PJSC “Bank Saint Petersburg” Group

International Financial Reporting Standards Consolidated Financial Statements and Auditors’ Report

31 December 2014

CONTENTS

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Auditors' Report

To the Shareholders and Supervisory Board of PJSC "Bank Saint Petersburg"

We have audited the accompanying consolidated financial statements of PJSC "Bank Saint Petersburg" (the "Bank") and its subsidiaries (together with the Bank referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of 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: PJSC "Bank Saint Petersburg".

Registered by Central Bank of Russian Federation on 3 October 1990, Registration No. 436.

Entered in the Unified State Register of Legal Entities on 6 August 2002 by Saint Petersburg Authority of the Ministry of taxes and levies of the Russian Federation, Registration No. 1027800000140. Certificate series 78 No. 003196015.

Address of audited entity: 64A, Malookhtinskij prospect, Saint Petersburg, 195112, Russian Federation.

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

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

Entered in the Unified State Register of Legal Entities on 13 August 2002 by 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 Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Bank'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 Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Bank's compliance with mandatory ratios as at 1 January 2015 as established by the Bank of Russia; and
- compliance of elements of the Bank's internal control and organisation 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 Bank's compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2015 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank 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 Bank internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2014, the Bank's Internal Audit Function was subordinated to, and reported to, the Supervisory Board, 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 Bank's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorised 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 Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and Internal Audit functions during 2014, which cover the Bank'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 Bank's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2014, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Bank'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 Bank's risk management procedures and their consistent application during 2014 the Supervisory Board 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 Bank's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

Lukashova N.V.
Director
Power of attorney dated 16 March 2015 No 14/15
AO KPMG
Moscow, Russian Federation
17 March 2015

PJSC "Bank Saint Petersburg" Group
Consolidated Statement of Financial Position as at 31 December 2014

In thousands of Russian Roubles	Note	2014	2013
ASSETS			
Cash and cash equivalents	6	57 240 622	40 060 452
Mandatory reserve deposits with the Central Bank of the Russian Federation		3 290 084	2 800 069
Trading securities	7	205 425	17 592 638
Securities pledged under sale and repurchase agreements and loaned	8	39 138 709	51 728 946
Amounts receivable under reverse repurchase agreements	9	29 511 109	14 853 880
Due from banks	10	29 264 470	8 617 294
Loans and advances to customers	11	315 338 995	250 884 103
Investment securities available-for-sale	12	9 259 393	3 324 758
Prepaid income tax		819 399	59 678
Investment property	13	1 591 433	1 653 115
Premises, equipment and intangible assets	14	14 535 188	13 806 328
Other assets	15	20 078 295	2 631 567
Long-term assets held for sale	16	1 327 028	1 409 491
TOTAL ASSETS		**521 600 150**	**409 422 319**
LIABILITIES			
Due to banks	17	102 596 690	70 540 988
Customer accounts	18	308 481 731	253 127 291
Bonds issued	19	23 864 107	20 218 789
Other debt securities issued	20	16 405 964	8 507 340
Other borrowed funds	21	5 671 179	7 579 426
Deferred tax liability	28	1 293 069	954 172
Other liabilities	22	11 993 069	818 358
TOTAL LIABILITIES		**470 305 809**	**361 746 364**
EQUITY			
Share capital	23	3 696 674	3 721 734
Share premium	23	21 393 878	21 393 878
Revaluation reserve for premises		3 901 555	3 339 031
Revaluation reserve for investment securities available-for-sale		(433 894)	399 674
Retained earnings		22 736 128	18 821 638
TOTAL EQUITY		**51 294 341**	**47 675 955**
TOTAL LIABILITIES AND EQUITY		**521 600 150**	**409 422 319**

Approved for issue and signed on behalf of Management Board on 17 March 2015.

V.S. Guz	N.G. Tomilina
Chairman of the Management Board	Chief Accountant

In thousands of Russian Roubles	Note	2014	2013
Interest income	25	38 760 300	30 831 525
Interest expense	25	(20 249 404)	(17 459 532)
Net interest income		**18 510 896**	**13 371 993**
Provision for loan impairment	10, 11	(7 285 909)	(4 495 069)
Net interest income after provision for loan impairment		**11 224 987**	**8 876 924**
Net losses from trading securities		(4 343 701)	(198 031)
Net gains from investment securities available-for-sale		265 091	2 567 339
Net gains from trading in foreign currencies		671 620	294 961
Net gains from foreign exchange translations		4 412 461	1 752 626
Net losses from derivatives		(1 128 118)	(36 659)
Fee and commission income	26	4 420 587	3 172 456
Fee and commission expense	26	(699 945)	(494 588)
Recovery of impairment for credit related commitments	22	8 850	153 207
Impairment of investment property	13	(53 442)	-
Recovery of impairment of premises	14	188	-
Gain on acquisition of subsidiary	38	488 587	-
Other net operating income		440 575	73 936
Administrative and other operating expenses:	27		
- Staff costs		(4 477 139)	(3 309 775)
- Costs related to premises and equipment		(1 247 321)	(1 179 540)
- Other administrative and operating expenses		(3 934 654)	(3 189 390)
Profit before tax		**6 048 626**	**8 483 466**
Income tax expense	28	(1 252 952)	(1 788 203)
Profit for the year		**4 795 674**	**6 695 263**
Other comprehensive loss			
Items that are or will be reclassified subsequently to profit or loss:			
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		(372 323)	(2 424 695)
(Loss) gain from revaluation of investment securities available-for-sale		(669 638)	643 940
Deferred income tax recognised in equity related to components of other comprehensive income		208 393	291 743
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of premises		757 799	-
Deferred income tax recognised in equity related to components of other comprehensive income		(151 560)	-
Other comprehensive loss for the year, net of income tax	24	**(227 329)**	**(1 489 012)**
Total comprehensive income for the year		**4 568 345**	**5 206 251**
Basic and diluted earnings per ordinary share (in Russian Roubles per share)	29	**10.93**	**16.09**

V.S. Guz
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Retained earnings	Total equity
Balance as at 31 December 2013		**3 648 110**	**18 448 915**	**3 339 031**	**1 888 686**	**12 993 757**	**40 318 499**
Other comprehensive loss recognised in equity	24	-	-	-	(1 489 012)	-	(1 489 012)
Profit for the year		-	-	-	-	6 695 263	6 695 263
Total comprehensive income for the year ended 31 December 2013		**-**	**-**	**-**	**(1 489 012)**	**6 695 263**	**5 206 251**
Issue of shares	23	73 624	2 944 963	-	-	-	3 018 587
Dividends declared							
- ordinary shares	30	-	-	-	-	(33 079)	(33 079)
- preference shares	30	-	-	-	-	(834 303)	(834 303)
Balance as at 31 December 2013		**3 721 734**	**21 393 878**	**3 339 031**	**399 674**	**18 821 638**	**47 675 955**
Other comprehensive income (loss) recognised in equity	24	-	-	606 239	(833 568)	-	(227 329)
Profit for the year		-	-	-	-	4 795 674	4 795 674
Disposal of premises		-	-	(43 715)	-	43 715	-
Total comprehensive income for the year ended 31 December 2014		**-**	**-**	**562 524**	**(833 568)**	**4 839 389**	**4 568 345**
Purchase of treasury shares	23	(25 060)	-	-	-	(874 337)	(899 397)
Dividends declared							
- ordinary shares	30	-	-	-	-	(48 351)	(48 351)
- preference shares	30	-	-	-	-	(2 211)	(2 211)
Balance as at 31 December 2014		**3 696 674**	**21 393 878**	**3 901 555**	**(433 894)**	**22 736 128**	**51 294 341**

V.S. Guz
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	2014	2013
Cash flows from operating activities			
Interest received on loans and correspondent accounts		31 081 665	26 201 903
Interest received on securities		5 102 040	4 205 946
Interest received on amounts receivable under reverse repurchase agreements		1 823 950	728 108
Interest paid on due to banks		(6 363 159)	(3 640 890)
Interest paid on customer deposits		(10 402 407)	(11 047 172)
Interest paid on other debt securities issued		(345 749)	(286 822)
Net payments from securities trading		(2 100 931)	(398 354)
Net receipts (payments) from trading in foreign currencies		671 637	(120 645)
Net payments from transactions with derivatives		(7 916 739)	(36 659)
Fee and commissions received		4 422 026	3 158 220
Fee and commissions paid		(699 945)	(494 588)
Other operating income received (expenses paid)		423 974	(89 166)
Staff costs paid		(4 220 617)	(3 490 904)
Premises and equipment costs paid		(704 437)	(534 921)
Administrative and operating expenses paid		(3 847 341)	(3 234 415)
Income tax paid		(1 616 943)	(1 244 335)
Cash flows from operating activities before changes in operating assets and liabilities		**5 307 024**	**9 675 306**
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory reserve deposits with the Central Bank of the Russian Federation		(381 975)	325 433
Net decrease (increase) in trading securities		11 937 767	(5 680 745)
Net increase in securities pledged under sale and repurchase agreements and loaned		(12 344 206)	(16 472 661)
Net decrease in financial instruments at fair value through profit or loss		-	664 907
Net increase in amounts receivable under reverse repurchase agreements		(14 626 067)	(5 772 976)
Net increase in due from banks		(7 693 777)	(5 718 687)
Net increase in loans and advances to customers		(16 392 041)	(30 988 369)
Net increase in other assets		(1 090 628)	(1 011 815)
Net increase in due to banks		30 304 300	18 309 892
Net increase in customer accounts		18 572 305	27 610 311
Net increase in other debt securities issued		5 029 622	2 993 726
Net increase (decrease) in other liabilities		1 246 568	(179 021)
Net cash received from (used in) operating activities		**19 868 892**	**(6 244 699)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	14	(644 587)	(486 184)
Proceeds from disposal of premises and equipment and intangible assets		178 433	6 888
Net (acquisition) disposals of investment securities available-for-sale		(1 706 599)	2 840 449
Proceeds from disposal of investment securities available-for-sale		24 760	26 043
Net proceeds from acquisition of subsidiary	38	1 011 643	-
Proceeds from disposal of long-term assets held for sale		89 302	-
Proceeds from disposal of investment property		3 484	-
Dividend income received		12 050	72 919
Net cash (used in) received from investing activities		**(1 031 514)**	**2 460 115**

In thousands of Russian Roubles	Note	2014	2013
Cash flows from financing activities			
Issue of ordinary shares:			
- share capital	23	-	73 624
- share premium	23	-	2 944 963
Purchase of treasury shares	23	(1 119 174)	-
Realisation of treasury shares	23	219 777	-
Issue of bonds		-	8 190 130
Repurchase of bonds		(3 501 045)	(5 469 314)
Proceeds from other borrowed funds		968 108	2 216 162
Repayment of other borrowed funds		(4 511 295)	(6 643 099)
Interest paid on bonds issued		(1 969 540)	(1 602 437)
Interest paid on other borrowed funds		(573 277)	(784 609)
Dividends paid	30	(50 159)	(866 762)
Net cash used in financing activities		**(10 536 605)**	**(1 941 342)**
Effects of exchange rate changes on cash and cash equivalents		**8 879 397**	**1 848 227**
Net increase (decrease) in cash and cash equivalents		**17 180 170**	**(3 877 699)**
Cash and cash equivalents at the beginning of the year		40 060 452	43 938 151
Cash and cash equivalents at the end of the year	6	**57 240 622**	**40 060 452**

V.S. Guz
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for PJSC “Bank Saint Petersburg” (the “Bank”) and its subsidiaries, together referred to as the “Group” or PJSC “Bank Saint Petersburg” Group”. A list of subsidiaries is disclosed in note 37.

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the corporatization process of the former Leningrad regional office of Zhilsotsbank. As at 31 December 2014 the Bank was reorganized from the Open Joint-Stock Company “Bank Saint Petersburg” to the Public Joint-Stock Company “Bank Saint Petersburg” following the decision made at the extraordinary meeting of shareholders.

As at 31 December 2014, management of the Bank and Mr. A.V. Savelyev controls 52.3% of the ordinary shares of the Bank (2013: 50.1%), including: 23.7% of the ordinary shares are controlled by Mr. A.V. Savelyev (2013: 21.7%), 28.6% of the ordinary shares are controlled by the management of the Bank, including 9.4% of the ordinary shares owned by “NOROYIA ASSETS LIMITED” (2013: 0%), 9.4% of the ordinary shares owned by “ZERILOD HOLDINGD LIMITED” (2013: 0%), 8.9% of the ordinary shares owned by “CARISTAS LIMITED” (2013: 0%). Mr. A.V. Savelyev has and option with no fix term to purchase 100% of shares of “ZUGRADIA ENTERPRISES LIMITED“, “LAZORIA LIMITED” and “MAGNONIA VENTURES LIMITED”, which own 100% of shares of “NOROYIA ASSETS LIMITED”, “ZERILOD HOLDINGD LIMITED” and “CARISTAS LIMITED”. As at 31 December 2013, 19,9% of ordinary shares were owned by “MALVENST INVESTMENTS LIMITED”, 7,7% of ordinary shares were owned by “ISSARDY HOLDING LIMITED “. As at 31 December 2013, Mr. A.V. Savelyev had an option maturing at the end 2015 to purchase a 100.0% share in the company “WELLFAME PACIFIC LIMITED”, which owned 100.0% of shares of “MALVENST INVESTMENTS LIMITED” and 100.0% of shares of “ISSARDY HOLDING LIMITED”.

Treasury shares purchased by the Bank in response to shareholders’ request in accordance with art. 75, 76 of *Federal Law No. 208-FZ dd. 26.12.1995 On Stock Companies* due to reorganization of OJSC “Bank “Saint-Petersburg” in the form of merge with Evropeisky CJSC ICB composed 5.6%.

The remaining ordinary shares of the Bank are held as follows: 9.3% of the shares are owned by East Capital Group (2013: 9.3%), and 5.5% of the shares are owned by the EUROPEAN BANK OF RECONSTRUCTION AND DEVELOPMENT (2013: 5.5%). The remaining 27.3% (2013: 35.1%) of the shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by *Federal Law No.177-FZ On Retail Deposit Insurance in the Russian Federation* dated 23 December 2003. Indemnity of the deposits placed in respect of which an insured event happens, is paid to a depositor in the amount of 100% of total deposits, but limited to RR 1,400 thousand.

As at 31 December 2014, the Bank has five branches within the Russian Federation: four branches are located in the North-West region of Russia, one branch is in Moscow and forty three outlets (2013: five branches within the Russian Federation: three branches are located in the North-West region of Russia, one branch is in Moscow, one branch is in Niznniy Novgorod and thirty eight outlets).

Registered address and place of business. The Bank’s registered address and place of business is: 195112, Russian Federation, Saint Petersburg, Malookhtinsky Prospect, 64A.

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

2 Operating Environment of the Group

Russian Federation. The economy of the Russian Federation displays certain characteristics of developing markets including relatively high inflation and interest rates.

In 2014 the Russian economy demonstrates downward trend of growth rate, established after the recovery increase during the postcrisis period after 2010. The following factors also made an impact on the economy: introduction of sanctions against the Russian Federation and oil price downturn, resulted in increased capital outflow, growth of interest rates and sharp depreciation of Russian Rouble. The GDP real growth rate of the Russian Federation for the 12 months according to the estimates of the Russian Federal State Statistics Service was 0.6% versus 1.3% during the previous year. The reporting year is characterised by freeze of consumer activity both in private and public sectors, as well as decline in investment activity and foreign trade. The growth of the Industrial Production Index in 2014 equals to 11.4% versus 6.5% during the previous year.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets have further increased the level of economic uncertainty. In general, the current economic environment the Group operates in is characterized by significant growth of risks of different nature and general uncertainty, bounding the strategic horizon for market participants and aggregated risk appetite.

Current economic and political situation, including situation in the Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation creates risks for operations conducted by the Group.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The future economic development of the Russian Federation is largely dependent upon the effectiveness of the economic, financial and monetary measures undertaken by the Government, together with the tax, legal, regulatory, and political developments.

3 Basis of Preparation and 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, as modified by initial recognition of financial instruments at fair value, measurement at fair value of trading securities and financial assets available-for-sale and the revaluation of premises. The principle 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 in these consolidated financial statements.

Consolidation. 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.

Subsidiaries are accounted for in consolidated financial statements using the acquisition method. Acquired identifiable assets, liabilities and contingencies as a result of business combination are stated at fair value as at the acquisition date irrespective of non-controlling interest.

3 Basis of Preparation and Significant Accounting Policies (continued)

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) 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. If the amount is negative ("negative goodwill") it is recognised in profit or loss after the management has assessed whether all acquired assets and all assumed liabilities and contingencies are identified and analyzed correctness of their estimate.

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.

Intercompany transactions, balances and unrealised gains arising from intercompany transactions are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *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 stock exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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 market. Fair value of an instrument is best evidenced by the quoted price for that instrument in an active market. Fair value is the current bid price for financial assets and current asking price for financial liabilities that are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or the current value of investments are used for determination of the fair value of financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The discounted value calculation includes all fees and charges paid and received between the parties to the contract that form 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 securities at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value including transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss at 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 when the Group commits to buy or sell financial asset. All other acquisition transactions are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a transfer arrangement while (i) also transferring substantially all the risks and benefits of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and benefits of ownership but not retaining control of the assets. 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.

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities translated at the CBRF official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

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

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognised in due from banks. Amounts that relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Mandatory reserve deposits with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing deposits in the CBRF that 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 statement of cash flows.

Trading securities. Trading securities include financial assets at fair value through profit or loss that are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within the period from one to six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss as interest income. Dividends are included in other operating income when the Group's right to receive the dividend payment is established and provided the dividend is likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortised cost.

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in 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 that have an impact on the amount or timing of the estimated future cash flows that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when assessing whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

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

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems
- the borrower experiences significant financial difficulty as evidenced by financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions
- implementation of the borrower's investment plans is delayed or
- the Group expects difficulties in servicing the borrower's debt due to volatility of the borrower's cash flows caused by its cyclic activity or irregularity of proceeds.

3 Basis of Preparation and Significant Accounting Policies (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to decrease the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been currently incurred) discounted at the effective interest rate of the asset. The calculation of the discounted value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment allowance recorded in the consolidated statement of financial position after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

Investment securities available-for-sale. This classification includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Certain types of investment securities available-for-sale are carried at cost when the Group cannot measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, when the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss for the year.

