30 Income tax expense (continued)

(in thousands of Russian Roubles)	31 December 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Trading and other securities at fair value through profit or loss	16 329	35 725	-	52 054
Securities available-for-sale	(309)	-	309	-
Investment securities held to maturity	10 530	7 953	-	18 483
Due from other banks	961	(19)	-	942
Loans and advances to customers	287 179	(177 369)	-	109 810
Finance lease receivables	(8 592)	(15 111)	-	(23 703)
Property and equipment	(250 768)	(7 768)	-	(258 536)
Intangible assets	(30 136)	(9 136)	-	(39 272)
Investment property	225 013	(63 512)	-	161 501
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	-	44 925	-	44 925
Customer accounts	3 424	(3 424)	-	-
Debt securities in issue	12 430	5 596	-	18 026
Other borrowed funds	(2 091)	(38)	-	(2 129)
Tax losses carry-forward	106 592	(19 538)	-	87 054
Foreign currency translation difference	2 135	-	6 105	8 240
Other	(57 137)	(5 416)	-	(62 553)
Total	**263 690**	**(207 132)**	**6 414**	**62 972**

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 tax authority.

31 Segment analysis

The Group has four reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative financial instruments.
- Financial markets – representing financial instrument trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.
- Global markets – representing documentary operations and operations on attracting funds on international markets, such as Eurobonds and Euro commercial papers.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

31 Segment analysis (continued)

Segment information for the reportable segments as at and for the year ended 31 December 2014 is set out below.

(in thousands of Russian Roubles)	Retail banking	Corporate banking	Financial markets	Transactions on global markets	Total
Interest income from external operations	11 456 449	5 874 990	5 080 602	1 236 419	23 648 460
Interest expense	(7 404 206)	(2 908 734)	(5 020 937)	(739 190)	(16 073 067)
Gains/(losses) from transactions with other segments	5 115 288	(403 650)	1 244 767	-	5 956 405
Fee and commission income	3 951 575	864 533	(8 777)	324 167	5 131 498
Loss from transactions with securities	-	-	(2 084 504)	-	(2 084 504)
Gain/(loss) from transactions with foreign currencies and precious metals	258 038	397 641	5 925 002	-	6 580 681
Other operating income	322 451	40 849	-	-	363 300
Administrative and other operating expenses	(2 651 719)	(1 166 922)	(36 928)	(11 078)	(3 866 647)
Profit before tax	**11 047 876**	**2 698 707**	**5 099 225**	**810 318**	**19 656 126**
Segment assets	**62 474 268**	**86 289 505**	**38 856 791**	**27 160 479**	**214 781 043**
Segment liabilities	**95 047 063**	**45 986 647**	**51 442 814**	**13 603 120**	**206 079 644**

Segment information for the main reportable segments as at and for the year ended 31 December 2013 is set out below.

(in thousands of Russian Roubles)	Retail banking	Corporate banking	Financial markets	Transactions on global markets	Total
Interest income from external operations	10 304 889	5 541 519	4 130 081	152 252	20 128 741
Interest expense	(6 498 414)	(2 225 092)	(2 450 237)	(402 488)	(11 576 231)
Gains/(losses) from transactions with other segments	3 023 331	(1 000 908)	636 521	-	2 658 944
Fee and commission income	4 297 436	671 320	208	46 917	5 015 881
Loss from transactions with securities	-	-	(50 730)	-	(50 730)
Gain/(loss) from transactions with foreign currencies and precious metals	53 406	127 196	(14 018)	-	166 584
Other operating income	280 235	39 292	-	-	319 527
Administrative and other operating expenses	(2 348 345)	(1 013 389)	(29 332)	(9 462)	(3 400 528)
Profit before tax	**9 112 538**	**2 139 938**	**2 222 493**	**(212 781)**	**13 262 188**
Segment assets	**62 587 771**	**66 287 839**	**46 501 617**	**8 818 094**	**184 195 321**
Segment liabilities	**85 048 249**	**42 977 828**	**54 719 653**	**6 701 510**	**189 447 240**

In the tables above, administrative and other operating expenses are allocated between the segments based on the percentage of the number of employees attributable to each segment.

31 Segment analysis (continued)

Property and equipment are not allocated between segments in management accounting. Income and expenses from transactions with other segments represent income and expenses from lending and borrowing between segments and is calculated by using a transfer rate determined by management. Pricing in transactions between segments are carried out on an arm's length.

Reconciliations of reportable segment profit or loss for 2014 and 2013, assets and liabilities as at and for the years ended 31 December 2014 and 2013 are as follows:

(in thousands of Russian Roubles)	2014	2013
Segment profit before tax	**19 656 126**	**13 262 188**
Allowance for impairment of loans and advances to customers per management accounts	(10 843 601)	(6 226 778)
Unallocated administrative and other operating expenses	(3 914 084)	(3 725 674)
Elimination of revenues on transactions with other segments	(5 956 405)	(2 658 944)
Other revenues	220 465	1 090 729
IFRS accounting policy adjustments:		
- interest income on loans and advances to customers	2 588 830	1 422 561
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	(1 906 511)	(175 244)
- securities at fair value	1 178 040	185 244
- elimination of profit from transactions with subsidiaries, SPE and unit investment funds	821 911	48 328
- (loss)/income of subsidiaries, SPE and unit investment funds from transactions with third parties	(638 412)	132 309
- assignment of loans	(342 162)	(407 299)
- depreciation and financial result from realisation of property, investment property and intangible assets	(200 658)	(307 268)
- administrative and other operating expenses on accrual basis	130 611	20 011
- securities at amortised cost	(14 551)	(39 764)
- other adjustments	4 377	(43 688)
Consolidated profit before tax	**783 976**	**2 576 711**
Segment assets	**214 781 043**	**184 195 321**
Unallocated assets	18 291 303	25 352 351
Allowance for impairment of loans and advances to customers per management accounts	(14 951 987)	(9 624 344)
Deviation of average balances with balances at the period end	15 302 200	-
IFRS accounting policy adjustments:		
- assets of subsidiaries, SPE and unit investment funds from transactions with third parties	25 860 890	14 467 198
- elimination of balances with subsidiaries, SPE and unit investment funds	(17 704 569)	(13 256 021)
- loans and advances to customers transferred without derecognition	5 885 783	-
- write-offs of loans and advances to customers	(1 066 245)	(1 066 193)
- write-off of receivables from general business transactions to expenses	(908 041)	(598 538)
- allowance for impairment of loans, advances to customers, finance lease receivables and due from other banks	817 772	1 445 637
- interest income on loans and advances to customers	808 948	463 448
- revaluation of premises, depreciation, investment property and intangible assets	(720 284)	(508 222)
- securities at fair value	529 926	1 457 570
- deferred income tax asset	405 355	494 767
- goodwill	162 122	162 122
- securities at amortised cost	(108 064)	(93 513)
- derivatives at fair value	12 510	4 347
- other adjustments	213 962	(407 441)
Consolidated assets	**247 612 624**	**202 488 489**

31 Segment analysis (continued)

(in thousands of Russian Roubles)	2014	2013
Segment liabilities	**206 079 644**	**189 447 240**
Unallocated liabilities	355 636	21 495
Deviation of average balances with balances at the period end	15 199 636	-
IFRS accounting policy adjustments:		
- liabilities of subsidiaries, SPE and unit investment funds from transactions with third parties	12 284 684	5 851 528
- elimination of balances with subsidiaries, SPE and unit investment funds	(11 699 124)	(3 999 500)
- liabilities for repurchase of investment property transferred without derecognition	6 535 647	-
- liabilities for repurchase of loans and advances to customers transferred without derecognition	6 026 547	-
- deferred tax liabilities	517 664	431 795
- administrative and other operating expenses on accrual basis	99 695	101 803
- other borrowed funds at amortised cost	(22 327)	(10 645)
- debt securities issued at amortised cost	(20 676)	74 904
- derivatives at fair value	186	19 082
- other adjustments	73 439	(581 550)
Consolidated liabilities	**235 430 651**	**191 356 152**

Adjustments for deviation of average assets and liabilities balances with balances at the period end caused by analysing average balances in management accounts in December 2014. As at 31 December 2013 segment assets and liabilities were calculated based on year end balances. There were no changes in structure and composition of segments in 2014 year.

