AO UniCredit Bank

Consolidated Financial Statements
Year ended 31 December 2014

AO UNICREDIT BANK

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AO UNICREDIT BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2014, and the related consolidated statements of comprehensive income for the year then ended, changes in shareholder's equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements as at 31 December 2014 were authorized for issue by the Board of Management of AO UniCredit Bank on 3 March 2015.

Signed on behalf of the Board of Management

M. Alekseev	G. Chernysheva
Chairman of the Board of Management	Chief Accountant

3 March 2015

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INDEPENDENT AUDITOR'S REPORT

To: Shareholder and Supervisory Board of AO UniCredit Bank.

We have audited the accompanying consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on procedures performed in accordance with the Federal Law “On Banks and Banking Activities”

Management of the Group is responsible for compliance with the obligatory ratios established by the Bank of Russia (the “obligatory ratios”), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the “CBRF”) requirements.

According to Article 42 of the Federal Law No. 395-1 “On Banks and Banking Activities” (the “Federal Law”) in the course of our audit of the Group's annual financial statements for 2014 we performed procedures with respect to the Group’s compliance with the obligatory ratios as at 1 January 2015 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group’s compliance with the obligatory ratios: the obligatory ratios as at 1 January 2015 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at 31 December 2014, its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

   (a) in accordance with the CBRF requirements and recommendations as at 31 December 2014 the Group’s internal audit department was subordinated and accountable to the Group’s Supervisory Board and the Group’s risk management departments were not subordinated or accountable to the departments undertaking the respective risks;
   (b) as at 31 December 2014, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
   (c) as at 31 December 2014, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group’s capital;
   (d) Frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2014 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group’s internal policies; these reports included results of monitoring by the Group’s risk management and internal audit departments of effectiveness of the Group’s respective methodologies and improvement recommendations;

(e) as at 31 December 2014, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2014 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Deloitte & Touche

11 March 2015
Moscow, Russian Federation

Ponomarenko E.V., Partner
(certificate no. 01-000190 dated November 28, 2011)

ZAO Deloitte & Touche CIS

AO UNICREDIT BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Thousands of Russian Roubles)

	Notes	2014	2013
Assets			
Cash and cash balances	6	42 873 396	25 708 189
Trading securities	7		
- held by the Group		4 184 948	8 043 048
- pledged under repurchase agreements		263 368	3 533 397
Amounts due from credit institutions	8	332 555 937	223 403 672
Derivative financial assets	9	81 685 033	9 610 569
Derivative financial assets designated for hedging	9	12 003 652	4 131 332
Changes in fair value of portfolio hedged items	9	(8 117 984)	1 649 671
Loans to customers	10	826 851 401	548 607 344
Investment securities:	11		
- available-for-sale			
- held by the Group		32 553 782	19 457 387
- pledged under repurchase agreements		21 815 961	32 789 934
- held-to-maturity		-	299 993
Investments in associate	12	-	973 059
Fixed assets	14	6 001 364	6 328 343
Intangible assets	15	3 443 831	2 204 893
Current income tax assets		176 292	-
Other assets	17	4 081 974	1 950 602
Total assets		**1 360 372 955**	**888 691 433**
Liabilities			
Amounts due to credit institutions	18, 21	209 956 341	152 653 594
Derivative financial liabilities	9	104 534 651	8 153 454
Derivative financial liabilities designated for hedging	9	20 464 088	6 601 742
Changes in fair value of portfolio hedged items	9	(697 554)	191 069
Amounts due to customers	19	810 620 505	529 544 946
Debt securities issued	20	62 007 167	50 737 686
Deferred income tax liabilities	16	2 597 149	2 211 333
Current income tax liabilities		506 631	352 795
Other liabilities	17	8 317 953	6 200 115
Total liabilities		**1 218 306 931**	**756 646 734**
Equity			
Share capital	22	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(1 541 487)	(1 159 521)
Revaluation reserve for available-for-sale securities		(9 070 231)	(411 821)
Retained earnings		110 452 655	91 390 954
Total equity		**142 066 024**	**132 044 699**
Total liabilities and equity		**1 360 372 955**	**888 691 433**

Signed and authorised for release on behalf of the Board of Management of the Bank

M. Alekseev
Chairman of the Board of Management

3 March 2015

G. Chernysheva
Chief Accountant

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

AO UNICREDIT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(Thousands of Russian Roubles)

	Notes	2014	2013
Interest income			
Loans to customers		57 945 916	47 472 733
Derivative financial instruments		24 001 895	5 226 477
Trading and investment securities		5 379 612	3 605 328
Amounts due from credit institutions		4 446 421	1 207 012
Margin from derivative financial instruments designated for hedging		3 144 382	2 066 015
		94 918 226	**59 577 565**
Interest expense			
Derivative financial instruments		(22 358 842)	(4 487 362)
Amounts due to customers		(22 058 280)	(15 885 485)
Amounts due to credit institutions		(9 989 969)	(5 856 707)
Debt securities issued		(4 894 659)	(4 556 048)
		(59 301 750)	**(30 785 602)**
Net interest income		**35 616 476**	**28 791 963**
Fee and commission income	25	7 826 024	6 386 551
Fee and commission expense		(1 405 754)	(904 195)
Net fee and commission income		**6 420 270**	**5 482 356**
Dividend income		1	165 721
(Losses)/ gains on financial assets and liabilities held for trading	24	(2 050 921)	3 916 503
Fair value adjustments in portfolio hedge accounting		1 329 662	64 084
Gains/ (losses) on disposal of:			
- loans		62 296	156 189
- available-for-sale financial assets		(19 444)	6 886 061
OPERATING INCOME		**41 358 340**	**45 462 877**
(Impairment)/ recovery on:			
- loans	10	(4 414 311)	(3 431 859)
- other financial transactions	10	20 728	(10 531)
NET INCOME FROM FINANCIAL ACTIVITIES		**36 964 757**	**42 020 487**
Personnel expenses	26	(7 142 619)	(6 400 700)
Other administrative expenses	26	(4 648 099)	(4 287 034)
Depreciation of fixed assets	14	(691 455)	(744 796)
Amortization of intangible assets	15	(719 545)	(559 749)
Other provisions		2 017	6 481
Net other operating (expense)/ income		(237 665)	9 544
Operating costs		**(13 437 366)**	**(11 976 254)**
Share of gains of associate	12	-	44 018
Gain on disposal of subsidiary	1	-	149 530
Goodwill write-off	15	-	(389 911)
Gains/ (losses) on disposal of fixed assets		58 124	(16 046)
PROFIT BEFORE INCOME TAX EXPENSE		**23 585 515**	**29 831 824**
Income tax expense	16	(4 766 174)	(5 708 107)
PROFIT FOR THE YEAR		**18 819 341**	**24 123 717**
OTHER COMPREHANSIVE LOSS			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value:			
- fair value changes	16	(434 339)	(120 263)
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	16	52 373	(78 676)
Revaluation reserve for available-for-sale securities:			
- fair value changes	16	(8 649 297)	(540 455)
- reclassification adjustment relating to available-for-sale financial assets disposed of in the year	16	(9 113)	(4 592 755)
Other comprehensive loss for the period, net of tax		**(9 040 376)**	**(5 332 149)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9 778 965**	**18 791 568**

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(Thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2013	**41 787 806**	**437 281**	**(960 582)**	**4 721 389**	**67 267 237**	**113 253 131**
Total comprehensive income						
Profit for the year	-	-	-	-	24 123 717	24 123 717
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 16)	-	-	(198 939)	-	-	(198 939)
Net change in revaluation reserve for available-for-sale assets, net of tax (Note 16)	-	-	-	(5 133 210)	-	(5 133 210)
Total other comprehensive income	-	-	(198 939)	(5 133 210)	-	(5 332 149)
Total comprehensive income	**-**	**-**	**(198 939)**	**(5 133 210)**	**24 123 717**	**18 791 568**
31 December 2013	**41 787 806**	**437 281**	**(1 159 521)**	**(411 821)**	**91 390 954**	**132 044 699**
1 January 2014	**41 787 806**	**437 281**	**(1 159 521)**	**(411 821)**	**91 390 954**	**132 044 699**
Total comprehensive income						
Profit for the year	-	-	-	-	18 819 341	18 819 341
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 16)	-	-	(381 966)	-	-	(381 966)
Net change in revaluation reserve for available-for-sale assets, net of tax (Note 16)	-	-	-	(8 658 410)	-	(8 658 410)
Total other comprehensive income	-	-	(381 966)	(8 658 410)	-	(9 040 376)
Total comprehensive income	**-**	**-**	**(381 966)**	**(8 658 410)**	**18 819 341**	**9 778 965**
Transactions with owner, directly recorded in equity						
Acquisition of subsidiary under common control (Note 27)	-	-	-	-	242 360	242 360
Total transactions with owner	**-**	**-**	**-**	**-**	**242 360**	**242 360**
31 December 2014	**41 787 806**	**437 281**	**(1 541 487)**	**(9 070 231)**	**110 452 655**	**142 066 024**

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Thousands of Russian Roubles)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		91 910 059	61 496 826
Interest paid		(48 047 335)	(38 794 300)
Fees and commissions received		7 863 854	6 416 585
Fees and commissions paid		(1 210 718)	(868 467)
Net payments from trading securities		(614 287)	(163 210)
Net receipts/(payments) from derivatives and dealing in foreign currencies		945 543	(3 292 152)
Other income received		780 798	387 502
Salaries and benefits paid		(5 913 089)	(5 506 014)
Other operating expenses paid		(4 724 172)	(4 174 488)
Cash flows from operating activities before changes in operating assets and liabilities		**40 990 653**	**15 502 282**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(1 056 517)	1 803 978
Trading securities		6 967 650	(7 238 378)
Amounts due from credit institutions		(6 173 697)	32 989 463
Loans to customers		(103 835 772)	(27 495 268)
Other assets		(1 120 873)	(517 261)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		22 974 537	(35 457 867)
Amounts due to customers		67 258 327	15 701 758
Promissory notes		-	(540 386)
Other liabilities		224 890	(311 932)
Net cash from/(used in) operating activities before income tax		**26 229 198**	**(5 563 611)**
Income tax paid		(2 093 819)	(5 345 376)
Net cash from/(used in) operating activities		**24 135 379**	**(10 908 987)**
Cash flows from investing activities			
Acquisition of subsidiary	27	(1 163 400)	-
Proceeds from disposal of subsidiary	1	-	547 238
Dividends received		1	165 721
Purchase of available-for-sale investment securities		(24 026 860)	(69 699 189)
Proceeds from redemption and sale of available-for-sale investment securities		11 353 260	76 950 522
Proceeds from sale of fixed and intangible assets		86 684	7 367
Purchase of fixed and intangible assets		(2 317 035)	(1 540 365)
Net cash (used in)/from investing activities		**(16 067 350)**	**6 431 294**
Cash flows from financing activities			
Proceeds from issuance of bonds	20	25 156 001	30 000 500
Redemption of bonds issued under put option		(14 254 780)	(19 795 120)
Redemption of subordinated debt	21	(3 503 430)	(4 191 944)
Net cash from financing activities		**7 397 791**	**6 013 436**
Effect of exchange rates changes on cash and cash balances		1 699 387	152 340
Net increase in cash and cash balances		**17 165 207**	**1 688 083**
Cash and cash balances, beginning of the year		**25 708 189**	**24 020 106**
Cash and cash balances, ending of the year	6	**42 873 396**	**25 708 189**

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. PRINCIPAL ACTIVITIES

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank") and it's subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the "Group". In accordance with change of Russian Federation legislation in 2014 the Bank changed it's legal form from ZAO to AO.

