Commercial Bank Garant-Invest

(Joint Stock Company)

Financial Statements

for the year ended

31 December 2014

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ФИНЭКСПЕРТИЗА
АУДИТОРСКО КОНСАЛТИНГОВАЯ ГРУППА

129110, г. Москва, Проспект Мира, д. 69, стр. 1, тел.: (495) 775 22 00, 775 22 01
почтовый адрес: 129110, г. Москва, а/я 179
info@finexpertiza.ru
www.finexpertiza.ru

Исх. № 601-04/15 от 27.04.15

INDEPENDENT AUDITOR'S REPORT

on year-end financial statements of Commercial Bank Garant-Invest (Joint Stock Company) for 2014

To shareholders of CB Garant-Invest (JSC)

Auditee

Name: Commercial bank Garant-Invest (joint stock company) ([CB Garant-Invest (JSC)])

State registration number: 1037739429320

Location: 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

Auditor

Name: Limited Liability Company FinExpertiza (OOO FinExpertiza);

State registration number: 1027739127734

Location: Russian Federation, 129110, Moscow, Prospekt Mira, 69 bldg 1

Self-regulating organization of auditors: Self-regulating Auditors Organization Non-Profit Partnership Russian Audit Chamber (certificate No 4209 of 21 December 2009)

Registration number in the audit firms register (ORNZ): 10201028038

AUDITOR'S REPORT

We have audited the year-end financial statements of CB Garant-Invest (JSC) (hereinafter referred to as the "Bank") which comprise:

- Statement of Financial Position as at 31 December 2014;
- Income Statement for the year ended 31 December 2014;
- Statement of Comprehensive Income for the year ended 31 December 2014;
- Statement of Changes in Equity for the year ended 31 December 2014;
- Statement of Cash Flows for the year ended 31 December 2014;
- Summary of significant accounting policies and other explanatory notes.

Management Responsibility

Management of the Bank is responsible for the preparation and fair presentation of the year-end financial statements in accordance with the International Financial Reporting Standards, and for such internal control as it determines is necessary to enable the preparation of the year-end financial statements that free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit in all material respects.

We conducted our audit in accordance with National Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of the accounting estimates made by the management of the Bank, as well as evaluating the overall financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on reliability of the year-end financial statements.

Opinion

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

Matter of importance

Without changing our opinion on reliability of the financial statements we draw your attention to the information disclosed in Note 7 of the Notes to 2014 Financial Statements that the Bank reclassified securities in the manner approved by the resolution of the Bank of Russia of 18 December 2014 No 3498-U *Reclassification of Securities*.

REPORT ON AUDIT IN ACCORDANCE WITH THE REQUIREMENTS OF FEDERAL LAW OF 2 DECEMBER 1990 NO 395-1 *BANKS AND BANKING ACTIVITIES*

The Bank's management is responsible for compliance with the statutory ratios set by the Bank of Russia and for compliance of the internal control and arranging risk management systems of the Bank to the requirements of the Bank of Russia to such systems.

We have audited the following in the course of the audit of the year-end financial statements of the Bank for 2014 in accordance with Art. 42 of Federal Law of 02 December 1990 No-395-1 *Banks and Banking Activities*:

- Compliance by the Bank with the mandatory ratios set by the Bank of Russia as at 01 January 2015;
- Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russian to such systems.

  The audit was limited by selected audit procedures based on our judgement as inquiries, analysis and study of documents, comparing the Bank's approved requirements, policies and procedures with the requirements of the Bank of Russia and recalculation and reconciliation of figures and other information. We performed these procedures with the purpose to form an opinion with regard to the matters subject to audit under Art. 42 of Federal Law of 02 December 1990 No 395-1 *Banks and Banking Activities*.

Our audit resulted in the findings as follows:

1. Bank's compliance with the statutory ratios set by the Bank of Russia:

   The Bank's statutory ratios as at 01 January 2015 were within the limits set by the Bank of Russia.

We have not performed any procedures with regard to the accounting records of the Bank except for those which we considered appropriate with the purposes to form an opinion whether the year-end financial statements present fairly in all material respects its financial position as at 01 January 2015, financial performance and cash flows for 2014 in accordance with the Russian financial reporting standards for credit organizations.

2. Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russian to such systems:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 31 December 2014, the Bank's internal audit service is subordinated to and reports to the Bank's Board of Directors, the Bank's risk management departments were not subordinated to and do not report to the departments that take correspondent risks. Heads of the internal audit service and risk management departments of the Bank qualify for the competence requirements set by the Bank of Russia;

b) the Bank's internal documents as at 31 December 2014 that set out the procedures to identify and manage significant risks for the Bank such as credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as stress testing procedures have been approved by the authorised management bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

c) existence in the Bank as at 31 December 2014 of the reporting system with regard to significant for the Bank credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as to the Bank's equity;

d) regular and consistent reports prepared by the Bank's risk management departments and internal audit service during 2014 regarding management of credit, operational, market, interest rate, liquidity and goodwill risks complied with the Bank's internal documents. These reports comprised observations made by the Bank's risk management departments and internal audit service on assessing whether the procedures adopted by the Bank are efficient as well as recommendations to improve the procedures.

e) as at 31 December 2014, the Bank's Board of Directors and its executive management bodies were responsible for control over the Bank's compliance with the maximum risk exposures and capital adequacy as set out in the Bank's internal documents. In order to control efficiency of the risk management procedures performed by the Bank and their consistency during 2014, the Bank's Board of Directors and its executive management bodies discussed the reports prepared by the Bank's risk management departments and internal audit service on a regular basis and considered action required to eliminate weaknesses.

We have performed audit procedures with regard to the quality control and risk management systems of the Bank for the purposes to verify compliance of the Bank's quality control and risk management systems to the requirements of the Bank of Russia for such systems.

Deputy General Director
Acting on the basis of letter of attorney No 102-07/14
From 01.07.14 to 30.06.15

Ms. Natalia Borzova

27 April 2015

CB Garant-Invest (JSC)

Statement of Financial Position for the year ended 31 December 2014 (in thousands of Russian Roubles, if not otherwise specified)

	Notes	2014 RUR'000	2013 RUR'000
Assets			
Cash and cash equivalents	5	493 446	931 337
Due from the Central Bank of the Russian Federation	6	89 910	82 029
Financial assets at fair value through profit or loss	7	-	692 701
Available-for-sale financial assets	8	2 943 369	-
Due from other banks and financial institutions	9	157 390	160 679
Loans and receivables	10	8 120 918	6 829 685
Property and equipment	11	4 853	7 448
Other assets	12	242 052	666 010
Total assets		**12 051 938**	**9 369 889**
Liabilities			
Due to other banks and financial institutions	13	16	4 296
Current accounts and deposits from customers	14	8 069 847	7 061 932
Promissory notes issued	15	126 693	45 204
Payables under repo transactions	16	2 099 716	488 546
Subordinated borrowing	17	450 906	262 323
Deferred tax liability		148 438	2 402
Other liabilities	18	247 032	667 886
Total liabilities		**11 142 648**	**8 532 589**
Equity			
Share capital	19	687 040	687 040
Share premium	19	40 295	40 295
Retained earnings	19	181 955	109 965
Total equity		**909 290**	**837 300**
Total liabilities and shareholders' equity		**12 051 938**	**9 369 889**

Signed on behalf of the Board of the Bank on 27 April 2015

I.L. Kasyanov
Chairman of the Board

КБ
"Гарант-Инвест"
(АО)
Коммерческий банк "Гарант-Инвест" акционерное общество ОГРН 1037739429320
МОСКВА

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (JSC)
Income Statement for the year ended 31 December 2014 (in thousands of Russian Roubles, if not otherwise specified)

	Notes	2014 RUR'000	2013 RUR'000
Interest income	20	1 204 170	942 996
Interest expense	20	(515 774)	(448 624)
Net interest income		**688 396**	**494 372**
Asset impairment provision		(319 404)	(471 866)
Net interest income after provision for loan portfolio impairment		**368 992**	**22 506**
Gains less losses from trading securities		(36 511)	9 836
Gains less expenses on foreign currency transactions		(34 546)	16 346
Fee and commission income	21	120 682	112 063
Fee and commission expense	21	(33 553)	(27 063)
Other operating income		8 661	23 842
Operating income		**393 725**	**157 530**
Administrative and Other Operating Expenses	22	(151 098)	(136 012)
Dividends received		-	-
Profit before income tax		**242 627**	**21 518**
Income tax	23	(150 534)	(1 321)
Profit for the year		**92 093**	**20 197**

Signed on behalf of the Board of the Bank on 27 April 2015

I.L. Kasyanov
Chairman of the Board

Акционерное общество Коммерческий банк "Гарант-Инвест" ОГРН 1037739429320
КБ "Гарант-Инвест" (АО)
МОСКВА

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (JSC)
Statement of Comprehensive Income for the year ended 31 December 2014
(in thousands of Russian roubles, unless otherwise specified)

	2014 RUR'000	2013 RUR'000
Profit (loss) for the year	92 093	20 197
Effect of property revaluation	-	(21 990)
Effect of revaluation reserve of financial assets available-for-sale	-	-
Income tax attributable to components of comprehensive income	-	4 398
Other comprehensive income/(expense) after tax	**92 093**	**2 605**

Signed ~~on behalf of~~ the Board of the Bank on 27 April 2015

I.L. Kasyanov
Chairman of the Board

КБ "Гарант-Инвест" (АО)
Коммерческий банк "Гарант-Инвест"
Акционерное общество
ОГРН 1037739429320
МОСКВА

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (JSC)
Statement of Changes in Equity for the year ended 31 December 2014
(in thousands of Russian roubles, unless otherwise specified)

	Share capital	Share premium	Revaluation fund of property and equipment	Revaluation fund of available-for-sale financial assets	Retained earnings	Total equity
Balance at 31 December 2012	**537 040**	**40 295**	**17 592**	**-**	**103 871**	**698 798**
Increase of the share capital	150 000	-	-	-	-	150 000
Dividends	-	-	-	-	(14 103)	(14 103)
Comprehensive income (expense) for 2013	-	-	(17 592)	-	20 197	2 605
Balance at 31 December 2013	**687 040**	**40 295**	**-**	**-**	**109 965**	**837 300**
Dividends	-	-	-	-	(20 103)	(20 103)
Comprehensive income (expense) for 2014	-	-	-	-	92 093	92 093
Balance at 31 December 2014	**687 040**	**40 295**	**-**	**-**	**181 955**	**909 290**