Geographical segments. The Group operates in the Russian Federation and foreign countires. Segment information for the main geographical segments is set out below for the years ended 31 December 2014 and 2013.

(in thousands of Russian Roubles)	Russia	Other countries	Total
2014			
Segment assets	139 332 705	75 448 338	214 781 043
External revenues	26 278 433	2 864 825	29 143 258
Credit related commitments	9 154 229	2 269 605	11 423 834
2013			
Segment assets	150 662 714	35 268 270	185 930 984
External revenues	23 956 042	1 508 107	25 464 149
Credit related commitments	10 858 360	2 702 248	13 560 608

In presenting geographical information the allocation of external revenues and assets and credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

32 Financial risk management, corporate governance and internal control

Corporate governance framework

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

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

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

Operational activities of the Bank are managed by the sole executive body of the Bank – President and collective executive body of the Bank – Management Board.

The Board of Directors elects the President for a term of five years. The Management Board of the Bank is formed by the decision of the Board of Directors of the Bank for a term of two years and acts on the basis of effective legislation of Russian Federation, the Charter of the Bank, as well as on the basis of the general shareholder's meeting approval of the Regulation on the Management Board of the Bank. The Management Board of the Bank is responsible for management of operational activities of the Bank except for resolving issues referred to the exclusive jurisdiction of general shareholder's meeting, the Board of Directors and the President of the Bank. The executive bodies of the Bank are responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank.

Internal control policies and procedures

The Bank's internal control system represents the set of bodies and directions of internal control ensuring the maintenance of order of implementation and achievement of the objectives set by the legislation of the Russian Federation, the CBRF and internal documents of the Bank.

The purpose of internal controls is to ensure:

- the efficiency and effectiveness of financial - economic activity related to banking operations and transactions, the effectiveness of asset and liability management, including the soundness of assets, management of banking risks
- reliability, completeness, objectivity and timeliness of drawing up and submission of financial, accounting, statistical and other statements (for external and internal users), and also information security (security of interests (objectives) of Bank in the information sphere representing a set of information, information infrastructure, the subjects which are carrying out collecting, formation, distribution and use of information, and also system of regulation of the relations arising thus)
- compliance with regulations, standards of the self-regulating organisations, constituent and internal documents of the Bank
- prevention of the Bank's involvement and participation of its employees in implementation of the illegal activity including connected with legalisation (laundering) of income gained in the criminal way, and financing of terrorism, and also timely submission of data to public authorities and the CBRF according to the legislation of the Russian Federation.

32 Financial risk management, corporate governance and internal control (continued)

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

- control by the Bank's management over organisation of its activities, including the following issues:
  - establishment and operation of effective internal control
  - establishment of effective systems of transmission and exchange of information
  - assessment of risks affecting the achievement of objectives.
- control over the functioning of the banking risk management and assessment of banking risks, providing the identification and analysis of internal (the complexity of the organisational structure, the level of qualifications of employees, organisational changes, staff turnover, etc.) and external (changes in economic environment of the credit institution, applied technologies etc.) factors that impact the Bank's activity
- control over the distribution of authorities in banking transactions and other transactions, which include both current control (material, physical, limits control, etc.) and subsequent control (carried out by appropriate inspections), as well as the development of systems coordination (approval) operations and transactions which exceed the limits, ensuring distribution of functions of employees to exclude the conflict of interests both between the Bank and its customers, and between the Bank and its employees
- control over the management of information flows (receipt and transmission of information) and information security, including overall control exercised to ensure the smooth and ongoing operation, and program control, which is performed manually and automated procedures controlling the processing of banking operations and other transactions
- ongoing monitoring of the internal control system in order to assess the degree of compliance with the objectives of the Bank, to identify gaps, develop proposals and control over the implementation of decisions on improvement of internal control system of the Bank.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit service. The results of Internal Audit service reviews are discussed with employees responsible for maintaining of financial and economic activities and for recognition of relevant transactions in accounting and analytical accounting of the Bank. Summaries submitted to the Board of Directors and the Management Board.

Since 1 October 2014, significant changes in internal control of the Bank were implemented. In accordance with the Provision of the CBRF as at 24 April 2014 No.3241-U *On introduction of changes in Regulations of the CBRF as at 16 December 2003 No.242-P On the organisation of internal control in credit organisations and banking group*s, the internal control function of the Bank was reorganised by separation of the internal audit service. As a result of reorganisation and in accordance with statutory acts of the CBRF requirements functions of the internal control service in the Bank were rearranged as follows:

- The internal audit service performs functions relating to audit and assessment of the internal control system efficiency as a whole, including audit of existing in the Bank processes and procedures over operations, audit of certain Bank's lines of business, assessment of economic efficiency of operations and deals. In addition, the internal audit service performs audit of the internal control service and the risk management service activities. The Group's internal audit service is subordinated to, and reported to, the Board of Directors
- The internal control service (the compliance service) conducts functions relating to:
  - identification, monitoring and management of regulatory risk, i.e. risk of losses occurrence due to Russian Federation legislation and the Bank's internal documentation non-compliance, including consequences of sanctions and (or) other actions of supervising bodies
  - identification of conflicts of interest in the Bank's operations and employees work, including preparation and approval of internal documentation for its minimisation.

32 Financial risk management, corporate governance and internal control (continued)

Thus, as at the date of preparation of the current statements, internal control in the Bank according to the authorities determined by constituent and internal documents of the Bank is carried out by the following bodies:

- the Bank's bodies (the general shareholders' meeting, the Board of Directors, the President and the Management Board)
- revision commission (controller)
- chief accountant (deputies) of the Bank
- financial monitoring department
- legal direction
- risk department
- corporate and personnel management department
- operational direction
- controller of professional securities market participant
- internal audit service
- internal control service (compliance service)
- controlling service
- treasury
- security service
- information system security function
- committees and commissions
- director (deputies) and chief accountants (deputies) of the Bank's branches
- heads (deputies) of additional and operational offices
- other departments and employees.

Information on the system of internal control, the order of its establishment and authorities are contained in the Charter of the Bank. The organisational structure of the Bank regarding distribution of authorities between officials, the bodies and divisions exercising internal control, corresponds to character and scales of the performed operations, level and a combination of the accepted risks.