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 investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. Accumulated impairment losses calculated as the difference between the acquisition cost and the current fair value less impairment loss for the asset that was initially recognised in profit or loss are transferred from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Advances receivable. Advances receivable are recognised if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

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

Securities lending transactions secured with cash collateral, which effectively provide a lender’s return to the Group, are treated as sale and repurchase agreements (“repo agreements”), with interest income accrued but not paid reducing the amount of Group’s liability.

Securities purchased under agreements to resell (“reverse repo agreements”), which provide the Group with a creditor’s return, are recorded as amounts receivable under reverse repurchase agreements. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the reverse repo agreements using the effective interest method.

Investment securities held-to-maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturity, which management has the firm intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. Investment securities held-to-maturity are measured at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in due from banks or loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

Premises and equipment. Premises 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 impairment, where required.

Premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Any increase in the carrying value as a result of revaluation is recognised in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognised in other comprehensive income and reduces the revaluation reserve previously recognised in equity. All other decreases in value are recognised in profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

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

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

Costs of minor repairs and maintenance are recognised when incurred. Costs of replacing major parts or components of premises and equipment are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

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

Premises: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

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

Intangible assets. All intangible assets have definite useful lives 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. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

Investment property. Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is stated at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group receives the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category "Premises and Equipment".

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and benefits 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.

Long-term assets held for sale. Long-term assets and disposal groups (which may include both long term and short term assets) are presented in the consolidated statement of financial position as long-term assets held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. These assets are reclassified when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Long-term assets or disposal groups classified as held-for-sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current reporting period.

3 Basis of Preparation and Significant Accounting Policies (continued)

Long-term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included in the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal groups that will be transferred in the disposal transaction are presented separately in the consolidated statement of financial position.

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

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

Other debt securities issued. Other debt securities issued include bonds, promissory notes and certificates of deposit 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 other income.

Other borrowed funds. Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not apply hedge accounting.

Income taxes. Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss for the year except if it is recognised as other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, as other comprehensive income or directly in equity.

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

Deferred income tax is calculated on the basis of balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. Uncertain tax positions are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

3 Basis of Preparation and Significant Accounting Policies (continued)

Provisions for liabilities and future expenses. Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the consolidated financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, other than the commitment to originate loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately. Such commission income related to loan origination commitment is recognised as future period profit and is included in the loan's carrying amount upon initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date.

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.

Preference shares. Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends in relation to own equity instruments are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are approved for issue are disclosed in the Events after the reporting period note. The statutory accounting reports are the basis for payment of dividends and other profit distribution. Russian legislation identifies the basis of profit distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method includes as part of interest income and expense, all fees and charges paid and received between the parties to the contract that form an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income/expenses attributable to the effective interest rate include fees received or paid in connection with 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.

When loans or other debt instruments become doubtful of timely collection, they are written off to recoverable value with subsequent recognition of interest income based on the effective interest rate that was used to discount future cash flows with the purpose of determination of recoverable value.

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 Basis of Preparation and Significant Accounting Policies (continued)

Fiduciary assets. Assets held by the Group in its own name, but on the account and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is presented in note 34. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is 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.

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to 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 employees.

Segment reporting. Segment reporting is prepared based on the internal management reports regularly reviewed by the chief operating decision maker. Segments with a majority of revenue, financial result or assets equal to at least ten percent of those from all the segments are reported separately.

The Group's operations are neither seasonal nor cyclic by nature.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the year, the Group makes professional judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

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. To the extent that a one month delay in repayment of principal and interest on 5% of the total loans and advances to customers occurred, the allowance would be approximately RR 143 624 thousand higher (2013: RR 112 229 thousand higher).

Revaluation of investment securities available-for-sale. Investment securities available-for-sale are recorded based on fair value.

In the event it does not appear possible to assess fair value of certain types of equity securities falling into such category with an adequate degree of assurance (lack of active market quotes, as well as observable data such as price for similar instruments on the active market), such type of security is recorded based on historical cost. For details please refer to note 35.

Revaluation of premises. The fair values of premises are determined by using valuation methods and are based on their market value. Market values of premises are estimated by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value is assessed using sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. For details please refer to note 14. To the extent that the assessed fair value of premises differs by 10%, the effect of the revaluation adjustment would be RR 1 303 894 thousand (before deferred tax) as at 31 December 2014 (2013: RR 1 250 042 thousand).

5 Adoption of New or Revised Standards and Interpretations

The Group has adopted the following new standards and interpretations, a part of which is obligatory for annual reporting periods beginning on 1 January 2014:

Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 Financial Instruments: Presentation are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The change had no significant impact on the offsetting of financial assets and financial liabilities as well as disclosures in the consolidated financial statements of the Group.

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

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective:

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018. The standard is intended ultimately to replace 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 does not intend to adopt this standard early.

Various *Improvements to IFRSs* 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
Cash on hand	13 406 076	6 272 138
Cash balances with the CBRF (other than mandatory reserve deposits)	16 650 597	11 191 175
Correspondent accounts and overnight placements with banks		
- the Russian Federation	12 529 172	14 365 383
- other countries	6 498 493	4 704 211
Settlement accounts with trading systems	8 156 284	3 527 545
Total cash and cash equivalents	**57 240 622**	**40 060 452**

Correspondent accounts and overnight placements with banks of the Russian Federation and settlement accounts with trading systems are mainly represented by balances with Russian stock-exchanges and clearing houses.

Currency and interest rate analyses of cash and cash equivalents are disclosed in note 32.

7 Trading Securities

In thousands of Russian Roubles	2014	2013
Corporate Eurobonds	196 732	2 157 309
Corporate bonds	-	11 275 394
Municipal bonds	-	2 892 211
Federal loan bonds	-	1 246 783
Total debt trading securities	**196 732**	**17 571 697**
Corporate shares	8 693	20 941
Total trading securities	**205 425**	**17 592 638**

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-residential companies for the benefit of credit organisations-residents of the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 18 March 2015 to 24 April 2018 (2013: from 18 March 2015 to 28 October 2020); coupon rates from 3.4% to 8.0% p.a. (2013: from 3.7% to 8.6% p.a.) and yields to maturity from 7.8% to 8.3% p.a. as at 31 December 2014 (2013: from 2.1% to 8.9% p.a.),depending on the type of Eurobond issue.

7 Trading Securities (continued)

As at 31 December 2013, corporate bonds were interest bearing Russian Rouble denominated securities issued by Russian companies and traded in the Russian market. These bonds had maturity dates from 23 January 2014 to 23 September 2032; coupon rates from 6.5% to 15.0% p.a. and yields to maturity from 2.1% to 34.3% p.a., depending on the type of bond issue.

As at 31 December 2013, municipal bonds were Russian Rouble denominated securities issued by the municipal administrations of Moscow, St. Petersburg, Moscow Region, Samara Region, Nizhni Novgorod Region, Belgorod Region, Tula Region, Voronezh Region, Volgograd Region, Tomsk Region, Krasnoyarsk Territory, Stavropol Territory, Sakha Republic. These bonds were sold at a discount to nominal value, had maturity dates from 16 April 2014 to 4 November 2020; coupon rates from 7.0% to 12.0% p.a. and yields to maturity from 6.3% to 9.2% p.a, depending on the type of bond issue.

As at 31 December 2013, federal loan bonds were Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2012 these bonds had maturity dates from 3 August 2016 to 19 January 2028; coupon rates from 6.2% to 8.2% p.a. and yields to maturity from 6.7% to 8.0% p.a., depending on the type of bond issue.

Corporate shares are shares of Russian companies.

Trading securities are carried at fair value which also reflects the credit risk of these securities.

Debt trading securities are divided by credit rating of the issuer defined by rating agencies Moody’s, S&P and Fitch into the following groups:

Group A – debt financial securities with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B – debt financial securities with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – debt financial securities with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – debt financial securities with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies or without credit rating.

Analysis by credit quality of debt trading securities outstanding at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Corporate Eurobonds**	**Total**
Not overdue or impaired		
Group A	24 283	24 283
Group B	172 449	172 449
Total debt trading securities	**196 732**	**196 732**

7 Trading Securities (continued)

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

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Corporate Eurobonds**	**Federal loan bonds**	**Total**
Not overdue or impaired					
Group A	8 021 614	2 234 806	1 065 644	1 246 783	12 568 847
Group B	1 469 875	533 354	1 091 665	-	3 094 894
Group C	891 606	124 051	-	-	1 015 657
Group D	892 299	-	-	-	892 299
Total debt trading securities	**11 275 394**	**2 892 211**	**2 157 309**	**1 246 783**	**17 571 697**

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

Currency and maturity analyses of trading securities are disclosed in note 32.

In 2008 the Group reclassified certain financial assets from trading securities to due from banks and loans and advances to customers. See notes 10, 11.

In December 2014 the Group reclassified certain financial assets for which there was no active market from trading securities to loans and advances to customers, and due from banks, and financial assets for which there was active market from trading securities to investment securities available-for-sale. See notes 10,11,12.

Management believes that significant deterioration of situation in the domestic currency market in the fourth quarter of 2014, which led to a sharp increase of the policy rate of the CBRF, is a rare, unpredictable and extraordinary event, since it does not correspond to the general trend and volatility observed in the financial markets during previous periods.

The Group determined that this anti-crisis change of the policy rate of the CBRF, which occurred on the 15 December 2014, is an example of a "rare event", which provides the basis for reclassification from the category of trading securities.

The carrying and fair values of all financial assets reclassified from trading securities are as follows:

	15 December 2014		**31 December 2014**	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans and advances to customers	14 049 293	14 049 293	13 672 128	13 795 143
Due from banks	10 792 915	10 792 915	11 221 777	11 145 814
Investment securities available-for-sale	43 950 196	43 950 196	35 003 102	35 003 102
Total securities reclassified	**68 792 404**	**68 792 404**	**59 897 007**	**59 944 059**

7 Trading Securities (continued)

The amounts of income and expenses from financial assets, reclassified to due from banks and loans and advances to customers, recognised in profit or loss before reclassification date, after reclassification date, and income and expenses (after reclassification date), which would be recognised in profit or loss if these financial assets were not reclassified are as follows:

In thousands of Russian Roubles	**Income (expenses) recognised in 2014 before reclassification date**	**Income (expenses) recognised after reclassification date**	**Income (expenses) which would be recognised after reclassification date if the assets were not reclassified**
Interest income	1 060 173	136 325	Not applicable
Net (losses) gains from securities	(805 248)	-	106 836
Provision for loan impairment	-	(17 432)	-
Total effect on profit	**254 925**	**118 893**	**106 836**

The expected recoverable cash flows from reclassified securities as at the date of reclassification equals to RR 28 949 706 thousand. Effective interest rate for Russian Rouble denominated securities is 19.74%, effective interest rate for USD denominated securities is 8.60%.

The amount of revaluation loss from financial assets, reclassified to investment securities available-for-sale, recognised in other comprehensive income after the date of reclassification amounts to RR 386 972 thousand before deduction of deferred income tax.

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned

In thousands of Russian Roubles	2014	2013
Trading securities pledged under sale and repurchase agreements and loaned		
Corporate Eurobonds	2 511 983	6 868 657
Corporate bonds	-	36 660 302
Eurobonds of the Russian Federation	-	2 722 173
Federal loan bonds	-	2 624 778
Municipal bonds	-	2 459 922
Total debt securities pledged under sale and repurchase agreements and loaned	**2 511 983**	**51 335 832**
Corporate shares	501 431	393 114
Total trading securities pledged under sale and repurchase agreements and loaned	**3 013 414**	**51 728 946**
Investment securities available-for-sale pledged under sale and repurchase agreements and loaned		
Corporate bonds	28 300 708	-
Corporate Eurobonds	4 932 325	-
Municipal bonds	1 558 046	-
Federal loan bonds	1 334 216	-
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**36 125 295**	**-**
Total securities pledged under sale and repurchase agreements and loaned	**39 138 709**	**51 728 946**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Corporate bonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by Russian companies traded in the Russian market. Corporate bonds have maturity from 23 January 2015 to 23 September 2032 (2013: from 4 February 2014 to 17 February 2032); coupon rates from 7.6% to 12.9% p.a. (2013: from 2.0% to 15.0% p.a.); and yields to maturity from -7.0% to 36.5% p.a. as at 31 December 2014 (2013: from 1.5% to 12.5% p.a.). The term of the corresponding repurchase agreements is 15 calendar days (2013: between 10 and 21 calendar days), with effective rates from 17.2% to 17.3% p.a. (2013: from 5.5% to 5.6% p.a.).

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-residential companies for the benefit of credit organisations-residents of the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 4 March 2015 to 30 June 2035 (2013: from 18 March 2015 to 29 May 2018); coupon rates from 5.0% to 8.0% p.a. (2013: from 5.1% to 9.1% p.a.) and yields to maturity from 5.3% to 20.6% p.a. (2013: from 2.1% to 8.5% p.a.) as at 31 December 2014. The term of the corresponding repurchase agreements is 15 calendar days (2013: between 10 and 21 calendar days), with an effective rate of 17.3% p.a. (2013: 5.5% p.a.).

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Saint-Petersburg, Belgorod Region, Tula Region, Voronezh Region, Volgograd Region, Smolensky Region and Stavropol Territory (2013: municipal administrations of Moscow, Nizhni Novgorod Region, Belgorod Region, Tula Region, Voronezh Region, Volgograd Region). These bonds are sold at a discount to nominal value, have maturity dates from 25 September 2015 to 4 November 2020 (2013: from 21 July 2014 to 14 June 2018); coupon rates from 7.8% to 8.9% p.a. (2013: from 7.0% to 10.0% p.a.) and yields to maturity from 2.1% to 22.5% p.a. (2013: from 6.6% to 8.2% p.a.) as at 31 December 2014, depending on the type of bond issue. The term of the corresponding repurchase agreements is 15 calendar days (2013: between 10 and 21 calendar days), with effective rates from 17.2% to 17.3% p.a. (2013: 5.5% p.a.).

Federal loan bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 19 April 2017 to 14 April 2021 (2013: from 3 August 2016 to 19 January 2028); coupon rates from 6.2% to 7.6% p.a. (2013: from 6.2% to 8.2% p.a.) and yields to maturity from 14.8% to 15.4% p.a. (2013: from 6.7% to 8.0% p.a.) as at 31 December 2014, depending on the type of bond issue. The term of the corresponding repurchase agreements is 15 calendar days (2013: between 10 and 21 calendar days), with effective rates from 17.2% to 17.3% p.a. (2013: from 5.2% to 5.5% p.a.).

Corporate shares are shares of Russian companies. The term of the corresponding repurchase agreements is between 13 and 15 calendar days (2013: 10 calendar days), with effective rates from 16.8% to 17.3% p.a. (2013: 5.5% p.a.).

The term of securities lending transactions is 6 calendar days, with effective rates from 10.0% to 45.2% (2013: there we no such transactions).

As at 31 December 2013, Eurobonds of the Russian Federation were interest bearing Russian Rouble and foreign currency denominated securities issued by the Ministry of Finance of the Russian Federation traded in the international market. These Eurobonds had maturity dates from 10 March 2018 to 31 March 2030; coupon rates from 7.5% to 7.9% p.a.; and yields to maturity from 5.6% to 7.0% p.a. The term of the corresponding repurchase agreements was between 10 and 21 calendar days, with an effective rate of 5.5% p.a.

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2014 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Federal loan bonds**	**Total**
Trading securities pledged under sale and repurchase agreements and loaned					
Group A	-	768 481	-	-	768 481
Group B	-	1 743 502	-	-	1 743 502
Total debt securities pledged under sale and repurchase agreements and loaned	**-**	**2 511 983**	**-**	**-**	**2 511 983**
Investment securities available-for-sale pledged under sale and repurchase agreements and loaned					
Group A	11 578 394	1 666 071	952 980	1 334 216	**15 531 661**
Group B	13 747 426	3 266 254	504 619	-	**17 518 299**
Group C	1 810 759	-	100 447	-	**1 911 206**
Group D	1 164 129	-	-	-	**1 164 129**
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**28 300 708**	**4 932 325**	**1 558 046**	**1 334 216**	**36 125 295**
Total debt securities pledged under sale and repurchase agreements and loaned	**28 300 708**	**7 444 308**	**1 558 046**	**1 334 216**	**38 637 278**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2013 by their credit quality is as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Eurobonds of the Russian Federation	Federal loan bonds	Municipal bonds	Total
Trading securities pledged under sale and repurchase agreements and loaned						
Group A	19 546 558	4 887 474	2 722 173	2 624 778	2 017 764	**31 798 747**
Group B	13 188 887	1 981 183	-	-	442 158	**15 612 228**
Group C	2 918 075	-	-	-	-	**2 918 075**
Group D	1 006 782	-	-	-	-	**1 006 782**
Total debt trading securities pledged under sale and repurchase agreements and loaned	**36 660 302**	**6 868 657**	**2 722 173**	**2 624 778**	**2 459 922**	**51 335 832**
Total debt securities pledged under sale and repurchase agreements and loaned	**36 660 302**	**6 868 657**	**2 722 173**	**2 624 778**	**2 459 922**	**51 335 832**

For definition of groups refer to note 7.

The Group transfers or sells securities under agreements to repurchase to a third party as collateral for borrowed funds. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received included in due to banks and customer accounts as appropriate (note 17 and 18).

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

Currency and maturity analyses of securities pledged under sale and repurchase agreements and loaned are disclosed in note 32.

9 Amounts Receivable Under Reverse Repurchase Agreements

In thousands of Russian Roubles	2014	2013
Amounts receivable under reverse repurchase agreements with banks	18 634 779	6 893 082
Amounts receivable under reverse repurchase agreements with customers	10 876 330	7 960 798
Total amounts receivable under reverse repurchase agreements	**29 511 109**	**14 853 880**

As at 31 December 2014, amounts receivable under reverse repurchase agreements represent agreements with customers and banks that are secured by federal loan bonds, Eurobonds of the Russian Federation, municipal bonds, corporate Eurobonds, corporate bonds and corporate shares (2013: federal loan bonds, corporate bonds and corporate shares).