Signed on behalf of the Board of the Bank on 27 April 2015

I.L. Kasyanov
Chairman of the Board

КБ
"Гарант-Инвест"
(АО)

N.M. Poletaeva
Chief Accountant

CB Garant-Invest (JSC) Statement of Cash Flows for the year ended 31 December 2014 (in thousands of Russian Roubles, if not otherwise specified)

	2014 RUR'000	2013 RUR'000
Cash flows from operating activities		
Interest and fee and commission receipts	1 290 295	1 050 186
Interest and fee and commission payments	(583 722)	(475 322)
Gains less losses from trading securities	(75 923)	35 720
Gains less expenses on foreign currency transactions	(42 045)	(54 402)
Other operating income	8 670	23 842
Administrative and other operating expenses paid	(140 345)	(151 144)
Income tax paid	(4 663)	(13 166)
Cash flows from operating activities before changes in operating assets and liabilities	**497 267**	**415 714**
Changes in operating assets and liabilities		
Net (increase)/decrease in assets:		
Due from the Central Bank of the Russian Federation	(7 881)	11 684
Financial instruments at fair value through profit or loss	(1 385 515)	(568 934)
Due from other banks and financial institutions	14 594	734 906
Loans and receivables	(165 573)	(1 417 679)
Other assets	430 666	(660 486)
Net increase/(decrease) in liabilities:		
Due to other banks and financial institutions	(10 273)	(74 599)
Payables under repo transactions	1 611 170	488 546
Current accounts and deposits from customers	(1 275 136)	(313 673)
Promissory notes issued	70 476	(66 488)
Subordinated borrowing	188 583	-
Other liabilities	(462 979)	663 243
Net cash provided (used in) from operating activities	**(494 601)**	**(787 766)**
Cash flows from investing activities		
Available-for-sale financial assets	(5 834)	75 851
Additions and disposals of property and equipment	(326)	19 587
Net cash provided from / (used in) investing activities	**(6 160)**	**95 438**
Cash flows from financing activities		
Shareholders' (members') contribution to the share capital	-	150 000
Dividends paid	(20 136)	(14 042)
Net cash provided from / (used in) financing activities	**(20 136)**	**135 958**
Effect of exchange rate changes on cash and cash equivalents	**83 024**	**108 306**
Net increase in cash and cash equivalents	**(437 873)**	**(448 064)**
Cash and cash equivalents at the beginning of the year	931 319	1 379 383
Cash and cash equivalents at the end of the year	**493 446**	**931 319**

For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 18 thousa
as at 31 December 2013.

Signed on behalf of the Board of the Bank on 27 April 2015

Коммерческий банк «Гарант-Инвест» (АО) КБ «Гарант-Инвест» (АО) ОГРН 1037739429320 Москва

I.L. Kasyanov
Chairman of the Board

N.M. Poletaeva
Chief Accountant

1. Introduction

Principal activities

Commercial bank Garant-Invest (Close Joint Stock Company) (hereinafter referred to as "the Bank") is a credit organization established by reorganization of Commercial bank Garant-Invest (Limited Liability Company) based on decision of the general shareholders meeting (minutes No 19 of 9 June 1999).

In November 2014, CB Garant-Invest CJSC was renamed into CB Garant-Invest JSC.

The Bank operates on the basis of the license issued by the Bank of Russia on 24 October 2014 No 2567 to perform bank transactions with funds of corporations and individuals in Roubles and foreign currencies. The Bank is a holder of the licenses to perform transactions with securities: broker activities, dealer activities and security management issued by the Federal Commission for the Securities Market.

CB Garant-Invest (JSC) was registered in the system of obligatory deposit insurance on 15 July 2005 with registration number 838.

The Bank is member of Association of Russian Banks, Moscow Interbank Currency Exchange, Moscow International Business Association, International Payment Systems VISA, MasterCard Worldwide, Diners Club, Russian National Association SWIFT (ROSSWIFT), as well as the founder of Non-profit partnership Russian Trade Centres Council.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations of legal persons, including correspondent banks, and individuals as well as operations with securities and foreign exchange.

The Bank's principal business activity is commercial banking operations within the Russian Federation.

Registered address and location is 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

The average number of the Bank's personnel for 2014 amounted to 102 persons (2013: 103 человека)

Name	2014 Share	2013 Share
A.Yu. Panfilov	43,18	43,18
ZAO Formulainvest	16,52	16,52
G.I. Kozovoy	11,00	11,00
OOO Imex-Finance	9,09	5,17
V.F. Smirnov	3,41	1,46
I.P. Biryukova	2,46	2,46
E.V. Biryukova	2,46	2,46
Yu.V. Panfilov	1,95	1,95
A.M. Sayglov	1,61	1,61
N.A. Gorbunova	1,57	1,57
T.G. Panfilova	1,48	1,48
O.P. Panfilova	1,31	1,31
A.V. Eremeev	0,00	3,92
V.V. Smirnova	0,00	1,96
Others with less than 1% of the share capital	3,95	3,95
Total	**100,00**	**100,00**

As at 31 December 2014, the ultimate beneficiary of ZAO Formulainvest is Oleg Nikolaevich Semenyutin; the ultimate beneficiary of ZAO Imex-Finance is Dmitriy Evgenievich Kasatkin.

Presentation currency. These financial statements are presented in thousands of Russian Roubles ("RUR").

2. Business Environment

Russian business and economic environment

The economy of Russian Federation continues to display certain characteristics of an emerging market. Laws and regulations and tax legislation are subject to varying interpretation and changes.

The Ukrainian crisis and recent events, namely: sanctions against the Russian Federation imposed by a number of countries including the United States of America and EU, retaliatory sanctions of the Russian Federation have brought higher business risks and deteriorated overall economic situation.
In particular, the Russian Rouble has considerably devaluated, the key interest rate of the Bank of Russia has been increased, capital market is characterised by high volatility, access to foreign borrowings for Russian companies has been significantly restricted.
In addition, lower prices for oil have an adverse effect on the Russian economy which therefore worsen the business environment.
High economic uncertainty continues to remain during 2014 and beginning of 2015.
Management believes it is taking all the necessary measures to support the sustainability of the Bank's business in the current environment.

Inflation

The Russian economy is characterized by a relatively high inflation. The following table provides for inflation rates applicable during the previous five years.

Year ended on	Inflation for the period
31 December 2014	11,40%
31 December 2013	6,45%
31 December 2012	6,58%
31 December 2011	6,10%
31 December 2010	8,78%

Foreign currency transactions

Foreign currencies especially US dollars and EUR have a significant effect on identifying economic parameters of many economic events in the Russian Federation. The table below presents RUR-USD and RUR -EUR rates established by the Bank of Russia:

Date	USD	EUR
31 December 2014	56,2584	68,3427
31 December 2013	32,7292	44,9699
31 December 2012	30,3727	40,2286
31 December 2011	32,1961	41,6714
31 December 2010	30,4769	40,3331
31 December 2009	30,2442	43,3883

3. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Bank maintains its records in accordance with the applicable legislation in the Russian Federation. These financial statements are based on the Bank's statutory books and records, adjusted and reclassified to comply with IFRSs.

Functional and presentation currency

Functional currency of the Bank is the national currency of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Estimates and judgements

The financial statements are prepared under the estimates and assumptions that have effect on the amounts of assets and liabilities, contingent assets and liabilities at the balance sheet date and the amounts of income and expenses during the reporting period. Items to be better estimated and of high significance for the financial statements are disclosed in Notes.

Going concern

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group.

Economic progress in the Russian Federation rely heavily on the efficiency of actions taken by the Russian Government and other factors including legal and political events beyond the Bank's control.

The Bank management can't foresee the effect of the aforementioned factors on the Bank's financial position in the future. These financial statements do not include adjustments related to this risk.

The financial statements have been prepared on the going concern assumption.

The Bank monitors external factors on a regular basis that may have an effect on the Bank's liquidity and forecasts payment flows for efficient liquidity risk management. The Bank analyses gaps between settlement of assets and liabilities for medium- and long-term liquidity risk management. The Bank sets limits for liquidity gaps in order to restrict the risk. The Bank regularly reviews the maximums set with regard to the changing external and internal environmental factors.

The Bank can attract additional funds from the Bank of Russia and in the interbank credit market in order to maintain liquidity. The Bank minimizes its reliance on a certain liquidity resource and ensures settling own liabilities in full due to diversified liquidity resources. The Bank's accumulated surplus of current liquidity and available resources to attract additional funds help provide the Bank's going concern on a long-term basis.

Changes in the accounting policies

The applied accounting policy is consistent with that used for prior financial year in general. A number of new Standards become effective as at 1 January 2013. The following new Standards and interpretations effective as well as their impact on the Bank's operations are presented below. The Bank has not adopt new and revised IFRSs.

Adoption of New or Revised Standards and Interpretations

- Amendments to IAS 36 - *Recoverable Amount Disclosures for Non-Financial Assets* (issued on 29 May 2013, become effective for annual periods beginning on 1 January 2014; earlier application is permitted in periods in which the entity does not apply IFRS 13). The amendment cancels the requirement to disclose information about the recoverable amount for each cash-generated unit for which goodwill or intangible assets with indefinite useful lives allocated to that unit is included and not impaired. These amendments have not had a significant impact on the Bank's financial statements.
- Amendments to IAS 39 - *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27 June 2013; effective for annual periods beginning on 1 January 2014). The amendments allow to continue hedge accounting for hedging relationships in which a derivative has been novated to a central counterparty (CCP) following the introduction of a new law or regulation. These amendments have not had a significant impact on the Bank's financial statements.

New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2015 and which the Bank has not early adopted:

IFRS 9 *Financial Instruments:* Classification and Measurement (amended in July 2014, effective for annual periods beginning on or after 01 January 2018). Key features of the new standard are as follows:

- \- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- \- Classification is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is held to collect it may be carried at amortised cost if is also meets the solely payments of principal and interest requirement . Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as at fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.

- - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- - IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a "three stage" approach which is based on the changes in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and receivables.
- - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

Annual improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The improvements consist of changes to seven standards.