Russian legislation, including:

- the Federal Law as at 2 December 1990 No.395-1 *On banks and banking activity*
- Regulations of the CBRF as at 25 October 2013 No.408-P *On assessment of compliance with the professional qualifications and requirements to business reputation of bodies stated in article 11.1 of the Federal Law On banks and banking activity and article 60 of the Federal law On the Central Bank of Russian Federation (Bank of Russia) and order of database keeping in accordance with article 75 of the Federal law On the Central Bank of Russian Federation (Bank of Russia) as at 25 October 2013 No 408-P*
- Provision of the CBRF as at 1 April 2014 No.3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation as at 1 April 2014 No.3223-U*,

establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet these requirements. The Bank sends to the CBRF the notices over compliance with the requirements of the above mentioned personnel as the changes in management personnel and their data subjected to agreement with the CBRF occur as required by regulatory acts of the CBRF.

Management believes that the Bank complies with the CBRF requirements related to risk management and internal control systems, including requirements related to the internal audit service, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations carried out by the Bank.

32 Financial risk management, corporate governance and internal control (continued)

Financial risk management

Risk management is a cornerstone of the Bank's activity and is an essential element of operating activities of the Group. Risk management is carried out in relation to financial risks (credit, market, currency, other price risks, interest rate risk, geographical and liquidity risk) and non-financial (operational, legal, strategic risks, risk of loss of business reputation and regulatory risk). The specified risks are the main (significant) risks which the Group faces in the course of implementation of its activity. The system of the reporting on significant risks and the Group's equity (capital) is developed in the Group. The main purpose of financial risk management is identification of risk limits and further ensuring compliance with the set limits. Non-financial risk management has to provide appropriate compliance with internal regulations and procedures for minimisation of the specified risks.

The internal documents of the Group applicable as at 31 December 2014 establishing techniques of identification and management of risks, significant for the Group, implementation of stress testing on the specified risks are approved by authorised bodies of the Bank's management according to requirements and recommendations of the CBRF.

The Board of Directors is responsible for appropriate risk management operation, significant risk management and also for approval of policies and procedures on risk management, as wells as for approval of significant transactions.

The responsibilities of the Bank's Board of Directors and its executive bodies include monitoring the Group's compliance with the limit values of risks established by internal documents of the Group and the equity sufficiency (capital sufficiency). To control the efficiency of the risk management procedures and sequence of their application applied in the Group, the Bank's Board of Directors and its executive bodies discuss the reports prepared by the Bank's Risk Department and the internal audit service on a periodic basis, consider proposed measures on elimination of shortcomings and improvement of the risk control system.

The Management Board is responsible for monitoring and introduction of measures for risk decrease, as well as monitoring the Group's activity within the set risk limits. The Risk Department is responsible for the general risk management and control of compliance with applicable legislation, as well as for control of application of the general principles and methods on detection, assessment, management and drawing up reports both on financial, and on non-financial risks. The Risk Department is accountable directly to the President and indirectly to the Board of Directors. The Risk Department is not subordinated and is not accountable to the divisions accepting the corresponding risks.

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 lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning.

Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan portfolio yield management).

32 Financial risk management, corporate governance and internal control (continued)

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group
- Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days
- the borrower has one delay in interest payment exceeding 15 calendar days
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent
- a failure to fulfill, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement
- two consecutive delays in contractual lease payments
- violation of contractual requirements on the use of leased property
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

For effective work on collecting debt, two procedures of collecting problem debts of corporate borrowers are provided in the Group: voluntary and enforcement.

Voluntary repayment of loan by problem borrowers stipulates the actions of responsible staff described below if it is possible to contact the borrower during a certain period of time is possible.

If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating
- reviewing the reasons for overdue balances (default)
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to the Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and evacuation of the problem borrower's property to the Group
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

32 Financial risk management, corporate governance and internal control (continued)

In case it is not possible to contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products profitability using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount
- on the basis of a review of the relationship of net operating income received from gross loan placements, and actual losses (overdue amounts with consideration of the recovery coefficient).

Issuance of loans to individuals is carried out via a software system SAP CRM – client relationships management system, conceptual approach in business development with external environment and market participants.

The process of loan issuance includes the following basic elements (software modules/automated work stations - AWS):

1. Software SAP CRM (SAP CRM «Loans») - software module for automatic:

- identification of borrower/surety/pledger
- verification of existence/absence of loan debts of borrower/surety/pledger with the Bank
- generating and keeping of borrower/surety/pledger application (filled in by the Bank’s specialist)
- export of borrower/surety/pledger application for the pre-issuance loan assessment
- generating “Account management agreement”, “CBM agreement”, “Application form”, “loan contract/ agreement”, “Surety agreement”, “Pledge agreement”, numbering, printing of agreements and etc.

2. Software AWS “Risk Manager” – adjustable in accordance with the Bank’s Setting limits for retail loans methodology (“Methodology”) software for borrower/surety creditworthiness assessment, collateral valuation and automatic calculation of credit limit amount for borrower based on application data and collateral.

Within the scope of the pre-issuance loan assessment preliminary credit limits are set in accordance with the methodology for client assessment.

Individual customers are evaluated based on scoring models developed with the help of special software using accumulated statistical data. These methods include procedures for calculation of scoring rates based on personal data as a separate borrower evaluation factor.

Security service specialist within the set period for applications verification performs check of data received from borrower/surety/pledger for reliability.

Security service specialist takes decision on every loan in SAP CRM and sets one of the statuses: “Loan issuance” or “Loan rejection”.

Final decision is made taking into account security service opinion.

3. Software AWS “Risk Manager” contains information over taken decision of security service check. Security service decision is also reflected in SAP CRM module “Additional information”/”List of applications transferred to security services” for every borrower/surety/pledger.

In case of a positive decision from the security service and a non-zero loan limit employee of the point of sale continues with the loan issuance in SAP CRM «Loans» choosing one of the options: “Now” (loan to be issued in a current operational day) or “Later” (loan to be issued within time limits set in accordance with “Individual terms of consumer loan”).

32 Financial risk management, corporate governance and internal control (continued)

The Group applies the system of monitoring of the individuals loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the effectiveness of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

The Problem-Debt Collection Direction (“PDCD”) starts work with individual loan on third loan or interest overdue day.

For overdue debts recovery complex of scoring models is developed based on accumulated statistical data. These models are used for loans segmentation by probability of recovery, type of loan product, instruments of debt recovery for management of collection strategies.

PDCD specialists work in software and hardware SAP CRM and SAP BCM.

For collection process optimisation the Bank implemented automotive processes of daily outgoing client calls (soft-collection), targets generation for hard-collection specialists, scenarios and screen forms containing necessary information for specialists work.

Score calculation and segmentation of loan agreements are performed daily in automatic mode.

On third day of overdue clients are sent sms with notice of overdue.

On fifth day of overdue all loan agreements are transferred to soft-collection service. Responsible specialists call to clients. This stage takes up to 20 days (or till recovery).

On 25th day of overdue depending on selected recovery strategy, loan agreements are transferred to pre-court management service or to collection agencies. Specialists of pre-court management service (hard-collection) work with entire set of measures – calls to clients, auto dial regime calls, sending written notice, sms and clients visits.

The Bank internal collection services usually work with overdue debts till 120 overdue days, then work is transferred to collection agencies.

If client does not repay the loan, it is transferred to collecting by judicial means. When loan is considered as uncollectable, it is written off the balance.

The Risk Department performs an ageing analysis of outstanding loans and follows up overdue balances. Management is provided with information on ageing analysis and other information relating to credit risk.

Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

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

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

32 Financial risk management, corporate governance and internal control (continued)

These securities received as collateral / pledged, may be pledged or sold during the term of the transaction, but must be returned before the maturity of the transaction. Terms of the transaction also provide to each counterparty the right to terminate the relevant transactions as a result of failure of a counterparty to provide collateral.

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

(in thousand Russian Roubles)	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position**	**Net amount**
Liabilities					
Sale and repurchase agreements on securities	(34 899 639)	-	(34 899 639)	34 899 639	-
Total financial liabilities	**(34 899 639)**	**-**	**(34 899 639)**	**34 899 639**	**-**

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

(in thousand Russian Roubles)	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position**	**Net amount**
Liabilities					
Sale and repurchase agreements on securities	(35 662 483)	-	(35 662 483)	35 662 483	-
Total financial liabilities	**(35 662 483)**	**-**	**(35 662 483)**	**35 662 483**	**-**

32 Financial risk management, corporate governance and internal control (continued)

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

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

The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk.

The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee holds a meeting in order to change the current portfolio management procedures.

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2014.

32 Financial risk management, corporate governance and internal control (continued)

(in thousands of Russian Roubles)	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	15 325 829	11 610 246	945 115	-	70 773	27 951 963
Mandatory cash balances with the CBRF	1 565 338	-	-	-	-	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	-	-	-	11 470 736
Investment securities held to maturity	28 324 182	-	-	-	-	28 324 182
Due from other banks	1 490 766	2 911 403	-	-	-	4 402 169
Loans and advances to customers	101 758 063	41 982 097	403 242	-	-	144 143 402
Finance lease receivables	1 417 298	-	-	-	-	1 417 298
Advances to real estate developers	1 531 083	632 075	-	-	-	2 163 158
Other financial assets	753 233	8 550 769	223	-	9	9 304 234
Total monetary assets	**163 636 528**	**65 686 590**	**1 348 580**	**-**	**70 782**	**230 742 480**
LIABILITIES						
Due to other banks	50 209 244	1 339 153	647 574	-	-	52 195 971
Customer accounts	121 681 399	22 223 994	4 874 141	251 831	72 949	149 104 314
Debt securities in issue	15 418 760	3 840 325	-	-	-	19 259 085
Other borrowed funds	-	12 726 969	-	-	-	12 726 969
Other financial liabilities	834 415	7	6 453	-	-	840 875
Total monetary liabilities	**188 143 818**	**40 130 448**	**5 528 168**	**251 831**	**72 949**	**234 127 214**
Net position	**(24 507 290)**	**25 556 142**	**(4 179 588)**	**(251 831)**	**(2 167)**	**(3 384 734)**
Derivative financial instruments	**21 228 705**	**(24 968 987)**	**4 114 230**	**182 657**	**5 075**	**561 680**
Net position including derivative instruments	**(3 278 585)**	**587 155**	**(65 358)**	**(69 174)**	**2 908**	**(2 823 054)**

32 Financial risk management, corporate governance and internal control (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2013.

(in thousands of Russian Roubles)	RUB	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	12 292 292	2 399 350	641 997	3 793	58 683	15 396 115
Mandatory cash balances with the CBRF	1 224 444	-	-	-	-	1 224 444
Trading securities	10 764	-	-	-	-	10 764
Other securities at fair value through profit or loss	18 929 659	-	-	-	-	18 929 659
Investment securities held to maturity	28 508 359	-	-	-	-	28 508 359
Due from other banks	8 873	8 386 564	-	-	-	8 395 437
Loans and advances to customers	87 216 894	21 549 318	3 167	-	-	108 769 379
Finance lease receivables	1 502 734	-	-	-	-	1 502 734
Advances to real estate developers	1 906 857	367 719	-	-	-	2 274 576
Other financial assets (restated)	290 802	1 772 966	796	-	6	2 064 570
Total monetary assets (restated)	**151 891 678**	**34 475 917**	**645 960**	**3 793**	**58 689**	**187 076 037**
LIABILITIES						
Due to other banks	38 791 653	853 957	1 094 405	-	-	40 740 015
Customer accounts	109 338 231	12 117 932	2 931 885	558 318	56 636	125 003 002
Debt securities in issue	15 060 000	4 037 808	91 458	-	-	19 189 266
Other borrowed funds	-	4 324 551	-	-	-	4 324 551
Other financial liabilities	825 725	163 638	-	-	-	989 363
Total monetary liabilities	**164 015 609**	**21 497 886**	**4 117 748**	**558 318**	**56 636**	**190 246 197**
Net position (restated)	**(12 123 931)**	**12 978 031**	**(3 471 788)**	**(554 525)**	**2 053**	**(3 170 160)**
Derivative financial instruments	**5 200 847**	**(9 208 159)**	**1 349 097**	**517 108**	**2 136 070**	**(5 037)**
Net position including derivative instruments (restated)	**(6 923 084)**	**3 769 872**	**(2 122 691)**	**(37 417)**	**2 138 123**	**(3 175 197)**

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

32 Financial risk management, corporate governance and internal control (continued)

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2014 and a simplified scenario of a 20% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

(in thousands of Russian Roubles)	**2014** Profit or loss	**2014** Equity
20% appreciation of USD against RUB	93 945	93 945
20% depreciation of USD against RUB	(93 945)	(93 945)
20% appreciation of Euro against RUB	(10 457)	(10 457)
20% depreciation of Euro against RUB	10 457	10 457
20% appreciation of precious metals against RUB	(11 068)	(11 068)
20% depreciation of precious metals against RUB	11 068	11 068

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and a simplified scenario of a 10% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

(in thousands of Russian Roubles)	**2013 (restated)** Profit or loss	**2013 (restated)** Equity
10% appreciation of USD against RUB	301 590	301 590
10% depreciation of USD against RUB	(301 590)	(301 590)
10% appreciation of Euro against RUB	(169 815)	(169 815)
10% depreciation of Euro against RUB	169 815	169 815
10% appreciation of precious metals against RUB	(2 993)	(2 993)
10% depreciation of precious metals against RUB	2 993	2 993

Significant rouble devaluation against euro and USD occurred in 2014 and continued in 2015. In the current environment it’s hard to evaluate potential future fluctuations and their influence on profit or loss and the equity of the Group.

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio’s value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and the Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% from a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules. As at 31 December 2013 limits on operation with a trading portfolio of securities were closed.

Interest rate risk. The bond portfolio’s fair value is exposed to changes in interest rate. The Group manages the bond portfolio’s value as a result of changes in market rates (bond yield) by limiting the bond portfolio’s duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio’s value in case of a 300/100 b.p. increase in rates. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

32 Financial risk management, corporate governance and internal control (continued)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2014 due to changes in interest rates.

	Exposure during 2014	
(in thousands of Russian Roubles)	**Profit or loss**	**Equity**
Changes in portfolio's fair value in case of a 300 b.p. increase in rates at year end	(501 068)	(501 068)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2013 due to changes in interest rates.

	Exposure during 2013	
(in thousands of Russian Roubles)	**Profit or loss**	**Equity**
Changes in portfolio's fair value in case of a 100 b.p. increase in rates at year end	(310 498)	(310 498)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December 2014 is as follows.

	2014	
(in thousands of Russian Roubles)	**Profit or loss**	**Equity**
300 b.p. parallel rise	(539 770)	(539 770)
300 b.p. parallel fall	539 770	539 770

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December 2013 is as follows.