The Bank (the former International Moscow Bank) was established as a joint stock company under the laws of the Russian Federation in 1989. The Bank operates under General Banking License No. 1 reissued by the Central Bank of Russia (hereinafter – the "CBR") on 22 December 2014 as well as the CBR license for operations with precious metals reissued on 22 December 2014. The Bank also possesses licenses for securities transactions and custody services from the Federal Service for the Securities Market issued on 25 April 2003, the license to act as an exchange broker on transactions with futures and options issued on 27 May 2008 and Russian Federal Customs Service permission to act as a guarantor in relation to customs authorities issued on 1 November 2013. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

As at 31 December 2014 the Bank has 13 branches and 13 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

As at 31 December 2014 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing, a leasing company as it's subsidiary (Note 27).

In February 2014 in addition to the existing 40% participation AO UniCredit Bank purchased the remaining 60% share participation in LLC UniCredit Leasing from UniCredit Leasing S.p.A. LLC UniCredit Leasing owns 100% of shares in ZAO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market. As a result of this transaction the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing a 100% leasing subsidiary. The transaction is accounted for as a transaction under common control since both the Bank and UniCredit Leasing S.p.A have the same ultimate shareholders.

In August 2013 the Bank sold its 100% share in the subsidiary CJSC Bank Sibir to a company 40% of which is owned by UniCredit Group and the remaining 60% is owned by a third party at a selling price amounting to RUB 6 547 238 thousand. Before sale the Bank increased the share capital of CJSC Bank Sibir by investing RUB 6 000 000 thousand. Net assets of the subsidiary amounted to RUB 6 397 708 thousand at the date of disposal. A gain on disposal amounting to RUB 149 530 thousand was recognized in the line item Gains on disposal of subsidiary in the consolidated statement of comprehensive income for the year ended 31 December 2013. Net cash inflow on disposal of subsidiary is included in the consolidated statement of cash flows for the year ended 31 December 2013 and amounts to RUB 547 238 thousand.

The consolidated financial statements include the following subsidiary:

	Ownership, %			
Entities	**2014**	**2013**	**Country**	**Industry**
LLC UniCredit Leasing	100%	40%	Russia	Finance

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2014 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredt Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue in operation for the foreseeable future.

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Presentation currency

These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

3. SUMMARY OF ACCOUNTING POLICIES

The following significant accounting policies are applied in the preparation of the consolidated financial statements.

Principles of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary and associate to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control over the subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard (“IAS”) 39, or when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Unrealised gains resulting from transactions with associate are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Financial assets

Initial recognition

Financial assets in the scope of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Loans and receivables

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

- Intends to sell immediately or in the near term;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

Available-for-sale assets are subsequently measured at fair value. Non-marketable equity instruments, for which it is impracticable to determine fair value, are stated at cost.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm’s length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Cash and cash balances

The Group considers cash and nostro accounts with the CBR to be cash and cash balances.
The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR

Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group’s day-to-day operations.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Derivative financial instruments

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

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 9 for details).

Hedge accounting

In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group`s results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 9 for details).

Repurchase and reverse repurchase agreements and securities lending

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Securities purchased under agreements to resell (“reverse repo”) and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings

Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group enters into finance lease as a lessor the present value of lease payments are recognised as loans to customers at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the allowance account in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, borrower's financial position, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of comprehensive income for the period of recovery.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

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

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or 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.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Fixed assets

Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

Costs related to repairs and renewals are charged when incurred and included in other administrative expenses, unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Fiduciary activities

The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Segment reporting

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

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised in profit or loss on the date when the dividend is declared.

(Thousands of Russian Roubles)

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2014	31 December 2013
RUB/1 US Dollar	56.2584	32.7292
RUB/1 Euro	68.3427	44.9699

New standards effective starting from the current reporting period

In October 2012 the International Accounting Standards Board (IASB) published amendments to IFRS 10, IFRS 12 and IAS 27 entitled *Investment Entities.* The amendments are effective for annual periods beginning on or after 1 January 2014.

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

In December 2011 amendments to IAS 32 entitled *Offsetting Financial Assets and Financial Liabilities* were issued. These amendments clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". The amendments are effective for annual periods beginning on or after 1 January 2014.

The application of these amendments does not have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

In June 2013 the International Accounting Standards Board (IASB) published narrow-scope amendments to IAS 39 entitled *Novation of Derivatives and Continuation of Hedge Accounting.*

These amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendments are effective for annual periods beginning on or after 1 January 2014.

These amendments do not have a significant effect on the Group's consolidated financial statements.

In May 2013 the International Accounting Standards Board (IASB) published narrow-scope amendments to IAS 36 entitled *Recoverable Amount Disclosure for Non-Financial Assets*.

These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal and are applied retrospectively for annual period beginning on or after 1 January 2014.

These amendments do not have a significant effect on the Group's consolidated financial statements.

In May 2013 the International Accounting Standards Board (IASB) published IFRIC 21 entitled *Levies.* IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.
The amendments are effective for annual periods beginning on or after 1 January 2014.

These amendments do not have a significant effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments and correspondent amendments to other standards[6];
- IFRS 15 Revenue from Contracts with Customers and correspondent amendments to other standards[5];
- IFRS 14 Regulatory Deferral Accounts[2];
- Amendments to IFRSs – "Annual improvements to IFRSs 2010-2012 cycle"[1];
- Amendments to IFRSs – "Annual improvements to IFRSs 2011-2013 cycle" [1];
- Amendments to IAS 19 Employee Benefits[1];
- Amendments to IFRS 11 Joint Arrangements[2];
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets[2];
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture[2];
- Amendments to IAS 27 Separate financial statements[2];
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures[3];
- Amendments to IFRSs – "Annual improvements to IFRSs 2012-2014 cycle" [4].

[1] Applicable to annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Applicable to annual periods beginning on or after 1 January 2016, with earlier application permitted.
[3] Applicable on a prospective basis to annual periods beginning on or after 1 January 2016, with earlier application permitted.
[4] Applicable to annual periods beginning on or after 1 July 2016, with earlier application permitted.
[5] Applicable to annual periods beginning on or after 1 January 2017, with earlier application permitted.
[6] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 Financial Instruments. IFRS 9, issued in November 2009 with original effective date 1 January 2013, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. In December 2011 the effective date was postponed to 1 January 2015 and this effective date was subsequently removed. In November 2013 the standard was reissued to incorporate a hedge accounting chapter with no stated effective date. In February 2014 it was tentatively decided to set 1 January 2018 as the effective date for the mandatory application of IFRS 9. In July 2014 the finalized version of IFRS 9 was issued with stated effective date 1 January 2018.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- The new hedge accounting model enables companies to better reflect their risk management activities in the financial statements because it more closely aligns hedge accounting with risk management activities. Under IFRS 9 it is allowed to use hedge accounting for non-financial items. IFRS 9 also requires more extensive disclosures in relation to hedge accounting.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from contracts with customer. IFRS 15 issued in May 2014 is supposed to replace *IAS 18 Revenue, IAS 11 Construction Contracts* and a number of interpretations (IFRIC and SIC).

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The Management of the Group anticipates that the application of IFRS 15 in the future will not have a significant impact on amounts reported in respect of the Group’s financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The application of IFRS 14 will not have any impact on the Group's financial statements in the future as the Group is not an IFRS first-time adopter.

Amendments to IFRSs – "Annual improvements to IFRSs 2010-2012 cycle"

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs.

Particularly, amendments to IFRSs include:

IFRS 2 Share-based Payment. Amends the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition" (which were previously part of the definition of "vesting condition").

IFRS 3 Business Combinations (with consequential amendments to other standards). Clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

IFRS 8 Operating segments. Requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. Clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

IAS 16 Property, Plant and Equipment. Clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

IAS 24 Related Party Disclosures. Clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

IAS 38 Intangible Assets. Clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IFRSs – "Annual improvements to IFRSs 2011-2013 cycle"

IFRS 3 Business Combinations. Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement. Clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* or *IFRS 9 Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in *IAS 32 Financial Instruments: Presentation*.

IAS 40 Investment Property. Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in *IFRS 3 Business Combinations* and investment property as defined in *IAS 40 Investment Property* requires the separate application of both standards independently of each other.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IAS 19 Employee Benefits. Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements. Amended to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in *IFRS 3 Business Combinations*) to:

- Apply all of the business combinations accounting principles in *IFRS 3 Business Combinations* and other IFRSs, except for those principles that conflict with the guidance in *IFRS 11 Joint Arrangements;*
- Disclose the information required by *IFRS 3 Business Combinations* and other IFRSs for business combinations.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. Amended to:

- Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- Introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated;
- Add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture. Amended to:

- Include “bearer plants” within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16;
- Introduce a definition of “bearer plants” as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales;
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

The Management of the Group anticipates that these amendments will not affect the consolidated financial statements.

Amendments to IAS 27 Separate financial statements

Amended to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

The Management of the Group anticipates that these amendments will not affect the consolidated financial statements.

Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures. Amended to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations);
- Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in an subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

Amendments to IFRSs – "Annual improvements to IFRSs 2012-2014 cycle"

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Adds specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7 Financial Instruments: Disclosures. Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19 Employee benefits. Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34 Interim Financial Reporting. Clarify the meaning of "elsewhere in the interim report" and "require a cross-reference".

The Management of the Group anticipates that these amendments will not affect significantly the consolidated financial statements.

(Thousands of Russian Roubles)

Reclassifications

With effect from 1 January 2014, the Group reclassified interest income and expenses related to derivative financial instruments from gains on financial assets and liabilities held for trading to interest income and interest expense from derivative financial instruments. The details of reclassification and effect on the consolidated financial statements for year ended 31 December 2013 are presented as follows:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of comprehensive income for the year ended 31 December 2013			
Interest income from derivative financial instruments	-	5 226 477	5 226 477
Interest expense from derivative financial instruments	-	(4 487 362)	(4 487 362)
(Losses)/gains on financial assets and liabilities held for trading	4 655 618	(739 115)	3 916 503

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of cash flows for the year ended 31 December 2013			
Cash flows from operating activities			
Interest received	56 270 349	5 226 477	61 496 826
Interest paid	(34 306 938)	(4 487 362)	(38 794 300)
Net receipts/(payments) from derivatives and dealing in foreign currencies	(2 553 037)	(739 115)	(3 292 152)

With effect from 31 December 2014, the Group discloses changes in fair value of portfolio hedged items on the gross basis, taking into account that the portfolio of hedged items consists of portfolio of financial assets and portfolio of financial liabilities. The details of reclassification and effect on the consolidated financial statements as at 31 December 2013 are presented as follows:

	As previously reported	Effect of reclassifications	As adjusted
Consolidated statement of financial position as at 31 December 2013			
Assets			
Changes in fair value of portfolio hedged items	1 458 602	191 069	1 649 671
Liabilities			
Changes in fair value of portfolio hedged items	-	(191 069)	(191 069)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment is described in the Note 10.