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

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

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

Annual improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The improvements consist of changes to four standards.

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

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

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

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

Currently the Bank is assessing the impact of the amendments on the financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment formats new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are not expected to have any material impact on the Bank's financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 01 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other that the consumption of the economic benefits embodied in the asset. Currently the Bank is assessing the impact of the amendment on the financial statements.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 01 January 2017).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Currently the Bank is assessing the impact of the amendment on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for the periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not expected to have any material impact on the Bank's consolidated financial statements.

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

Annual improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements.

The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRSs. The Bank is currently assessing the impact of the amendments on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods beginning on 1 January 2016).

The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities.

In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value

through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendments are not expected to have any material impact on the Bank's financial statements.
If not stated otherwise, the Bank expects no significant impact of the new standards and interpretations on its financial statements.

4. Significant accounting policies

Significant measurement terms

The Bank applies the following measurement techniques when recognising financial instruments: at fair value, at amortised cost or at cost.

Fair value is an amount for which an asset could be exchanged between a knowledgeable, willing buyer and seller in an arm's-length transaction. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institutions and those prices represent actual and regularly occurring market transactions.

Fair value of quoted financial instruments is based as follows:

- quoted market prices for, as a rule, financial instruments trading through the organisers of the trading;
- the asking price for financial assets and the bid price for financial liabilities and the estimated fair value based on the information and analytical systems (e.g. *Reuters* and *Bloomberg*), market dealers and other institutions.

If the market for a financial instrument in not active, the following information can be used for fair value measurement.

- recent quoted market price (asking (bid) price) from independent sources if no significant changes occurred in the economic situation to the reporting date;
- actual price of the transaction made by the Bank in the common course of business if no significant changes occurred from the transaction date to the reporting date.

In the event of significant changes, the most recent quoted price (transactions price) shall be adjusted to the change in the quoted price (transaction price) for similar financial instruments. The recent quoted price (transaction price) of debt securities can be adjusted with account on the circulation period of the debt security.

Fair value measurement is based on a going concern principle of an entity that has neither the intention nor the need to liquidate or curtail materially the scale of its operations or perform transaction on unfavourable conditions. Thus, the fair value is not equal to the amount that the Bank receives at an involuntary transaction, liquidation procedure or at going-out-of-business sell.

The fair value of financial instruments when quoted market prices from external resources are not available is measured by such techniques as discounted cash flow and financial analysis. Any valuation technique widely applied by market participants and evidencing reliability of measurement and pricing resulted from actual market transactions may be applied for measuring the price of financial instruments. A valuation technique may be chosen for any individual measurement of fair value; and if not justified otherwise techniques based on the quoted market prices and bid and asking prices are applied.

The Bank classifies information used to measure fair value of a financial instruments based on material inputs used for measurement as follows:

- level one are measurements at quoted prices in active markets for identical assets or liabilities;
- when no quoted prices are available:
- quoted prices in active markets for most recent transactions provided that no significant changes occurred to the economic environment, and quoted prices for identical financial instruments in markets that have undergone significant changes, as well as inputs other than quoted prices that are observable of the instrument (level 2);
- unobservable inputs used for measurement (level 3).

The amortised cost of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured at initial recognition less any principle repayments, plus or minus cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. Amortization of the stated difference is made using the effective interest method. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium are not presented separately and are included in the carrying amount of related assets and liabilities.

The effective interest method is a method of calculating the amortized cost of a financial asset of a financial liability and of allocating the interest income or interest expense over the relevant useful life of the financial asset or financial liability.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period to the net carrying amount of the financial asset or the financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment) but does not consider future credit losses.

This calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Bank uses the contractual cash flows over the full contractual term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or fair value of other resources for acquisition of an asset at the purchase date and includes transaction costs. Cost is used to measure investments in equity instrument which do not have quote prices and where fair value cannot be reliably measurement and derivatives which are related to such equity instruments that do not have quoted prices and shall be settled with such equity instruments. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability and include remuneration and commissions to agents (including employees acting as trade agents), consultants, brokers and dealers; levies to regulating bodies and stock exchanges as well as taxes and levies applicable for property transfer. Transaction costs do not include bonuses or discounts to debt liabilities, financing expenses or internal administrative or holding costs.

Under payment date method, the Bank recognizes any change in the fair value of a financial liability to be delivered between the transaction date and the payment date as it is recognizes a change in the value of the asset purchased i.e. the change in value is not recognised with regard to assets measured at cost or amortized cost; it is charged against profit or loss with regard to assets designated as financial asset at fair value through profit or loss and is recognized among equity applicable to assets designated as available for sale.

Under payment date method, transactions are classified as those with derivative financial instrument until payments are made.

Impairment of financial assets

The Bank makes provisions for impairment of all types of financial assets except for financial assets at fair value through profit or loss. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence that a financial asset is impaired or not is past-due accounts and that sale of the respective collateral is possible. The primary factory that the Bank considers in determining whether a financial asset is impaired is its overdue status.

The following other principal criteria are also used to determined whether there is objective evidence that an impairment loss ("loss event") has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems
- the borrower or issuer faces significant financial difficulty that is evidenced by the financial statements of the borrower or issuer received by the Bank;
- it becoming probable that the borrower or the issuer will enter bankruptcy;

- due to adverse changes in the payment status of borrowers or issuers caused by changes in national or local economic conditions that have an impact on the borrower or the issuer;
- the value of the security has considerably decreased due to unfavourable market conditions;
- creditor due to economic or legal reasons, has provided incentives which would not happen otherwise;
- disappearance of an active market for that financial asset because of financial assets (not because the asset is not traded in a market);
- information on the degree and tendency to breaches of contracts for similar financial instruments by the issuer or the borrower.

Impairment losses in financial assets carried at amortized cost are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the financial asset.

The Bank does not recognise impairment losses at initial recognition of financial assets.

If the Bank 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. For the purposes of a collective assessment 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 within a group of financial assets to be collectively assessed for impairment are estimated on the base of the contractual cash flows related to these assets and on the base of the historical loss experience and on the possibility to recover the past-due debts.

The historical loss experience is adjusted on the basis of relevant observable data that reflect current economic conditions that have not affected the prior periods or to remove the past effects.

Impairment losses either increase directly carrying amount of a financial asset or are recognised through an allowance amount to write down the asset's carrying amount to the present value of expected cash flows (which excludes future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

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

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

After the adjustment due to impairment to the recoverable amount, the interest income is based on the interest rate that was used to discount the future cash flows in order to determine the impairment loss.

Uncollectable financial assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

A new asset is initially recognized at fair value if the reviewed conditions considerable differ from the prior ones when these with regard to impaired financial assets are introduced.

Impairment losses on available-for-sale financial assets are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the available-for-sale financial assets.

A considerable or prolonged decrease in fair value of an equity security designated as available for sale below its acquisition cost indicates its impairment. In case of impairment indication, the cumulative loss defined as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss is reclassified out of other components of comprehensive income into profit or loss. Impairment losses of debt instruments are not reversed through profit or loss; an increase in fair value after impairment is recognised in other components of comprehensive income of the statement of comprehensive income.

Debt instruments classified as available-for-sale assets are assessed for impairment on the same basis ("loss events") as for financial assets carried at amortized cost. The loss amount to be reclassified into profit or loss is the difference between the purchase price of the asset (less principle payments and amortization of assets evaluated by effective interest method) and the current fair value less the impairment loss related to the asset that have been recognized in profit or loss.

Interest earned on impaired assets are based on the amortized costs including impairment loss recognized using the interest rate applied for discounting future cash flows for purposes of impairment loss assessment. Interest income is recognized against "Interest income" of the statement of 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 recognized in profit or loss, the impairment loss is reverse, with the amount of the reversal recognized in profit or loss.

Derecognition of financial assets

The Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- the Bank transfers the financial asset and the transfer qualifies for derecognition.

The Bank transfers a financial asset if:

- the Bank transfers the contractual rights to receive the cash flows of the financial asset; or
- the Bank retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

Cash and cash equivalents

Cash and cash equivalents include cash balances, accounts balances in current accounts of the banks and high-liquid easily convertible cash equivalents liable to insignificant cost changes. All short term interbank placements, beyond overnight placements, are included in due from other credit organizations and banks-non-residents (banks). Funds restricted for a period of more than three months are excluded from cash and cash equivalents.

Due from the Central Bank of the Russian Federation

Due from the Central Bank of the Russian Federation are carried at amortized cost and represent non-interest bearing deposits of the Bank of Russia which are not available to finance the Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Financial assets at fair value through profit or loss

The Bank designates financial assets at fair value through profit or loss when these are financial assets held for trading or other financial assets initially classified as financial assets at fair value through profit or loss.

A financial assets is designated as held for trading if it is acquired for being traded in the nearest future (within six months) and is a part of identified financial instruments to be managed on comprehensive basis and which recent transactions evidence actual profitability. Derivatives with positive fair value are also classified as financial assets at fair value through profit or loss, held for trading if they are not designated as effective hedging instruments.

Initially and consequently financial assets at fair value through profit or loss are recorded at fair value that is based on quoted market prices or on the basis of different valuation techniques using an assumption on profitability to realize these financial assets in the future.

Depending on circumstances, different valuation techniques can be applied. Available published quoted market prices are the best basis for the fair value of an instrument. When quoted market prices are not available, techniques related to the information on recent market transactions between knowledgeable willing and independent parties or to current fair value of similar instruments or to analysis of the discounted cash flow, or model for option price measurement are used. When a reliable valuation technique widely used by the market participants is available, it is advisable to apply such a technique.

Realized and unrealized income and expenses of transactions with financial assets at fair value through profit and loss to be recorded immediately at the period when they occur as income less transaction costs related to financial assets at fair value through profit or loss.

Interest income from financial assets at fair value through profit and loss is calculated by effective interest method and is recorded in the income statement as interest income from financial assets at fair value through profit and loss. Under usual payment conditions, purchase and sale of financial assets at fair value through profit or loss are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset.

Dividends received are recorded in line "Income from dividends" in the income statement within operating income.

The Bank classifies financial assets at fair value through profit and loss in the appropriate category at the acquisition date. Financial assets classified as financial assets at fair value through profit and loss are not to be reclassified.