	2013	
(in thousands of Russian Roubles)	**Profit or loss**	**Equity**
100 b.p. parallel rise	(20 585)	(20 585)
100 b.p. parallel fall	20 585	20 585

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the rate on liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, except subordinated debt, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. To manage the margin, management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

32 Financial risk management, corporate governance and internal control (continued)

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2014				2013			
% p.a.	**RUB**	**USD**	**Euro**	**Other currencies**	**RUB**	**USD**	**Euro**	**Other currencies**
ASSETS								
Cash and cash equivalents	0.13	0.01	-	-	0.31	0.24	0.74	-
Other securities at fair value through profit or loss	9.28	-	-	-	8.76	-	-	-
Investment securities held to maturity	9.25	-	-	-	7.85	-	-	-
Due from other banks	3.07	0.54	-	-	8.89	0.35	-	-
Loans and advances to customers	20.40	8.02	7,00	-	23.21	7.79	14.79	-
Finance lease receivables	18.60	-	-	-	20.71	-	-	-
Advances to real estate developers	0.30	-	-	-	-	-	-	-
LIABILITIES								
Due to other banks	16.97	0.57	1.92	-	5.46	0.87	5.22	-
Customer accounts								
- current and settlement accounts	2.84	0.62	0.62	-	1.33	0.46	0.46	-
- term deposits	13.99	7.31	4.96	4.41	9.85	5.36	5.18	4.07
Debt securities in issue								
- promissory notes	10.89	4.90	-	-	9.98	3.83	4.13	-
- bonds issued on domestic market	12.17	-	-	-	10.78	-	-	-
- euro commercial securities	-	-	-	-	-	5.96	-	-
- loan participation notes	-	12.75	-	-	-	12.75	-	-
Other borrowed funds								
- subordinated debt	-	9.32	-	-	-	8.88	-	-
- syndicated loans	-	2.32	-	-	-	-	-	-

32 Financial risk management, corporate governance and internal control (continued)

Geographical risk concentrations. The geographical concentration of assets and liabilities at 31 December 2014 is set out below.

(in thousands of Russian Roubles)	Russia	Other countries	Total
ASSETS			
Cash and cash equivalents	17 187 969	10 763 994	27 951 963
Mandatory cash balances with the CBRF	1 565 338	-	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	11 470 736
Investment securities held to maturity	27 715 926	608 256	28 324 182
Due from other banks	1 490 766	2 911 403	4 402 169
Loans and advances to customers	92 444 421	51 698 981	144 143 402
Finance lease receivables	1 417 298	-	1 417 298
Advances to real estate developers	2 163 158	-	2 163 158
Other financial assets	518 692	9 465 704	9 984 396
Total financial assets	**155 974 304**	**75 448 338**	**231 422 642**
Total non-financial assets	**16 066 819**	**123 163**	**16 189 982**
TOTAL	**172 041 123**	**75 571 501**	**247 612 624**
LIABILITIES			
Due to other banks	51 287 928	908 043	52 195 971
Customer accounts	140 715 763	8 388 551	149 104 314
Debt securities in issue	15 470 100	3 788 985	19 259 085
Other borrowed funds	-	12 726 969	12 726 969
Other financial liabilities	390 023	569 334	959 357
Total financial liabilities	**207 863 814**	**26 381 882**	**234 245 696**
Total non-financial liabilities	**774 337**	**410 618**	**1 184 955**
TOTAL	**208 638 151**	**26 792 500**	**235 430 651**
Net position	**(36 597 028)**	**48 779 001**	**12 181 973**
Credit related commitments	**9 154 229**	**2 269 605**	**11 423 834**

32 Financial risk management, corporate governance and internal control (continued)

The geographical concentration of assets and liabilities at 31 December 2013 is set out below.

(in thousands of Russian Roubles)	Russia	Other countries	Total
ASSETS			
Cash and cash equivalents	13 588 317	1 807 798	15 396 115
Mandatory cash balances with the CBRF	1 224 444	-	1 224 444
Trading securities	10 764	-	10 764
Other securities at fair value through profit or loss	18 299 063	630 596	18 929 659
Investment securities held to maturity	27 900 755	607 604	28 508 359
Due from other banks	8 873	8 386 564	8 395 437
Loans and advances to customers	86 680 472	22 088 907	108 769 379
Finance lease receivables	1 502 734	-	1 502 734
Advances to real estate developers	2 274 576	-	2 274 576
Other financial assets (restated)	338 390	1 746 801	2 085 191
Total financial assets (restated)	**151 828 388**	**35 268 270**	**187 096 658**
Total non-financial assets (restated)	**14 816 273**	**575 558**	**15 391 831**
TOTAL	**166 644 661**	**35 843 828**	**202 488 489**
LIABILITIES			
Due to other banks	40 180 641	559 374	40 740 015
Customer accounts	117 933 094	7 069 908	125 003 002
Debt securities in issue	15 359 620	3 829 646	19 189 266
Other borrowed funds	-	4 324 551	4 324 551
Other financial liabilities	282 833	732 188	1 015 021
Total financial liabilities	**173 756 188**	**16 515 667**	**190 271 855**
Total non-financial liabilities	**673 679**	**410 618**	**1 084 297**
TOTAL	**174 429 867**	**16 926 285**	**191 356 152**
Net position	**(7 785 206)**	**18 917 543**	**11 132 337**
Credit related commitments	**10 858 360**	**2 702 248**	**13 560 608**

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held.

32 Financial risk management, corporate governance and internal control

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Liquidity risk management process includes:

- consideration and limits setting for current operations influencing liquidity position, taking measures to ensure profitable work at optimal liquidity risk-level
- system monitoring by responsible departments of current operations in terms of liquidity ratios
- system monitoring of current and prospective liquidity in Russian roubles and foreign currencies
- assessment on a regular basis of excessive/deficit liquidity level
- regular control over effectiveness of liquidity management methods.

The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department daily monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes performing daily calculations of liquid assets necessary for covering resource base risks, reviewing the level and structure of liquid assets and available liquidity forming instruments, providing access to different finance sources, maintaining liquidity contingency plans and monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure the sufficient liquidity level of a credit organisation.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

Possible negative factors on interbank loans market, such as rates fluctuations, closing or changing credit limits and other negative market changes, do not significantly influence liquidity position of the Bank due to following factors:

- dependence on interbank loan market in terms of the whole balance risk is minimised as interbank loans fund only bonds portfolio. Almost all acquired bonds are in Lombard list of the CBRF and the Bank can receive funding from the CBRF
- deterioration on financial markets in fact does not influence balance of portfolio and financial results of the Bank as speculative trading with currencies and shares is conducted in limited volumes.

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash within 1 month. Therefore other securities at fair value through profit or loss as well as securities available for sale as at 31 December 2014 and 2013 are classified as “Demand and less than 1 month” in the tables below. The fair value of securities which are classified in this category with maturity more than 12 months amounts to RUB 10 795 663 thousand (31 December 2013: RUB 17 454 600 thousand).

32 Financial risk management, corporate governance and internal control (continued)

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower. Accordingly, 80% of term deposits from individuals in categories “On demand and less than 1 month”, “From 1 to 3 month”, “From 3 to 12 months” and “From 1 to 3 years” are classified in the category “Over 3 years” to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest.

The table below shows analysis of term deposits from individuals as at 31 December 2014 and 2013 on the basis of contractual maturity.