In assessing the fair value of securities available for sale, the Group uses quoted market prices in active markets on 31 December, 2014. Reasons for the decline in fair value of securities available for sale are presented in Note 11.

(Thousands of Russian Roubles)

5. OPERATING SEGMENTS

For management purposes, the Group has four reporting business segments:

*Corporate and Investment banking (*hereinafter – *"CIB")* – represents corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking - represents private banking services, credit and debit card services, retail sight and term deposit services, retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2014	31 December 2013
Assets		
CIB	992 513 291	661 469 092
Retail banking	155 069 273	143 332 322
Leasing	13 876 890	-
Other	198 913 501	83 890 019
Total assets	**1 360 372 955**	**888 691 433**
Liabilities		
CIB	871 471 401	480 585 495
Retail banking	151 878 535	111 740 016
Leasing	11 332 545	-
Other	183 624 450	164 321 223
Total liabilities	**1 218 306 931**	**756 646 734**

(Thousands of Russian Roubles)

Segment information for the operating segments for the year ended 31 December 2014 and 2013 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income/ (expense) from external customers for the year ended 31 December 2014	21 618 878	16 825 454	719 982	(3 547 838)	35 616 476
Net interest income/ (expense) from external customers for the year ended 31 December 2013	19 583 059	14 360 402	-	(5 151 498)	28 791 963
Inter-segment/(expense) income for the year ended 31 December 2014	(3 229 501)	(6 809 287)	-	10 038 788	-
Inter-segment/(expense) income for the year ended 31 December 2013	(2 804 709)	(5 364 110)	-	8 168 819	-
Net interest income for the year ended 31 December 2014	**18 389 377**	**10 016 167**	**719 982**	**6 490 950**	**35 616 476**
Net interest income for the year ended 31 December 2013	**16 778 350**	**8 996 292**	**-**	**3 017 321**	**28 791 963**
Net fee and commission income/(expense) from external customers for the year ended 31 December 2014	2 948 687	3 512 841	(10 854)	(30 404)	6 420 270
Net fee and commission income/(expense) from external customers for the year ended 31 December 2013	2 715 528	2 780 928	-	(14 100)	5 482 356
Dividend income for the year ended 31 December 2014	-	-	-	1	1
Dividend income for the year ended 31 December 2013	-	-	-	165 721	165 721
(Losses)/gains on financial assets and liabilities held for trading from external customers for the year ended 31 December 2014	(2 109 861)	1 111 129	937	(1 053 126)	(2 050 921)
Gains/(losses) on financial assets and liabilities held for trading from external customers for the year ended 31 December 2013	3 249 948	762 121	-	(95 566)	3 916 503
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2014	-	-	-	1 329 662	1 329 662
Fair value adjustments in portfolio hedge accounting for the year ended 31 December 2013	-	-	-	64 084	64 084
Gains on disposals of financial assets for the year ended 31 December 2014	21 277	21 575	-	-	42 852
Gains/(losses) on disposals of financial assets for the year ended 31 December 2013	932 689	(2 652)	-	6 112 213	7 042 250
Operating income for the year ended 31 December 2014	**19 249 480**	**14 661 712**	**710 065**	**6 737 083**	**41 358 340**
Operating income for the year ended 31 December 2013	**23 676 515**	**12 536 689**	**-**	**9 249 673**	**45 462 877**

(Thousands of Russian Roubles)

	CIB	Retail Banking	Leasing	Other	Total
(Impairment)/recovery on loans for the year ended 31 December 2014	(2 812 665)	(1 530 291)	(58 810)	8 183	(4 393 583)
Impairment on loans for the year ended 31 December 2013	(2 194 598)	(1 247 560)	-	(232)	(3 442 390)
Net income from financial activities for the year ended 31 December 2014	**16 436 815**	**13 131 421**	**651 255**	**6 745 266**	**36 964 757**
Net income from financial activities for the year ended 31 December 2013	**21 481 917**	**11 289 129**	-	**9 249 441**	**42 020 487**
Operating costs for the year ended 31 December 2014 including:	(4 418 539)	(8 161 117)	(421 282)	(436 428)	(13 437 366)
depreciation of fixed assets and amortization of intangible assets	(453 241)	(954 253)	(3 506)	-	(1 411 000)
Operating costs for the year ended 31 December 2013 including:	(4 071 445)	(7 612 573)	-	(292 236)	(11 976 254)
depreciation of fixed assets and amortization of intangible assets	(423 824)	(880 583)	-	(138)	(1 304 545)
Share of gains of associate for the year ended 31 December 2013	-	-	-	44 018	44 018
Gains on disposal of subsidiary for the year ended 31 December 2013	-	-		149 530	149 530
Goodwill write-off for the year ended 31 December 2013	-	-		(389 911)	(389 911)
Gains on disposal of fixed assets for the year ended 31 December 2014	-	-	-	58 124	58 124
Losses on disposal of fixed assets for the year ended 31 December 2013	-	-	-	(16 046)	(16 046)
Profit before income tax expense for the year ended 31 December 2014	**12 018 276**	**4 970 304**	**229 973**	**6 366 962**	**23 585 515**
Profit before income tax expense for the year ended 31 December 2013	**17 410 472**	**3 676 556**	-	**8 744 796**	**29 831 824**
Income tax expense for the year ended 31 December 2014					(4 766 174)
Income tax expense for the year ended 31 December 2013					(5 708 107)
Profit for the year ended 31 December 2014					**18 819 341**
Profit for the year ended 31 December 2013					**24 123 717**
Cash flow hedge reserve for the year ended 31 December 2014					(381 966)
Cash flow hedge reserve for the year ended 31 December 2013					(198 939)

(Thousands of Russian Roubles)

	CIB	Retail Banking	Leasing	Other	Total
Revaluation reserve for available-for-sale securities for the year ended 31 December 2014					(8 658 410)
Revaluation reserve for available-for-sale securities for the year ended 31 December 2013					(5 133 210)
Total comprehensive income for the year ended 31 December 2014					**9 778 965**
Total comprehensive income for the year ended 31 December 2013					**18 791 568**

The following table represents an analysis by segments of the Group's net interest income from continuing operations from its major products and services:

	31 December 2014	31 December 2013
Medium and long term financing	8 272 410	6 701 380
Current accounts	6 061 024	4 732 026
Short-term financing	2 500 189	2 448 549
Consumer loans	2 225 393	4 737 997
Term deposits	789 560	224 092
Mortgage loans	715 147	794 666
Other lending	3 228 884	(131 739)
Other products	11 823 869	9 284 992
Net interest income	**35 616 476**	**28 791 963**

Information about major customers and geographical areas

The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2014 is presented below:

	Net interest income	Assets
Russian Federation	26 801 034	1 057 071 636
OECD countries	6 819 115	249 091 729
Non-OECD countries	1 996 327	54 209 590
Total	**35 616 476**	**1 360 372 955**

Geographical information on net interest income and assets for 2013 is presented below:

	Net interest income	Assets
Russian Federation	24 736 848	663 913 210
OECD countries	2 302 807	187 321 344
Non-OECD countries	1 752 308	37 456 879
Total	**28 791 963**	**888 691 433**

(Thousands of Russian Roubles)

6. CASH AND CASH BALANCES

Cash and cash balances comprise:

	2014	2013
Cash on hand	19 074 061	8 741 687
Current accounts with the CBR	23 799 335	16 966 502
Cash and cash balances	**42 873 396**	**25 708 189**

Included in cash and cash balances as at 31 December 2014 is amount of RUB 1 000 000 thousand (31 December 2013: none) was pledged as collateral for mortgage-backed bonds issued by the Group in September 2011.

7. TRADING SECURITIES

Trading securities comprise:

	2014	2013
USD denominated		
Russian Government Eurobonds	5 204	3 482
RUB denominated		
Russian Government Bonds	1 468 275	3 713 988
Corporate and bank bonds	2 974 837	7 858 975
Trading securities	**4 448 316**	**11 576 445**

As at 31 December 2014 approximately 92% of trading securities held by the Group were issued by organisations rated not lower than “BBB-” (31 December 2013: 87%).

As at 31 December 2014 included in corporate and bank bonds are securities sold under repurchase agreements with CBR in the amount of RUB 263 368 thousand (31 December 2013: included in Russian Government bonds in the amount of RUB 3 533 397 thousand) (see Notes 13 and 18 for details).

As at 31 December 2014 included in trading securities are corporate and bank bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 869 114 thousand (31 December 2013: RUB 953 813 thousand). As at 31 December 2014 and 2013 the Group has no “overnight” loans with the CBR (see Note 18 for details).

Nominal interest rates and maturities of trading securities are as follows:

	2014		2013	
	%	Maturity	%	Maturity
Russian Government Bonds	6.2-8.15%	2016-2028	6.2-8.15%	2014-2028
Russian Government Eurobonds	11-12.75%	2018, 2028	7.5-12.75%	2018, 2028, 2030
Corporate and bank bonds	7.5-10.57%	2016-2022	6.47-12.5%	2014-2022

(Thousands of Russian Roubles)

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	2014	2013
Current accounts with credit institutions	94 243 731	38 593 836
Time deposits	181 983 768	158 200 034
Reverse repurchase agreements with credit institutions	50 434 023	21 771 904
Obligatory reserve with the CBR	5 894 415	4 837 898
Amounts due from credit institutions	**332 555 937**	**223 403 672**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2014, there are six counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2014, the aggregate amount of these balances is RUB 255 271 346 thousand (31 December 2013: four counterparties with aggregate amount of RUB 183 228 154 thousand).

As at 31 December 2014, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian Government bonds, corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 53 444 561 thousand (31 December 2013: Russian Government bonds, municipal bonds, corporate and bank bonds and corporate and bank shares issued by Russian companies and banks with total fair value of RUB 22 547 465 thousand).

As at 31 December 2014 approximately 94% (31 December 2013: 88%) of current accounts with credit institutions and term deposits were placed with banks rated not lower than "BBB-". As at 31 December 2014 approximately 58% (31 December 2013: 100%) of total amount of reverse repurchase agreements with credit institutions were placed with non-rated banks or banks rated lower than "BBB-".

As at 31 December 2014 the Group has term placements with CBR of RUB 35 000 000 thousand (31 December 2013: RUB 22 000 000 thousand).