Due from other banks

Amounts due from other banks are recorded when the Bank (including the Bank of Russia) advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

The funds placed at other banks are recognised when cash is given (placed). Current loans and deposits are initially measured at fair value. Subsequently, loans and deposits placed are carried at amortized cost less the provision for loan impairment. The amortised cost is based on fair value of the loan granted or deposit placed that is measured with consideration of market interest rate of similar loans and deposits at the dates when loans are provided or deposits are placed.

The difference between the fair and par values of the loan (deposit) arising at granting a loan (placing a deposit) is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans (deposits) will be adjusted by amortization of income (expense) from the loan and the correspondent income is recorded in the income statement using the effective interest method.

Section Impairment of Financial Assets details the order of impairment of financial assets.

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
b) those that the entity upon initial recognition designates as available for sale; or
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Initial recognition of loans and receivables is carried at fair value plus transaction costs (i.e. the fair value of the consideration paid or received).

Subsequent measurement of loans and receivables is carried at amortized cost using the effective interest method.

Loans and receivables are recognised when cash is provided to borrowers. Interest-bearing loans other than market interest rates are measured at payment date at fair value that is the principle and future interest payments discounted by interest market rates for similar loans.

The difference between the fair and par values of the loan is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans will be adjusted by amortization of income (expense) from the loan and the correspondent income is recorded in the income statement using the effective interest method.

Section Impairment of Financial Assets details the order of impairment of financial assets.

Promissory notes purchased

Promissory notes purchased are classified according to purpose of their acquisition as financial assets at fair value through profit or loss, financial assets held-to maturity, loans and receivables, financial assets available-for-sale and subsequently recognised in accordance with the accounting policies for these categories of assets.

Held-to-maturity financial assets

This category includes financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank classifies financial assets at the acquisition date. The Bank assesses its intention and ability to hold the financial assets to maturity at every reporting date but not only at the initial recognition date of such financial assets.

Initially financial assets held-to-maturity are carried at fair value plus transaction costs and subsequently – at amortized cost using the effective interest method less provision for impairment which is the difference between the carrying amount and the current cost of estimated future cash flows discounted by original effective interest method.

Interest income from financial assets held-to-maturity is calculated by effective interest method and is recorded in the income statement as interest income for financial assets held-to-maturity.

Property and equipment

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

The Bank assesses any indication of impairment of property and equipment at every reporting date. In the event such indication exists, the Bank measures recoverable cost as the higher of fair value less selling costs and value in use.

Value in use is the present value of the future cash flows expected to be derived from assets. Estimating the value in use involves estimating the future cash flows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows.

In the event the carrying amount of the property and equipment exceeds its estimated recoverable cost, the carrying amount of the property and equipment is reduced to its recoverable cost, and the difference is recorded in the profit or loss as an expense from impairment of property and equipment unless property and equipment are carried at revalued amount (for example, at revaluation model under IAS 16 *Property, Plant and Equipment* (IAS 16). Any impairment loss of a revalued asset is treated as a revaluation decrease. Impairment losses recognised for property and equipment in prior years are reversed if estimated used to determine recoverable amount of property and equipment have been changed.

Gain or loss from disposal of property and equipment is the difference between disposal gains and carrying amount of property and equipment disposal and is recognised in profit or loss.

Costs of repairs and maintenance are recorded in the income statement when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

Depreciation

Depreciation is charged on a straight-line basis over the useful life of assets with depreciation rates set out in Resolution of the Russian Federation Government of 1 January 2002 No 1 *Classification of Property, Plant and Equipment Included in Depreciable Groups.*

Property and equipment	***Straight-line annual depreciation rate***
Group 3. Computers and equipment, motor vehicles	32,40%
Group 4. Tele- and radio-equipment, furniture and fixtures	19,7%-14,3%
Group 5. Telephone station, resources of power supply	14%-10%
Group 8. Metal equipment for safety of valuables	5%

Depreciation method applied to an asset shall be reviewed at each financial year end. Any significant change in depreciation approach shall influence the depreciation method of the asset. This change shall be recorded as a change in accounting estimated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8).

Depreciation is recognized even if the fair value of an asset exceeds its carrying amount under condition its residual value does not exceed its carrying amount. Repair and maintenance of an asset do not exclude the need to depreciate it.

Depreciation is recognized when an asset is available for use i.e. when its location and condition enable the Bank to use it in accordance with its intentions. Depreciation is derecognized at the earlier of the dates: the date when the asset is classified as held for trading (or its inclusion in a disposal group) or at the date when the asset is derecognized.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical form. An intangible assets acquired separately is measured initially at cost. If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. Subsequently intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are finite. Intangible assets with finite useful lives are amortized over their useful lives up to 10 years and are tested for impairment if there is an indication of impairment.

Amortization periods and order for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Change in estimated useful lives or estimated nature of use and inflow of future economic benefits is recorded through changes in amortisation period or method (depending on the situation) and is regarded as changes in accounting estimates. Amortization of intangible assets with a finite useful life are recorded among expenses of the income statement based on the intended use of the intangible asset. Intangible assets with an infinite useful life are not amortized. The company tests an intangible asset with an indefinite useful life for impairment either separately or by cash-generating units.

Otherwise indefinite useful lives are prospectively changed into finite ones. Acquired software licences are capitalised based on costs incurred to acquire and install the software.

Research costs directly attributable to identifiable software under the Bank' control and which economic benefits over the costs are probable to flow to the Bank during the period over one year.

Capitalised costs include expenditure for developers of software and correspondent share of general economic expenditure. Expenditure to improve or develop features of software compared to their initial specifications are capital expenditure and capitalized to the software. Costs to use the software are recorded in expenses when they incur.

Operating leases

Where the Bank is a lessee in an operating lease, the total lease payments are recorded in the income statement on a straight-line basis over the period of the lease.

Leases included in other contracts are separated if contract execution depends on use of the asset(s) and the contract provides for title transfer of the asset.

Finance leases

When the Bank is a lessor and all risks and rewards are transferred to the lessee, assets held under a finance lease are presented as a receivable and are stated at present value of future lease payments. Receivables under a finance lease are initially recognised at the commencement of the lease term with use of a discount rate determined at the inception of the lease (the inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

Unearned finance income is the difference between the gross investment in the lease and the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Additional costs in connection with arranging a finance lease are included in the original receivable under the finance lease and decrease income recognizable over the lease period (except for certain Bank's subsidiaries that are manufacturer or dealer lessor (where such costs are recognised as an expense when the selling profit is recognised and in case of immediate non-cash sale). Finance income from lease is recorded as other operating income in the income statement.

Impairment losses on receivables under a finance lease are recognized in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the receivable under a financial lease. The Bank applies the key criteria set out in Impairment of Financial Assets to determine whether receivables under a finance lease are impaired. Impairment losses of receivables under a finance lease are recognised through making a provision for impairment of receivables under a finance lease in the amount of the difference between the net carrying amount of the receivable under a finance lease and present value of estimated future cash flows (including future but not yet incurred losses) discounted by embedded contractual rate of return. Estimated future cash flows reflect cash flows that may arise from receiving or sale of an asset under a lease agreement.

Borrowings

Due to other banks include customers accounts, deposits and balances from banks (including the Bank of Russia) and other borrowed funds.

Due to other banks are initially recognized at fair value, which is the received amount less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(Hedge accounting principles are applied with regard to deposits where risks are hedged by derivative financial instruments). Loans received with interest rates other than market are measured at acquisition date at fair value that includes the principal and the future interest payments discounted by market interest rates for similar amounts.

The difference between the fair and par value of these amounts is recorded in the income statement as income from due to other banks at rates lower than the market rates or as expense form due to other banks at rates higher than the market rates. Subsequently the carrying amount of due to other banks is adjusted by amortization of initial income (expense) from due to other banks and the correspondent expenses are recorded as interest expenses in the income statement using the effective interest method.

Trade and other payables

The Bank recognizes accounts payable upon fulfilling the liabilities by a contractor and carries them at amortized cost.

Credit related commitments

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of the unamortised balance of the amount at initial recognition and the best estimate of expenditure required to settle the commitment at the balance sheet date.

The Bank makes provisions for credit related commitments if losses arising from such commitments are probable.

Dividends

Dividends declared subsequent to the date of the statement of financial position are recognised in the note on events subsequent to the reporting date.

If dividends are declared to equity instruments holders after the reporting period, such dividends are not recognised as liabilities at the end of the reporting period.

Dividends are recognised when approved by a general shareholders' meeting and disclosed as profit distribution in the financial statements.

Income and expense recognition

Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not classify commitments to originate loans as financial liabilities at fair value through profit or loss.

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

Other fee and commission income and other income and expenses are 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.

Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities are recorded upon completion of the transaction. Fee and commission income from investing portfolio management and other management and consulting services are recorded under provisions of relevant services contracts as a rule on a ratio basis to time consumed. Commission income from services related to management of assets (trusting management) is recorded under the provisions of the contract at the date when the Bank receives the right to receive this income and the income amount can be measured.

Income from long-term services is recognized every reporting period on proportion basis of the services provided. The same technique refers to services related to asset management, financial planning and depository services which are regularly provided during a long period of time.

Income tax

The taxation charge is calculated in accordance with the laws and regulations of the Russian Federation. Income tax (recovery) in the income statement includes current taxes and changes in deferred taxes.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Taxes, other than income tax, are recorded within administrative and other operating expenses.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements.

Deferred tax assets and deferred tax liabilities are measured at the amount of the recognized temporary difference multiplied by the tax rate that is expected to apply in the period in which the asset will be realized using the tax rates enacted, or substantively enacted, at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- for taxable temporary differences associated with investments in subsidiaries, branches and associates, the timing of the reversal of the temporary difference is controllable, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences except:

- When the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- for deductible temporary differences associated with investments in subsidiaries, branches and associates, a deferred tax asset is recognised to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred taxes arising at revaluation at fair value of available-for-sale financial assets, property and equipment with recognition of the revaluation in other components of comprehensive income are also recognised in the statement of comprehensive income. Correspondent deferred taxes are recognised in profit or loss when the financial assets are sold.

The Bank offsets deferred taxes and deferred liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same organization - tax payer of the Bank or taxation authority.