(in thousands of Russian Roubles)	**2014**	**2013**
On demand and less than 1 month	2 948 969	1 754 797
From 1 to 3 month	5 704 594	3 844 006
From 3 to 12 months	26 872 921	21 967 558
From 1 to 3 years	13 187 264	7 880 673
Over 3 years	45 007 429	43 035 690
Total	**93 721 177**	**78 482 724**

The Group uses investment securities held to maturity for cash management purposes. The Bank acquires only securities that meet the requirements of the Lombard list of the CBRF, because of this the Group may raise cash using their securities through repurchase operations. As at 31 December 2014 investment securities held to maturity amounted to RUB 28 324 182 thousand (31 December 2013: RUB 28 418 863 thousand) were sold under agreements to repurchase, but the Group retains substantially all the risks and rewards related to these securities, and therefore has not derecognised them (see Note 9). Management believes, that the contract terms of sale and repurchase agreements are not meaningful for liquidity analysis, because after termination of these agreements new agreements on the pledge of these securities will be concluded. Consequently the Group includes direct sale and repurchase agreements as a long-term source of funding. Expected maturity terms of underlying borrowing transactions are presented in accordance with relevant maturity of securities held to maturity, which are pledged under direct sale and repurchase agreements. The table below shows analysis of amounts of due to other banks as at 31 December 2014 and 31 December 2013 by contractual maturity.

(in thousands of Russian Roubles)	**2014**	**2013**
On demand and less than 1 month	40 189 053	36 320 920
From 1 to 3 month	1 368 602	1 048 655
From 3 to 12 months	4 554 543	1 743 681
From 1 to 3 years	2 579 274	646 184
Over 3 years	3 504 499	980 575
Total	**52 195 971**	**40 740 015**

32 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2014.

(in thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	20 885 699	7 066 264	-	-	-	27 951 963
Mandatory cash balances with the CBRF	226 394	154 397	125 263	159 534	899 750	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	-	-	-	11 470 736
Investment securities held to maturity	-	1 316 290	6 285 899	9 457 364	11 264 629	28 324 182
Due from other banks	-	-	2 824 847	97 453	1 479 869	4 402 169
Loans and advances to customers	8 101 552	7 155 027	51 703 761	41 335 081	35 847 981	144 143 402
Finance lease receivables	92 952	134 776	505 664	582 287	101 619	1 417 298
Advances to real estate developers	-	-	328 417	1 834 741	-	2 163 158
Other financial assets	1 036 046	1 669 469	7 189 105	-	89 776	9 984 396
Total financial assets	**41 813 379**	**17 496 223**	**68 962 956**	**53 466 460**	**49 683 624**	**231 422 642**
LIABILITIES						
Due to other banks	15 783 641	2 555 713	9 928 974	10 529 890	13 397 753	52 195 971
Customer accounts	21 564 865	14 706 933	11 931 732	15 196 205	85 704 579	149 104 314
Debt securities in issue	669 967	7 132 547	4 358 316	2 991 985	4 106 270	19 259 085
Other borrowed funds	-	186 297	1 201 179	4 630 496	6 708 997	12 726 969
Other financial liabilities	959 357	-	-	-	-	959 357
Total financial liabilities	**38 977 830**	**24 581 490**	**27 420 201**	**33 348 576**	**109 917 599**	**234 245 696**
Net liquidity gap as at 31 December 2014	**2 835 549**	**(7 085 267)**	**41 542 755**	**20 117 884**	**(60 233 975)**	**(2 823 054)**
Cumulative liquidity gap as at 31 December 2014	**2 835 549**	**(4 249 718)**	**37 293 037**	**57 410 921**	**(2 823 054)**	

32 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by expected maturity dates as at 31 December 2013.

(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and cash equivalents	15 396 115	-	-	-	-	15 396 115
Mandatory cash balances with the CBRF	227 017	25 543	161 200	104 528	706 156	1 224 444
Trading securities	10 764	-	-	-	-	10 764
Other securities at fair value through profit or loss	18 929 659	-	-	-	-	18 929 659
Investment securities held to maturity	-	486 087	3 164 934	13 773 844	11 083 494	28 508 359
Due from other banks	-	-	8 392 137	3 300	-	8 395 437
Loans and advances to customers	2 094 456	2 714 288	22 745 802	39 127 393	42 087 440	108 769 379
Finance lease receivables	78 217	136 993	529 749	613 684	144 091	1 502 734
Advances to real estate developers	-	-	1 757 317	517 259	-	2 274 576
Other financial assets (restated)	929 359	5 078	1 061 241	-	89 513	2 085 191
Total financial assets (restated)	**37 665 587**	**3 367 989**	**37 812 380**	**54 140 008**	**54 110 694**	**187 096 658**
LIABILITIES						
Due to other banks	11 360 945	1 437 717	4 528 155	12 671 650	10 741 548	40 740 015
Customer accounts	23 176 091	2 607 658	16 456 814	10 671 220	72 091 219	125 003 002
Debt securities in issue	1 597 644	3 839 987	6 130 071	4 608 909	3 012 655	19 189 266
Other borrowed funds	-	109 040	256 598	643 412	3 315 501	4 324 551
Other financial liabilities	560 842	-	454 179	-	-	1 015 021
Total financial liabilities	**36 695 522**	**7 994 402**	**27 825 817**	**28 595 191**	**89 160 923**	**190 271 855**
Net liquidity gap as at 31 December 2013 (restated)	**970 065**	**(4 626 413)**	**9 986 563**	**25 544 817**	**(35 050 229)**	**(3 175 197)**
Cumulative liquidity gap as at 31 December 2013 (restated)	**970 065**	**(3 656 348)**	**6 330 215**	**31 875 032**	**(3 175 197)**	

32 Financial risk management, corporate governance and internal control (continued)

The amounts disclosed in the tables below are the expected undiscounted cash flows on financial liabilities.

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as at 31 December 2014 is as follows.

(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
LIABILITIES						
Due to other banks	16 000 146	2 580 958	10 161 601	10 601 117	13 700 236	53 044 058
Customer accounts,	21 587 323	14 962 909	13 759 377	22 263 123	100 854 965	173 427 697
including term deposits from individuals	6 337 906	1 217 590	7 002 804	4 583 834	98 214 949	117 357 083
Debt securities in issue	674 517	9 277 856	6 501 168	993 962	4 284 640	21 732 143
Other borrowed funds	-	188 751	847 527	4 983 048	9 746 420	15 765 746
Derivative financial instrument liabilities	118 482	-	-	-	-	118 482
Operating lease commitments	60 555	108 582	423 562	207 703	41 326	841 728
Guarantees issued	444 994	806 839	1 065 774	1 141 801	83 209	3 542 617
Import letters of credit	324 553	51 758	2 017 970	-	-	2 394 281
Unused commitments to extend credit	5 486 936	-	-	-	-	5 486 936
Other financial liabilities	959 357	-	-	-	-	959 357
Total financial and contingent liabilities	**45 656 863**	**27 977 653**	**34 776 979**	**40 190 754**	**128 710 796**	**277 313 045**

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as 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 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**
LIABILITIES						
Due to other banks	11 420 816	1 447 224	4 613 876	12 734 085	11 068 977	41 284 978
Customer accounts,	23 194 922	2 702 102	18 096 751	13 709 500	84 889 333	142 592 608
including term deposits from individuals	7 005 015	825 603	5 612 262	2 544 354	84 080 872	100 068 106
Debt securities in issue	1 605 091	3 901 605	10 760 457	538 756	2 759 726	19 565 635
Other borrowed funds	-	110 511	272 372	767 413	5 021 595	6 171 891
Derivative financial instrument liabilities	25 658	-	-	-	-	25 658
Operating lease commitments	45 356	86 638	345 853	239 688	92 485	810 020
Guarantees issued	96 141	451 590	3 074 663	407 448	11 247	4 041 089
Import letters of credit	614 802	93 076	2 820 956	-	77 890	3 606 724
Unused commitments to extend credit	5 912 795	-	-	-	-	5 912 795
Other financial liabilities	560 842	-	454 179	-	-	1 015 021
Total financial and contingent liabilities	**43 476 423**	**8 792 746**	**40 439 107**	**28 396 890**	**103 921 253**	**225 026 419**

32 Financial risk management, corporate governance and internal control (continued)

Management believes the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transactions are 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 and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers’ accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding.