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

(Thousands of Russian Roubles)

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	2014			2013		
	Notional	Fair value		Notional	Fair value	
	principal	Asset	Liability	principal	Asset	Liability
Cross-currency interest rate swaps	272 981 002	48 375 890	57 840 876	119 287 024	3 220 078	2 475 282
Interest rate swaps and options	569 907 604	10 444 854	14 867 984	562 871 053	5 593 894	4 678 428
Foreign exchange forwards and options	205 475 132	22 864 289	31 825 791	118 737 605	796 597	999 744
Futures on foreign exchange and securities	962 500	-	-	1 915 000	-	-
Total derivative assets/liabilities		**81 685 033**	**104 534 651**		**9 610 569**	**8 153 454**

The change in fair value of the derivative financial instruments attributable to changes in the Group's credit risk (CVA/DVA) amounts to a loss of RUR 1 474 472 thousand for the year ended 31 December 2014 (31 December 2013: RUR 119 021 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the Group's current observable credit spread into the valuation techniques used to value derivative financial instruments.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	2014			2013		
	Notional	Fair value		Notional	Fair value	
	principal	Asset	Liability	principal	Asset	Liability
Cash flow hedge						
Interest rate swaps	33 615 277	108 611	704 822	54 056 600	2 469 229	34 328
Cross-currency interest rate swaps	74 416 922	629 821	14 767 014	64 822 785	342 050	1 901 649
Total cash flow hedge		**738 432**	**15 471 836**		**2 811 279**	**1 935 977**
Fair value hedge						
Interest rate swaps	518 761 072	11 265 220	4 992 252	319 397 426	1 320 053	4 665 765
Total fair value hedge		**11 265 220**	**4 992 252**		**1 320 053**	**4 665 765**
Total derivative financial assets/ liabilities designated for hedging		**12 003 652**	**20 464 088**		**4 131 332**	**6 601 742**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

Hedging instruments to hedge variability of fair value are measured at fair value with changes in fair value of RUB 7 472 459 thousand recognised in portfolio hedge accounting as at 31 December 2014 (31 December 2013: RUB 1 394 584 thousand), presented as gain of RUR 8 867 043 thousand in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the period ended 31 December 2014 (31 December 2013: presented as loss RUB 252 288 thousand). The negative changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 7 420 430 thousand as at 31 December 2014 (31 December 2013: positive changes in the amount if RUB 1 458 602 thousand), presented as loss of RUR 8 879 032 thousand in the consolidated statement of comprehensive income in fair value adjustments in portfolio hedge accounting for the period ended 31 December 2014 (31 December 2013: presented as a gains of RUB 316 372 thousand). Along with PFVHA the Group uses Portfolio Cash Flow hedging.

(Thousands of Russian Roubles)

The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps. As at 31 December 2014, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised as part of other comprehensive income in equity was RUB 1 541 487 thousand (31 December 2013: RUB 1 159 521 thousand), net of tax RUB 385 372 thousand (31 December 2013: RUB 289 880 thousand).

Fair value adjustments in portfolio hedge accounting amounted to RUB 1 329 662 thousand for the year ended 31 December 2014 (31 December 2013: RUB 64 084 thousand) and consists of a negative change in fair value of derivative financial instruments entered into for hedging purposes in the amount of RUB 21 692 thousand (31 December 2013: RUB 310 thousand) and, as a result of the positive changes in counterparty credit risk (CVA/DVA), which were entered into derivative financial instruments for hedging purposes in the amount of RUB 1 351 354 thousand for the year ended 31 December 2014 (31 December 2013: RUB 64 394 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the Group's current observable credit spread into the valuation techniques used to value derivative financial instruments designated for hedging.

10. LOANS TO CUSTOMERS

Loans to customers comprise:

	2014	**2013**
Corporate customers	667 566 481	389 987 061
Retail customers, including SME	165 022 389	150 576 092
Lease receivables	12 485 745	-
Reverse repurchase agreements with companies	2 526 107	25 023 050
Gross loans to customers	**847 600 722**	**565 586 203**
Allowance for loan impairment	(20 749 321)	(16 978 859)
Loans to customers	**826 851 401**	**548 607 344**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2014 is as follows:

	Corporate customers	**Retail customers**	**Lease receivables**	**Total**
At 1 January 2014	9 543 124	7 435 735	-	**16 978 859**
Charge for the year	2 753 889	1 601 612	58 810	**4 414 311**
Loans sold or recovered through the sale of collateral during the year	(3 202 243)	(182 045)	-	**(3 384 288)**
Loans written-off during the year	(24 352)	(392 835)	(36 524)	**(453 711)**
Acquisition of subsidiary under common control	-	-	61 982	**61 982**
Effect of exchange rate changes	1 609 303	1 522 865	-	**3 132 168**
At 31 December 2014	**10 679 721**	**9 985 332**	**84 268**	**20 749 321**

(Thousands of Russian Roubles)

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2013 is as follows:

	Corporate customers	Retail customers	Total
At 1 January 2013	9 666 284	6 241 434	**15 907 718**
Charge for the year	2 350 046	1 081 813	**3 431 859**
Loans sold or recovered through the sale of collateral during the year	(1 105 026)	(26 138)	**(1 131 164)**
Loans written-off during the year	(1 569 179)	(4 186)	**(1 573 365)**
Effect of exchange rate changes	200 999	142 812	**343 811**
At 31 December 2013	**9 543 124**	**7 435 735**	**16 978 859**

The following table shows gross loans and related impairment as at 31 December 2014:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	640 879 818	(2 426 988)	638 452 830
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	4 081 311	(105 348)	3 975 963
- Past due 31–90 days	3 558 024	(106 471)	3 451 553
Impaired loans			
- Not past due	3 401 003	(603 643)	2 797 360
- Past due less than 31 days	6 921 573	(613 672)	6 307 901
- Past due 31–90 days	268 066	(232 792)	35 274
- Past due 90–180 days	1 037 755	(346 499)	691 256
- Past due over 180 days	7 418 931	(6 244 308)	1 174 623
Total loans to corporate customers	**667 566 481**	**(10 679 721)**	**656 886 760**
Retail customers			
Standard loans, not past due	148 483 157	(692 754)	147 790 403
Standard loans, past due			
- Past due less than 31 days	2 571 260	(127 968)	2 443 292
- Past due 31–90 days	1 548 390	(275 308)	1 273 082
Impaired loans			
- Not past due	10 893	(9 513)	1 380
- Past due less than 31days	554	(109)	445
- Past due 31–90 days	10 324	(2 043)	8 281
- Past due 90–180 days	1 367 141	(622 002)	745 139
- Past due over 180 days	11 030 670	(8 255 635)	2 775 035
Total loans to retail customers	**165 022 389**	**(9 985 332)**	**155 037 057**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 873 469	(52 609)	11 820 860
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	273 248	(1 768)	271 480
- Past due 31–90 days	237 015	(1 132)	235 883
Impaired loans			
- Not past due	29 366	(7 330)	22 036
- Past due less than 31days	18 979	(4 834)	14 145
- Past due 31–90 days	30 957	(7 793)	23 164
- Past due 90–180 days	12 589	(5 311)	7 278
- Past due over 180 days	10 122	(3 491)	6 631
Total lease receivables	**12 485 745**	**(84 268)**	**12 401 477**

(Thousands of Russian Roubles)

	Gross loans	Impairment	Net loans
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	2 526 107	-	2 526 107
Total loans to customers	**847 600 722**	**(20 749 321)**	**826 851 401**

The following table shows gross loans and related impairment as at 31 December 2013:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	374 375 405	(1 653 160)	372 722 245
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	433 767	(1 550)	432 217
- Past due 31–90 days	309 748	(9 667)	300 081
Impaired loans			
- Not past due	5 592 639	(701 523)	4 891 116
- Past due less than 31 days	289 087	(206 319)	82 768
- Past due 31–90 days	199 308	(103 064)	96 244
- Past due 90–180 days	1 306 667	(471 945)	834 722
- Past due over 180 days	7 480 440	(6 395 896)	1 084 544
Total loans to corporate customers	**389 987 061**	**(9 543 124)**	**380 443 937**
Retail customers			
Standard loans, not past due	139 046 574	(557 424)	138 489 150
Standard loans, past due			
- Past due less than 31 days	2 073 091	(133 564)	1 939 527
- Past due 31–90 days	807 139	(183 596)	623 543
Impaired loans			
- Not past due	114 641	(77 796)	36 845
- Past due 31–90 days	2 751	(566)	2 185
- Past due 90–180 days	785 227	(398 663)	386 564
- Past due over 180 days	7 746 669	(6 084 126)	1 662 543
Total loans to retail customers	**150 576 092**	**(7 435 735)**	**143 140 357**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	25 023 050	-	25 023 050
Total loans to customers	**565 586 203**	**(16 978 859)**	**548 607 344**

Key assumptions and judgments for estimating the loan impairment

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- a breach of contract, such as a default or delinquency in interest or principal payments;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower’s markets.

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

In determining the impairment allowance for loans to corporate customers, management makes the following general key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises marketable collateral, mainly real estate. Valuations for real estate have been discounted by 30-40 percent depending on type of the real estate to reflect current market conditions;
- a delay of 18 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be RUB 6 568 867 thousand lower/higher (2013: RUB 3 804 439 thousand lower/higher).

The Group estimates loan impairment for loans to retail customers based on its internal model which takes into account historical loss experience on each type of loan, probability of default and loss given default.

In determining the impairment allowance for loans to retail customers, management makes the following key assumptions:

- loss given default rate varies from 0% to 100% depending on the risk profile of the portfolio;
- probability of default varies from 0.01% to 99%.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be RUB 1 550 370 thousand lower/higher (2013: RUB 1 431 403 thousand).

Impaired loans

Interest income on impaired loans for the year ended 31 December 2014 amounted RUB 1 780 507 thousand (31 December 2013: RUB 1 183 159 thousand).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for reverse repurchase transactions, securities;
- for commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables;
- for retail lending, mortgages over residential properties and motor vehicles;
- for lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

(Thousands of Russian Roubles)

The following table provides the analysis of loans to corporate customers (including reverse repurchase agreements) by types of collateral as at 31 December 2014 and 2013:

	2014	2013
Loans for which no indications of impairment have been identified on an individual basis		
Real estate	37 256 905	35 377 172
Motor vehicles	285 949	7 194 180
Guarantees	83 017 314	1 759 925
Other collateral	6 287 509	10 250 864
No collateral or other credit enhancement	524 197 583	345 559 829
Gross loans for which no indications of impairment have been identified on an individual basis	**651 045 260**	**400 141 970**
Impaired loans		
Real estate	4 150 250	6 274 789
Motor vehicles	88 032	64 085
Guarantees	346 815	462 420
Other collateral	1 121 081	758 315
No collateral or other credit enhancement	13 341 150	7 308 532
Gross impaired loans	**19 047 328**	**14 868 141**
Total gross loans to corporate customers	**670 092 588**	**415 010 111**
Allowance for loan impairment	(10 679 721)	(9 543 124)
Total loans to corporate customers	**659 412 867**	**405 466 987**

The following table provides the analysis of loans to retail customers by types of collateral as at 31 December 2014 and 2013:

	2014	2013
Standard loans, including past due		
Real estate	28 991 554	26 785 390
Motor vehicles	46 336 055	77 780 246
No collateral or other credit enhancement	77 275 198	37 361 168
Gross standard loans	**152 602 807**	**141 926 804**
Impaired loans		
Real estate	3 228 660	2 958 513
Motor vehicles	1 873 122	3 131 029
Other collateral	-	2 007
No collateral or other credit enhancement	7 317 800	2 557 739
Gross overdue or impaired loans	**12 419 582**	**8 649 288**
Total gross loans to retail customers	**165 022 389**	**150 576 092**
Allowance for loan impairment	(9 985 332)	(7 435 735)
Total loans to retail customers	**155 037 057**	**143 140 357**

(Thousands of Russian Roubles)

The following table provides the analysis of lease receivables by types of collateral as at 31 December 2014:

	2014
Lease receivables for which no indications of impairment have been identified on an individual basis	
Real estate	597 168
Motor vehicles	2 851 920
Other collateral	8 934 645
Gross lease receivables for which no indications of impairment have been identified on an individual basis	**12 383 733**
Impaired lease receivables	
Real estate	-
Motor vehicles	7 150
Other collateral	94 862
Gross impaired lease receivables	**102 012**
Total gross lease receivables	**12 485 745**
Allowance for loan impairment	(84 268)
Total lease receivables	**12 401 477**

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

The following table provides analysis of minimum lease payments as at 31 December 2014:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance lease		
Up to 12 month	6 361 912	5 026 441
From 1 to 5 years	7 991 350	6 820 417
Over 5 years	561 549	554 619
Total gross/net investment value	**14 914 811**	**12 401 477**
Less unearned finance income	(2 513 334)	-
Present value of minimum lease payments receivable (net investment in the lease)	**12 401 477**	**12 401 477**

Included in corporate loans as at 31 December 2014 are loans with gross amount of RUB 94 494 775 thousand (31 December 2013: RUB 18 969 499 thousand) pledged as collateral for term deposits due to the CBR (see Note 18 for details).