As at 31 December 2014, the fair value of securities that serve as collateral under reverse repurchase agreements is RR 35 014 745 thousand (2013: RR 17 672 095 thousand), out of which corporate shares with a fair value of RR 6 387 452 thousand, corporate bonds with a fair value of RR 4 442 424 thousand, corporate Eurobonds with a fair value of RR 1 232 954 thousand, federal loan bonds with a fair value of RR 920 932 thousand, municipal bonds with a fair value of RR 266 405 thousand are pledged under sale and repurchase agreements, corporate Eurobonds with a fair value of RR 2 464 262 thousand and corporate shares with a fair value of RR 179 896 thousand are sold by the Group (2013: corporate shares with a fair value RR 5 822 539 thousand, corporate bonds with a fair value of RR 4 173 360 thousand, federal loan bonds with a fair value RR 1 984 122 thousand and Eurobonds of the Russian Federation with a fair value of RR 926 215 thousand are pledged under sale and repurchase agreements, corporate shares with a fair value of RR 124 419 thousand were sold by the Group), refer to note 17 and 18. In all cases, collateral securing individual reverse repurchase agreements equals or exceeds the amount of the accounts receivable.

Currency and maturity analyses of amounts receivable under reverse repurchase agreements are disclosed in note 32.

10 Due from Banks

In thousands of Russian Roubles	2014	2013
Term placements with banks	29 274 644	8 648 818
Allowance for impairment	(10 174)	(31 524)
Total due from banks	**29 264 470**	**8 617 294**

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

In thousands of Russian Roubles	2014	2013
Allowance for impairment as at 1 January	**31 524**	**17 800**
(Recovery) accrual of provision for impairment during the year	(21 350)	13 724
Allowance for impairment as at 31 December	**10 174**	**31 524**

As at 31 December 2014, the carrying value of securities reclassified in 2008 and 2014 from trading securities to due from banks amounts to RR 11 221 777 thousand before the allowance for impairment (2013: RR 502 130 thousand).

Reclassified securities with a carrying value of RR 10 837 388 thousand are securities pledged under repurchase agreements in due to banks (2013: RR 502 130 thousand). As at 31 December 2014 the fair value of these securities amounts to RR 10 761 370 thousand (2013: RR 503 504 thousand). Refer to note 17.

The Bank uses a system of limits for granting loans to banks, as shown in note 32. The current interbank loan portfolio is used for short-term placement of temporarily available cash.

10 Due from Banks (continued)

Term placements with banks are divided by credit quality depending on the credit rating of the credit organization defined by rating agencies Moody’s, S&P and Fitch into the following groups:

Group A – credit organisations with credit rating at least BBB-, according to S&P rating agency or equivalent rating of other agencies,

Group B – credit organisations with credit rating between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – credit organisations with credit rating between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – credit organisations with credit rating below B-, according to S&P rating agency or equivalent rating of other agencies or without credit rating.

Analysis by credit quality of term placements with banks as at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Securities reclassified in due from banks**	**Total**
Group A	18 052 867	9 187 022	27 239 889
Group B	-	2 034 755	2 034 755
Total term placements with banks	**18 052 867**	**11 221 777**	**29 274 644**

Analysis by credit quality of term placements with banks as at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Promissory notes of other banks**	**Securities reclassified in 2008 into due from banks**	**Total**
Group A	2 523 398	-	502 130	3 025 528
Group B	2 341 125	1 473 405	-	3 814 530
Group C	1 695 735	-	-	1 695 735
Group D	113 025	-	-	113 025
Total term placements with banks	**6 673 283**	**1 473 405**	**502 130**	**8 648 818**

Loans to banks are not secured. No placements with banks are impaired or past due.

Currency, maturity and interest rate analyses of due from banks are disclosed in note 32.

11 Loans and Advances to Customers

In thousands of Russian Roubles	2014	2013
Loans to legal entities		
- loans to finance working capital	192 004 978	154 322 226
- investment loans	82 454 015	67 330 522
- loans to entities financed by the government	17 506 709	17 407 831
Loans to individuals		
- mortgage loans	29 387 894	20 302 459
- car loans	3 867 790	3 947 168
- consumer loans to VIP clients	7 505 307	5 653 604
- other loans to individuals	11 017 420	7 868 581
Allowance for impairment	(28 405 118)	(25 948 288)
Total loans and advances to customers	**315 338 995**	**250 884 103**

As at 31 December 2014, the carrying value of securities reclassified from trading securities to loans and advances to customers in 2014 amounts to RR 13 672 128 thousand before impairment (2013: the carrying value of securities reclassified from trading securities to loans and advances to customers in 2008 amounts to RR 296 279 thousand before impairment).

Reclassified securities with a carrying value of RR 12 127 220 thousand are securities pledged under repurchase agreements in due to banks. As at 31 December 2014 the fair value of these securities amounts to RR 12 266 517 thousand (2013: reclassified securities with a carrying value of RR 291 257 thousand are securities pledged under repurchase agreements and loaned in due to banks. The fair value of these securities amounts to RR 296 426 thousand). Refer to note 17.

11 Loans and Advances to Customers (continued)

Movements in the allowance for loan impairment during 2014 are as follows. Allowance for impairment of acquired subsidiary is provided separately for representative purposes only.

	Loans to legal entities			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	**Total**
Allowance for impairment at 1 January	**20 794 059**	**4 154 595**	**157 509**	**268 773**	**44 178**	**347 294**	**181 880**	**25 948 288**
Allowance for impairment of acquired subsidiary	746 225	61 450	-	2 744	1 127	-	82 294	**893 840**
Provision for (recovery of) impairment during the year	4 586 516	2 461 357	(27 722)	(90 623)	12 763	222 421	142 547	**7 307 259**
Loans sold	(2 473 231)	-	-	-	-	-	-	**(2 473 231)**
Amounts written off as non-recoverable	(2 652 706)	(587 981)	-	(5 332)	(286)	-	(24 733)	**(3 271 038)**
Allowance for impairment at 31 December	**21 000 863**	**6 089 421**	**129 787**	**175 562**	**57 782**	**569 715**	**381 988**	**28 405 118**

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

	Loans to legal entities			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	**Total**
Allowance for impairment at 1 January	**18 615 565**	**4 531 482**	**375 992**	**237 246**	**47 245**	**223 532**	**93 449**	**24 124 511**
Provision for (recovery of) impairment during the year	4 773 701	(337 175)	(218 483)	38 325	(50)	123 762	101 265	**4 481 345**
Loans sold	(123 327)	(39 712)	-	-	-	-	(2 941)	**(165 980)**
Amounts written off as non-recoverable	(2 471 880)	-	-	(6 798)	(3 017)	-	(9 893)	**(2 491 588)**
Allowance for impairment at 31 December	**20 794 059**	**4 154 595**	**157 509**	**268 773**	**44 178**	**347 294**	**181 880**	**25 948 288**

11 Loans and Advances to Customers (continued)

Economic sector risk concentrations within the customer loan portfolio as at 31 December are as follows:

	2014		2013	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	51 778 411	15.1	37 771 812	13.6
Construction	48 003 731	14.0	42 323 170	15.3
Trade	45 976 427	13.4	35 081 826	12.7
Leasing and financial services	37 078 581	10.8	31 707 561	11.5
Production and food industry	36 492 435	10.6	26 367 208	9.5
Real estate	26 607 574	7.7	21 175 211	7.6
Heavy machinery and ship building	22 681 580	6.6	15 467 219	5.6
Entities financed by the government	17 506 709	5.1	17 407 831	6.3
Oil and gas extraction and transportation	14 434 517	4.2	9 680 543	3.5
Transport	12 356 940	3.6	8 218 649	3.0
Sports and health and entertainment organisations	9 123 993	2.7	11 362 699	4.1
Energy	5 993 292	1.7	5 888 993	2.1
Telecommunications	3 950 457	1.1	3 314 707	1.2
Chemical industry	1 209 854	0.4	717 132	0.3
Other	10 549 612	3.0	10 347 830	3.7
Total loans and advances to customers (before allowance for impairment)	**343 744 113**	**100.0**	**276 832 391**	**100.0**

As at 31 December 2014, the 20 largest groups of borrowers have aggregated loan amounts of RR 89 962 589 thousand (2013: RR 81 979 460 thousand), or 26.2% (2013: 29.6%) of the loan portfolio before impairment.

11 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2014 are as follows:

In thousands of Russian Roubles	Gross loans and advances to customers	Allowance for impairment	Net loans and advances to customers	Allowance for impairment to loans and advances to customers, %
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	242 081 537	(6 214 221)	235 867 316	2,57
Watch list loans not past due	17 643 664	(1 606 474)	16 037 190	9,11
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	18 586 681	(8 697 725)	9 888 956	46,80
Overdue:				
- less than 5 calendar days	273 917	(231 266)	42 651	84,43
- 6 to 30 calendar days	130 971	(59 584)	71 387	45,49
- 31 to 60 calendar days	310 223	(17 707)	292 516	5,71
- 61 to 90 calendar days	68 953	(5 435)	63 518	7,88
- 91 to 180 calendar days	523 605	(137 658)	385 947	26,29
- 181 to 365 calendar days	1 615 976	(1 220 852)	395 124	75,55
- more than 365 calendar days	10 730 175	(9 029 149)	1 701 026	84,15
Total loans and advances to legal entities	**291 965 702**	**(27 220 071)**	**264 745 631**	**9,32**
Loans and advances to individuals:				
- mortgage loans	29 387 894	(175 562)	29 212 332	0,60
- car loans	3 867 790	(57 782)	3 810 008	1,49
- consumer loans to VIP clients	7 505 307	(569 715)	6 935 592	7,59
- other loans to individuals	11 017 420	(381 988)	10 635 432	3,47
Total loans and advances to individuals	**51 778 411**	**(1 185 047)**	**50 593 364**	**2,29**
Total loans and advances to customers	**343 744 113**	**(28 405 118)**	**315 338 995**	**8,26**

11 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	**Mortgage loans**	**Car loans**	**Consumer loans to VIP clients**	**Other loans to individuals**	**Total loans and advances to individuals**
Loans and advances to individuals					
Standard loans not past due	28 650 414	3 719 649	6 907 876	10 512 616	49 790 555
Overdue:					
- less than 5 calendar days overdue	26 925	7 127	-	26 701	60 753
- 6 to 30 calendar days	100 205	10 453	-	41 186	151 844
- 31 to 60 calendar days	63 049	7 567	-	37 037	107 653
- 61 to 90 calendar days	59 932	6 866	-	35 149	101 947
- 91 to 180 calendar days	171 175	23 224	-	86 746	281 145
- 181 to 365 calendar days	114 689	30 470	63 951	116 711	325 821
- more than 365 calendar days	201 505	62 434	533 480	161 274	958 693
Total loans and advances to individuals (before allowance for impairment)	**29 387 894**	**3 867 790**	**7 505 307**	**11 017 420**	**51 778 411**
Allowance for impairment	**(175 562)**	**(57 782)**	**(569 715)**	**(381 988)**	**(1 185 047)**
Total loans and advances to individuals (after allowance for impairment)	**29 212 332**	**3 810 008**	**6 935 592**	**10 635 432**	**50 593 364**

11 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2013 are as follows:

In thousands of Russian Roubles	Gross loans and advances to customers	Allowance for impairment	Net loans and advances to customers	Allowance for impairment to loans and advances to customers, %
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	193 147 046	(5 148 014)	187 999 032	2.67
Watch list loans not past due	11 646 832	(655 240)	10 991 592	5.63
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	15 758 930	(7 145 041)	8 613 889	45.34
Overdue:				
- less than 5 calendar days	1 033 319	(42 420)	990 899	4.11
- 6 to 30 calendar days	228 432	(19 012)	209 420	8.32
- 31 to 60 calendar days	115 923	(3 574)	112 349	3.08
- 61 to 90 calendar days	1 810 082	(56 160)	1 753 922	3.10
- 91 to 180 calendar days	3 696 893	(2 450 650)	1 246 243	66.29
- 181 to 365 calendar days	1 265 176	(619 744)	645 432	48.98
- more than 365 calendar days	10 357 946	(8 966 308)	1 391 638	86.49
Total loans and advances to legal entities	**239 060 579**	**(25 106 163)**	**213 954 416**	**10.50**
Loans and advances to individuals:				
- mortgage loans	20 302 459	(268 773)	20 033 686	1.32
- car loans	3 947 168	(44 178)	3 902 990	1.12
- consumer loans to VIP clients	5 653 604	(347 294)	5 306 310	6.14
- other loans to individuals	7 868 581	(181 880)	7 686 701	2.31
Total loans and advances to individuals	**37 771 812**	**(842 125)**	**36 929 687**	**2.23**
Total loans and advances to customers	**276 832 391**	**(25 948 288)**	**250 884 103**	**9.37**

11 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	Total loans and advances to individuals
Loans and advances to individuals					
Standard loans not past due	19 883 089	3 857 976	5 059 846	7 637 650	36 438 561
Overdue:					
- less than 5 calendar days overdue	8 544	10 550	-	10 797	29 891
- 6 to 30 calendar days	69 689	11 875	80 299	19 116	180 979
- 31 to 60 calendar days	49 184	6 110	63 450	21 865	140 609
- 61 to 90 calendar days	14 720	4 301	-	15 977	34 998
- 91 to 180 calendar days	48 563	13 572	67 627	54 000	183 762
- 181 to 365 calendar days	80 565	12 103	35 933	48 790	177 391
- more than 365 calendar days	148 105	30 681	346 449	60 386	585 621
Total loans and advances to individuals (before allowance for impairment)	**20 302 459**	**3 947 168**	**5 653 604**	**7 868 581**	**37 771 812**
Allowance for impairment	**(268 773)**	**(44 178)**	**(347 294)**	**(181 880)**	**(842 125)**
Total loans and advances to individuals (after allowance for impairment)	**20 033 686**	**3 902 990**	**5 306 310**	**7 686 701**	**36 929 687**

11 Loans and Advances to Customers (continued)

The Group estimates loan impairment for individually assessed corporate loans, for which specific indications of impairment have been identified, based on an analysis of the expected future cash flows based primarily on collateral. The principal collateral taken into account in the estimation of future cash-flows comprises real estate. Valuations for real estate are discounted by 30-50 percent to reflect current market conditions.

For portfolios of standard not past due loans, in determining the impairment allowance, the Group adjusts historic loss rates to factor in the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management's estimate of the losses in the portfolio as at 31 December 2014 and 31 December 2013.

The Group estimates the impairment allowance of loans to individuals based on an analysis of future cash flows for impaired loans and based on its past historical loss experience for loans for which no indications of impairment have been identified. Management adjusts historic loss rates for loans for which no indications of impairment have been identified to factor in the current deterioration/improvement of the loan portfolio. The principal collateral taken into account in the estimation of future cashflows comprises mainly real estate and cars. Valuations for real estate and cars are discounted by 10-20 percent to reflect current market conditions.

Loans and advances to customers are classified as "Standard loans not past due" when they do not have any overdue payments as at the reporting date and management does not have any information indicating that the borrower is not able to repay the loan in full and in time.

Loans and advances to customers are classified as "Watch list loans not past due" when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including the external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed on a timely basis.

The following table provides information on collateral securing corporate loans, net of impairment, by types of collateral presented on the basis of excluding overcollateralization at 31 December 2014 and 2013:

In thousands of Russian Roubles	**2014**	**2013**
Cash	2 224 899	5 077 033
Real estate	114 780 139	102 425 169
Motor vehicles	711 635	506 587
Equipment	17 909 077	16 816 257
Sureties	69 802 839	58 390 682
Other collateral	16 505 691	14 432 228
No collateral	42 811 351	16 306 460
Total collateral for loans and advances to legal entities	**264 745 631**	**213 954 416**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The recoverability of loans to legal entities which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

11 Loans and Advances to Customers (continued)

The Group has standard non-delinquent loans, for which fair value of collateral was assessed at the loan inception date and not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date.

There are highly reliable borrowers included in loans to finance working capital, for which the Group considers it appropriate to issue loans without collateral.

Mortgage loans are secured by the underlying housing real estate. Mortgage loans amount does not exceed 85% of real estate cost. Auto loans are secured by the underlying cars.

Management estimates that the impairment allowance on standard loans to legal entities not past due and watch list loans to legal entities not past due would have been RUB 14 662 293 thousand higher without taking into consideration collateral value (2013: RUB 14 457 243 thousand).

Interest income accrued on overdue and impaired loans during 2014 amounts to RR 329 405 thousand (2013: RR 535 874 thousand).

Currency and maturity and interest rate analyses of loans and advances to customers are disclosed in note 32. Fair value analysis of loan and advances to customers is disclosed in note 35. The information on related party transactions is disclosed in note 36.

12 Investment Securities Available-For-Sale

In thousands of Russian Roubles	2014	2013
Corporate bonds	4 344 405	-
Federal loan bonds	1 407 515	-
Corporate Eurobonds	575 474	-
Municipal bonds	502 104	-
Total debt investment securities available-for-sale	**6 829 498**	-
Corporate shares	2 429 895	3 324 758
Total investment securities available-for-sale	**9 259 393**	**3 324 758**

As at 31 December 2014, fair value of securities reclassified in 2008 and 2014 from trading securities to investment securities available-for-sale equals to RR 35 003 102 thousand. Reclassified securities with a fair value of RR 29 699 415 thousand are securities pledged under sale and repurchase agreements.

Corporate bonds are interest bearing securities denominated in Russian Rouble issued by Russian companies traded in the Russian market. Corporate bonds have maturity from 23 January 2015 to 20 September 2044; coupon rates from 7.0% to 13.3% p.a. and yields to maturity from -7.0% to 36.5% p.a. as at 31 December 2014, depending on the type of bond issue. As at 31 December 2013 there were no such securities.

Federal loan bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 3 August 2016 to 14 April 2021; coupon rates from 6.0% to 7.6% p.a. and yields to maturity from 13.5% to 16.0% p.a. as at 31 December 2014, depending on the type of bond issue. As at 31 December 2013 there were no such securities.

Corporate Eurobonds are interest bearing securities denominated in Russian Rouble and foreign currency issued by non-residential companies for the benefit of credit organisations-residents of the Russian Federation traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 4 March 2015 to 10 June 2017; coupon rates from 4.3% to 7.9% p.a. and yields to maturity from 6.4% to 20.6% p.a. as at 31 December 2014. As at 31 December 2013 there were no such securities.

12 Investment Securities Available-For-Sale (continued)

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, Saint-Petersburg, Belgorod Region, Tula Region, Voronezh Region, Volgograd Region, Smolensky Region, Tomsky Region, Krasnoyarsk and Stavropolsk Territories, Sakha Republic. These bonds are sold at a discount to nominal value, have maturity dates from 24 June 2015 to 4 November 2020; coupon rates from 7.0% to 8.9% p.a. and yields to maturity from 2.1% to 22.5% p.a. as at 31 December 2014, depending on the type of bond issue. As at 31 December 2013 there were no such securities.