Despite amounts of guarantees can be withdrawn at any moment, liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

33 Capital management

The Group’s objectives when managing capital are (i) to comply with capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis.

Compliance with capital adequacy ratio is set by the CBRF.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions.

Before the 1 January 2014 the Group calculated amounts of capital in accordance with Provision of the CBRF dated 10 February 2003 No.215-P *On methodology of calculation of own funds (capital) of the credit organisations*, and since 1 January 2014 in accodance with Provision of the CBRF dated 28 December 2012 No.395-P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)*.

The following table shows the minimum level of capital adequacy ratio of the Group as at 31 December 2014 and 2013:

(percentage)	**2014**
Base capital adequacy ratio N20.1	5.00
Main capital adequacy ratio N20.2	5.50
Own funds (capital) adequacy ratio N20.0	10.00

(percentage)	**2013**
Own funds (capital) adequacy ratio N1	10.00

Since 1 January 2015 the minimum level of N20.2 ratio is 6.00%.

33 Capital management (continued)

The following table shows the calculation of capital adequacy of the Group based on requirements set by the CBRF as at 31 December 2014:

(in thousands of Russian Roubles)	**2014**
Base capital	12 219 978
Main capital	12 219 978
Additional capital	12 095 997
Own funds (capital)	**24 315 975**
Risk weighted assets for N20.1	123 177 288
Risk weighted assets for N20.2	123 170 232
Risk weighted assets for N20.0	123 255 673
Ratio N20.1, %	6.66
Ratio N20.2, %	6.67
Ratio N20.0, %	13.26

The following table shows the calculation of the Capital adequacy ratio of the Group (in accordance with Provision of the CBRF No.215-P) as at 31 December 2013:

(in thousands of Russian Roubles)	**2013 Unaudited**
Main capital	11 729 167
Additional capital	5 411 840
Own funds (capital)	**17 141 007**
Risk weighted assets	157 920 616
Own funds (capital) adequacy ratio N1, %	10.90

The Group maintains capital adequacy at level appropriate to the nature and volume of its operations. Mandatory ratios in accordance with the CBRF requirements are calculated and controlled by the management on a daily basis. The Group submits on monthly basis as at 1 date of each month data of mandatory ratios calculation to territorial office of the CBRF in the prescribed form.

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

34 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

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

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

From 1 January 2012 the new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bringing them closer to the principles of the OECD. This also creates additional uncertainty due to the practical application of tax laws in some cases.

New transfer pricing rules require taxpayers to provide documentation of controlled transactions and defines new principles and tools for additional taxes and interest, if prices in controlled transactions differ from the market.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under operating leases are as follows.

(in thousands of Russian Roubles)	**2014**	**2013**
Less than 1 year	592 699	477 847
From 1 to 5 years	239 651	318 041
More than 5 years	9 378	14 132
Total	**841 728**	**810 020**

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

Credit related commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments as at 31 December are as follows:

34 Contingencies and commitments (continued)

(in thousands of Russian Roubles)	2014	2013
Guarantees issued	3 542 617	4 041 089
Commitments to extend credit	3 526 096	3 125 806
Import letters of credit	2 394 281	3 606 724
Unused limits on overdraft loans	1 960 840	2 786 989
Total	**11 423 834**	**13 560 608**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments as at 31 December are denominated in the following currencies:

(in thousands of Russian Roubles)	2014	2013
Russian Roubles	8 649 706	9 788 220
USD	2 729 020	3 487 691
Euro	45 108	284 697
Total	**11 423 834**	**13 560 608**

Funds management and trust activities. The Group provides trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

Custody activities. The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

35 Derivative financial instruments and operations with precious metals

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives 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 derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2014 and 2013. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

35 Derivative financial instruments and operations with precious metals (continued)

	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 forwards: fair values, at the reporting date, of				
- USD receivable on settlement	-	-	903 156	32 729
- USD payable on settlement	(18 626 594)	(6 240 738)	-	(7 499 942)
- Euro receivable on settlement	-	4 114 230	-	2 585 769
- Euro payable on settlement	-	-	(1 236 672)	-
- RUB receivable on settlement	19 216 820	2 011 885	338 485	4 895 222
- RUB payable on settlement	-	-	-	(32 860)
- Other currencies receivable on settlement	5 075	-	-	-
Net fair value of foreign exchange forwards	**595 301**	**(114 623)**	**4 969**	**(19 082)**
Forwards with precious metals: fair values, at the reporting date, of				
- USD receivable on settlement	259 731	123 718	489 908	7 101
- USD payable on settlement	(123 705)	(443 786)	(1 521 435)	(1 619 676)
- Precious metals receivable on settlement	124 206	440 415	296 333	713 707
- Precious metals payable on settlement	(257 758)	(124 206)	(485 826)	(7 106)
- Receivable on settlement in other currencies	-	-	1 236 672	899 398
Net fair value of forwards with precious metals	**2 474**	**(3 859)**	**15 652**	**(6 576)**
Foreign currency options: fair values, at the reporting date	**82 387**	**-**	**-**	**-**

The geographical analysis, the analysis of derivative financial instruments on the structure of currencies and terms of placement are disclosed in Note 32. Information on related party transactions is disclosed in Note 38.

36 Fair value of financial instruments

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgement. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore may not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised.

(in thousands of Russian Roubles)	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	11 460 851	-	11 460 851
- equity instruments	9 885	-	9 885
- derivative assets	-	680 162	680 162
- derivative liabilities	-	(118 482)	(118 482)
Total	**11 470 736**	**561 680**	**12 032 416**

36 Fair value of financial instruments (continued)

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised.

(in thousands of Russian Roubles)	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss:			
- debt fixed income instruments	18 929 659	-	18 929 659
- equity instruments	10 764	-	10 764
- derivative assets	-	20 621	20 621
- derivative liabilities	-	(25 658)	(25 658)
Total	**18 940 423**	**(5 037)**	**18 935 386**

For more detailed information by types of financial instruments measured at fair value, please, see Notes 7, 8 and 35.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. Discount rates were determined based on rates of the Group as at 31 December 2014 and 2013.

Loans and receivables carried at amortised cost and investment securities held to maturity. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. To discount the future cash flows for loans to corporate customers and small and medium businesses the discount rates used were 15.02% and 17.08% respectively (31 December 2013: 12.41% and 16.01%). To discount the future cash flows for loans to individuals, the discount rate used was 27.14% (31 December 2013: 27.86%).

The fair value of investment securities held to maturity based on active market prices as at 31 December 2014 is RUB 27 407 489 thousand (31 December 2013: RUB 28 550 185 thousand).