Included in retail loans as at 31 December 2014 are mortgage loans with gross amount of RUB 4 428 583 thousand (31 December 2013: RUB 5 406 343 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 (see Note 20 for details).

As at 31 December 2014 and 2013 loans to customers included loans totaling RUR 16 985 917 thousand and RUR 13 751 878 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

(Thousands of Russian Roubles)

Repossessed collateral

As at 31 December 2014 and 2013, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2014, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 557 514 thousand (31 December 2013: RUB 366 507 thousand) and a fair value of RUB 700 212 thousand (31 December 2013: RUB 438 434 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements

As at 31 December 2014 and 2013, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian municipal bonds and corporate and bank bonds issued by Russian companies and banks with the total fair value of RUB 2 847 406 thousand (31 December 2013: Russian Government bonds, municipal bonds and corporate and bank bonds and shares issued by Russian companies and banks with the total fair value of RUB 25 693 159 thousand).

Concentration of loans to customers

As at 31 December 2014, the Group had RUB 178 359 090 thousand due from the ten largest borrowers (21% of gross loan portfolio) (31 December 2013: RUB 87 770 748 thousand or 16%). An allowance of RUB 244 890 thousand was recognised against these loans (31 December 2013: RUB 163 851 thousand).

As at 31 December 2014, the Group had ten borrower or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2013: one borrowers or a group of borrowers). As at 31 December 2014, the aggregate amount of this loan is RUB 201 467 228 thousand (31 December 2013: RUB 14 357 834 thousand).

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

	2014	**2013**
Mining and metallurgy	177 374 475	69 332 710
Trade	102 288 168	55 721 101
Energy	68 527 492	48 962 857
Finance	51 278 857	52 330 488
Agriculture and food	50 809 490	44 420 950
Chemicals	38 583 898	12 596 199
Other manufacturing	37 835 041	38 646 915
Real estate and construction	36 231 144	15 683 303
Machinary construction	31 900 580	22 211 676
Timber processing	27 676 548	19 610 512
Transportation	27 075 517	21 016 502
Telecommunications	12 155 208	3 777 859
Other	25 420 239	14 969 677
	687 156 657	**419 280 749**
Loans to individuals	160 444 065	146 305 454
Gross loans to customers	**847 600 722**	**565 586 203**

Loans to individuals are divided by products as follows:

	2014	**2013**
Car loans	75 127 648	82 897 707
Consumer loans	40 806 273	28 546 630
Mortgages loans	35 902 323	29 676 189
Other loans	8 607 821	5 184 928
Gross loans to individuals	**160 444 065**	**146 305 454**

(Thousands of Russian Roubles)

11. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	2014	2013
Debt and other fixed income investments available-for-sale		
USD denominated		
Corporate Eurobonds	179 083	113 517
Bank bonds	-	576 420
RUB denominated		
Russian Government Bonds	28 969 400	23 373 728
Corporate and bank bonds	25 212 720	28 175 160
Total debt and other fixed income investments available-for-sale	**54 361 203**	**52 238 825**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	5 833	5 833
EUR denominated		
Equity investments in financial institutions	2 707	2 663
Total equity investments available-for-sale	**8 540**	**8 496**
Total available-for-sale investment securities	**54 369 743**	**52 247 321**

As at 31 December 2014 included in Russian Government bonds, Russian municipal bonds and corporate and bank bonds are securities sold under repurchase agreements with the CBR in the amount of RUB 21 815 961 thousand (31 December 2013: RUB 32 789 934 thousand) (see Note 18 for details).

Nominal interest rates and maturities of these securities are as follows:

	2014		2013	
	%	**Maturity**	**%**	**Maturity**
Russian Government Bonds	6.2-8.15%	2015-2028	6.2-12%	2014-2028
Corporate and bank bonds	7.5-11.3%	2015-2033	1.99-10.15%	2014-2032
Corporate Eurobonds	4.95%	2016	4.95%	2016

As at 31 December 2014 approximately 89% of debt and other fixed income investments available-for-sale were issued by organisations rated not lower than “BBB-” (31 December 2013: 87%).

As at 31 December 2014 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 21 429 453 thousand (31 December 2013: RUB 16 337 799 thousand). As at 31 December 2014 and 2013 the Group has no “overnight” loans with the CBR (see Note 18 for details).

During 2014 the CBR significantly increased key rate, that together with general local market uncertainty resulted in growth of bond yields. For example, the 3-year Government bonds yield has rose from 6.78% as of 31 December 2013 to 14.89% as of 31 December 2014 according to data, published by the CBR. Yields for other bonds durations displayed similar increases. This dramatic increase in rates has led to significant negative fair value revaluation of all bonds in the Group’s portfolio. The biggest decrease in fair value refers to Government bonds, that corresponds to 84% of the total amount of revaluation reserve for available-for-sale securities.

(Thousands of Russian Roubles)

Held-to-maturity investment securities comprise:

	2013	
	Nominal value	Carrying value
Corporate bonds	300 000	299 993
Held-to-maturity investment securities		**299 993**

Nominal interest rates and maturities of these securities are as follows:

	2013	
	%	Maturity
Corporate bonds	7.95%	2014

12. INVESTMENT IN ASSOCIATE

In February 2014 in addition to the existing 40% participation AO UniCredit Bank has purchased the remaining 60% share participation in LLC UniCredit Leasing from UniCredit Leasing S.p.A. LLC UniCredit Leasing owns 100% of shares in ZAO Locat Leasing Russia (see Notes 1 and 27 for details).

Reconciliation of the investments in associate comprises:

	2013
As at January 1	**979 435**
Share of profits of associate	44 018
Dividends received from associate	(50 394)
As at December 31	**973 059**

Summarized financial information in respect of the Group's associate carried as equity method investees is set out below:

	December 31, 2013
Total assets	11 016 932
Total liabilities	8 537 249
Equity	2 479 683
Net profit	110 045
Group's share of profits of associate	44 018

(Thousands of Russian Roubles)

13. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2014 and 31 December 2013 transferred financial assets that are not derecognized in their entirety comprise:

	2014		2013	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Investment securities available-for-sale	21 815 961	20 590 914	32 789 934	28 494 209
Trading securities	263 368	244 320	3 533 397	3 435 769
Total	**22 079 329**	**20 835 234**	**36 323 331**	**31 929 978**

The Group has transactions to sell securities classified as trading and available-for-sale under agreements to repurchase (see Note 7, 11 and 18 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 7 and 11. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions (see Note 18 for details).

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

14. FIXED ASSETS

The movements in fixed assets were as follows:

	Buildings	**Computers and equipment**	**Other fixed assets**	**Total**
Cost				
1 January 2014	**6 592 862**	**4 007 384**	**617 365**	**11 217 611**
Additions	-	312 273	53 390	365 663
Disposals	(15 542)	(163 074)	(69 112)	(247 728)
Acquisition of subsidiary under common control	-	30 933	7 303	38 236
31 December 2014	**6 577 320**	**4 187 516**	**608 946**	**11 373 782**
Accumulated depreciation				
1 January 2014	**(1 376 640)**	**(2 967 443)**	**(545 185)**	**(4 889 268)**
Depreciation charge	(226 915)	(421 925)	(42 615)	(691 455)
Disposals	12 858	148 550	65 457	226 865
Acquisition of subsidiary under common control	-	(14 063)	(4 497)	(18 560)
31 December 2014	**(1 590 697)**	**(3 254 881)**	**(526 840)**	**(5 372 418)**
Net book value				
31 December 2014	**4 986 623**	**932 635**	**82 106**	**6 001 364**

(Thousands of Russian Roubles)

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2013	**6 587 410**	**3 840 042**	**642 552**	**11 070 004**
Additions	6 000	336 188	18 180	360 368
Disposals	-	(167 308)	(43 367)	(210 675)
Disposal of subsidiary	(548)	(1 538)	-	(2 086)
31 December 2013	**6 592 862**	**4 007 384**	**617 365**	**11 217 611**
Accumulated depreciation				
1 January 2013	**(1 147 882)**	**(2 668 679)**	**(529 271)**	**(4 345 832)**
Depreciation charge	(229 306)	(457 552)	(57 938)	(744 796)
Disposals	548	157 281	42 024	199 853
Disposal of subsidiary	-	1 507	-	1 507
31 December 2013	**(1 376 640)**	**(2 967 443)**	**(545 185)**	**(4 889 268)**
Net book value				
31 December 2013	**5 216 222**	**1 039 941**	**72 180**	**6 328 343**

15. INTANGIBLE ASSETS

The movements in intangible assets and goodwill were as follows:

	Intangible assets
Cost	
1 January 2014	**4 505 264**
Additions	1 958 483
Disposals	(4)
31 December 2014	**6 463 743**
Accumulated amortisation	
1 January 2014	**(2 300 371)**
Amortisation charge	(719 545)
Disposals	4
31 December 2014	**(3 019 912)**
Net book value	
31 December 2014	**3 443 831**

	Intangible assets	Goodwill	Total
Cost			
1 January 2013	**3 325 279**	**389 911**	**3 715 190**
Additions	1 179 996	-	1 179 996
Goodwill write-off	-	(389 911)	(389 911)
Disposals	(11)	-	(11)
31 December 2013	**4 505 264**	**-**	**4 505 264**
Accumulated amortisation			
1 January 2013	**(1 740 633)**	-	**(1 740 633)**
Amortisation charge	(559 749)	-	(559 749)
Disposals	11	-	11
31 December 2013	**(2 300 371)**	**-**	**(2 300 371)**
Net book value			
31 December 2013	**2 204 893**	**-**	**2 204 893**