Foreign currency translation

Items included in the financial statements of the Bank are measured in a currency of primary economic environment where the Bank functions ("functional currency"). Functional currency of the Bank is the national currency of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Foreign currency operations are recognised at the official rate of the a foreign currency against the Rouble set by the Bank of Russia at the transaction date.

Exchange differences arising from transaction in a foreign currency at a rate other than the official rate of the foreign currency against the Rouble established by the Bank of Russian shall be recognised in profit or loss item income less expenses on foreign currency operations.

Monetary assets and liabilities in foreign currencies are translated into the Russian Roubles at the official exchange rate of the Bank of Russia at the balance sheet date.

Foreign exchange gains and losses from conversion of monetary assets and liabilities into the functional currency at the Bank of Russia official rate of the foreign currency against the Russian Rouble are recognised in item Income Less Expenses (Expenses Less income) on Foreign Currency Conversion of the profit and loss. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Statements of comprehensive income and of cash flows of foreign entities are translated in the currency of the Russian Federation at the average official rate of a foreign currency against the rouble set by the Bank of Russia for the year; statements of financial position are translated into the currency of the Russian Federation at the official rate of a foreign currency against the Rouble set by the Bank of Russian at the reporting date.

Exchange differences arising due to translation of net investments in foreign entities into the currency of the Russian Federation are recognised in equity. When a foreign entity is sold, such exchange differences are recognised as income or expense within profit or loss.

As at 31 December 2014, the official rates of foreign currencies against the Rouble set by the Bank of Russian used for revaluation of foreign currency balances are as follows: RUR 56.2584 per USD 1 (2013: RUR 32.7292 per USD 1); RUR 68.3427 per EUR 1 (2013: RUR 44.9699 per EUR 1).

Inflation accounting

Prior to 31 December 2002 the Russian Federation was considered to be hyperinflationary. Thus the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29). The effect of IAS 29 is that all non-monetary items of financial statements including components of capital to be restated in monetary units effective on 31 December 2002 using the relevant inflation rates to the historical cost and in the subsequent period to perform accounting on the basis of this restated cost.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency (before 2004 - Russian State Statistics Committee), and from indices obtained from other sources for years prior to 1992.

Estimated liabilities

Estimated liabilities are uncertain non-financial liabilities as for the volume and terms.

Estimated liabilities are recognized when the Bank has obligations (legal or due to business practice) arisen prior to the balance sheet date. To settle these liabilities, outflow of economic resources is probable and the amount of the liabilities to be reasonable measured.

Staff costs and related contributions

Expenses related to salary, wages, bonuses, vacation payments, contributions to the Russian Federation Pension Fund and Russian Federation Social Fund are made when works are performed; expenses related to temporary disability, maternity leave and other incentives are made when they occur.

The Bank takes the responsibility for payments related to leaves that the Bank's employees have not used. Such responsibilities are presented in the statement of financial position in line Other Liabilities and in profit or loss with regard to vacations to be during the reporting period and in retained earnings with regard to vacations to be during the periods prior to the reporting.

Related party transactions

The Bank enters into transactions with related parties. Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank recognises assets under an operating lease based on the asset's nature in the statement of financial position. Lease income under an operating lease is recognised on a straight-line basis in the statement of comprehensive income over the lease period among other operating income. Total incentives provided to lessees are recognised on a straight-line bases as reduction in lease income over the lease term.

5. Cash and cash equivalents

	2014 RUR'000	2013 RUR'000
Cash balances with the CBRF (other than mandatory reserve deposits)	252 541	241 813
Cash on hand	130 104	155 184
Correspondent accounts and overnight placements with other banks:		
- Russian Federation	83 824	89 372
- other countries	26 977	444 968
Total cash and cash equivalents	**493 446**	**931 337**

For the purposes of the statement on cash flows the cash and equivalents exclude the interest accrued of RUR 18 thousand as at 31 December 2013.

6. Mandatory cash balances with the Bank of Russia

The amounts due from the Bank of Russia are reserves placed in the Bank of Russia. Loan institutions are obliged to deposit cash in the Bank of Russia as a non-interest bearing cash deposit (mandatory cash balances fund) the amount of which depends on the amount of the raised funds the loan institution. Withdrawal of this deposit is restricted by the legislation of the Russian Federation.

Due from the Bank of Russia as at 31 December 2014 amounted to RUR 89,910 thousand.

Due from the Bank of Russia as at 31 December 2013 amounted to RUR 82,029 thousand.

7. Financial assets at fair value through profit or loss

	2014 RUR'000	2013 RUR'000
Debt and other fixed-income instruments		
Federal loan bonds	-	-
Bonds issued by Russian banks	-	31 103
Corporate equity securities		

Corporate shares	-	144 157
Total financial assets at fair value through profit or loss (less revaluation)	-	**175 260**
Debt liabilities under repo transactions	-	554 477
Revaluation of debt liabilities and other instruments at fair value through profit or loss	-	(37 036)
Total	-	**692 701**

Due to the current situation in financial markets in accordance with Instruction of the Bank of Russia of 18 December 2014 No 3498-U *Reclassification of Securities*, the securities in the total amount of RUR 2,943,369 thousand have been reclassified out of fair value through profit or loss into available-for-sale financial assets in order to prevent losses.

At 31 December 2013

Bonds issued by Russian banks represent bonds of OAO Rosselkhozbank.

Corporate shares represent shares of Russian organizations and banks.

Debt liabilities under repo agreements represent bonds of Russian banks and bonds issued by the Russian Finance Ministry denominated in the currency of the Russian Federation. The debt liabilities under repo agreements mature on 09 January 2014.

8. Available-for-sale financial assets

	2014 RUR'000	2013 RUR'000
Corporate debt securities		
- Debt liabilities under repo transactions	2 591 685	-
- Federal loan bonds (OFZ bonds)	190 282	-
- Other debt securities	113 294	-
- Other stock and shares	48 108	-
Total available-for-sale non-current assets	**2 943 369**	**-**

At 31 December 2014

Debt liabilities under repo transactions comprise:

- corporate interest bearing eurobonds denominated in USD issued by VEB Finance plc, TMK Capital S.A, VEB FINANCE PLC, TMK CAPITAL S.A., RSHB CAPITAL S.A., RUSSIA-EUROBOND, ALFA BOND ISSUANSE PLC, SB CAPITAL S.A. with annual coupon income from 4.5% to 8.75% depending on issue and are freely tradable in the international markets.
- Russian municipal bonds of Krasnoyarskiy Krai and Republic of Komi and bonds of Nizhegoroskiy, Volgogradskiy, Samarskiy and Lipetskoy Regions denominated in Russian Roubles with annual coupon income from 5.5% to 11.5% depending on the issue;
- bonds of Russian credit organizations (Rosselkhozbank, Bank Zenit, Credit Europe Bank, Promsvyazbank, MDM bank) denominated in Russian Roubles with annual coupon interest from 7.7% to 11.25% depending on the issue.

Federal Loan Bonds are represented by securities OFZ 46017 to mature in August 2016, OFZ 26207 to mature in February 2027; and by external bonds RUSSIA-EUROBONDS to mature from April 2020 to April 2022 depending on the issue.

Other debt securities are represented by securities TMK CAPITAL S.A. and OFSB CAPITAL denominated in USD.

Equity securities in the Bank's portfolio are represented by shares of Russian companies of fuel and energy complex (OAO Gazprom, OAO Raspadskaya, OAO INTER RAO UES) and shares of OAO Rostelecom.

9. Due from other banks and financial institutions

	2014 RUR'000	2013 RUR'000
Nostro accounts	1 156	1 114
Term inter-bank loans and deposits	-	-
Banks promissory notes	152 268	151 973
Other accounts	5 122	8 706
Less provision for impairment	(1 156)	(1 114)
Total due from other banks	**157 390**	**160 679**

As at 31 December 2014, promissory notes are represented by three promissory notes of credit organizations issued on 13 November 2014 with interest rate of 11.5% to mature on 13 February 2015.

As at 31 December 2014, the Bank has no deposits exceeding 10% of the Bank's equity.

As at 31 December 2013, the Bank has no deposits exceeding 10% of the Bank's equity.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 24, 30-31.

10. Loans and receivables.

	2014 RUR'000	2013 RUR'000
Current loans	9 998 291	8 426 200
Past due loans	103 552	62 726
Less provision for loans and receivables impairment	(1 980 925)	(1 659 241)
Total loans and receivables	**8 120 918**	**6 829 685**

Credit quality of commercial loan portfolio of the Bank

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2014:

Categories:	**Corporations**	**Loans to small and medium entities**	**Loans to individuals**	**Total**
Quality category 1	-	-	117	**117**
Quality category 2	200 000	5 813 878	9 065	**6 022 943**
Quality category 3	200 000	3 108 758	3 023	**3 311 781**
Quality category 4	-	440 963	-	**440 963**
Quality category 5	-	323 348	2 691	**326 039**
Total	**400 000**	**9 686 947**	**14 896**	**10 101 843**

The following table provides credit quality of commercial loan portfolio of the Bank as at 31 December 2013:

Categories:	**Corporations**	**Loans to small and medium entities**	**Loans to individuals**	**Total**

Quality category 1	-	-	232	**232**
Quality category 2	400 000	5 333 476	4 959	**5 738 435**
Quality category 3	-	1 805 855	10 677	**1 816 532**
Quality category 4	-	885 668	-	**885 668**
Quality category 5	-	43 977	4 082	**48 059**
Total	**400 000**	**8 068 976**	**19 950**	**8 488 926**

The Bank estimates the amount of the provision for impairment of commercial loans on the basis of future discounted cash flows of impaired loans analysis and of past practice of losses incurred from loan portfolios impairment signs of which have not been revealed.

Collateral analysis

The following table provides collateral analysis for loans as at 31 December 2014:

Categories:	**Loans to small and medium entities**	**Loans to individuals**	**Total**
Securities	-	-	-
Guarantee	5 949 384	3 862	**5 953 246**
Legal claims	99 121	-	**99 121**
Real estate	130 805	-	**130 805**
Goods in circulation	31 556	2 630	**34 186**
Other	59 957	-	**59 957**
Other	7 601	-	**7 601**
Total	**6 278 424**	**6 492**	**6 284 916**

The following table provides collateral analysis for loans as at 31 December 2013:

Categories:	**Loans to small and medium entities**	**Loans to individuals**	**Total**
Securities	-	-	-
Guarantee	4 950 050	52 454	**5 002 504**
Legal claims	111 968	-	**111 968**
Real estate	45 145	-	**45 145**
Goods in circulation	238 496	-	**238 496**
Other	41 505	-	**41 505**
Other	12 423	-	**12 423**
Total	**5 399 587**	**52 454**	**5 452 041**

The amounts stated above in the tables are not represented by the fair value in all cases.