Corporate shares are shares of Russian companies and shares of a close-ended real estate mutual investment fund.

Debts investment securities available-for-sale are carried at fair value which also reflects the credit risk of these securities.

Debt investment securities available-for-sale of the Group are divided by credit rating of the issuer defined by rating agencies Moody’s, S&P and Fitch.

For definition of groups refer to note 7.

Analysis by credit quality of investment securities available-for-sale as at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Federal loan bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Total**
Not overdue or impaired					
Group A	2 772 919	1 407 515	245 893	312 582	4 738 909
Group B	882 327	-	329 581	187 974	1 399 882
Group C	306 575	-	-	1 548	308 123
Group D	382 584	-	-	-	382 584
Total debt investment securities available-for-sale	**4 344 405**	**1 407 515**	**575 474**	**502 104**	**6 829 498**

As at 31 December 2013, there were no debt investment securities available-for-sale.

Currency and maturity analyses of investment securities available-for-sale are disclosed in note 32.

13 Investment Property

In thousands of Russian Roubles	**2014**	**2013**
Land	1 438 133	1 441 617
Premises	220 463	220 463
Impairment of investment property	(53 442)	-
Accumulated depreciation	(13 721)	(8 965)
Total investment property	**1 591 433**	**1 653 115**

Investment property represents land plots and buildings.

13 Investment Property (continued)

Changes in investment property during the year are as follows:

In thousands of Russian Roubles	2014	2013
Gross balance as at 1 January	**1 662 080**	**2 859 078**
Receipts	-	1 438 162
Transfers and disposals	(3 484)	(2 635 160)
Impairment of investment property	(53 442)	-
Gross balance as at 31 December	**1 605 154**	**1 662 080**

The fair value of investment property as at 31 December 2014 is RR 1 605 154 thousand (2013: RR 1 662 080 thousand).

The estimates of fair values of investment property are obtained from an independent appraiser, who holds a recognised and relevant professional qualification and who has experience in valuation of investment property of similar location and category. The fair value is assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. The fair value estimate of investment property is classified to level 3 of hierarchy.

14 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2013		12 550 425	2 416 003	397 196	15 350	15 378 974
Accumulated depreciation and impairment loss		(188)	(1 398 124)	-	(8 981)	(1 407 293)
Net book amount as at 1 January 2013		**12 550 237**	**1 017 879**	**397 196**	**6 369**	**13 971 681**
Additions		18 717	314 232	150 323	2 912	486 184
Transfers between categories		216 421	2 127	(218 548)	-	-
Disposals		(2 472)	(4 158)	-	-	(6 630)
Depreciation and amortisation charge	27	(282 486)	(361 427)	-	(994)	(644 907)
Net book amount as at 31 December 2013		**12 500 417**	**968 653**	**328 971**	**8 287**	**13 806 328**
Cost as at 31 December 2013		12 783 088	2 632 768	328 971	17 953	15 762 780
Accumulated depreciation and impairment loss		(282 671)	(1 664 115)	-	(9 666)	(1 956 452)
Net book amount as at 31 December 2013		**12 500 417**	**968 653**	**328 971**	**8 287**	**13 806 328**
Acquisition of subsidiary	38	4 777	69 604	9	1 010	75 400
Additions		107 668	283 239	248 844	4 836	644 587
Transfers between categories		-	174 376	(174 376)	-	-
Disposals		(43 987)	(15 705)	-	(986)	(60 678)
Depreciation and amortisation charge	27	(287 926)	(398 287)	-	(2 223)	(688 436)
Revaluation		757 799	-	-	-	757 799
Recovery of impairment of premises		188	-	-	-	188
Net book amount as at 31 December 2014		**13 038 936**	**1 081 880**	**403 448**	**10 924**	**14 535 188**
Cost as at 31 December 2014		13 038 936	3 039 648	403 448	22 813	16 504 845
Accumulated depreciation and impairment loss		-	(1 957 768)	-	(11 889)	(1 969 657)
Net book amount as at 31 December 2014		**13 038 936**	**1 081 880**	**403 448**	**10 924**	**14 535 188**

Construction in progress in 2014 mainly consists of refurbishment of branch and outlet premises.

Premises were valued as of 31 December 2014 by an independent firm of professional appraisers. The valuation of major premises was based on comparisons, some being valued based on income capitalization approach.

The market approach is based on an analysis of the results of comparable sales of similar buildings.

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

- cash flows are based on a 2015 to 2019 year projection period and 2020 as a post-forecast year, including the effects of inflation
- rental rate increase is projected at 8.9% for the first forecast year and then gradual annual decrease to 6.5% p.a.

14 Premises, Equipment and Intangible Assets (continued)

- net cash flows are discounted to present value using rate of 15.96%
- terminal rate of 10.36% is used to estimate the terminal value

As at 31 December 2014, the carrying values includes revaluation of premises in the total amount of RR 4 876 942 thousand (2013: RR 4 173 787 thousand). The Group has recorded a deferred tax liability of RR 975 387 thousand (2013: RR 834 756 thousand). The fair value of premises is classified to level 3 of hierarchy.

If premises were recorded at cost less accumulated depreciation, their carrying value as at 31 December 2014 would amount to RR 8 913 970 thousand (2013: RR 8 989 686 thousand).

15 Other Assets

In thousands of Russian Roubles	**2014**	**2013**
Fair value of derivative financial instruments	16 643 895	418 587
Plastic cards receivables	1 612 302	686 939
Settlements on operations with securities	252 535	143 510
Receivables for fees from customers	663	40 166
Settlements on foreign exchange	-	52 367
Total other financial assets	**18 509 395**	**1 341 569**
Deferred expenses	994 716	882 717
Receivables and advances	300 518	200 150
Prepaid taxes	102 253	99 452
Prepaid rent	15 977	14 281
Other	155 436	93 398
Total other non-financial assets	**1 568 900**	**1 289 998**
Total other assets	**20 078 295**	**2 631 567**

Other financial assets do not include individually impaired and overdue assets. No provision was created for other financial assets in 2014 and 2013.

Receivables and advances relate to the purchase of new computer software and equipment, as well as prepayments for repair works on existing premises and equipment.

Currency and maturity analyses of other assets are disclosed in note 32.

16 Long-term assets held for sale

In thousands of Russian Roubles	**2014**	**2013**
Land	1 082 513	1 099 805
Property	244 515	309 686
Total long-term assets held for sale	**1 327 028**	**1 409 491**

Currency analyses of long-term assets held for sale are disclosed in note 32.

17 Due to Banks

In thousands of Russian Roubles	**2014**	**2013**
Amounts payable under sale and repurchase agreements	70 314 113	53 590 226
Term placements of banks	31 571 539	16 734 658
Correspondent accounts of banks	711 038	216 104
Total due to banks	**102 596 690**	**70 540 988**

As at 31 December 2014 included in due to banks are sale and repurchase agreements and agreements on cash collateral received under securities lending transactions with credit institutions in the amount of RR 67 669 955 thousand (2013: RR 53 590 226 thousand) and securities sold short in amount of RR 2 644 158 thousand, which serve as collateral under sale and repurchase agreements (2013: RR 122 536 thousand).

Securities pledged under these sale and repurchase agreements and loaned are securities:

from own portfolio, including corporate bonds with a fair value of RR 28 300 708 thousand, corporate Eurobonds with a fair value of RR 7 444 308 thousand, municipal bonds with a fair value of RR 1 558 046 thousand, federal loan bonds with a fair value of RR 1 334 216 thousand and corporate shares with a fair value of RR 364 611 thousand (2013: corporate bonds with a fair value of RR 36 660 302 thousand, corporate Eurobonds with a fair value of RR 6 868 657 thousand, Eurobonds of the Russian Federation with a fair value of RR 2 722 173 thousand, federal loan bonds with a fair value of RR 2 624 778 thousand, municipal bonds with a fair value of RR 2 459 922 thousand and corporate share with a fair value of RR 393 114 thousand);

corporate shares loaned with a fair value of RR 136 820 thousand (2013: there were no securities lending transactions);

reclassified from trading securities to loans to customers, which are corporate Eurobonds with a carrying value of RR 6 843 980 thousand, corporate bonds with a carrying value of RR 3 420 483 thousand, municipal bonds with a carrying value of RR 1 367 690 thousand and federal loan bonds with a carrying fair value of RR 495 067 thousand (2013: municipal bonds with a carrying value of RR 291 257 thousand);

reclassified from trading securities to due from banks, which are corporate bonds with a carrying value of RR 7 925 496 thousand and corporate Eurobonds with a carrying value of RR 2 911 892 thousand (2013: corporate bonds with a carrying value of RR 502 130 thousand);

transferred to the Group under reverse repurchase agreements (without initial recognition), which are corporate shares with a fair value of RR 6 387 452 thousand, corporate bonds with a fair value of RR 4 442 424 thousand, corporate Eurobonds with a fair value of RR 1 232 954 thousand, federal loan bonds with a fair value of RR 920 932 thousand, municipal bonds with a fair value of RR 266 405 thousand (2013: corporate bonds with a fair value of RR 4 173 360 thousand, federal loan bonds with a fair value of RR 1 984 122 thousand, Eurobonds of the Russian Federation with a fair value of RR 926 215 thousand and corporate shares with fair value of RR 5 822 539 thousand).

Currency, maturity and interest rate analyses of due to banks are disclosed in note 32.

18 Customer Accounts

In thousands of Russian Roubles	2014	2013
State and public organisations		
- Current/settlement accounts	635 967	905 604
- Term deposits	200 110	57
Other legal entities		
- Current/settlement accounts	69 137 524	54 979 453
- Term deposits	82 499 772	71 936 160
- Amounts payable under sale and repurchase agreements	-	1 884
Individuals		
- Current accounts/demand deposits	39 946 167	30 461 432
- Term deposits	116 062 191	94 842 701
Total customer accounts	**308 481 731**	**253 127 291**

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	156 008 358	50.6	125 304 133	49.5
Construction	41 197 684	13.4	31 815 454	12.6
Trade	24 526 548	8.0	18 301 513	7.2
Manufacturing	19 957 688	6.5	11 088 227	4.4
Financial services	18 082 935	5.9	24 971 358	9.9
Art, science and education	12 181 243	3.9	10 679 615	4.2
Real estate	11 328 594	3.7	10 782 393	4.3
Transport	6 900 311	2.2	7 188 330	2.8
Cities and municipalities	4 112 957	1.3	2 635 690	1.0
Public utilities	1 766 419	0.6	927 092	0.4
Communications	982 717	0.3	695 118	0.3
Energy	718 038	0.2	497 836	0.2
Medical institutions	468 075	0.2	774 258	0.3
Other	10 250 164	3.2	7 466 274	2.9
Total customer accounts	**308 481 731**	**100.0**	**253 127 291**	**100.0**

As at 31 December 2014, there are no securities sold short included in customer accounts, which serve as collateral under sale and repurchase agreements (2013: RR 1 884 thousand).

As at 31 December 2014, customer accounts include deposits amounting to RR 8 475 789 thousand representing security for irrevocable liabilities on import letters of credit and guarantees (2013: RR 4 311 403 thousand).

Currency and maturity and interest rate analyses of customer accounts are disclosed in note 32. Fair value analysis of customer accounts is disclosed in note 35. The information on related party transactions is disclosed in note 36.

19 Bonds Issued

In thousands of Russian Roubles	2014	2013
Subordinated Eurobonds	17 225 687	10 008 906
Bonds	6 638 420	10 209 883
Total bonds issued	**23 864 107**	**20 218 789**

In July 2007 the Group placed 1 000 interest bearing USD denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2014, the carrying value of these bonds is USD 102 531 thousand, the equivalent of RR 5 768 252 thousand (2013: USD 102 348 thousand, the equivalent of RR 3 349 767 thousand). These subordinated Eurobonds mature on 25 July 2017, have a nominal coupon rate of 7.63% p.a. and effective interest rate of 8.21% p.a.

In October 2012 the Group placed 505 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by BNP Paribas and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2014, the carrying value of these bonds is USD 102 349 thousand, the equivalent of RR 5 757 986 thousand (2013: USD 102 272 thousand, the equivalent of RR 3 347 273 thousand). These subordinated Eurobonds mature on 24 October 2018, have a nominal coupon rate of 11.0% p.a. and effective interest rate of 11.56% p.a.

In October 2013 the Group placed 500 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by J.P. Morgan and VTB Capital. The issue was registered on the Irish Stock Exchange. As at 31 December 2014, the carrying value of these bonds is USD 101 308 thousand, the equivalent of RR 5 699 449 thousand (2013: USD 101 190 thousand, the equivalent of RR 3 311 866 thousand). These subordinated Eurobonds mature on 22 April 2019, have a nominal coupon rate of 10.75% p.a. and effective interest rate of 11.26% p.a.

In October 2012 the Group issued Russian Rouble denominated interest bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days and a coupon period of 182 days. As at 31 December 2014, the carrying value of these bonds is RR 5 097 045 thousand (2013: RR 5 091 347 thousand) with coupon rate of 8.65% p.a. for the coupon periods from third to sixth (2013: 8.65% p.a.), for the first two coupon periods coupon rate was 9.5%. These bonds are planned to be redeemed in October 2015.

In September 2013 the Group issued Russian Rouble denominated interest bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, with early redemption option in September 2014, a coupon period of 182 days. In September 2014 the Group redeemed 3 501 045 bonds from the holders on their demand. The Group’s liability on redemption of bonds from their holders on their demand was discharged in full. As at 31 December 2014, the carrying value of these bonds is RR 1 541 375 thousand (2013: RR 5 118 536 thousand), coupon rate for the third coupon period is established at 10.9% p.a. (2013: for the first two coupon periods coupon rate was 8.5% p.a).

In the event of liquidation of the Bank, the claims for repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors.

Currency and maturity and interest rate analyses of bonds issued are disclosed in note 32.

20 Other Debt Securities Issued

In thousands of Russian Roubles	2014	2013
Promissory notes	16 405 963	8 507 338
Deposit certificates	1	2
Total other debt securities issued	**16 405 964**	**8 507 340**

Currency and maturity and interest rate analyses of other debt securities issued are disclosed in note 32.

21 Other Borrowed Funds

In thousands of Russian Roubles	2014	2013
VTB Bank	2 259 076	1 968 665
Subordinated loans	1 565 474	4 047 873
Eurasian Development Bank	996 925	-
AKA AFK	763 374	581 697
EBRD	86 330	771 571
Nordic Investment Bank	-	209 620
Total other borrowed funds	**5 671 179**	**7 579 426**

In August 2013 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20 000 thousand, an interest rate of LIBOR + 3.25% p.a. and maturing on 6 February 2015. As at 31 December 2014, the carrying value is USD 20 089 thousand, the equivalent of RR 1 130 168 thousand (2013: USD 20 087 thousand, the equivalent of RR 657 441 thousand). As at 31 December 2014, the interest rate is 3.48% p.a.

In September 2013 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20 000 thousand, an interest rate of LIBOR + 3.25% p.a. and maturing on 27 February 2015. As at 31 December 2014, the carrying value is USD 20 066 thousand, the equivalent of RR 1 128 908 thousand (2013: USD 20 046 thousand, the equivalent of RR 656 085 thousand). As at 31 December 2014, the interest rate is 3.48% p.a.

In February 2014 in course of a subsidiary acquisition the Group acquired a subordinated loan in the amount of RR 100 000 thousand maturing in February 2018. As at 31 December 2014, the carrying value of this subordinated loan is RR 100 000 thousand. This subordinated loan bears fixed interest rate of 10.00%.

In August 2009 the Group attracted a subordinated loan from Vnesheconombank (VEB) in the amount of RR 1 466 000 thousand maturing in 2014. As at 31 December 2014, the carrying value is RR 1 465 474 thousand (2013: RR 1 465 426 thousand). The subordinated loan had an initial interest rate of 8.0% p.a. In August 2010 the interest rate was decreased to 6.50% p.a. In December 2014, the loan was prolonged till 27 December 2019.

In the event of liquidation of the Bank, the claims for repayment of subordinated loans are subordinated to the claims of all other creditors and depositors.

In September 2014 the Group attracted a loan from Eurasian Development Bank to finance trade contracts of clients in the amount of RR 968 108 thousand. The loan matures on 29 September 2015. As at 31 December 2014, the carrying value of the loan is RR 996 925 thousand. The fixed interest rate is 11.85% p.a.

21 Other Borrowed Funds (continued)

In December 2012 the Group attracted the first tranche of a credit facility provided by AKA Ausfuhrkredit-Gesellschaft m.b.H. in the amount of EUR 6 472 thousand. The total amount of the credit facility equals EUR 36 739 thousand. The Group used the amount to finance a trade contract of a client. The Group will start scheduled redemption not later than on 30 March 2015, and the loan maturity is on 30 September 2017. As at 31 December 2014, the carrying value is EUR 6 488 thousand, the equivalent of RR 443 454 thousand (2013: EUR 6 497 thousand, the equivalent of RR 292 169 thousand). The interest rate is EURIBOR + 1.75% p.a., which as at 31 December 2014 is 2.17% p.a.

In November 2013 the Group attracted the third tranche of a credit facility provided by AKA Ausfuhrkredit-Gesellschaft m.b.H. in the amount of EUR 2 119 thousand. The total amount of the credit facility equals EUR 36 739 thousand. The Group used the amount to finance a trade contract of a client. The Group will start scheduled repayment not later than on 30 March 2015, and the loan maturity is on 30 September 2017. As at 31 December 2014, the carrying value is EUR 2 128 thousand, the equivalent of RR 145 381 thousand (2013: EUR 2 124 thousand, the equivalent of RR 95 531 thousand). The interest rate is EURIBOR + 1.75% p.a., which as at 31 December 2014 is 2.17% p.a.

In January 2013 the Group attracted the second tranche of a credit facility provided by AKA Ausfuhrkredit-Gesellschaft m.b.H. in the amount of EUR 2 542 thousand. The total amount of the credit facility equals to EUR 36 739 thousand. The Group used the amount to finance a trade contract of a client. The Group will start scheduled repayment not later than on 30 March 2015, and the loan maturity is on 30 September 2017. As at 31 December 2014, the carrying value is EUR 2 554 thousand, the equivalent of RR 174 539 thousand (2013: EUR 2 554 thousand, the equivalent of RR 114 837 thousand). The interest rate is EURIBOR + 1.75%, which as at 31 December 2014 is 2.17% p.a.