(Thousands of Russian Roubles)

16. TAXATION

The corporate income tax expense comprises:

	2014	2013
Current tax charge	2 071 362	4 973 856
Deferred tax charge – origination of temporary differences	2 694 812	734 251
Income tax expense	**4 766 174**	**5 708 107**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2014 and 2013. The tax rate for interest income on state securities was 15% for 2014 and 2013.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2014	2013
Profit before tax	**23 585 515**	**29 831 824**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 717 103**	**5 966 365**
Effect of income taxed at lower tax rates	(137 504)	(111 694)
Non-deductible costs and non-taxable income	186 575	(146 564)
Income tax expense	**4 766 174**	**5 708 107**

Deferred tax assets and liabilities as at 31 December 2014 and 2013 comprise:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Fixed and intangible assets	893 873	729 964	(1 853 186)	(1 452 367)	**(959 313)**	**(722 403)**
Trading securities and derivatives	3 190 231	3 604 044	(3 545 841)	(4 387 158)	**(355 610)**	**(783 114)**
Available-for-sale securities	2 267 557	158 187	-	-	**2 267 557**	**158 187**
Loan impairment and credit related commitments	738 612	510 306	(5 319 921)	(1 705 326)	**(4 581 309)**	**(1 195 020)**
Deferred revenue	261 060	180 815	-	-	**261 060**	**180 815**
Other items	788 631	218 105	(18 165)	(67 903)	**770 466**	**150 202**
Total deferred tax assets/(liabilities)	**8 139 964**	**5 401 421**	**(10 737 113)**	**(7 612 754)**	**(2 597 149)**	**(2 211 333)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2014 is presented in the table below:

	1 January 2014	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquisition of subsidiary	31 December 2014
Fixed and intangible assets	(722 403)	(236 910)	-	-	**(959 313)**
Trading securities and derivatives	(783 114)	332 011	95 493	-	**(355 610)**
Available-for-sale securities	158 187	(55 233)	2 164 603	-	**2 267 557**
Loan impairment and credit related commitments	(1 195 020)	(3 386 289)	-	-	**(4 581 309)**
Deferred revenue	180 815	80 245	-	-	**261 060**
Other items	150 202	571 364	-	48 900	**770 466**
	(2 211 333)	**(2 694 812)**	**2 260 096**	**48 900**	**(2 597 149)**

(Thousands of Russian Roubles)

Movement in deferred tax assets and liabilities during the year ended 31 December 2013 is presented in the table below:

	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Fixed and intangible assets	(469 234)	(253 169)	-	**(722 403)**
Trading securities and derivatives	(652 901)	(179 947)	49 734	**(783 114)**
Available-for-sale securities	(1 478 454)	353 339	1 283 302	**158 187**
Loan impairment and credit related commitments	(277 753)	(917 267)	-	**(1 195 020)**
Deferred revenue	267 606	(86 791)	-	**180 815**
Other items	(199 383)	349 585	-	**150 202**
	(2 810 119)	**(734 250)**	**1 333 036**	**(2 211 333)**

Tax effect relating to components of other comprehensive income comprises:

	2014			2013		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(477 459)	95 493	(381 966)	(248 673)	49 734	(198 939)
Revaluation reserve for available-for-sale securities	(10 823 013)	2 164 603	(8 658 410)	(6 416 512)	1 283 302	(5 133 210)
Other comprehensive income	**(11 300 472)**	**2 260 096**	**(9 040 376)**	**(6 665 185)**	**1 333 036**	**(5 332 149)**

17. OTHER ASSETS AND LIABILITIES

Other assets comprise:

	2014	2013
Advances, prepayments and deferred expenses	1 809 280	767 977
Repossessed collateral	557 514	366 507
Settlements with derivatives clearers	410 675	150 991
VAT receivables on lease	199 742	-
Other	1 104 763	665 127
Other assets	**4 081 974**	**1 950 602**

Other liabilities comprise:

	2014	2013
Accrued compensation expense	2 878 443	2 582 487
Accounts payable	2 224 210	860 632
Liability arising on initial designation of fair value macro hedge	1 052 530	1 335 492
Deferred income	541 953	710 621
Transit accounts	436 817	336 716
Taxes payables	242 667	204 515
Other provisions	4 373	6 390
Other	936 960	163 262
Other liabilities	**8 317 953**	**6 200 115**

(Thousands of Russian Roubles)

18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2014	2013
Current accounts	25 254 271	14 722 701
Time deposits and loans	150 113 612	74 996 332
Repurchase agreements (Note 13)	20 835 234	31 929 978
Subordinated debt (Note 21)	13 753 224	12 326 113
Direct repurchase agreements from reverse repurchase agreements	-	18 678 470
Amounts due to credit institutions	**209 956 341**	**152 653 594**

As at 31 December 2014, the ten largest deposits, excluding subordinated debt, represented 85% of total amounts due to credit institutions (31 December 2013: 87%).

As at 31 December 2014, the Group had two counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2013: two counterparties). As at 31 December 2014, the aggregate amount of these balances is RUB 133 848 120 thousand (31 December 2013: RUB 106 651 835 thousand).

As at 31 December 2014 the Group has term deposits due to the CBR in the amount of RUB 60 258 238 thousand (31 December 2013: RUB 10 017 329 thousand) which are secured by a pool of corporate loans (see Notes 10 for details).

As at 31 December 2014 the Group has repurchase agreements with the CBR in the amount of RUB 20 835 234 thousand (31 December 2013: RUB 50 608 448 thousand). As at 31 December 2014 fair value of securities pledged under repurchase agreements is RUB 22 079 329 thousand (31 December 2013: RUB 36 323 331 thousand) (see Notes 7, 11 and 13 for details).

19. AMOUNTS DUE TO CUSTOMERS

The amounts due to customers include the following:

	2014	2013
Current accounts	125 598 853	103 923 218
Time deposits	685 021 652	425 477 232
Direct repurchase agreements from reverse repurchase agreements with customers	-	144 496
Amounts due to customers	**810 620 505**	**529 544 946**

As at 31 December 2014, approximately 53% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2013: 46%).

Analysis of customer accounts by type of customer is as follows:

	2014	2013
Corporate		
Current accounts	54 412 163	38 928 841
Time deposits	604 318 805	378 720 675
Repurchase agreements with customers	-	144 496
Total corporate accounts	**658 730 968**	**417 794 012**
Retail		
Current accounts	71 186 690	64 994 377
Time deposits	80 702 847	46 756 557
Total retail accounts	**151 889 537**	**111 750 934**
Amounts due to customers	**810 620 505**	**529 544 946**

(Thousands of Russian Roubles)

Included in retail time deposits are deposits of individuals in the amount of RUB 63 001 635 thousand (31 December 2013: RUB 31 740 949 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 17 701 212 thousand (31 December 2013: RUB 15 015 608 thousand) is represented by deposits placed by SME.

20. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	2014	2013
Bonds issued	62 007 167	50 737 686
Debt securities issued	**62 007 167**	**50 737 686**

On 14 February 2013 the Group placed two RUB 5 000 000 thousand bonds issues with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.6% for every semi-annual period.

On 26 February 2013 the Group placed two RUB 5 000 000 thousand bonds issues with a three-year maturity. The bonds each have a face value of RUB one thousand and carry six semi-annual interest coupons. The coupon rate was set as 8.15% for the first four semi-annual periods. In February 2015 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the fourth semi-annual period.

On 4 September 2013 the Group redeemed bonds under put option amounting to RUB 4 920 994 thousand.

On 6 September 2013 the Group redeemed bonds under put option amounting to RUB 4 904 785 thousand.

On 9 September 2013 the Group redeemed bonds under put option amounting to RUB 4 969 342 thousand.

On 26 November 2013 the Group placed RUB 10 000 000 thousand bonds issue with a five-year maturity. The bonds each have a face value of RUB one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 8.1% for first six semi-annual period. In November 2016 the coupon rate will be set for the remaining two semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the sixth semi-annual period.

On 16 December 2013 the Group redeemed bonds under put option amounting to RUB 4 999 999 thousand.

On 16 May 2014 the Group redeemed bonds under a put option amounting to RUB 4 500 688 thousand.

On 23 May 2014 the Group placed RUB 10 000 000 thousand bonds issues with a five-year maturity. The bonds each have a face value of RUB one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 9.7% for the first two semi-annual periods. In May 2015 the coupon rate will be set for the remaining semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the second semi-annual period.

(Thousands of Russian Roubles)

On 12 August 2014 the Group placed RUB 10 000 000 thousand bonds issues with a five-year maturity. The bonds each have a face value of RUB one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 10.3% for the first two semi-annual periods. In August 2015 the coupon rate will be set for the remaining semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the second semi-annual period.

On 29 October 2014 the Group redeemed bonds under a put option amounting to RUB 4 787 836 thousand.

On 31 October 2014 the Group redeemed bonds under a put option amounting to RUB 4 966 255 thousand.

On 26 November 2014 the Group placed RUB 5 000 000 thousand bonds issues with a five-year maturity. The bonds each have a face value of RUB one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 12% for the first two semi-annual periods. In November 2015 the coupon rate will be set for the remaining semi-annual periods. The Group has an obligation to buy the bonds back at their nominal value upon the bond holders request just before the end of the second semi-annual period.

On 10 December 2014 the Group totally redeemed bonds amounting to RUB 1 thousand out of RUB 5 000 000 thousand issue which was previously redeemed under a put option amounting to RUB 4 999 999 thousand on 16 December 2013.

As at 31 December 2014 mortgage-backed bonds with the carrying value of RUB 5 125 808 thousand (31 December 2013: RUB 5 124 685 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 4 428 583 thousand (31 December 2013: RUB 5 406 343 thousand) and by cash in the amount of RUB 1 000 000 thousand (31 December 2013: none) (see Notes 6 and 10 for details).

21. SUBORDINATED DEBT

	2014	2013
UniCredit Bank Austria AG, Vienna		
USD 100 000 thousand, semi-annual interest payment, maturing June 2014, LIBOR+1.43%p.a.;	-	3 272 920
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+2.30% p.a.;	6 877 042	4 526 880
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.25% p.a.	6 876 182	4 526 313
Subordinated Debt	**13 753 224**	**12 326 113**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

22. SHAREHOLDER'S EQUITY

As at 31 December 2014, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares (31 December 2013: 2 404 181 ordinary shares) with a par value of RUB 16 820 each.

(Thousands of Russian Roubles)

23. COMMITMENTS AND CONTINGENCIES

Credit related commitments and contingencies

	2014	2013
Undrawn loan commitments	259 196 477	200 972 879
Undrawn commitments to issue documentary instruments	140 828 238	111 731 631
Guarantees issued	125 789 656	86 736 982
Letters of credit	46 498 812	13 251 818
Gross credit related commitments and contingencies	**572 313 183**	**412 693 310**
Provisions for credit related commitments and contingencies	(11 781)	(32 509)
Total credit related commitments and contingencies	**572 301 402**	**412 660 801**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2014, collateral deposits of RUB 12 896 998 thousand were held by the Group (31 December 2013: RUB 11 558 419 thousand).