Analysis of movements in the provision for impairment

Movements in the provision for loan impairment are as follows:

	2014 RUR'000	**2013 RUR'000**
Provision as at the beginning of the year	**(1 659 241)**	**(1 186 489)**
Provisions made during the year, net	(321 684)	(472 752)
Provision as at the end of the year	**(1 980 925)**	**(1 659 241)**

Concentration analysis

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

	2014 RUR'000		2013 RUR'000	
	Amount	%	Amount	%
Trade	8 629 654	85,43%	7 261 369	85,54%
Individuals	14 896	0,15%	19 950	0,24%
Construction	779 219	7,71%	678 920	8,00%
Transactions with real estate	-	-	-	-
Vehicles	-	-	-	-
Other services	678 074	6,71%	528 687	6,22%
Total loans and receivables (before provision for impairment of loan portfolio)	**10 101 843**	**100%**	**8 488 926**	**100%**

Significant loan concentrations

As at 31 December 2014 the Bank provided no loans with 10% share of the comprehensive loans to customers.

Loan maturities

The Bank's portfolio maturities are presented in Note 30. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

11. Property and equipment

	Buildings	Office equipment and furniture	Vehicles	Intangible assets	Total
Carrying amount as at 31 December 2013	2 018	300	5 130	-	7 448
Cost					
Opening balance	2 163	4 998	16 242	15	**23 418**
Additions	-	273	-	53	**326**
Disposals	-	(754)	-	-	**(754)**
Closing balance	**2 163**	**4 517**	**16 242**	**68**	**22 990**
		4 998			
Accumulated depreciation					
Opening balance	(145)	(4 698)	(11 112)	(15)	**(15 970)**
Depreciation charges	(82)	(585)	(2 254)	-	**(2 921)**
Disposals	-	754	-	-	**754**
Closing balance	**(227)**	**(4 529)**	**(13 366)**	**(15)**	**(18 137)**
Carrying amount as at 31 December 2014	**1 936**	**12**	**2 876**	**53**	**4 853**

12. Other assets

	2014 RUR'000	2013 RUR'000
Settlements on conversion operations	218 509	656 837
Receivables and prepayments	4 339	4 854
Taxes prepaid	12 516	3 020

Materials	-	-
Cash in stock exchange	-	-
Other	6 906	1 300
Less provision	(218)	(1)
Total other assets	**242 052**	**666 010**

Currency and maturity analyses of other assets are disclosed in Note 30-31.

13. Due to other banks and financial institutions

	2014 RUR'000	2013 RUR'000
Correspondent accounts and demand deposits of other banks	16	4 296
Other loans attracted	-	-
Total due to other banks	**16**	**4 296**

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 24, 30-31.

14. Current accounts and deposits from customers

	2014 RUR'000	2013 RUR'000
Legal entities		
Current/settlement accounts of commercial organizations	857 795	1 260 544
Term deposits	655 807	1 154 729
Individuals		
Current/demand accounts	421 775	379 304
Term deposits	6 134 470	4 267 355
Total concentrations of current accounts and customer deposits	**8 069 847**	**7 061 932**

Economic sector concentrations within customer accounts are as follows:

	2014 RUR'000		2013 RUR'000	
	Amount	**%**	**Amount**	**%**
Individuals	6 556 245	81,24%	4 646 659	65,80%
Construction	531 401	6,58%	823 556	11,60%
Financial services	64 348	0,81%	408 698	5,80%
Trade	205 570	2,55%	363 669	5,20%
Computers and technologies	272 965	3,38%	278 324	3,90%
Education	194 637	2,41%	148 121	1,90%
Real estate	137 146	1,70%	117 019	1,60%
Other services	87 167	1,08%	56 452	1,10%
Other	20 368	0,25%	219 434	3,10%
Total concentrations of current accounts and customer deposits	**8 069 847**	**100,00%**	**7 061 932**	**100,00%**

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

15. Debt securities issued

	2014 RUR'000	2013 RUR'000
Promissory notes	30 472	34 977
Savings certificates	96 221	10 227
Total promissory notes issued	**126 693**	**45 204**

As at 31 December 2014, debt securities issued by the Bank include own promissory notes of RUR 28,334 thousand denominated in Russian Roubles to mature from February 2015 to October 2015 with interest rate from 6.5% to 9.5% with regard to promissory notes; and savings certificates of RUR 89,420 thousand denominated in Russian Roubles with interest rate from 9% to 11% p.a. to mature in 2015.

As at 31 December 2013, debt securities issued by the Bank include promissory notes of RUR 32,372 thousand denominated in Russian Roubles and EUR. The promissory notes mature from December 2013 to December 2014, interest rates are from 4.5% (for EUR-denominated promissory notes) to 9.0% (for RUR-denominated promissory notes).

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 24, 30-31. The information on related party balances is disclosed in Note 32.

16. Payables under repo transactions

	2014 RUR'000	2013 RUR'000
Trade and other payables	2 099 716	488 546
Total	**2 099 716**	**488 546**

Refer to Notes 7-8 for more details on repo transactions.

17. Subordinated borrowing

As at 31 December 2014 and 31 December 2013, the Bank attracted borrowings in USD in the form of a subordinated borrowing of USD 8.000 thousand (equivalent to RUR 450,067 thousand). The subordinated borrowing agreement was entered into in 2007 for the period of 15 years.

	2014 RUR'000	2013 RUR'000
Carrying amount at 01 January	262 323	243 441
Effect of changes in foreign exchange rates	187 744	18 393
Accrued interest expense less repaid interest expense	839	489
Total	**450 906**	**262 323**

18. Other liabilities

Other liabilities include:

	2014 RUR'000	2013 RUR'000
Conversions and term transactions	218 457	657 082
Compensation for unused leave	5 616	5 687
Trade and other payables	1 236	1 040
Tax payable	1 151	977
Dividends payable	1	61
Deferred income	19 219	2 039
Other liabilities	1 353	1 000

Total	**247 032**	**667 886**

Currency and maturity analyses of other liabilities are disclosed in Note 30-31.

19. Share capital

The authorised, issued and fully paid share capital include the elements as follows:

	2014			2013		
	Number of shares	Par value	Inflation adjusted amount	Number of shares	Par value	Inflation adjusted amount
Ordinary shares	502 563 280	502 563	687 040	502 563 280	502 563	687 040
Total share capital	502 563 280	502 563	687 040	502 563 280	502 563	687 040

Retained earnings at 31 December 2014 amounted to RUR 181,955 thousand.
Retained earnings at 31 December 2013 amounted to RUR 109,965 thousand.

20. Interest income and expense

	2014 RUR'000	2013 RUR'000
Interest income		
Loans and receivables	1 085 546	865 595
Financial assets at fair value through profit or loss	87 460	36 830
Due from other banks	25 126	33 641
Available-for-sale financial assets	-	5 314
Other interest income	6 038	1 616
Total interest income	**1 204 170**	**942 996**

	2014 RUR'000	2013 RUR'000
Interest expense		
Current accounts and deposits from customers	(430 896)	(423 407)
Term deposits of banks and other financial institutions	(75 201)	(23 256)
Promissory notes issued	(9 677)	(4 352)
Other interest expenses	-	2 391
Total interest expense	**(515 774)**	**(448 624)**
Net interest income	**688 396**	**494 372**

As at 31 December 2013, other interest expense are represented by a reverse entry of 2012.

21. Fee and commission income and expense

	2014 RUR'000	2013 RUR'000
Fee and commission income		
Commission on settlement transactions	54 484	55 636
Commission on conversion transactions	29 594	24 936
On transactions with plastic cards	31 647	23 275
Commission on currency control	1 995	6 773

Commission on guarantees issued	2 541	928
Commission on other transactions	421	515
Commission on other transactions	**120 682**	**112 063**
Fee and commission expense		
Commission on cash transactions	(29 363)	(23 060)
Commission on settlement transactions	(2 523)	(2 810)
Commission on other transactions	(1 667)	(1 193)
Total fee and commission expense	**(33 553)**	**(27 063)**
Net fee and commission income	**87 129**	**85 000**

22. General and administrative expenses

	2014 RUR'000	2013 RUR'000
Staff costs	(85 101)	(79 942)
Property insurance	(23 756)	(21 005)
Rent	(5 710)	(5 641)
Professional services	(3 370)	(3 263)
Taxes other than on income	(3 313)	(4 586)
Communication services	(3 337)	(3 260)
Depreciation of property and equipment	(2 921)	(2 880)
Maintenance of premises; security	(10 824)	(2 976)
Expenses from service of P&E	(2 045)	(2 285)
Other	(10 721)	(10 174)
Total administrative and other operating expenses	**(151 098)**	**(136 012)**

23. Income tax

Income tax expense comprises the following:

	2014 RUR'000	2013 RUR'000
Current income tax (expenses)/recovery	(4 498)	(13 200)
Deferred income tax expense	(148 438)	(2 402)
Plus deferred tax liability/asset of prior period	2 402	14 281
Plus deferred tax liabilities of prior years written off during the reporting period	-	-
Income tax (expense) / recovery for the year	**(150 534)**	**(1 321)**

The income tax rate applicable to the majority of the Bank's income is 20% (2013: 20%).

The Bank's current activities and balances in the balance sheet items give rise to certain temporary differences between current amounts of some assets and liabilities with the purposes of preparing financial statements and taxation purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20%. Due to this the income tax rate was adjusted as at 31 December 2014 and at 31 December 2013.

24. Risk management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operating risks and legal risks. The primary objectives of the financial risk management function are to set risk limits, and then ensure that exposure to risks retains within these limits. The assessment of the risk is the basis for optimal allocation of capital including risks, transaction pricing and performance assessment. The operating and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to mitigate operating and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The bank monitors such risks on a regular basis; the limits are reviewed annually as a minimum. Limits of credit risks by products, borrowers and groups of borrowers are approved by the Management Board and Board of Directors.