In May 2012 the Group attracted a loan under a revolving loan agreement with the European Bank for Reconstruction and Development ("EBRD") to finance trade contracts of clients in the amount of USD 1 528 thousand. The loan matures on 21 May 2015. As at 31 December 2014, the carrying value is USD 1 535 thousand, the equivalent of RR 86 330 thousand (2013: USD 1 534 thousand, the equivalent of RR 50 205 thousand). The interest rate is LIBOR + 4.0% p.a., which as at 31 December 2014 is 4.33% p.a.

In July 2014 the Group exercised its right on bullet repayment presumed by Subordinated loan agreement and repaid subordinated loan from the EBRD in the amount of USD 75 000 thousand. The loan was granted for the period of 10 years and 6 months with maturity in 2020. As at 31 December 2013, the carrying value was USD 78 903 thousand, the equivalent of RR 2 582 447 thousand. The interest rate during the first five years was 13.40%.

In March 2014 on the scheduled repayment date the Group repaid the loan from the EBRD in the amount of USD 65 000 thousand. The loan was attracted on 14 December 2010 to finance small and medium enterprises. As at 31 December 2013, the carrying value was USD 22 040 thousand, the equivalent of RR 721 366 thousand. The fixed interest rate was 5.55% p.a.

On 30 May and 30 June 2014 the Group performed scheduled repayment of the first, second and third tranches of a credit facility, attracted by the Group on 21 January of 2013 from AKA Ausfuhrkredit-Gesellschaft m.b.H. in the total amount of EUR 1 754 thousand. The total amount of the credit facility was EUR 5 080 thousand and was attracted to finance a trade contract of a client. As at 31 December 2013, the total carrying value of the credit facility was EUR 1 760 thousand, the equivalent of RR 79 160 thousand. The interest rate on the credit facility was EURIBOR + 1.75% p.a., and as at 31 December 2013, the interest rate for the first and second tranches was 2.09% p.a. and 2.02% p.a. for the third tranche.

In September 2014 on the scheduled repayment date the Group repaid the loan from VTB Bank (Deutschland) in the amount of USD 20 000 thousand. The loan was attracted on 22 March 2013 to finance trade contracts of clients. As at 31 December 2013, the carrying value was USD 20 017 thousand, the equivalent of RR 655 139 thousand. The loan bore interest rate of LIBOR + 3.25% p.a. As at 31 December 2013, the interest rate was 3.49% p.a.

21 Other Borrowed Funds (continued)

In October 2014 the Group made a decision on early repayment of credit facility attracted from Nordic Investment Bank. On 6 September 2007 and 20 November 2007 the Group attracted four tranches of a credit facility, which were being repaid in schedule. The Group used the amount to fund certain projects. As at 31 December 2013, the carrying value was USD 6 404 thousand, the equivalent of RR 209 620 thousand. The interest rate ranged from LIBOR + 2.85% p.a. to LIBOR + 2.95% p.a., depending on maturity dates of the tranches. As at 31 December 2013, the interest rates ranged from 3.22% to 3.32% p.a.

The Group is required to meet certain covenants attached to subordinated loans and funds from EBRD, VTB Bank (Deutschland) AG, Eurasian Development Bank, AKA Ausfuhrkredit-Gesellschaft m.b.H. Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2014 and 31 December 2013, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 32. The information on related party transactions is disclosed in note 36.

22 Other Liabilities

In thousands of Russian Roubles	Note	2014	2013
Fair value of derivative financial instruments		9 582 062	145 375
Plastic card payables		1 014 872	101 290
Payable for acquisition of subsidiary		124 312	-
Fair value of guarantees and import letters of credit		21 834	20 395
Dividends payable	30	4 146	3 743
Accounts payable		795	63 773
Other		269 365	381
Total other financial liabilities		**11 017 386**	**334 957**
Accrued expenses		362 689	206 478
Commitments to employees		352 859	91 070
Taxes payable		169 012	102 452
Allowance for credit related commitments	34	-	8 850
Other		91 123	74 551
Total other non-financial liabilities		**975 683**	**483 401**
Total other liabilities		**11 993 069**	**818 358**

Analysis of movements in the allowance for credit related commitments during 2014 and 2013 is as follows:

In thousands of Russian Roubles	2014	2013
Allowance at 1 January	**8 850**	**162 057**
Recovery of impairment for credit related commitments during the year	(8 850)	(153 207)
Allowance at 31 December	**-**	**8 850**

Currency and maturity analyses of other liabilities are disclosed in note 32.

23 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Preference shares	Share premium	Total
As at 1 January 2013	**300 719**	**85 311**	**3 405 448**	**242 662**	**18 448 915**	**22 097 026**
New shares issued	138 835	(65 211)	138 835	(65 211)	2 944 963	**3 018 587**
As at 31 December 2013	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**
Treasury shares purchased	(24 549)	(511)	(24 549)	(511)	-	**(25 060)**
As at 31 December 2014	**415 005**	**19 589**	**3 519 734**	**176 940**	**21 393 878**	**25 090 552**

As at 31 December 2014, the nominal registered amount of issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 459 654 thousand (2013: RR 459 654 thousand). As at 31 December 2014, all of the outstanding shares are authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2013: RR 1 per share). Each share carries one vote.

As at 31 December 2014, the Group has one type of preference shares with a nominal value of RR 1 in the amount of 20 100 000 shares.

Preference shares carry no voting rights and are non-redeemable.

If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares are not cumulative.

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

In course of reorganisation in the form of merge of the Bank with CJSC ICB "Evropeisky" in December 2014 the Bank purchased 33 340 117 ordinary registered shares for the total amount of RR 1 118 561 thousand and 510 550 preference shares for the total amount of RR 613 thousand. In December 2014 the Bank resold 8 791 070 ordinary registered shares for the total amount of RR 219 777 thousand previously purchased from the shareholders. In January 2015 the Bank resold 11 332 000 ordinary shares for the total amount of RR 285 566 thousand. The Group intends to resell all treasury shares provided the economic environment is favorable.

24 Other Comprehensive Loss Recognised in Equity

The analysis of other comprehensive income by each component of equity is as follows:

In thousands of Russian Roubles	Note	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Total comprehensive loss
Year ended 31 December 2013				
Items that are or will be reclassified subsequently to profit or loss:				
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		-	(2 424 695)	**(2 424 695)**
Gain from revaluation of investment securities available-for-sale		-	643 940	**643 940**
Deferred income tax recognised in equity related to components of other comprehensive income	28	-	291 743	**291 743**
Total other comprehensive loss		**-**	**(1 489 012)**	**(1 489 012)**
Year ended 31 December 2013				
Items that are or will be reclassified subsequently to profit or loss:				
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		-	(372 323)	**(372 323)**
Loss from revaluation of investment securities available-for-sale		-	(669 638)	**(669 638)**
Deferred income tax recognised in equity related to components of other comprehensive income	28	-	208 393	**208 393**
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		757 799	-	**757 799**
Deferred income tax recognised in equity related to components of other comprehensive income	28	(151 560)	-	**(151 560)**
Total other comprehensive loss		**606 239**	**(833 568)**	**(227 329)**

25 Interest Income and Expense

In thousands of Russian Roubles	2014	2013
Interest income		
Loans and advances to customers	30 443 538	25 620 647
Trading securities	4 472 048	4 182 182
Amounts receivable under reverse repurchase agreements	1 855 193	726 614
Due from banks	1 336 756	272 827
Investment securities available-for-sale	635 421	-
Correspondent accounts with banks	17 344	29 255
Total interest income	**38 760 300**	**30 831 525**
Interest expense		
Due to banks	6 256 078	3 569 840
Term deposits of individuals	5 926 888	5 809 097
Term deposits of legal entities	4 899 677	5 164 482
Bonds issued	2 033 173	1 660 162
Other borrowed funds	465 274	755 747
Other debt securities issued	447 379	318 442
Current/settlement accounts	220 935	181 762
Total interest expense	**20 249 404**	**17 459 532**
Net interest income	**18 510 896**	**13 371 993**

26 Fee and Commission Income and Expense

In thousands of Russian Roubles	2014	2013
Fee and commission income		
Settlement transactions	1 640 938	1 071 696
Plastic cards and cheque settlements	1 182 887	839 231
Guarantees and letters of credit issued	912 174	844 232
Cash transactions	302 765	198 711
Cash collections	160 176	154 052
Foreign exchange transactions	121 159	10 326
Custody operations	27 098	24 580
Other	73 390	29 628
Total fee and commission income	**4 420 587**	**3 172 456**
Fee and commission expense		
Plastic cards and cheque settlements	403 070	267 855
Settlement transactions	112 293	74 770
Guarantees and letters of credit	56 803	72 354
Securities	44 771	34 379
Banknote transactions	36 165	8 128
Foreign exchange transactions	16 421	9 479
Other	30 422	27 623
Total fee and commission expense	**699 945**	**494 588**
Net fee and commission income	**3 720 642**	**2 677 868**

Information on related party transactions is disclosed in note 36.

27 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2014	2013
Staff costs		4 477 139	3 309 775
Depreciation and amortisation of premises, equipment and intangible assets	14	688 436	644 907
Taxes other than on income		611 640	577 868
Other costs, related to premises and equipment		558 885	534 633
Information and consulting services		536 934	346 200
Contributions to deposits insurance system		511 196	428 971
Rent expenses		333 658	227 853
Security expenses		224 314	212 329
Transportation costs		218 166	210 848
Postal, cable and telecommunication expenses		161 593	133 455
Professional services		128 374	34 173
Advertising and marketing services		121 517	191 817
Charity expenses		21 820	14 150
Other administrative expenses		1 065 442	811 726
Total administrative and other operating expenses		**9 659 114**	**7 678 705**

28 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2014	2013
Current tax	857 222	1 146 993
Deferred tax	395 730	641 210
Income tax expense for the year	**1 252 952**	**1 788 203**

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

In thousands of Russian Roubles	2014	2013
Profit before tax	**6 048 626**	**8 483 466**
Tax charge at statutory rate	1 209 725	1 696 693
- Non deductible expenses	77 015	119 271
- Income on government securities taxed at different rates	(33 788)	(27 761)
Income tax expense for the year	**1 252 952**	**1 788 203**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for IFRS financial reporting purposes and their income 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%), except for income on state securities which is taxed at 15% (2013: 15%).

In thousands of Russian Roubles	31 December 2013	Charged to profit or loss	Charged directly to equity	31 December 2014
Tax effect of deductible temporary differences				
Provision for loan impairment	91 157	606 905	-	698 062
Accrued income/expense	297 737	(287 026)	-	10 711
Valuation of bonds issued at amortised cost	73 460	(100 817)	-	(27 357)
Valuation of other borrowed funds at amortised cost	29 716	(21 599)	-	8 117
Valuation of due from banks at amortised cost	(686)	(2 229)	-	(2 915)
Valuation of trading and other securities at fair value	(271 753)	(618 746)	208 393	(682 106)
Premises and equipment	(1 107 642)	103 780	(151 560)	(1 155 422)
Other	(66 161)	(75 998)	-	(142 159)
Recognised deferred tax liability	**(954 172)**	**395 730**	**56 833**	**(1 293 069)**

28 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2012	Charged to profit or loss	Charged directly to equity	31 December 2013
Tax effect of deductible temporary differences				
Provision for loan impairment	93 157	(2 000)	-	91 157
Accrued income/expense	149 752	147 985	-	297 737
Valuation of bonds issued at amortised cost	61 872	11 588	-	73 460
Valuation of other borrowed funds at amortised cost	35 488	(5 772)	-	29 716
Valuation of investment securities held-to-maturity at amortised cost	951	(951)	-	-
Valuation of due from banks at amortised cost	-	(686)	-	(686)
Valuation of trading and other securities at fair value	298 612	(862 108)	291 743	(271 753)
Premises and equipment	(1 218 601)	110 959	-	(1 107 642)
Other	(25 936)	(40 225)	-	(66 161)
Recognised deferred tax liability	**(604 705)**	**(641 210)**	**291 743**	**(954 172)**

29 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year less treasury stock.

As at 31 December 2014, the Group has no potentially dilutive shares. Thus, diluted earnings per share equal to basic earnings per share.

Basic earnings per share are calculated as follows:

In thousands of Russian Roubles	2014	2013
Profit attributable to Group’s shareholders	4 795 674	6 695 263
Less preference dividends	(2 211)	(834 303)
Profit attributable to ordinary shareholders of the Bank	**4 793 463**	**5 860 960**
Weighted average number of ordinary shares in issue (thousands)	438 478	364 201
Basic earnings per share (expressed in RR per share)	**10.93**	**16.09**

30 Dividends

In thousands of Russian Roubles	2014 Ordinary	2014 Preference	2013 Ordinary	2013 Preference, type A	2013 Preference
Dividends payable as at 1 January	**3 743**	**-**	**3 123**	**-**	**-**
Dividends declared during the year	48 351	2 211	33 079	832 092	2 211
Dividends paid during the year	(47 948)	(2 211)	(32 459)	(832 092)	(2 211)
Dividends payable as at 31 December	**4 146**	**-**	**3 743**	**-**	**-**
Dividends per share declared during the year (RR per share)	**0,11**	**0,11**	**0.11**	**12.80**	**0.11**

All dividends were declared and paid in Russian Roubles.

31 Segment Analysis

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, 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. The Management Board performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, credit lines, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – private customer current accounts, deposits, retail investment products, custody, credit and debit cards, consumer loans, mortgages and other loans to individuals and VIP clients.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments are reflected in the performance of each business segment.

31 Segment Analysis (continued)

Factors used by management to define reporting segments

The Group’s segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

Evaluation of profit or loss, and assets of operating segments

The Management Board analyses the financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) provision for loan impairment are recognised based on Russian legislation, and not on the basis of the model of “incurred losses” specified in IAS 39

(v) fee and commission income on lending operations is recognised immediately and not in the future periods using the effective interest rate method

(vi) liabilities for unused vacations are not taken into account.

The Management Board evaluates the business segment results based on the amount of profit before income tax.

31 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the Group’s main reporting business segments for the years ended 31 December 2014 and 31 December 2013 is set out below (in accordance with the management information).

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Eliminations	Total
2014						
External revenues	26 290 164	9 163 136	6 441 048	210 986	-	**42 105 334**
Revenues from other segments	12 243 911	37 391 689	10 139 603	-	(59 775 203)	**-**
Total revenues	**38 534 075**	**46 554 825**	**16 580 651**	**210 986**	**(59 775 203)**	**42 105 334**
Total revenues comprise:						
- Interest income	35 719 502	46 433 871	15 378 092	-	(59 775 203)	37 756 282
- Fee and commission income	2 734 832	102 400	1 182 527	-	-	4 019 759
- Other operating income	79 741	18 554	20 032	210 986	-	329 313
Segment results	**1 611 640**	**4 676 977**	**4 039 011**	**-**	**-**	**10 327 628**
Unallocated costs	-	-	-	(5 580 787)	-	(5 580 787)
Profit before tax						**4 746 841**
Income tax expense	-	-	-	(292 973)	-	(292 973)
Profit (loss)	**1 611 640**	**4 676 977**	**4 039 011**	**(5 873 760)**	**-**	**4 453 868**
Segment assets	**283 981 121**	**184 234 114**	**45 851 860**	**52 726 725**	**-**	**566 793 820**
Other segment items						
Depreciation and amortisation charge	(171 040)	(25 440)	(108 172)	(186 889)	-	(491 542)
Provision for loan impairment	(7 308 104)	(4 234)	(333 731)	-	-	(7 646 068)

31 Segment Analysis (continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Eliminations	Total
2013						
External revenues	24 077 751	4 388 144	4 847 309	-	-	**33 313 204**
Revenues from other segments	9 170 970	36 180 150	8 059 255	-	(53 410 375)	**-**
Total revenues	**33 248 721**	**40 568 294**	**12 906 564**	**-**	**(53 410 375)**	**33 313 204**
Total revenues comprise:						
- Interest income	30 810 318	40 550 510	11 846 312	-	(53 410 375)	29 796 765
- Fee and commission income	2 185 540	17 784	1 016 898	-	-	3 220 222
- Other operating income	252 863	-	43 354	-	-	296 217
Segment results	**(295 646)**	**6 736 462**	**850 134**	**-**	**-**	**7 290 950**
Unallocated costs	-	-	-	(2 924 701)	-	(2 924 701)
Profit before tax						**4 366 249**
Income tax expense	-	-	-	(1 158 543)	-	(1 158 543)
(Loss) profit	**(295 646)**	**6 736 462**	**850 134**	**(4 083 244)**	**-**	**3 207 706**
Segment assets	**235 137 440**	**140 046 986**	**44 237 783**	**30 838 671**	**-**	**450 260 880**
Other segment items						
Depreciation and amortisation charge	(158 872)	(29 174)	(110 721)	(224 557)	-	(523 324)
Provision for loan impairment	(5 358 185)	(3 501)	(815 062)	-	-	(6 176 748)

A reconciliation of segment information under management accounting with IFRS assets as at 31 December 2014 and 31 December 2013 is set out below:

In thousands of Russian Roubles	2014	2013
Total segment assets	**566 793 820**	**450 260 880**
Adjustment of allowance for impairment	(28 410 210)	(25 979 812)
Adjustments of income / expense accruals	1 043 335	1 640 228
Premises, equipment and intangible assets depreciation and fair value adjustment	1 892 008	(1 182 952)
Fair value and amortised cost adjustments	(2 828 859)	485 113
Income tax adjustments	(450 165)	59 677
Elimination of assets additionally recognised in management accounting	(13 566 702)	(13 442 292)
Other adjustments	(2 812 799)	(2 418 523)
Consolidation	(60 278)	-
Total assets under IFRS	**521 600 150**	**409 422 319**

31 Segment Analysis (continued)

A reconciliation of segment information under management accounting with IFRS profit before tax for the years ended 31 December 2014 and 31 December 2013 is set out below:

In thousands of Russian Roubles	2014	2013
Total segment profit before tax	**4 746 841**	**4 366 249**
Adjustment of provision for loan impairment	792 482	1 873 026
Adjustments of income / expense accruals	(292 958)	(144 037)
Premises, equipment and intangible assets depreciation, amortisation and fair value adjustments	(35 081)	(102 394)
Fair value and amortised cost adjustments	(1 706 701)	2 680 127
Other adjustments	1 174 937	(189 505)
Consolidation	1 369 106	-
Total profit before tax under IFRS	**6 048 626**	**8 483 466**

Geographical information. The major part of the Group’s activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in Moscow and Privolzhsky Regions.