Operating lease commitments

	2014	2013
Not later than 1 year	1 053 905	975 527
Later than 1 year but not later than 5 years	2 480 617	1 726 776
Later than 5 years	168 680	130 444
	3 703 202	**2 832 747**

Operating environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the CBR significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

(Thousands of Russian Roubles)

Taxation

Commercial legislation of the Russian Federation, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2014 the provision for legal proceedings in the amount of RUB 4 372 thousand (31 December 2013: RUB 6 390 thousand) was recognized in other liabilities in the consolidated statement of financial position.

24. (LOSSES)/GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

(Losses)/gains on financial assets and liabilities held for trading comprise:

	2014	2013
Net losses from trading securities	(786 939)	(199 262)
Net (losses)/gains from foreign exchange and interest based derivatives		
- spot and derivative instruments	(25 090 193)	(1 117 229)
- translation of other foreign currency assets and liabilities	23 826 211	5 232 994
(Losses)/gains on financial assets and liabilities held for trading	**(2 050 921)**	**3 916 503**

25. FEE AND COMMISSION INCOME

Fee and commission income comprises:

	2014	2013
Customer accounts handling and settlements	3 090 617	2 296 412
Retail services	2 606 685	2 151 713
Documentary business	1 788 035	1 561 537
Loan fees that are not part of the effective interest rate	334 805	359 290
Other	5 882	17 599
Fee and commission income	**7 826 024**	**6 386 551**

(Thousands of Russian Roubles)

26. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Personnel and other administrative expenses comprise:

	2014	2013
Salaries and bonuses	5 561 858	4 867 558
Social security costs	347 260	316 323
Other compensation expenses	117 320	180 621
Other employment taxes	1 116 181	1 036 198
Personnel expenses	**7 142 619**	**6 400 700**
Rent, repairs and maintenance	1 539 521	1 443 476
Communication and information services	996 169	753 503
Advertising and marketing	540 008	583 542
Security expenses	293 767	263 583
Other taxes	146 334	215 563
Insurance	121 243	76 240
Legal, audit and other professional services	119 845	99 682
Other	891 212	851 445
Other administrative expenses	**4 648 099**	**4 287 034**

27. ACQUISITION

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are outside the scope of IFRS 3 *Business Combinations*, and there is no other guidance for such situations under IFRS. The Group elects to account for such transactions prospectively as of the date when common control was established. The assets and liabilities acquired are recognized at the carrying amounts. The difference between the consideration paid and the net assets acquired is accounted for directly in equity. The consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows are not restated.

The following table presents information on net assets of the subsidiary as of acquisition date based on IFRS financial statements:

Assets	
Amounts due from credit institutions	1 244 351
Lease receivables	9 004 670
Fixed assets	19 676
Deferred income tax	48 900
Current income tax	98 928
Other assets	1 178 209
Total assets	**11 594 734**
Liabilities	
Amounts due to credit institutions	8 423 741
Other liabilities	792 174
Total liabilities	**9 215 915**
Net assets	**2 378 819**
Consideration paid	1 163 400
Fair value of previous 40% shareholding (Note 12)	973 059
Less: Net assets	(2 378 819)
Result from acquisition of subsidiary, recognized in equity	**(242 360)**

28. RISK MANAGEMENT

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure

The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management of the Bank.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Credit Committee of Retail Business as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management of the Bank (excluding operational instructions which are approved by the Heads of the responsible Units). The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines and rules. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance

Credit risk management policies, procedures and manuals are approved by the Board of Management of the Bank.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 40 million or equivalent in other currencies. It is chaired by the President of the Board of Management or the CRO and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 15 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis;
- Loan/credit applications from customers in the amount in the range from EUR 15 to 40 million or equivalent in other currencies may be approved either by the Large or the Small Credit Committee depending on rating of the borrower;
- The Credit Committee of Retail Business is responsible for approval of the loan applications of SME in the amount up to EUR 1 million or equivalent in other currencies and also for approval of the loan applications of Private Individuals clients in the amount up to 100 million RUR or equivalent in other currencies. The Committee meets once in a two-week period;
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

The Bank also has a system of personal credit approval authorities with the four-eyes principle in place – approval is done jointly by representatives from both business and risk functions; for SME lending process proposal is done by business function and approval is done by risk function.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by the UniCredit Group (by the authorized members of the Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Bank to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Bank's operations. This allows the Bank to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows the Bank to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Bank uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. As the result of the review, the borrower's internal credit rating may be changed. The Bank monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Bank's credit transactions a Monitoring Unit was established. The Unit implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

(Thousands of Russian Roubles)

	Notes	Maximum gross exposure 31 December 2014	Maximum gross exposure 31 December 2013
Cash and cash balances (excluding cash on hand)	6	23 799 335	16 966 502
Trading securities:	7		
- held by the Group		4 184 948	8 043 048
- pledged under repurchase agreement		263 368	3 533 397
Amounts due from credit institutions	8	332 555 937	223 403 672
Derivative financial assets	9	81 685 033	9 610 569
Derivative financial assets designated for hedging	9	12 003 652	4 131 332
Loans to customers	10	826 851 401	548 607 344
Investment securities:	11		
- available-for-sale			
- held by the Group		32 553 782	19 457 387
- pledged under repurchase agreement		21 815 961	32 789 934
- held-to-maturity		-	299 993
Investments in associate		-	973 059
Other financial assets	17	2 219 955	918 968
		1 337 933 372	**868 735 205**
Financial commitments and contingencies	23	572 301 402	412 660 801
Total credit risk exposure		**1 910 234 774**	**1 281 396 006**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2014 and 2013.

The High grade category includes exposures with low credit risk, i.e. exposures without any impairment or with low provision rate (less than 1%). All other performing exposures which are not past due are included within Standard category.

		Neither past due nor impaired			
	Notes	**High grade**	**Standard**	**Past due or impaired**	**Total 2014**
Cash and cash balances (excluding cash on hand)	6	23 799 335	-	-	**23 799 335**
Trading securities	7				
- held by the Group		4 184 948	-	-	**4 184 948**
- pledged under repurchase agreement		263 368	-	-	**263 368**
Amounts due from credit institutions	8	332 555 937	-	-	**332 555 937**
Derivative financial assets	9	81 685 033	-	-	**81 685 033**
Derivative financial assets designated for hedging	9	12 003 652	-	-	**12 003 652**
Loans to customers	10				
Corporate customers		610 325 251	28 127 579	18 433 930	**656 886 760**
Retail customers		142 102 694	5 687 709	7 246 654	**155 037 057**
Reverse repurchase agreements with companies		2 526 107	-	-	**2 526 107**
Lease receivables		11 820 860	-	580 617	**12 401 477**
Investment securities available-for-sale:	11				
- held by the Group		32 553 782	-	-	**32 553 782**
- pledged under repurchase agreement		21 815 961	-	-	**21 815 961**
Total		**1 275 636 928**	**33 815 288**	**26 261 201**	**1 335 713 417**

(Thousands of Russian Roubles)

	Notes	Neither past due nor impaired High grade	Neither past due nor impaired Standard	Past due or impaired	Total 2013
Cash and cash balances (excluding cash on hand)	6	16 966 502	-	-	**16 966 502**
Trading securities	7				
- held by the Group		8 043 048	-	-	**8 043 048**
- pledged under repurchase agreement		3 533 397	-	-	**3 533 397**
Amounts due from credit institutions	8	223 403 672	-	-	**223 403 672**
Derivative financial assets	9	9 610 569	-	-	**9 610 569**
Derivative financial assets designated for hedging	9	4 131 332	-	-	**4 131 332**
Loans to customers	10				
Corporate customers		345 399 154	27 323 091	7 721 692	**380 443 937**
Retail customers		128 736 590	9 752 560	4 651 207	**143 140 357**
Reverse repurchase agreements with companies		25 023 050	-	-	**25 023 050**
Investment securities:	11				
- available-for-sale					
- held by the Group		19 457 387	-	-	**19 457 387**
- pledged under repurchase agreement		32 789 934	-	-	**32 789 934**
- held-to-maturity		299 993	-	-	**299 993**
Total		**817 394 628**	**37 075 651**	**12 372 899**	**866 843 178**

Geographical concentration

Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2014 and 31 December 2013 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk of the Bank. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the Bank's liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

(Thousands of Russian Roubles)

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Bank, available funding sources and market analysis. The Bank has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval.
2. Structural liquidity of the Bank is analyzed by Finance Department and Market Risk Unit using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on daily basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.
3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Bank's strategy and features of the local market environment.
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Bank's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on local approach to cash flow model.
4. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to management and analyzed on a weekly basis.
5. Liquidity ratios in line with regulatory requirements established by CBR are to be monitored and met:

   Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis.

   Markets Department projects N2, N3 ratios for a one month horizon.
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

As at 31 December 2014 and 2013, these ratios were as follows:

	2014, %	**2013, %**
N2 "Instant liquidity Ratio" (minimum 15%)	114.4	74.6
N3 "Current Liquidity Ratio" (minimum 50%)	66.9	87.6
N4 "Long-Term Liquidity Ratio" (maximum 120%)	97.0	76.5

(Thousands of Russian Roubles)

The following tables shows the liquidity gap profile as at 31 December 2014 and 2013. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates.This information is used internally for risk management purposes and differs from financial statement amounts.

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2014:

	2014							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	42 873 396	-	-	-	-	-	-	**42 873 396**
Trading securities	-	-	-	-	2 834 430	1 622 831	-	**4 457 261**
Amounts due from credit institutions	192 338 776	3 021 274	6 300 000	57 122 683	2 276 670	71 496 911	-	**332 556 314**
Loans to customers	237 586 826	37 782 001	50 464 869	140 244 427	217 486 989	143 271 623	-	**826 836 735**
Investment securities available-for-sale	-	2 619 856	219 538	1 793 579	10 156 127	39 795 743	-	**54 584 843**
Fixed assets	-	-	-	-	-	-	6 001 364	**6 001 364**
Other assets	-	-	-	93 284 706	-	-	-	**93 284 706**
Total assets	**472 798 998**	**43 423 131**	**56 984 407**	**292 445 395**	**232 754 216**	**256 187 108**	**6 001 364**	**1 360 594 619**
Liabilities								
Amounts due to credit institutions	95 146 506	53 232 385	20 858 185	9 651 168	18 484 918	13 373 699	-	**210 746 861**
Amounts due to customers								
- current accounts	54 654 910	4 750 217	4 750 217	5 543 125	12 344 185	43 204 647	-	**125 247 301**
- time deposits	287 766 814	62 796 607	10 329 495	29 348 024	164 568 640	130 212 713	-	**685 022 293**
Debt securities issued	1 391 081	10 109 664	10 000 000	15 517 149	25 000 000	-	-	**62 017 894**
Other liabilities	135 494 246	-	-	-	-	-	-	**135 494 246**
Equity	-	-	-	-	-	-	142 066 024	**142 066 024**
Total equity and liabilities	**574 453 557**	**130 888 873**	**45 937 897**	**60 059 466**	**220 397 743**	**186 791 059**	**142 066 024**	**1 360 594 619**
Net position	**(101 654 559)**	**(87 465 742)**	**11 046 510**	**232 385 929**	**12 356 473**	**69 396 049**	**(136 064 660)**	**-**
Accumulated gap	**(101 654 559)**	**(189 120 301)**	**(178 073 791)**	**54 312 138**	**66 668 611**	**136 064 660**	**-**	

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by the Group's money market daily borrowing capacity, issue of unsecured bonds and secured refinancing with the CBR.