Risk of one borrower including banks and broker companies are subject to additional limits that cover balance and off-balance risks. Limits on the level of the accepted risk are actually monitored on a daily basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Beside that, exposure to credit risk is also mitigated by obtaining collateral of property and securities, corporate and personal guarantees.

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

The Bank analyses loans by maturity and further aging.

The Bank is exposed to repayment risk at the expense of loans with a fixed or flexible interest rate. The Bank's financial performance and equity for the current year and as at the current balance sheet date would not have significantly depend on changes in the rates at early repayment as such loans are carried at amortized cost and the repayment amount corresponds or almost corresponds to the amortized cost of loans to customers.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Management Board of the Bank sets limits on the level of exposure and Department for Financial Planning and Risk Control monitors their compliance on a daily basis.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Market risk management is aimed at managing and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Market risk assessment is performed in accordance with the requirements of Resolution of the Central Bank of Russian of 28 September 2012 No 387-P Order of Assessing Market Risk by Credit Institutions.

Geographical risk

Geographical risk analysis enables to consider the concentration of the Bank's assets and liabilities by country characteristics. Namely, most of them are referred to funds placed in the Russian Federation.

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

	Russia	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	466 470	23 683	3 293	**493 446**
Due from the Bank of Russia	89 910	-	-	**89 910**
Due from banks and other financial institutions	157 390	-	-	**157 390**
Financial assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	2 943 369	-	-	**2 943 369**
Loans and receivables	8 120 918	-	-	**8 120 918**
Property and equipment	4 853	-	-	**4 853**
Other assets	242 052	-	-	**242 052**
Total assets	**12 024 962**	**23 683**	**3 293**	**12 051 938**
Liabilities				

Placements from banks and other financial institutions	16	-	-	**16**
Current accounts and deposits from customers	7 997 491	68 466	3 890	**8 069 847**
Debt securities issued	126 693	-	-	**126 693**
Subordinated borrowing	-	-	450 906	**450 906**
Other liabilities	247 032	-	-	**247 032**
Payables under repo transactions	2 099 716	-	-	**2 099 716**
Deferred tax liability	148 438	-	-	**148 438**
Total liabilities	**10 619 386**	**68 466**	**454 796**	**11 142 648**
Net gap	**1 405 576**	**(44 783)**	**(451 503)**	**909 290**

The geographical concentration of the Bank's assets and liabilities at 31 December 2013 is set out below:

	Russia	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	486 370	444 967	-	**931 337**
Due from the Bank of Russia	82 029	-	-	**82 029**
Due from banks and other financial institutions	160 679	-	-	**160 679**
Financial assets at fair value through profit or loss	692 701	-	-	**692 701**
Loans and receivables	6 829 685	-	-	**6 829 685**
Property and equipment	7 448	-	-	**7 448**
Other assets	666 010	-	-	**666 010**
Total assets	**8 924 922**	**444 967**	**-**	**9 369 889**
Liabilities				
Placements from banks and other financial institutions	2 831	-	1 465	**4 296**
Current accounts and deposits from customers	6 999 531	53 592	8 809	**7 061 932**
Debt securities issued	45 204	-	-	**45 204**
Subordinated borrowing	-	-	262 323	**262 323**
Other liabilities	667 886	-	-	**667 886**
Payables under repo transactions	488 546	-	-	**488 546**
Deferred tax liability	2 402	-	-	**2 402**
Total liabilities	**8 206 400**	**53 592**	**272 597**	**8 532 589**
Net gap	**718 522**	**391 375**	**(272 597)**	**837 300**

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

The Bank is exposed to interest rate primarily as a result of granting loans at fixed interest rates and for periods other than periods of receiving loans at fixed rates.

In practice, interest rates are set for a short period of time. Besides interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors of the Bank sets limits on the level of mismatch of interest rate reprising that may be undertaken. Department for Financial Planning and Risk Control monitors compliance with the limits on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

Interest rate risk	2014	2013
	Net income/ Equity	Net income/ Equity
100 basic points upward parallel shift	(19 492)	(7 414)
100 basic points downward parallel shift	19 492	7 414

The Bank monitors interest rates for financial instruments. The table below presents interest rates based on reports analysed by the key management of the Bank as at 31 December 2014:

	RUR	USD	EUR
Assets			
Due from other banks	0,00%	0,00%	-
Loans to customers	13,43%	9,00%	9,00%
Available-for-sale financial assets	7,72%	6,47%	-
Financial assets at fair value through profit or loss	-	-	-
Liabilities			
Deposits of other legal entities	6,74%	3,00%	3,50%
Deposits of individuals	12,99%	5,10%	5,02%
Debt securities issued	10,00%	-	-
Subordinated borrowing	-	5,23%	-

The table below presents interest rates as at 31 December 2013:

	RUR	USD	EUR
Assets			
Due from other banks	8,00%	-	0,13%
Loans to customers	13,00%	9,40%	9,30%
Available-for-sale financial assets	-	-	-
Financial assets at fair value through profit or loss	-	7,70%	-
Liabilities			
Deposits of other legal entities	6,59%	6,00%	4,00%
Deposits of individuals	9,90%	4,75%	4,25%
Debt securities issued	9,00%	-	4,50%
Subordinated borrowing	-	5,24%	-

Foreign exchange risk

The Bank provides loans denominated in foreign currencies. Depending on cash flows received by borrower, increase in foreign currency rates to the currency of the Russian Federation may adversely affect the borrowers' repayment ability and incurrence of loan losses.

The following table provides movement of the financial performance and equity resulted from likely changes in exchange rates applied at the reporting date with other variables unchanged.

	2014	2013
	Effect on profit or loss	Effect on profit or loss
30% appreciation of USD	202 345	321 578
30% depreciation of USD	(202 345)	(321 578)
30% appreciation of Euro	131 371	394
30% depreciation of Euro	(131 371)	(394)

Liquidity risk.

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk management is the responsibility of Department for Financial Planning and Risk Control of the Bank.

The Bank seeks to actively support stable funding base comprising due from other banks, corporate deposits of legal entities, placements from individuals and debt securities accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank regularly maintains liquidity management through liquidity analysis of assets with the objective of ensuring that funds will be available to honour obligations as they become due; that certain plans to recover unfavourable financial position exist; that control over balance liquidity ratios are adhered to the regulations. The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia.

Department for Dealing and Inter-bank crediting and Department for Securities ensure an adequate portfolio of short-term liquid assets mainly containing short-term liquid trading securities, deposits in banks and other inter-bank instruments in order to maintain a sufficient liquidity in the Bank in general.

The daily liquid position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by Department for Financial Planning and Risk Control.

The table below shows liabilities as at 31 December 2014 by their remaining contractual maturity. The amounts represent contractual undiscounted cash flows. These undiscounted cash flows differ from the statement of financial position amounts as the amounts are based on the discounted cash flows.

When the amount payable is not fixed, the sum in the table is based on the conditions valid at the balance sheet date. Currency amounts are recalculated at the spot exchange rate at the reporting date.

The table below provides for analysis of the Bank's financial liabilities by maturity as at 31 December 2014:

	Demand and less than 1 month	**1 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Due to other banks	16	-	-	-	**16**
Current accounts and deposits from customers	1 436 706	3 170 519	3 754 478	1 855	**8 363 558**
Payables under repo transactions	2 099 716	-	-	-	**2 099 716**
Debt securities issued	2 021	121 078	6 927	-	**130 026**
Other liabilities	227 264	1 241	18 481	46	**247 032**
Subordinated borrowing	-	-	-	625 864	**625 864**
Deferred tax liability	148 438	-	-	-	**148 438**

Total liabilities	**3 914 161**	**3 292 838**	**3 779 886**	**627 765**	**11 614 650**

The position of the Bank as at 31 December 2013 was as follows:

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Total
Due to other banks	4 296	-	-	-	**4 296**
Current accounts and deposits from customers	1 904 615	2 115 832	3 301 336	967	**7 322 750**
Payables under repo transactions	488 546	-	-	-	**488 546**
Promissory notes issued	55 135	6 930	12 316	-	**74 381**
Other liabilities	667 329	209	326	22	**667 886**
Subordinated borrowing	-	-	-	378 023	**378 023**
Deferred tax liability	2 402	-	-	-	**2 402**
Total liabilities	**3 122 323**	**2 122 971**	**3 313 978**	**379 012**	**8 938 284**

25. Capital management

The Central Bank of the Russian Federation sets and monitors the requirements to the capital level of the Bank.

The Bank designates the items as capital in accordance with the laws of the Russian Federation.

Currently, the Central Bank of the Russian Federation requires banks to keep the standard ratio of the capital to assets as risk weighted ("capital adequacy level") as higher of the minimum level. As at 31 December 2014 this minimum level amounts to 10 %. During 2014 and 2013, the adequacy level of the Bank was in accordance with the stated level.

26. Off-balance sheet commitments

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2014 RUR'000	2013 RUR'000
Contracted amount		
Loan and credit line commitments	19 407	40 925
Guarantees issued	7 783	32 456
Total	27 190	73 381

Many of these commitments may expire or terminate without being funded. Hence, the total outstanding contractual commitments indicated above do not necessarily represent future cash requirements.

27. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014 RUR'000	2013 RUR'000
Less than 1 year	3 395	450
Between 1 and 5 years	2 164	8 387
Total	**5 559**	**8 837**

The Bank leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

	2014 RUR'000	2013 RUR'000
The Bank recognised as an expense from operating leases in the profit and loss:	5 710	5 641

28. Commitments and Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

The Bank's management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

29. Fair value of financial instruments

Fair value is the amount for which as asset could be exchanged, or a liability settled, between knowledgeable, willing partied in an arm's length transaction except for the case of forced sale or liquidation. Fair value of financial instruments is best represented by a quoted market price of the financial market. As there is absence of the market for the majority of the Bank's financial instruments, in order to define their fair value the valuation that takes into account economic conditions and specific risks connected with a particular instrument should be resorted to. The valuations below may not coincide with the amount the Bank is able to receive if a certain portfolio is sold in the market.