There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations.

32 Risk Management, Corporate Governance and Internal Control

Corporate governance

Corporate governance system of the Group is based on full compliance with requirements of statutory legislation and the CBRF and considers world best practices to the largest possible extent. The Group fully complies with the legislation requirements concerning shareholders’ rights observance.

The supreme governing body of the Group is the general shareholders’ meeting that makes strategic decisions on the Group’s operations in accordance with the *Federal Law No. 208-FZ dd. 26.12.1995 On Stock Companies* and the Charter.

The function of counting commission of the general shareholders’ meeting is performed by an independent Registrar.

General activities of the Bank are managed by the Supervisory Board, except for areas in competence of the general shareholders’ meeting. The Supervisory Board is elected and approved by the general shareholders meeting. The Supervisory Board sets the key strategic directions of the Group’s activity and manages the work of executive bodies.

As at 31 December 2014, the composition of the Supervisory Board is as follows:

Alexander Vasilyevich Savelyev – Chairman of the Supervisory Board; Elena Viktorovna Ivannikova – Deputy chairman of the Supervisory Board, the Head of Committee on Human resources and Remuneration since April 2014; Susan Gail Buyske – member of the Supervisory Board since April 2012; Andrey Pavlovich Bychkov – member of the Supervisory Board since April 2010; Vladimir Alexandrovich Garyugin – member of the Supervisory Board for the period from November 1990 till May 2004, and then since May 2005; Alexey Andreevich Germanovich – independent member of the Supervisory Board since June 2014; Vladislav Stanislavovich Guz – Chairman of the Management Board, member of the Supervisory Board since June 2014; Andrey Taledovich Ibragimov – member of the Supervisory Board since December 2005, the Head of Committee on Corporate governance since 2014; Felix Vladimirovich Karmazinov – member of the Supervisory Board since May 2006; Nina Vasilyevna Kukuruzova – Counsellor of the Chairman of the Management Board, member of the Supervisory Board since May 2000; Marlen Dzheraldovich Manasov – independent member of the Supervisory Board since April 2013; Alexander Ivanovich Polukeev – independent member of the Supervisory Board for the period from December 2005 till April 2008, and then since June 2014; Alexander Vadimovich Pustovalov – independent member of the Supervisory Board since April 2012, the Head of Audit Committee since April 2013.

33 Risk Management, Corporate Governance and Internal Control (continued)

The Supervisory Board includes Committees, established for the purpose of review and analysis of matters in competence of the Supervisory Board, preparation of recommendations on these matters for the Supervisory Board and execution of other functions, vested to these committees.

Committee on Corporate governance was established in 2014. The primary objective of the Committee is to control compliance of the Bank with the requirements of corporate governance framework and to prepare recommendations for the Supervisory Board on corporate governance matters.

Committee on Human resources and Remuneration was established in 2014. The primary objectives of the Committee are preparation of recommendations for the Supervisory Board on applicants for the key management positions and development of principles and criteria for remuneration rates for the key management personnel of the Bank.

The primary objective of Audit Committee is to assist the Supervisory Board in control over business activities of the Bank and to control the completeness and fairness of the Bank's financial statements and the process of its preparation and disclosure, and the performance of internal control and internal audit functions.

The primary objective of the Risk Committee is to assist the Supervisory Board in setting priority areas for the Bank's banking risk management efforts and to support appropriate risk management function within the Group.

The function of Corporate Secretary was established in 2014. Corporate Secretary is responsible for compliance with the requirements of current legislation, the Charter and other internal policies of the Bank, concerning shareholders' rights and protection of their interests during preparation and implementation of corporate procedures by the Bank. Corporate Secretary also supports cooperation of the Bank with its shareholders, holding of general shareholders' meeting and performance of the Supervisory Board and its Committees. On 19 June 2014 the Supervisory Board elected Romashov A.V. for the position of Corporate Secretary.

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

As at 31 December 2014, the composition of the Management Board is as follows:
Vladislav Stanislavovich Guz – Chairman of the Management Board, the member of the Supervisory Board since June 2014; Alexandr Sergeevich Konyshkov – First Deputy chairman of the Management Board since July 2014; Vladimir Pavlovich Skatin – Deputy chairman of the Management Board since 2008, First Deputy chairman of the Management Board since 2009, Konstantin Yuryevich Balandin – Deputy chairman of the Management Board since January 2008; Olga Dmitrievna Volodina – Deputy chairman of the Management Board since 2006; Irina Vladimirovna Malysheva – Deputy chairman of the Management Board since 2006; Kristina Borisovna Mironova – Deputy chairman of the Management Board since September 2013; Vladimir Grigoryevich Reutov – Deputy chairman of the Management Board since 2006; Oksana Sivokobilska – Deputy chairman of the Management Board since November 2011; Pavel Vladimirovich Filimonenok – Deputy chairman of the Management Board since 2003.

32 Risk Management, Corporate Governance and Internal Control (continued)

Internal control

The Internal Audit Function is a unit of the Bank and an internal control body of the Bank. The Function operates under direct supervision of the Supervisory Board. The Function reports directly to the Supervisory Board. Remuneration and labour discipline matters of the Internal Audit Function employees are under responsibility of the Chairman of the Management Board.

The Function prepares quarterly reports on performance and monitoring of the internal control system of the Bank to the Supervisory Board and Audit Committee of the Supervisory Board. The Function operates on an ongoing basis independently and without any bias, while performing monitoring of the internal control system of the Bank. The Function performs reviews of all business areas of the Bank. Any department or employee of the Bank may be a subject of the Internal Audit Function review.

The Internal Control Department of the licensed professional participant of the securities market is a unit of the Bank and operates under direct supervision of the Supervisory Board. The Department controls:

- compliance of the Bank’s activity with the statutory legislation requirements for operations on securities market, enforcement of investors’ rights and legally protected interests on the securities market;
- compliance of the Bank’s activity with the statutory legislation requirements for countermeasures against unlawful insider information use and market manipulation.

Risk management

The risk management function is carried out in respect of financial risks (credit, market and liquidity risks), operational, geographical risks and legal risks. Market risk includes currency, equity and interest rate risks.

The primary objectives of the financial risk management function are to establish and ensure compliance with risk limits and other risk restrictions. Geographical risk management includes making decisions and setting limits for transactions with counterparties – residents of countries with different levels of economic development with due consideration of geographical risk factors. The operational, legal and reputation risk management functions are intended to ensure proper functioning of internal policies and procedures, development and implementation of measures to minimize these risks.

Risk management system includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, economic performance of clients (principally – depositors and borrowers) and regulatory changes.

32 Risk Management, Corporate Governance and Internal Control (continued)

The main bodies performing the financial risk management functions are the Supervisory Board, the Management Board, the Asset and Liability Management Committee, the Large Credit Committee, the Corporate Credit Committee and theTechnical Policy Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. The Supervisory Board approves the Risk Management Policy, the compliance with which is supervised by reviews and approvals of the Group's quarterly risk management reports, both consolidated and by types of risk. The Supervisory Board makes decisions on significant transactions, on significant related party transactions in respect of which there is an interest, on transactions with related parties exceeding limits established under the Credit Policy and on transactions, the amount of which equals to or exceeds 10% of the Bank's equity.

The Management Board is responsible for overall organisation of the financial risk management system. The Management Board is responsible for the control over timely and adequate identification of risks and their exposure, for development of policies and procedures necessary to limit risk exposures. The Management Board coordinates different department actions in case of threat or actual liquidity crisis, approves internal documents in respect of risk management, approves risk management reports.

The Banking Risks Department is responsible for the establishment of the effective risk management system, and compliance with the acceptable level of total, market, operational, legal and reputation risk exposure, as well as credit risk in respect of money markets transactions. The Banking Risks Department monitors the risk management system related to market, credit (in respect of financial institutions and securities issuers), operational, legal and reputation risks, initiates the development of methods of assessment of current risk levels, management procedures for these risks, compliance by divisions with existing procedures and limits restricting the level of these risks. The Banking Risks Department coordinates the management of operational, legal and reputation risks.

The Banking Risks Department performs stress-tests based on scenario analysis and sensitivity analysis for the purpose of timely identification of significant risks applicable for the Group, that may significantly affect the financial soundness of the Group.

In 2014 Compliance Function was established within the Banking Risks Department, the primary objectives of which are development of compliance control system and effective management of compliance risk the Group faces with in course of operating activity.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk).

The Asset and Liability Management Committee makes decisions on structural management of the consolidated statement of financial position and the related liquidity risks, and on determining and changing market and interest rate risk limits. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency.

The Technical Policy Committee reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Management Board, the Large Credit Committee, the Corporate Credit Committee, and the Small Credit Committees of the branch subdivisions are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy and makes decisions on credit risk-related transactions exceeding the limits stipulated in the Credited Policy for the Large Credit Committee. The Large Credit Committee makes decisions on credit risk-related transactions with the largest corporate customers in excess of the limits for the Small Credit Committees, and with the clients out of the largest corporate clients category in excess of the limits for the Corporate Credit Committee. The Corporate Credit Committee makes decisions on credit risk-related transactions with the clients out of the largest corporate clients category in excess of the limits for Small Credit Committees. The limits for Small Credit Committees are defined based on their performance results in terms of the risk level of decisions made and are revised at least once a year.

Decision making on loans to individuals and legal entities, granted on standard terms, is in competence of responsible employees. The level of competence is defined based on deviations from the standard terms and the risk of these deviations.

Current management of credit risk is mostly performed by its specialized subdivision, the Credit Risk Division, exercising operational control over credit risk levels. Distressed assets management is carried out by a separate business subdivision – the Department of Client Monitoring.

Management is responsible for identifying and assessing risks, designing measures for prevention of risks and monitoring their effectiveness. Management constantly monitors the effectiveness of internal controls over risk management and introduces changes to existing controls if necessary.

Management believes that risk management system complies with the CBRF requirements and is appropriate for the scale, nature and complexity of operations.

Credit risk. The Group is exposed to credit risk which is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations.

The Group considers credit risk to include all financial assets recognised in the consolidated statement of financial position except for assets deposited in the CBRF.

The approach of the Group to credit risk management is defined in the Credit Policy. The Credit Policy is aimed at formulation of the main principles of credit transactions and credit risk, providing for implementation of the aims and goals of the Group strategy concerning the structure, volume and quality of loan portfolio.

Risk management tools

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- assessment of the borrowers' financial positions upon loan application and during ongoing loan monitoring
- assessment of credit risk and formation of loan impairment allowance in the amount of possible losses from the transaction
- structuring of credit transactions in compliance with the requirements of the Group
- evaluation of the market value of collateral for a loan, control over availability and integrity of collateral, and evaluation of financial position and creditworthiness of guarantors
- inquiry for credit reports from credit history bureau ("CHB") and taking the information from CHB into consideration during the analysis of the loan application

32 Risk Management, Corporate Governance and Internal Control (continued)

- for credit transactions with individuals, requiring scoring evaluation of creditworthiness of the borrower – consideration of scoring grade during the analysis of the loan application
- for credit transactions with legal entities – consideration of the internal credit rating of the borrower during the analysis of the loan application
- for credit transactions with financial institutions – assessment of financial position and credit risk of the counterparty during establishment of limits for the counterparty
- when setting limits on transactions with securities which bear credit risk – assessment of financial position and credit risk of the issuer
- control over meeting the requirements of the Credit Policy for setting the authorities on decision making in respect of credit operations, and control over the reflection of terms of credit transactions in the loan agreements or other agreements, as approved by the relevant authorities or officials
- control over timely performance of the borrowers' obligations to the Group stipulated by the credit agreements
- insurance of collateral.

For the loan portfolio in general:

- establishment of authorities for bodies and officials
- establishment and control over the limits of credit risk
- control over covenants established by certain agreements with the lenders.

Reporting forms

Management controls credit risks and the loan portfolio quality based on regular (daily, weekly and monthly) reports.

Limits for credit risk management purposes

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of global financial institutions that are the Group's creditors.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Group takes into account all information available. When establishing an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower or a group of related borrowers, the needs of each borrower or the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan.

The Credit Policy is consistent for unrecognised financial instruments and recognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products supporting the use of unrecognised financial instruments for lending (guarantees, unsecured letters of credit, credit facilities, etc.) within established limits.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies, corporate counterparties when conducting transactions in the financial lending market and performing purchase and sale of financial assets, including foreign exchange transactions, associated with counterparty credit risk. The respective limits are established for each counterpaty of the Bank on the basis of a creditworthiness analysis. The limits established for resident banks are subject to review at least each quarter. The limits established for non-resident banks are subject to review at least semi-annually.

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

The maximum exposure to credit risk from financial assets is as follows:

In thousands of Russian Roubles	2014	2013
ASSETS		
Cash and cash equivalents	27 183 949	22 597 139
Trading securities	196 732	17 571 697
Securities pledged under sale and repurchase agreements and loaned	38 637 278	51 335 832
Amounts receivable under reverse repurchase agreements	29 511 109	14 853 880
Due from banks	29 264 470	8 617 294
Loans and advances to customers	315 338 995	250 884 103
Investment securities available-for-sale	6 829 498	-
Other financial assets	18 509 395	1 341 569
Total maximum exposure	**465 471 426**	**367 201 514**

For the analysis of collateral held against loans and advances to customers and concentration of credit risk refer to note 11.

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

Geographical risk. Geographical risk is almost fully defined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities are concentrated in the Russian Federation.

Saint Petersburg is the largest center of North-Western part of the Russian Federation with a diversified economy. This is why the historic business concentration of providing services to individuals and legal entities in Saint Petersburg is an advantage for the Group.

Market risks. The Group is exposed to the market risks arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as follows:

- currency risk - risk of losses due to exchange rate fluctuations
- interest rate risk - risk of losses due to fluctuations of market interest rates
- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of position limits on financial instruments and sensitivity limits, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed) and VaR limits (limits on maximum VaR).

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates, prices and interest rates over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and assets.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid assets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other limits mentioned above (position limits and stop-loss limits).

A summary of the VaR estimates of losses as at 31 December 2014 and 31 December 2013 is as follows:

In millions of Russian Roubles

Financial instruments	2014	2013
Shares	5	11
Bonds	114	163
Eurobonds	18	76
Foreign currency and interest rate derivatives	73	16
Precious metals	-	4
Money market	-	4
Aggregated VaR	123	206

The VaR estimates stated above are calculated for the trading portfolio and portfolio of investment securities available-for-sale, for the open currency position of the Bank and for the portfolio of derivative financial instruments.

The Banking Risks Department prepares proposals to establish market risk limits applied by the Bank (hereinafter including VaR limits). Limits are established by the Management Board, the Large Credit Committee and the Asset and Liability Management Committee in accordance with their authorities. Compliance with market risk limits is daily controlled by the Operations Department (back office).

32 Risk Management, Corporate Governance and Internal Control (continued)

Currency risk. Currency risk is the risk of changes in income or carrying value of financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee.

For currency risk management purposes the Group also uses the system of mandatory limits established by the CBRF, including limits on open positions in a foreign currency (up to 10% of the capital calculated in accordance with the CBRF regulations) and the limit on the open position in all foreign currencies (up to 20% of the capital calculated in accordance with the CBRF regulations).

32 Risk Management, Corporate Governance and Internal Control (continued)

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euros).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2014. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
ASSETS					
Cash and cash equivalents	27 403 675	15 387 795	13 961 613	487 539	57 240 622
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 290 084	-	-	-	3 290 084
Trading securities	8 693	196 732	-	-	205 425
Securities pledged under sale and repurchase agreements and loaned	31 714 034	7 424 675	-	-	39 138 709
Amounts receivable under reverse repurchase agreements	25 248 753	4 262 356	-	-	29 511 109
Due from banks	21 588 463	7 676 007	-	-	29 264 470
Loans and advances to customers	229 548 549	65 613 359	20 177 087	-	315 338 995
Investment securities available-for-sale	8 526 627	669 961	62 805	-	9 259 393
Prepaid income tax	819 399	-	-	-	819 399
Investment property	1 591 433	-	-	-	1 591 433
Premises, equipment and intangible assets	14 535 188	-	-	-	14 535 188
Other assets	19 607 144	429 099	36 293	5 759	20 078 295
Long-term assets held for sale	1 327 028	-	-	-	1 327 028
TOTAL ASSETS	**385 209 070**	**101 659 984**	**34 237 798**	**493 298**	**521 600 150**
LIABILITIES					
Due to banks	97 539 369	4 925 042	132 279	-	102 596 690
Customer accounts	217 624 826	58 964 996	30 896 924	994 985	308 481 731
Bonds issued	6 638 420	17 225 687	-	-	23 864 107
Other debt securities issued	6 728 732	8 088 906	1 588 326	-	16 405 964
Other borrowed funds	2 562 399	2 345 406	763 374	-	5 671 179
Deferred tax liabilities	1 293 069	-	-	-	1 293 069
Other liabilities	11 693 133	291 143	8 792	1	11 993 069
TOTAL LIABILITIES	**344 079 948**	**91 841 180**	**33 389 695**	**994 986**	**470 305 809**
Less fair value of currency derivatives	(7 061 833)	-	-	-	(7 061 833)
Net recognised position, excluding currency derivative financial instruments	**34 067 289**	**9 818 804**	**848 103**	**(501 688)**	**44 232 508**
Currency derivatives	**15 603 585**	**(11 423 624)**	**2 430 574**	**451 298**	**7 061 833**
Net recognised position, including currency derivative financial instruments	**49 670 874**	**(1 604 820)**	**3 278 677**	**(50 390)**	**51 294 341**

32 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2013. The Group does not use this currency risk analysis for management purposes.