The estimated fair value of due from other banks as at 31 December 2014 and 2013 approximates their carrying values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand discounted since the first day of potential notice.

The estimated fair value of term deposits of legal entities carried at amortised cost approximates their carrying values. To discount the future cash flows of term deposits of legal entities the Group used a discount rate of 14.23% (31 December 2013: 8.76%).

The estimated fair value of term deposits of individuals as at 31 December 2014 amounts to RUB 92 624 559 thousand (31 December 2013: the fair value approximates the carrying value).

The estimated fair value of subordinated loans carried as at 31 December 2014 is not significantly different from their carrying value and amounts to RUB 10 808 831 thousand (31 December 2013: the fair value approximates the carrying value).

The estimated fair values of due to other banks and syndicated loans as at 31 December 2014 and 2013 approximates their carrying values.

The fair value of loan participation notes as at 31 December 2014 is 2014 is not significantly different from their carrying value and amounts to RUB 3 882 955 thousand and approximates its carrying amount (31 December 2013: RUB 2 428 670 thousand). The estimated fair value of other securities in issue as at 31 December 2014 and 2013 approximates their carrying values.

36 Fair value of financial instruments (continued)

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices (see Note 35).

The objective of fair value estimation is to estimate the value for which the financial instrument may be exchanged between well-informed independent counterparties who have the real intention to make a deal, with most accuracy. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgement.

37 Group companies

As at 31 December 2014 and 2013 the Group has the following main consolidated subsidiaries, structured entities and mutual funds:

The name	Country of incorporation	Principal activity	Share, %	
			2014	2013
Subsidiary				
UBRD Finance Limited	Ireland	issue of debt securities	100	100
Structured entities				
OOO "UBRiR-Finance"	Russian Federation	management of securities	-	-
OOO "UBRiR-leasing"	Russian Federation	leasing company	-	-
OOO "Fininvest K"	Russian Federation	ownership of property and equipment of the Group	-	-
Sebright Finance Limited	United Kingdom	ownership of property and equipment of the Group	-	-
OOO "Invest Techno"	Russian Federation	ownership of property and equipment of the Group	-	-
UBRD Capital Limited	Ireland	issue of debt securities	-	-
Mutual funds				
Closed unit investment fund "Invest-Ural Kommercheskaya nedvizhimost"	Russian Federation	ownership of property and equipment of the Group	100	100
Closed unit investment fund "UBRR -Nedvizhimost"	Russian Federation	ownership of items of investment property of the Group	100	100
Closed unit investment fund "Antey"	Russian Federation	ownership of items of investment property of the Group	100	100
Closed unit investment fund "NIKS"	Russian Federation	ownership of items of investment property of the Group	100	100
Open unit investment fund "Aktivnye investitsii"	Russian Federation	investments in securities	-	-
Open unit investment fund "Alternativniy protsent"	Russian Federation	investments in securities	-	-
Open unit investment fund "Bazovye otrasli"	Russian Federation	investments in securities	-	-
Open unit investment fund "Lombardniy spisok"	Russian Federation	investments in securities	-	-
Open unit investment fund "Mobilniy capital"	Russian Federation	investments in securities	-	-

37 Group companies (continued)

Structured entity of the Group OOO "UBRiR-Finance" owns open unit investment funds.

In 2013 the following changes took place in the composition of the Group:

- to raise funds from international capital markets, the Group formed two new companies: a subsidiary UBRD Finance Limited and structured entity UBRD Capital Limited, established in Ireland
- in December 2013 as a result of termination of two agreements the Group lost control over structured entities LLC "Investleasing" and LLC "FinTrust"

As at 31 December 2014 and as at 31 December 2013 the financial statements of CJSC "Stozhok" LLC "Uralstroyinvestservice" and LLC UK "Invest-Ural" were not included in the consolidated financial statements due to the immateriality of assets and liabilities of this entities.

As at 31 December 2014 and as at 31 December 2013 all mutual funds are under the control of LLC UK "Invest-Ural".

Financial support given to subsidiaries and structured entities

During the year ended 31 December 2013, the Group issued guarantees of USD 50.8 mln to holders of notes issued by certain subsidiaries and structured entities that the Group consolidates. These guarantees would require the Group to reimburse the note holders for losses that they incur if the underlying assets do not perform up to the specified amount of their contractual cash flows.

As at 2014 the Group met its obligations to holders of notes in full (see Note 22).

38 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party 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.

At 31 December 2014 the outstanding balances with related parties are as follows:

(in thousands of Russian Roubles)	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 8%-22%)	205 038	11 456 981	17 845
Allowance for impairment of loans and advances to customers	(1 039)	(29 255)	(90)
Other assets	-	262 200	858
Customer accounts (contractual interest rates: 0%-25.5%)	217 174	3 533 532	95 299
Foreign exchange forward contracts	-	258 340	-
Other liabilities	-	3 860	-

The income and expense with related parties for the year ended 31 December 2014 are as follows:

(in thousands of Russian Roubles)	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	12 333	911 292	1 587
Interest expense	(17 966)	(122 020)	(6 616)
Fee and commission income	256	6 379	152
Income from trading in foreign currencies	-	191 800	14
Income from trading in precious metals	-	256 169	-
Other operating income	13	46	8

38 Related party transactions (continued)

At 31 December 2014 the other commitments with related parties are as follows:

(in thousands of Russian Roubles)	Shareholders	Companies under common control	Other related parties
Guarantees issued	-	66 526	-

At 31 December 2013 the outstanding balances with related parties were as follows:

(in thousands of Russian Roubles)	Shareholders	Companies under common control	Other related parties
Gross amount of loans and advances to customers (contractual interest rates: 8%-18%)	197 748	9 855 766	15 942
Allowance for impairment of loans and advances to customers	(985)	(21 042)	(79)
Other assets	-	2 181	889
Customer accounts (contractual interest rates: 0%-11.5%)	235 573	1 177 268	117 501
Foreign exchange forward contracts	-	(1 215)	-
Forward contracts with precious metals	-	7 670	-
Other liabilities	-	16 937	-

The income and expense with related parties for the year ended 31 December 2013 year were as follows:

(in thousands of Russian Roubles)	Shareholders	Companies under common control	Other related parties
Interest income	12 312	1 028 852	1 409
Interest expense	(21 508)	(70 769)	(8 222)
Fee and commission income	386	11 963	144
Income from trading in foreign currencies	-	48 338	4
Income from trading in precious metals	15	244 693	-
Other operating income	45	15	6

At 31 December 2013 the other commitments with related parties are as follows:

(in thousands of Russian Roubles)	Shareholders	Companies under common control	Other related parties
Guarantees issued	-	32 359	-

Other related parties represent seven members of the Management Board and five members of the Board of Directors of the Bank. In 2014 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 93 720 thousand (2013: RUB 151 330 thousand). Social security costs amount to RUB 10 246 thousand (2013: RUB 16 042 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2014.

39 Events after reporting date

On 2 February 2015 bonds of the Group of series BO-10, BO-11, BO-12 and BO-13 with total amount of issue of RUB 10 billion are included in the list of securities admitted to trading on the Closed joint-stock company "MICEX stock exchange". The face value of one security is RUB 1 000. The maturity period of each issue is 3 years from the date of placement. There are early redemption options at the holders' request and at the discretion of the issue at the nominal value.

Solovjev A.U.
President

Sirazov M.R.
Chief Accountant