The Bank adopts the following methods and assumptions upon measuring the financial instruments:

Financial instruments at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss, financial assets held for trading and held-to-maturity are carried in the statement of financial position at their fair value. For some financial assets available-for-sale, independent market quotations are not available. Fair value of such assets is based on recent sales of shares in companies that have been invested in by third parties, on analysis of other information such as discounted cash flows and financial information on other companies being invested in and on other measurement methods.

Due from other banks. Fair value of cash with floating rate is equal to its carrying amount. Estimated fair value of cash with fixed interest rate is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. In the Bank's opinion, the fair value of due from other banks as at 31 December 2014 and at 31 December 2013 did not significantly differ from their carrying amount. This is due to their short-term nature.

Loans to customers. Loans to customers are measured less impairment provision. Estimated fair value of loans to customers is the discounted amount of expected estimated future cash flows. Expected cash flows are discounted at current market rated to measure fair value. In the Bank's opinion, the fair value of loans to customers as at 31 December 2014 and at 31 December 2013 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

Due to other banks. The fair value of due to other banks to mature within one month is nearly equal to their carrying amount due to a considerably short period of maturity. Due to other banks to mature within periods over one month have a fair value of a present value of future cash flows discounted with market interest rate implicit in similar financial instrument. In the Bank's opinion, the fair value of due to other banks as at 31 December 2014 and at 31 December 2013 was insignificantly different from their carrying amount. It is explained by their considerably short maturities.

Customer accounts. The estimated fair value of customer accounts for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. In the Bank's opinion, the fair value of customer accounts as at 31 December 2014 and at 31 December 2013 was insignificantly different from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. As a result, interest for most balances is based on rates similar to market ones.

Debt securities issued. The estimated fair value of debt securities issued with a fixed interest is based on discounted cash flows using interest rates in the monetary market for instrument with similar level of credit risk and maturity date. For quoted debt securities issued, the fair value is based on quoted markets.

Other borrowings. The fair value of other borrowings with fixed interest rate and other raised funds for which a quoted market price is not available is based on discounted cash flows at interest rates with similar credit risk and maturity. The estimated fair value of the other borrowings of the Bank is approximately equal to the carrying amount since the instruments do not have quoted market prices, similar instruments and have been attracted with a flexible rate Libor+5%.

30. Maturity analysis

The contractual maturity of assets and liabilities analysis as at 31 December 2014 is set out below: Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	Demand and less than 1 month	**1 to 6 months**	**6 to 12 months**	**Over 1 year**	**Uncertain**	**Total**
Assets						
Cash and cash equivalents	493 446	-	-	-	-	**493 446**
Due from the Bank of Russia	-	-	-	-	89 910	**89 910**
Due from banks and other financial institutions	5 122	152 268	-	-	-	**157 390**

Financial assets at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	2 639 793	-	-	303 576	-	**2 943 369**
Loans to customers	2 619 213	3 270 109	3 052 744	1 159 777	-	**10 101 843**
Property and equipment	-	-	-	-	4 853	**4 853**
Other assets	238 464	1 249	648	1 852	57	**242 270**
Total assets	**5 996 038**	**3 423 626**	**3 053 392**	**1 465 205**	**94 820**	**14 033 081**
Liabilities						
Due to other banks	16	-	-	-	-	**16**
Current accounts and deposits from customers	1 436 064	3 111 009	3 521 150	1 624	-	**8 069 847**
Payables under repo transactions	2 099 716	-	-	-	-	**2 099 716**
Debt securities issued	2 010	118 089	6 594	-	-	**126 693**
Other liabilities	227 264	1 241	18 481	46	-	**247 032**
Subordinated borrowing	-	-	-	450 906	-	**450 906**
Deferred tax liability	148 438	-	-	-	-	**148 438**
Total liabilities	**3 913 508**	**3 230 339**	**3 546 225**	**452 576**	-	**11 142 648**
Net gap	**2 082 530**	**193 287**	**(492 833)**	**1 012 629**	**94 820**	**2 890 433**
Total gap for 31 December 2014	**2 082 530**	**2 275 817**	**1 782 984**	**2 795 613**	**2 890 433**	

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

	Demand and less than 1 month	1 to 6 months	6 to 12 months	Over 1 year	Uncertain	Total
Assets						
Cash and cash equivalents	931 337	-	-	-	-	**931 337**
Due from the Bank of Russia	-	-	-	-	82 029	**82 029**
Due from banks and other financial institutions	8 706	151 973	-	-	-	**160 679**
Financial assets at fair value through profit or loss	661 598	-	-	31 103	-	**692 701**
Available-for-sale financial assets	-	-	-	-	-	-
Loans to customers	271 037	3 757 576	2 511 538	289 534	-	**6 829 685**
Assets held for trading	-	-	-	-	-	-
Property and equipment	-	-	-	-	7 448	**7 448**

Other assets	661 259	1 442	1 446	1 863	-	**666 010**
Total assets	**2 533 937**	**3 910 991**	**2 512 984**	**322 500**	**89 477**	**9 369 889**
Liabilities						
Due to other banks	4 296	-	-	-	-	**4 296**
Current accounts and deposits from customers	1 903 736	2 077 647	3 079 646	903	-	**7 061 932**
Payables under repo transactions	488 546	-	-	-	-	**488 546**
Promissory notes issued	31 368	7 633	6 203	-	-	**45 204**
Other liabilities	667 329	209	326	22	-	**667 886**
Subordinated borrowing	-	-	-	262 323	-	**262 323**
Deferred tax liability	2 402	-	-	-	-	**2 402**
Total liabilities	**3 097 677**	**2 085 489**	**3 086 175**	**263 248**	-	**8 532 589**
Net gap	**(563 740)**	**1 825 502**	**(573 191)**	**59 252**	89 477	**837 300**

The analysis is based on the estimated maturities.

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

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

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

31. Currency analysis

The Bank takes on exposure to effects of fluctuations of exchange rates on its financial position and cash flows. The Management Board of the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and Department for Financial Planning and Risk Control monitor them daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014:

	RUR '000 RUR	**USD '000 RUR**	**EUR '000 RUR**	**Other currencies '000 RUR**	**Total**
Assets					
Cash and cash equivalents	322 875	82 282	84 665	3 624	**493 446**
Due from the Bank of Russia	89 910	-	-	-	**89 910**
Due from banks and other financial institutions	157 390	-	-	-	**157 390**
Financial assets at fair value through profit or loss	-	-	-	-	-
Loans and receivables	6 662 780	3 163 187	275 876	-	**10 101 843**
Property and equipment	4 853	-	-	-	**4 853**
Available-for-sale financial assets	640 290	2 262 544	40 535	-	**2 943 369**

Other assets	129 403	112 649	-	-	**242 052**
Total assets	**8 007 501**	**5 620 662**	**401 076**	**3 624**	**14 032 863**
Liabilities					
Placements from banks and other financial institutions	7	9	-	-	**16**
Current accounts and deposits from customers	3 046 368	4 180 936	838 978	3 565	**8 069 847**
Debt securities issued	126 693	-	-	-	**126 693**
Subordinated borrowing	-	450 906	-	-	**450 906**
Other liabilities	132 275	114 757	-	-	**247 032**
Payables under repo transactions	1 900 146	199 570	-	-	**2 099 716**
Deferred tax liability	148 438	-	-	-	**148 438**
Total liabilities	**5 353 927**	**4 946 178**	**838 978**	**3 565**	**11 142 648**
Net gap	**2 653 574**	**674 484**	**(437 902)**	**59**	**2 890 215**
Cumulative gap for 31 December 2014	**2 653 574**	**3 328 058**	**2 890 156**	**2 890 215**	**-**

The following table shows the currency structure of assets and liabilities at 31 December 2013:

	RUR '000 RUR	**USD '000 RUR**	**EUR '000 RUR**	**Other currencies '000 RUR**	**Total**
Assets					
Cash and cash equivalents	341 408	285 347	304 124	458	**931 337**
Due from the Bank of Russia	82 029	-	-	-	**82 029**
Due from banks and other financial institutions	158 061	2 618	-	-	**160 679**
Financial assets at fair value through profit or loss	692 701	-	-	-	**692 701**
Loans and receivables	4 936 496	1 551 609	341 580	-	**6 829 685**
Property and equipment	7 448	-	-	-	**7 448**
Assets held for trading	-	-	-	-	**-**
Available-for-sale financial assets	-	-	-	-	**-**
Other assets	338 718	327 292	-	-	**666 010**
Total assets	**6 556 861**	**2 166 866**	**645 704**	**458**	**9 369 889**
Liabilities					
Placements from banks and other financial institutions	1 472	2 824	-	-	**4 296**
Current accounts and deposits from customers	4 075 192	2 346 352	638 622	1 766	**7 061 932**
Debt securities issued	39 435	-	5 769	-	**45 204**
Subordinated borrowing	-	262 323	-	-	**262 323**
Other liabilities	340 594	327 292	-	-	**667 886**
Payables under repo transactions	488 546	-	-	-	**488 546**
Deferred tax liability	2 402	-	-	-	**2 402**
Total liabilities	**4 947 641**	**2 938 791**	**644 391**	**1 766**	**8 532 589**

Net gap	1 609 220	(771 925)	1 313	(1 308)	837 300
Cumulative gap for 31 December 2013	1 609 220	837 295	838 608	837 300	

32. Related party transactions

Transactions with members of the Board of Directors and the Management Board

The total remuneration to the key personnel for the year ended 31 December 2014 amounted to RUR 13,291.4 thousand.

The outstanding balances as at 31 December 2014 and as at 31 December 2013 with the related parties were as follows:

	2014 RUR'000	**2013 RUR'000**
Balance Sheet		
Assets		
Loans to customers	316 050	151 138
Liabilities		
Current accounts and deposits	1 736 492	605 464
Debt securities issued	-	-
Off balance sheet items		
Guarantees and warrants issued	4 449	-

Amounts are included in the income statement in relation to related party transactions as follows:

	2014 RUR'000	**2013 RUR'000**
Income Statement		
Interest income	37 683	25 735
Interest expense	49 896	35 457
Fee and commission income	23 613	18 759

33. Events subsequent to the balance sheet date

The Bank considered all the events subsequent to the balance sheet date and made adjustments to the nancial statements relevant to such information.

gned on behalf of the Board of the Bank on 27 April 2015

. Kasyanov
iairman of the Board

КБ "Гарант-Инвест" (АО)

N.M. Poletaeva
Chief Accountant