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
ASSETS					
Cash and cash equivalents	20 353 343	16 476 209	3 163 736	67 164	40 060 452
Mandatory reserve deposits with the Central Bank of the Russian Federation	2 800 069	-	-	-	2 800 069
Trading securities	16 354 816	1 237 822	-	-	17 592 638
Securities pledged under sale and repurchase agreements and loaned	45 285 675	6 443 271	-	-	51 728 946
Amounts receivable under reverse repurchase agreements	14 187 295	666 585	-	-	14 853 880
Due from banks	6 768 812	1 444 562	403 920	-	8 617 294
Loans and advances to customers	194 846 457	42 730 490	13 307 156	-	250 884 103
Investment securities available-for-sale	3 212 878	111 880	-	-	3 324 758
Prepaid income tax	59 678	-	-	-	59 678
Investment property	1 653 115	-	-	-	1 653 115
Premises, equipment and intangible assets	13 806 328	-	-	-	13 806 328
Other assets	2 276 785	169 630	174 224	10 928	2 631 567
Long-term assets held for sale	1 409 491	-	-	-	1 409 491
TOTAL ASSETS	**323 014 742**	**69 280 449**	**17 049 036**	**78 092**	**409 422 319**
LIABILITIES					
Due to banks	70 488 554	24 619	27 815	-	70 540 988
Customer accounts	203 911 165	32 691 178	15 692 226	832 722	253 127 291
Bonds issued	10 209 883	10 008 906	-	-	20 218 789
Other debt securities issued	6 000 560	1 534 451	972 329	-	8 507 340
Other borrowed funds	1 465 426	5 532 303	581 697	-	7 579 426
Deferred tax liabilities	954 172	-	-	-	954 172
Other liabilities	787 082	6 498	24 778	-	818 358
TOTAL LIABILITIES	**293 816 842**	**49 797 955**	**17 298 845**	**832 722**	**361 746 364**
Less fair value of currency derivatives	(273 212)	-	-	-	(273 212)
Net recognised position, excluding currency derivative financial instruments	**28 924 688**	**19 482 494**	**(249 809)**	**(754 630)**	**47 402 743**
Currency derivatives	**16 571 867**	**(16 118 639)**	**(927 150)**	**747 134**	**273 212**
Net recognised position, including currency derivative financial instruments	**45 496 555**	**3 363 855**	**(1 176 959)**	**(7 496)**	**47 675 955**

32 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2014:

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net currency position**
Russian Roubles	344 615 330	331 093 746	15 603 585	29 125 169
US Dollars	101 004 414	91 550 037	(11 423 624)	(1 969 247)
Euro	34 201 505	33 380 903	2 430 574	3 251 176
Other	487 539	994 985	451 298	(56 148)
Total	**480 308 788**	**457 019 671**	**7 061 833**	**30 350 950**

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2013:

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net currency position**
Russian Roubles	300 182 412	292 075 588	16 571 867	24 678 691
US Dollars	68 998 939	49 791 457	(16 118 639)	3 088 843
Euro	16 874 812	17 274 067	(927 150)	(1 326 405)
Other	67 164	832 722	747 134	(18 424)
Total	**386 123 327**	**359 973 834**	**273 212**	**26 422 705**

The currency derivatives position in each column represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents the fair value of the currency derivative financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2014 and 31 December 2013 and a simplified scenario of a 50% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

In thousands of Russian Roubles	**As at 31 December 2014**	**As at 31 December 2013**
50% appreciation of USD against RR	(787 699)	1 235 538
50% depreciation of USD against RR	787 699	(1 235 538)
50% appreciation of Euro against RR	1 300 470	(530 562)
50% depreciation of Euro against RR	(1 300 470)	530 562

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group. In the circumstances of increased volatility observed in the end of 2014 movements of currency exchange rates by 50% are for indicative purposes only, the real movements of other currency exchange rates may differ.

32 Risk Management, Corporate Governance and Internal Control (continued)

Interest rate risk. The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins and accordingly profit may decrease.

The table below summarises the effective interest rates by currency for major financial instruments. The analysis is prepared based on effective rates as at 31 December 2014 and 31 December 2013 used for amortisation of the respective assets/liabilities.

	2014				**2013**			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
ASSETS								
Cash and cash equivalents	7.97	0.00	0.00	0.00	1.35	0.00	0.00	0.00
Debt trading securities	-	7.88	-	-	8.13	3.94	-	-
Debt securities pledged under sale and repurchase agreements and loaned	13.97	8.74	-	-	7.86	2.50	-	-
Debt investment securities available-for-sale	14.47	7.41	8.72	-	-	-	-	-
Amounts receivable under reverse repurchase agreements	19.21	5.92	-	-	6.32	9.75	-	-
Due from banks	19.92	6.70	-	-	6.72	0.50	1.38	-
Loans and advances to customers	12.21	8.15	6.42	-	10.61	7.69	7.70	-
LIABILITIES								
Due to banks	14.86	1.06	0.00	-	5.25	0.00	0.00	-
Customer accounts								
- current and settlement accounts	0.97	0.03	0.01	0.00	0.26	0.03	0.05	0.00
- term deposits								
- individuals	10.49	4.04	3.28	2.28	8.25	4.38	3.41	3.15
- legal entities	13.07	3.02	1.35	1.00	7.50	4.43	1.85	1.08
Bonds issued	9.55	10.34	-	-	8.85	10.32	-	-
Other debt securities issued	9.05	0.84	3.30	-	5.31	2.85	3.80	-
Other borrowed funds	8.97	3.52	2.02	-	6.72	8.82	2.07	-

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

Interest rate risk management represents management of assets and liabilities to maximize profit and reduce losses from possible fluctuations in interest rates and the structure of assets and liabilities.

32 Risk Management, Corporate Governance and Internal Control (continued)

An analysis of sensitivity of profit after tax and equity to changes in the interest rates (repricing risk), based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013, is as follows.

In thousands of Russian Roubles	As at 31 December 2014	As at 31 December 2013
Russian Rouble		
1% parallel fall	373 554	1 043 160
1% parallel rise	(373 554)	(1 043 160)
USD		
1% parallel fall	14 685	184 884
1% parallel rise	(14 685)	(184 884)
Euro		
1% parallel fall	(10 547)	38 884
1% parallel rise	10 547	(38 884)
Aggregated		
1% parallel fall	377 692	1 266 928
1% parallel rise	(377 692)	(1 266 928)

Interest rate risk management is performed centrally on continuing basis by the Management Board, the Asset and Liability Management Committee and the Treasury Department.

The Group uses the following interest rate risk management tools:

- approval of structure of limits and restrictions for interest rate risk
- approval of the asset and liability structure
- management of interest rates and their limits for different financial instruments
- implementation and facilitation of new banking products
- approval of methods (procedures) for interest rate risk evaluation
- financial instrument transactions
- constant interest rate risk monitoring.

Management uses a GAP report as the major analytical form for interest rate risk. The analysis is carried out by major currencies distributed according to the revaluation intervals.

For the purposes of interest rate risk evaluation the Group utilizes Interest Rate Risk Management Report that additionally takes into account items of working capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate revaluation interval of four years.

The Group maintains the ratio of total capital used to cover the interest rate risk to capital at a level not more than 30%.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

32 Risk Management, Corporate Governance and Internal Control (continued)

Apart from the indices mentioned above the Group calculates the potential effect of interest GAPs that is a change in the present value of assets and liabilities in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

Other price (equity) risk. The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations.

The limits for particular issuers are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments. In addition to particular limits there is a cumulative limit for the amount of open equity positions.

If the risk becomes material the mitigation arrangements are determined by the Management Board.

Liquidity risk. Liquidity risk arises when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from customer accounts, overnight deposits, current accounts, term 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.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of customers. Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in activity, management may demand higher amounts of liquidity, if required.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicate that these customer accounts provide a long-term and stable source of funding.

The basis for managing short-term liquidity (less than 3 months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank.

Liquidity management is regulated by an internal regulation approved by the Supervisory Board.

Management applies the following main instruments for liquidity management:

- Managing the volume and structure of the liquid assets portfolio. Management maintains a portfolio of liquid assets (including trading securities) that can be used for prompt and loss-free funding;

- In certain cases management may impose restrictions on some transactions to regulate the structure of assets and liabilities. The limits are set when other instruments of liquidity management are insufficient to maintain liquidity.

32 Risk Management, Corporate Governance and Internal Control (continued)

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis. It is implemented based on statistical and chronological analysis of the balances of customer current accounts, forecasted customer deposits, movement of funds on accounts and analysis of the information on obligations and requirements under term contracts in short-term periods. This analytical data serves as a basis for management of the liquidity position.

Short-term (for the period of up to 3 months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible client funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over 3 months) liquidity monitoring is based on analysis of liquidity gaps. The Group evaluates the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses estimated disposal period without incurring losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Management analyses the liquidity gaps for assets and liabilities broken down by various terms on an accrual basis.

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBRF on maintaining sufficient liquidity ratios (instant liquidity ratio - N2, current liquidity ratio - N3, long-term liquidity ratio - N4).

According to the daily calculations, as at 31 December 2014 and 31 December 2013 the Bank complied with the liquidity ratios established by the CBRF.

32 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position at 31 December 2014. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities by their remaining contractual maturity, with the exception of financial instruments at fair value through profit or loss and investment securities available-for-sale, which are shown in the category "Demand and less than 1 month".

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years or no maturity**	**Total**
ASSETS						
Cash and cash equivalents	57 240 622	-	-	-	-	57 240 622
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 596 387	840 934	533 867	302 431	16 465	3 290 084
Trading securities	205 425	-	-	-	-	205 425
Securities pledged under sale and repurchase agreements and loaned	39 138 709	-	-	-	-	39 138 709
Amounts receivable under reverse repurchase agreements	23 241 763	3 152 381	-	-	3 116 965	29 511 109
Due from banks	18 052 867	3 996 257	1 075 715	6 139 631	-	29 264 470
Loans and advances to customers	8 865 208	64 206 082	69 023 952	126 975 772	46 267 981	315 338 995
Investment securities available-for-sale	9 259 393	-	-	-	-	9 259 393
Prepaid income tax	-	819 399	-	-	-	819 399
Investment property	-	-	-	-	1 591 433	1 591 433
Premises, equipment and intangible assets	-	-	-	-	14 535 188	14 535 188
Other assets	2 896 380	9 367 693	3 829 848	3 947 533	36 841	20 078 295
Long-term assets held for sale	-	-	1 327 028	-	-	1 327 028
TOTAL ASSETS	**160 496 754**	**82 382 746**	**75 790 410**	**137 365 367**	**65 564 873**	**521 600 150**
LIABILITIES						
Due to banks	85 984 395	5 820 638	8 616 536	2 175 121	-	102 596 690
Customer accounts	150 759 969	77 975 533	49 383 919	28 856 468	1 505 842	308 481 731
Bonds issued	-	-	5 097 045	18 767 062	-	23 864 107
Other debt securities issued	5 723 162	5 286 918	2 252 511	3 142 272	1 101	16 405 964
Other borrowed funds	-	2 472 107	1 123 628	2 075 444	-	5 671 179
Deferred tax liability	-	-	-	-	1 293 069	1 293 069
Other liabilities	4 859 316	5 411 826	1 704 483	14 827	2 617	11 993 069
TOTAL LIABILITIES	**247 326 842**	**96 967 022**	**68 178 122**	**55 031 194**	**2 802 629**	**470 305 809**
Net liquidity gap	**(86 830 088)**	**(14 584 276)**	**7 612 288**	**82 334 173**	**62 762 244**	**51 294 341**
Cumulative liquidity gap as at 31 December 2014	**(86 830 088)**	**(101 414 364)**	**(93 802 076)**	**(11 467 903)**	**51 294 341**	

32 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position at 31 December 2013.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
ASSETS						
Cash and cash equivalents	40 060 452	-	-	-	-	40 060 452
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 279 292	829 809	532 872	139 928	18 168	2 800 069
Trading securities	17 592 638	-	-	-	-	17 592 638
Securities pledged under sale and repurchase agreements and loaned	51 728 946	-	-	-	-	51 728 946
Amounts receivable under reverse repurchase agreements	14 187 295	666 585	-	-	-	14 853 880
Due from banks	4 423 365	3 691 799	-	502 130	-	8 617 294
Loans and advances to customers	5 453 141	49 999 247	46 967 194	118 879 056	29 585 465	250 884 103
Investment securities available-for-sale	3 324 758	-	-	-	-	3 324 758
Prepaid income tax	-	59 678	-	-	-	59 678
Investment property	-	-	-	-	1 653 115	1 653 115
Premises, equipment and intangible assets	-	-	-	-	13 806 328	13 806 328
Other assets	433 880	1 182 621	113 992	815 294	85 780	2 631 567
Long-term assets held for sale	-	-	1 409 491	-	-	1 409 491
TOTAL ASSETS	**138 483 767**	**56 429 739**	**49 023 549**	**120 336 408**	**45 148 856**	**409 422 319**
LIABILITIES						
Due to banks	62 271 644	3 759 964	4 509 380	-	-	70 540 988
Customer accounts	115 637 190	75 021 237	48 175 762	12 650 550	1 642 552	253 127 291
Bonds issued	-	-	-	16 906 923	3 311 866	20 218 789
Other debt securities issued	2 287 098	3 502 505	1 393 009	1 324 728	-	8 507 340
Other borrowed funds	-	818 652	2 218 297	1 960 030	2 582 447	7 579 426
Deferred tax liability	-	-	-	-	954 172	954 172
Other liabilities	539 114	258 147	10 995	7 525	2 577	818 358
TOTAL LIABILITIES	**180 735 046**	**83 360 505**	**56 307 443**	**32 849 756**	**8 493 614**	**361 746 364**
Net liquidity gap	**(42 251 279)**	**(26 930 766)**	**(7 283 894)**	**87 486 652**	**36 655 242**	**47 675 955**
Cumulative liquidity gap as at 31 December 2013	**(42 251 279)**	**(69 182 045)**	**(76 465 939)**	**11 020 713**	**47 675 955**	

Management believes that available undrawn credit lines with other banks and financial institutions of RR 90 346 000 thousand in total and assessment of stability of customer accounts in unstable environment will fully cover the liquidity gap in the tables above.

32 Risk Management, Corporate Governance and Internal Control (continued)

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits as at 31 December 2014 and 31 December 2013, by each time band, is as follows:

In thousands of Russian Roubles	**2014**	**2013**
Demand and less than 1 month	11 049 661	12 140 438
From 1 to 6 months	43 512 253	42 115 072
From 6 to 12 months	34 261 077	33 981 795
From 1 to 5 years	27 238 271	6 605 396
More than 5 years	929	-
Total term deposits of individuals	**116 062 191**	**94 842 701**

The main differences between liquidity tables prepared under IFRS by contractual maturity and presented above and the tables prepared for management purposes are as follows:

1. The total assets differ because the impairment allowance on loans and advances to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for IFRS purposes loans and advances to customers are reduced by the allowance;
2. The Bank applies internal methods to determine the maturity of deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for management purposes;
3. The Bank also applies internal methods to account for the trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of financial liabilities as at 31 December 2014 and 31 December 2013 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the consolidated statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

As at 31 December 2014:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
LIABILITIES						
Non-derivative financial liabilities						
Due to banks	86 671 148	6 375 137	8 794 360	2 736 970	-	104 577 615
Customer accounts	150 842 905	79 403 761	51 915 069	31 921 442	1 674 269	315 757 446
Bonds issued	214 626	912 247	6 126 873	23 133 922	-	30 387 668
Other debt securities issued	5 813 593	5 336 518	2 327 731	3 719 013	1 913	17 198 768
Other borrowed funds	-	2 572 041	1 230 346	2 465 358	-	6 267 745
Other financial liabilities	1 435 324	-	-	-	-	1 435 324
Derivative financial instruments						
- inflow	(181 507 701)	-	-	-	-	(181 507 701)
- outflow	176 216 830	-	-	-	-	176 216 830
Total future undiscounted cash flows	**239 686 725**	**94 599 704**	**70 394 379**	**63 976 705**	**1 676 182**	**470 333 695**

32 Risk Management, Corporate Governance and Internal Control (continued)

As at 31 December 2013:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
LIABILITIES						
Non-derivative financial liabilities						
Due to banks	62 413 515	3 946 072	4 524 534	-	-	70 884 121
Customer accounts	115 794 233	76 660 900	50 524 144	13 825 059	2 339 902	259 144 238
Bonds issued	124 862	785 280	910 142	21 286 671	3 448 839	26 555 794
Other debt securities issued	2 291 823	3 556 030	1 449 031	1 455 950	-	8 752 834
Other borrowed funds	164 884	890 891	2 486 776	3 318 704	2 954 385	9 815 640
Other financial liabilities	189 582	-	-	-	-	189 582
Derivative financial instruments						
- inflow	(73 184 282)	-	-	-	-	(73 184 282)
- outflow	72 807 426	-	-	-	-	72 807 426
Total future undiscounted cash flows	**180 602 043**	**85 839 173**	**59 894 627**	**39 886 384**	**8 743 126**	**374 965 353**

Credit related commitments are disclosed in note 34.

Operational risk. The Group manages operational risk by mitigation to the acceptable level through undertaking certain measures to prevent situations which may originate the risk and by insuring of those types of operational risks which cannot be managed.

There is an approved business continuity plan intended to avoid interruptions in activity or/and recovery actions for the Bank in case of emergency. Attached to this plan are detailed instructions for the employees of the Bank for different emergency situations.

Legal risk. The Group uses standard legal documents for the majority of its transactions. In exceptional cases all non-standard documents have to be agreed before the transaction.

33 Management of Capital

The objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), in accordance with financial covenants set in borrowing agreements.

(i) Under the current capital requirements set by the CBRF banks have to maintain a ratio of own funds (capital) to risk weighted assets (N.1.0) of at least 10%, basic capital adequacy ratio (N.1.1) of at least 5%, main capital adequacy ratio (N.1.2) of at least 5.5%. Starting from 1 January 2015 the minimum required N.1.2 ratio is 6.0%. Main capital, basic capital and own funds and capital adequacy ratios are based on reports prepared under Russian statutory accounting standards and comprise:

In thousands of Russian Roubles	31 December 2014	31 December 2013
Own funds	58 377 878	49 879 175
Base capital	36 447 440	31 773 474
Main capital	36 447 440	31 773 474
Ratio of own funds to risk weighted assets (N.1.0)	13.29%	13.91%
Basic capital adequacy (N.1.1)	8.38%	8.79%
Main capital adequacy (N.1.2)	8.38%	8.74%

33 Management of Capital (continued)

The capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting its components.

Based on the calculations performed on the daily basis by the Accounting and Financial Reporting Department, management believes that as at 31 December 2014 and 31 December 2013 the capital adequacy ratio was not below the minimum requirement.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved collegially by the following management bodies in order of the established priority: the Asset and Liability Management Committee, the Management Board, the Supervisory Board.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan to increase assets. In some cases management uses administrative measures to influence the structure of assets and liabilities through interest rate policy, and in exceptional cases, through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

33 Management of Capital (continued)

Below is the capital and capital adequacy ratio calculated in accordance with Basel I:

In thousands of Russian Roubles	31 December 2014	31 December 2013
Capital	**62 687 408**	**58 011 836**
Tier 1	**47 826 680**	**43 937 250**
Paid-in share capital	3 696 674	3 721 734
Reserves and profit	44 130 006	40 215 516
Including:		
- Share premium	21 393 878	21 393 878
- Retained earnings	22 736 128	18 821 638
Tier 2	**14 860 728**	**14 074 586**
Revaluation reserve for premises	3 901 555	3 339 031
Revaluation reserve for investment securities available-for-sale	(433 894)	399 674
Subordinated loans	11 393 067	10 335 881
Risk weighted assets	**470 721 443**	**405 306 109**
Risk weighted banking assets	418 110 341	281 665 898
Risk weighted trading assets	7 324 277	85 854 763
Risk weighted unrecognised exposures	45 286 825	37 785 448
Total capital adequacy ratio	**13.32%**	**14.31%**
Total tier 1 capital	**10.16%**	**10.84%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors as at 31 December 2014 and 2013.

34 Contingencies, Commitments and Derivative Financial Instruments

Litigation. From time to time and in the normal course of business, third parties’ claims against the Group are 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 known claims and accordingly no loss provision has been made in these consolidated financial statements.

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2014 and 31 December 2013 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. At 31 December 2014 the Group had no contractual capital expenditure commitments in respect of reconstruction and purchase of premises (2013: none).

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

In thousands of Russian Roubles	**2014**	**2013**
Less than 1 year	71 930	68 465
1 to 5 years	60 685	92 411
Total operating lease commitments	**132 615**	**160 876**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, the share of overdue balances in the credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the expenditure patterns;

Reporting requirements, obliging the Group to provide its audited financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

As at 31 December 2014 and 31 December 2013, management believes that the Group was in compliance with all covenants.

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

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

Commitments to extend credits represent unused portions of authorisations to extend credits in the form of loans. With respect to credit risk on commitments to extend credits, the Group is potentially exposed to credit risk as at the year end 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 credits 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 are as follows:

In thousands of Russian Roubles	Note	2014	2013
Guarantees issued		41 914 901	36 398 614
Revocable undrawn credit lines		18 266 608	17 444 209
Import letters of credit		7 019 120	4 982 718
Allowance for impairment	22	-	(8 850)
Total credit related commitments		**67 200 629**	**58 816 691**

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 disbursed. The maturity of credit related commitments depend on types of guarantees and undrawn credit lines and are mainly classified into category of On demand and less than 1 month.

The following table provides information on collateral securing guarantees issued, net of allowance for credit losses, by types of collateral presented on the basis of excluding overcollateralization at 31 December 2014 and 2013:

In thousands of Russian Roubles	2014	2013
Promissory note	4 485 816	2 198 049
Real estate	1 904 135	2 098 448
Deposit	1 282 719	870 727
Movable property	645 337	429 091
Surety	7 512 436	3 814 685
Other collateral	2 133 748	6 107 620
No collateral	23 950 710	20 879 994
Total collateral for guarantees issued	**41 914 901**	**36 398 614**

As at 31 December 2014, customer accounts include deposits amounting to RR 7 193 070 thousand representing security for irrevocable liabilities on import letters of credit (2013: RR 3 440 676 thousand). Refer to note 18.

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not the Group’s assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover is provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2014 Nominal value	2013 Nominal value
Corporate shares held in custody of:		
- National Depository Centre	345 017	386 261
- other registrars and depositories	337 010	186 149
- registers of share issuers	87 395	288 414
Municipal bonds held in custody of:		
- St. Petersburg Settlement and Depository Centre	58	58
- National Depository Centre	1 293	1 293
Corporate bonds held in custody of:		
- National Depository Centre	909 153	-
- Other registrars and depositories	139	-

Derivative financial instruments. Currency derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The table below shows fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards and futures contracts, and interest rate forward contracts. The table reflects contracts with settlement dates after the relevant reporting period. The amounts under these contracts are shown before the netting of any counterparty positions (and payments). The contracts on foreign exchange derivatives are short term in nature. The contracts on interest rate derivatives are long term in nature.

	2014		2013	
In thousands of Russian Roubles	Asset forwards	Liability forwards	Asset forwards	Liability forwards
Foreign exchange forwards, options: fair values, at the reporting date, of				
- USD receivable on settlement (+)	69 098 245	16 308 727	15 740 020	12 172 741
- USD payable on settlement (-)	(18 362 462)	(73 879 737)	(30 981 708)	(14 012 849)
- Euros receivable on settlement (+)	57 955	5 474 970	422 105	6 520 650
- Euros payable on settlement (-)	(2 184 372)	(342)	(7 869 905)	-
- RR receivable on settlement (+)	19 718 775	59 506 279	32 852 211	7 523 486
- RR payable on settlement (-)	(55 647 484)	(17 234 877)	(8 786 039)	(14 083 649)
- Other currency receivable on settlement (+)	-	451 298	654 053	101 969
- Other currency payable on settlement (-)	-	-	-	(8 888)
Total on foreign exchange forwards, options	**12 680 657**	**(9 373 682)**	**2 030 737**	**(1 786 540)**

	2014		2013	
In thousands of Russian Roubles	Asset futures	Liability futures	Asset futures	Liability futures
Foreign exchange futures: fair values, at the reporting date, of				
- USD receivable on settlement (+)	-	42 985 296	821 320	716 584
- USD payable on settlement (-)	(56 296 705)	-	(369 899)	(1 187 255)
- Euros payable on settlement (-)	(917 637)	-	-	-
- RR receivable on settlement (+)	57 214 342	-	369 899	1 187 255
- RR payable on settlement (-)	-	(42 985 296)	(821 320)	(716 584)
Total on foreign exchange futures	**-**	**-**	**-**	**-**

34 Contingencies, Commitments and Derivative Financial Instruments (continued)

	2014		2013	
In thousands of Russian Roubles	**Asset forwards**	**Liability forwards**	**Asset forwards**	**Liability forwards**
Interest rate forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	8 723 012	-	982 087	-
- USD payable on settlement (-)	-	-	-	-
- RR receivable on settlement (+)	-	-	-	28 633
- RR payable on settlement (-)	(4 968 007)	-	(952 183)	(29 842)
Total on interest rate forwards	**3 755 005**	**-**	**29 904**	**(1 209)**

	2014		2013	
In thousands of Russian Roubles	**Asset options**	**Liability options**	**Asset options**	**Liability options**
Unlisted options: fair values, at the reporting date, of:				
- RR transactions	208 234	(208 381)	-	-
- USD transactions	-	-	761	(441)
Total on unlisted options	**208 234**	**(208 381)**	**761**	**(441)**
Net fair value of derivative financial instruments	**16 643 895**	**(9 582 063)**	**2 061 402**	**(1 788 190)**

Currency and other derivative financial instruments are usually subject to trade on over-the-counter markets with professional participants based on standardized contracts. The total fair value of derivative financial instruments can vary significantly with time.

35 Fair Value of Financial Instruments

Methods and assumptions used in calculation of the fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. The best evidence of fair value is price quotations in an active market.

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

The fair value of instruments with floating interest rates usually equals their carrying value. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for instruments with similar credit risk and maturity date. For effective interest rates by currency for major debt financial instruments refer to section “Interest rate risk” in note 32.

35 Fair Value of Financial Instruments (continued)

The Group measures fair values for financial instruments recorded on the statement of financial position at fair value 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: Valuation techniques based on observable market inputs, 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: Valuation techniques using significant unobservable market inputs. 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.

Management uses professional judgment for allocation of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as level 3.

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2014:

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS			
Trading securities			
- Corporate Eurobonds	196 732	-	-
- Corporate shares	8 693	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate bonds	26 892 693	1 408 015	-
- Corporate Eurobonds	7 444 308	-	-
- Federal loan bonds	1 334 216	-	-
- Municipal bonds	697 652	860 393	-
- Corporate shares	501 431	-	-
Investment securities available-for-sale			
- Corporate bonds	4 243 838	100 568	-
- Federal loan bonds	1 407 515		-
- Corporate Eurobonds	575 474	-	-
- Corporate shares	429 887	-	-
- Municipal bonds	252 248	249 857	-
Other financial assets			
- Net fair value of derivative financial instruments	-	7 061 833	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**43 984 687**	**9 680 666**	**-**

35 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2013:

In thousands of Russian Roubles	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	11 239 639	35 755	-
- Municipal bonds	2 892 211	-	-
- Corporate Eurobonds	2 157 309	-	-
- Federal loan bonds	1 246 783	-	-
- Corporate shares	20 941	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate bonds	36 615 177	45 125	-
- Corporate Eurobonds	6 868 657	-	-
- Eurobonds of the Russian Federation	2 722 173	-	-
- Federal loan bonds	2 624 778	-	-
- Municipal bonds	2 459 922	-	-
- Corporate shares	393 114	-	-
Investment securities available-for-sale			
- Corporate shares	1 121 334	-	-
Other financial assets			
- Net fair value of derivative financial instruments	-	273 212	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**70 362 038**	**354 092**	**-**

35 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial assets carried at amortised cost as at 31 December 2014 and 31 December 2013:

	2014		2013	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Loans and advances to customers				
Corporate loans				
- loans to finance working capital	171 004 115	163 230 047	133 528 167	137 927 760
- investment loans	76 364 594	70 029 941	63 175 927	64 417 073
- loans to entities financed by government	17 376 922	16 003 473	17 250 322	17 720 278
Loans to individuals				
- mortgage loans	29 212 332	24 981 624	20 033 686	20 561 867
- car loans	3 810 008	3 912 006	3 902 990	3 996 215
- consumer loans to VIP clients	6 935 592	6 947 187	5 306 310	5 416 290
- other loans to individuals	10 635 432	11 386 750	7 686 701	8 249 207
TOTAL	**315 338 995**	**296 491 028**	**250 884 103**	**258 288 690**

The following table provides fair values of financial liabilities carried at amortised cost as at 31 December 2014 and 31 December 2013:

	2014		2013	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Customer accounts				
State and public organisations				
- Current/settlement accounts	635 967	635 967	905 604	905 604
- Term deposits	200 110	200 433	57	-
Other legal entities				
- Current/settlement accounts	69 137 524	69 147 526	54 979 453	54 979 453
- Term deposits	82 499 772	82 012 107	71 936 160	71 892 168
- Amounts payable under sale and repurchase agreements	-	-	1 884	1 884
Individuals				
- Current accounts/demand deposits	39 946 167	39 946 167	30 461 432	30 461 432
- Term deposits	116 062 191	103 669 459	94 842 701	97 637 472
Bonds issued				
- Subordinated Eurobonds	17 225 687	12 098 278	10 008 906	10 203 773
- Bonds	6 638 420	6 438 998	10 209 883	10 221 300
Other debt securities issued				
- Promissory notes	16 405 963	16 520 760	8 507 338	8 659 592
- Deposit certificates	1	2	2	2
Other borrowed funds				
-VTB Bank	2 259 076	2 244 854	1 968 665	1 928 275
-Subordinated loans	1 565 474	1 562 639	4 047 873	3 744 532
-Eurasian Development Bank	996 925	963 764	-	-
-AKA AFK	763 374	721 718	581 697	544 476
-EBRD	86 330	85 306	771 571	755 539
-Nordic Investment Bank	-	-	209 620	201 982
TOTAL	**354 422 981**	**336 247 978**	**289 432 846**	**292 137 484**

35 Fair Value of Financial Instruments (continued)

Financial instruments recognised at fair value. Trading securities, securities pledged under sale and repurchase agreements and lent out, investment securities available-for-sale, derivative financial instruments are carried at fair value in consolidated statement of financial position.

According to the Group estimates, fair values of financial assets and liabilities, except for those disclosed in tables above, do not differ significantly from their carrying values.

Fair value hierarchy for assets and liabilities disclosed in tables above is as follows:

- bonds issued – level 1
- customer accounts – level 2
- other debt securities issued – level 2
- other borrowed funds – level 3
- loans and advances to customers - level 3

The Group's accounting policy on recognition of financial instruments carried at fair value is disclosed in note 3.

Loans and receivables carried at amortised cost. The fair value of instruments with floating interest rates usually equals to their carrying value. If market situation significantly changes the interest rates on loans and advances to customers and loans to banks with fixed interest rate may be revised. Interest rates on loans and advances to customers issued just before the reporting date do not significantly differ from current interest rates on new instruments with similar credit risk and maturity date. If interest rates on earlier issued loans, according to the Group estimates, significantly differ from current interest rates for similar instruments as at the reporting date, the Group determines estimated fair value for these loans. The estimate is based on discounted cash flows using current interest rates for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and counterparty.

Group believes that fair values of financial assets and liabilities except for disclosed in the table above approximate their carrying amounts.

The following table provides analysis of interest rates on loans and advances to customers as at 31 December 2014 and 31 December 2013:

	2014	2013
Loans and advances to customers:		
Loans to legal entities	1.32% - 25.44% p.a.	2.28% - 26.30% p.a.
Loans to individuals	1.49% - 25.66% p.a.	4.30% - 26.30% p.a.

The estimated fair values of other financial assets, including receivables, approximates to their amortised cost due to their short-term nature.

Financial liabilities carried at amortised cost. The estimated fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for new instruments with similar credit risk and maturity date. Discounting interest rates depend on currency, maturity date and as at 31 December 2014 ranged from 0.47% p.a. to 19.95% p.a. (2013: from 0.1% p.a. to 16.12% p.a.).

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form. Mr. A.V. Savelyev as a Chairman of the Supervisory Board and through his direct share ownership and option on purchase of shares in companies, which are currently under control of other members of management (see note 1) has de facto control of the Bank in accordance with the accounting definition contained in IFRS 10.

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

As at 31 December 2014, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Loans and advances to customers (contractual interest rates: 4.75% – 27.0% p.a.)	1 050	69 220	210 868
Impairment allowance for loans and advances to customers	(39)	(2 509)	(26 492)
Customer accounts (contractual interest rates: 0.70% - 19.25% p.a.)	1 276 210	1 270 965	2 443 556
Other borrowed funds (contractual interest rate of 4.33% p.a.)	86 330	-	-

Other borrowed funds include subordinated debt. Refer to note 21.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board, for the year 2014 are as follows:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Interest income	3 968	11 008	34 104
Interest expense	(69 366)	(59 326)	(52 188)
Recovery of provision for loan impairment	752	(1 275)	2 287
Fee and commission income	165	1 493	39 238

Aggregate amounts lent to and repaid by related parties during 2014 are:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Amounts lent to related parties during the period	7 964	93 793	13 892
Amounts repaid by related parties during the period	56 916	103 168	93 919

36 Related Party Transactions (continued)

As at 31 December 2013, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rates: 6.0% – 22.0% p.a.)	50 002	78 595	290 895
Impairment allowance for loans and advances to customers	(791)	(1 234)	(28 779)
Investment securities available-for-sale	-	-	2 000 008
Customer accounts (contractual interest rates: 2.5% - 10.0% p.a.)	1 917 946	831 189	3 204 274
Other borrowed funds (contractual interest rates: 4.4% - 13.4% p.a.)	3 354 018	-	-

Other borrowed funds are represented by the subordinated debt, note 21.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board, for the year 2013 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	5 271	9 497	34 827
Interest expense	(497 676)	(29 668)	(75 540)
Recovery of provision for loan impairment	23	223	2 484
Fee and commission income	58	570	6 802

Aggregate amounts lent to and repaid by related parties during 2013 are:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the period	12 431	74 916	56 488
Amounts repaid by related parties during the period	13 711	88 133	75 491

In 2013, total remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RR 595 906 thousand (2013: RR 509 759 thousand).

37 Consolidation of Companies

The Group’s consolidated financial statement includes:

Name	Country of incorporation	Ownership % 31 December 2014	Ownership % 31 December 2013	Principal activities
BSPB-Trading Systems	Russian Federation	100	100	Operation on financial markets

The Bank uses structured entity BSPB Finance PLC for issue of bonds on the international capital market (refer to note 19).

BSPB Finance PLC is the issuer of a structured debt – loan participation notes issued solely to finance loans to the Bank. Loan participation loans represent secured debt, where the issuer pledges all amounts received and/or receivable under loan agreements with the Bank. The Bank compensates the issuer all one-off and future expenses related to issuance and servicing of the loans.

38 Acquisition of a Subsidiary

On 10 February 2014 the Group acquired 100% shares in CJSC ICB “Evropeisky” for the consideration of RR 610 151 thousand. The acquisition was at arms-length’s basis.

The acquisition of CJSC ICB “Evropeisky” will allow the Group to increase significantly its share on the financial market of Kaliningrad district.

38 Acquisition of a Subsidiary (continued)

Preliminary valuation of the fair value of assets and liabilities of the acquired subsidiary recognised in the consolidated financial statements of the Group as at the acquisition date is presented as follows:

(In thousands of Russian Roubles)	**Recognised amounts on acquisition**
ASSETS	
Cash and cash equivalents	1 511 644
Mandatory reserve deposits with the Central Bank of the Russian Federation	108 040
Financial instruments at fair value through profit or loss	159 142
Investment securities available-for-sale	200 201
Due from banks	16 504
Loans and advances to customers	5 523 838
Premises, equipment and intangible assets	75 400
Other assets	99 099
LIABILITIES	
Due to banks	771 915
Customer accounts	5 679 947
Subordinated loans	100 000
Other liabilities and provisions	43 268
Net identifiable assets and liabilities	**1 098 738**
Negative goodwill on acquisition	**(488 587)**
Consideration paid	(610 151)
Including paid part	*(500 001)*
Cash acquired	1 511 644
Net cash inflow	**1 011 643**

Fair value of acquired assets and liabilities is based on the discounted cash flow models and other valuation techniques and assessed by management based on valuation carried out by an independent professional firm of appraiser.

Management of the Group made decision on merge of CJSC ICB "Evropeisky" to PJSC "Bank "Saint Petersburg" as a branch since 31 December 2014.

V.S. Guz
Chairman of the Management Board

N.G. Tomilina
Chief Accountant