(Thousands of Russian Roubles)

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2013:

	2013							
	Less than 1 month	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 3 years**	**More than 3 years**	**No stated maturity**	**Total**
Assets								
Cash and cash balances	25 721 114	-	-	-	-	-	-	**25 721 114**
Trading securities	3 715 151	-	5 979 413	1 774 488	-	-	-	**11 469 052**
Amounts due from credit institutions	206 927 066	12 759 604	-	500 000	-	-	-	**220 186 670**
Loans to customers	112 759 312	27 411 968	43 928 918	114 491 545	158 698 621	90 276 991	-	**547 567 355**
Investment securities:								
- available-for-sale	-	2 513 368	878 389	347 566	11 191 848	37 017 779	-	**51 948 950**
- held-to-maturity	-	-	-	300 073	-	-	-	**300 073**
Fixed assets	-	-	-	-	-	-	6 328 343	**6 328 343**
Other assets	-	-	-	19 355 997	-	53 160	-	**19 409 157**
Total assets	**349 122 643**	**42 684 940**	**50 786 720**	**136 769 669**	**169 890 469**	**127 347 930**	**6 328 343**	**882 930 714**
Liabilities								
Amounts due to credit institutions	74 586 408	1 884 788	3 286 535	18 259 259	37 551 808	16 404 724	-	**151 973 522**
Amounts due to customers								
- current accounts	38 807 422	4 088 796	4 088 796	4 700 469	11 492 190	40 222 664	-	**103 400 337**
- time deposits	242 523 199	64 315 141	4 494 736	20 425 632	69 264 050	19 535 228	-	**420 557 986**
Debt securities issued	-	-	4 520 712	10 000 001	35 204 879	-	-	**49 725 592**
Other liabilities	26 810 270	-	-	-	-	-	-	**26 810 270**
Equity	-	-	-	-	-	-	130 463 007	**130 463 007**
Total equity and liabilities	**382 727 299**	**70 288 725**	**16 390 779**	**53 385 361**	**153 512 927**	**76 162 616**	**130 463 007**	**882 930 714**
Net position	**(33 604 656)**	**(27 603 785)**	**34 395 941**	**83 384 308**	**16 377 542**	**51 185 314**	**(124 134 664)**	**-**
Accumulated gap	**(33 604 656)**	**(61 208 441)**	**(26 812 500)**	**56 571 808**	**72 949 350**	**124 134 664**	**-**	

(Thousands of Russian Roubles)

Analysis of financial assets and liabilities by remaining contractual maturities

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

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2014							
Cash and cash balances	42 873 396	-	-	-	-	-	**42 873 396**
Trading securities							
- held by the Group	4 184 948	-	-	-	-	-	**4 184 948**
- pledged under repurchase agreements	263 368	-	-	-	-	-	**263 368**
Amounts due from credit institutions	195 079 900	3 748 655	9 473 421	55 601 316	9 692 654	70 420 970	**344 016 916**
Derivative financial assets:							
- Contractual amounts payable	(30 309 003)	(23 403 949)	(24 387 736)	(12 734 098)	(26 854 086)	(36 310 163)	**(153 999 035)**
- Contractual amounts receivable	48 075 653	29 343 823	34 592 172	14 907 679	40 759 994	57 800 110	**225 479 431**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(114 648)	(1 322 962)	(2 573 265)	(4 588 452)	(19 528 498)	(6 113 495)	**(34 241 320)**
- Contractual amounts receivable	967 946	3 332 359	5 464 639	7 154 065	24 519 725	6 117 645	**47 556 379**
Loans to customers	43 752 196	64 955 283	98 774 668	159 752 901	383 583 142	261 313 455	**1 012 131 645**
Investment securities available-for-sale:							
- held by the Group	53 783	748 463	958 941	1 840 719	10 216 211	50 349 131	**64 167 248**
- pledged under repurchase agreements	48 705	3 088 463	493 389	2 331 059	9 848 266	16 739 218	**32 549 100**
Total undiscounted financial assets	**304 876 244**	**80 490 135**	**122 796 229**	**224 265 189**	**432 237 408**	**420 316 871**	**1 584 982 076**
Financial liabilities as at 31 December 2014							
Amounts due to credit institutions	96 022 796	54 776 529	21 130 441	10 123 108	19 336 613	13 444 956	**214 834 443**
Derivative financial liabilities:							
- Contractual amounts payable	56 610 504	34 293 250	77 562 217	71 539 208	64 995 086	14 899 361	**319 899 626**
- Contractual amounts receivable	(42 287 190)	(27 672 222)	(52 196 012)	(49 110 347)	(44 610 557)	(10 814 599)	**(226 690 927)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	268 311	4 540 006	1 956 220	40 309 334	16 993 486	20 228 361	**84 295 718**
- Contractual amounts receivable	(517 633)	(3 986 284)	(1 404 055)	(28 805 375)	(11 574 943)	(17 645 081)	**(63 933 371)**
Amounts due to customers	387 305 063	78 392 654	30 437 027	44 039 139	281 034 631	25 685 121	**846 893 635**
Debt securities issued	-	1 678 795	1 203 281	3 286 408	33 067 500	40 525 000	**79 760 984**
Total undiscounted financial liabilities	**497 401 851**	**142 022 728**	**78 689 119**	**91 381 475**	**359 241 816**	**86 323 119**	**1 255 060 108**

(Thousands of Russian Roubles)

The maturity profile of the financial assets and liabilities at 31 December 2013 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2013							
Cash and cash balances	25 708 189	-	-	-	-	-	**25 708 189**
Trading securities							
- held by the Group	8 043 048	-	-	-	-	-	**8 043 048**
- pledged under repurchase agreements	3 533 397	-	-	-	-	-	**3 533 397**
Amounts due from credit institutions	208 432 994	13 421 158	82 002	752 925	729 740	112 406	**223 531 225**
Derivative financial assets:							
- Contractual amounts payable	(9 900 055)	(5 505 716)	(8 988 084)	(18 027 924)	(5 130 281)	(2 972 663)	**(50 524 723)**
- Contractual amounts receivable	10 307 592	6 553 562	9 583 895	20 091 466	10 249 359	9 271 006	**66 056 880**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(6 014)	(6 838)	(22 515)	(1 030 327)	(1 543 811)	(857 502)	**(3 467 007)**
- Contractual amounts receivable	184 698	2 811 479	859 607 `	1 930 716	3 186 608	491 731	**9 464 839**
Loans to customers	54 660 277	42 869 150	73 715 616	119 398 763	251 278 113	132 615 181	**674 537 100**
Investment securities							
- available-for-sale							
- held by the Group	44 652	249 438	1 365 849	1 079 572	9 794 119	14 123 663	**26 657 293**
- pledged under repurchase agreements	61 676	3 116 419	544 742	1 153 437	8 286 006	37 627 230	**50 789 510**
- held-to-maturity	-	-	-	311 892	-	-	**311 892**
Total undiscounted financial assets	**301 070 454**	**63 508 652**	**77 141 112**	**125 660 520**	**276 849 853**	**190 411 052**	**1 034 641 643**
Financial liabilities as at 31 December 2013							
Amounts due to credit institutions	75 918 124	2 204 894	3 585 352	18 928 949	38 311 438	16 761 572	**155 710 329**
Derivative financial liabilities:							
- Contractual amounts payable	8 920 914	24 056 642	9 755 852	12 030 297	8 929 247	7 177 178	**70 870 130**
- Contractual amounts receivable	(9 113 807)	(23 600 462)	(8 812 111)	(12 055 658)	(7 775 344)	(3 191 178)	**(64 548 560)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	133 857	1 220 776	1 362 511	4 971 950	7 091 614	5 014 364	**19 795 072**
- Contractual amounts receivable	(82 757)	(646 266)	(274 846)	(1 066 103)	(1 806 829)	(1 121 674)	**(4 998 475)**
Amounts due to customers	339 947 338	72 386 729	9 139 579	23 876 079	81 333 733	12 528 360	**539 211 818**
Debt securities issued	-	6 315	196 165	2 285 303	44 525 535	12 418 904	**59 432 222**
Total undiscounted financial liabilities	**415 723 669**	**75 628 628**	**14 952 502**	**48 970 817**	**170 609 394**	**49 587 526**	**775 472 536**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

(Thousands of Russian Roubles)

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 19).

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

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2014	23 682 800	42 504 644	87 245 124	163 680 983	174 981 329	80 206 522	**572 301 402**
2013	18 608 748	30 989 275	77 592 232	106 851 453	158 661 119	19 957 974	**412 660 801**

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group distinguishes four market risk categories:

1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VAR") methodology for the measuring of all risks mentioned above. VAR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVAR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VAR:

1. Total VAR is calculated for all risk factors taken in aggregate;
2. Interest Rate VAR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VAR is originated from currency risk exposure of the portfolio;
4. Spread VAR is originated from spread risk exposure of the bond portfolio;
5. Residual VAR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VAR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Starting in 2014, the Group additionally calculates (and includes in VAR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VAR, BPV and CPV is an integral part of the risk management procedures, VAR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:

- Total VAR limit for the trading portfolio, and a warning level for total VAR for the whole portfolio;
- IRC limit for total bond position;
- Total BPV limit for whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, the Bank (local ALCO) sets limits for BPV by timeband and business segment (ALM and Markets).

Usage of VAR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VAR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environments. On a daily (starting in 2014, earlier — monthly) basis MRU performs stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, the MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on daily basis against the established limits.

All limit violations are analyzed by the MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to UniCredit Bank Austria AG.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponded impact on Capital are calculated quarterly by the UniCredit Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new systems also enables the Bank to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Bank's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

(Thousands of Russian Roubles)

Interest rate risk management of the banking book

The Bank uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on historical observation the Bank developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Bank applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Bank has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income. The Bank uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used by the Bank.

Objectives and limitation of VAR methodology (unaudited)

The Group uses a Basel II compliant VAR methodology based on historical simulations. Historical simulation is a method that allows to calculate VAR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VAR is given by the percentile evaluation with the 99% confidence interval.

VAR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VAR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VAR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VAR for all purposes (regulatory, market risk disclosures, etc.). Changes to VAR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited)

The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices by one BPV:

	2014	**2013**
Total VAR	1 476 262	456 011
Interest Rate VAR	1 154 759	241 971
Spread VAR	356 283	215 087
Foreign exchange VAR	37 279	21 188

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits on the liability side offset by internal interest rate swaps to transfer interest rate risk to the trading book.

(Thousands of Russian Roubles)

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices by one BPV:

	2014	2013
Total VAR	1 299 447	352 827
Interest Rate VAR	1 174 907	213 141
Spread -VAR[1]	341 452	172 219
Foreign exchange VAR[2]	-	-

[1]Spread risk in the banking book arises from bonds comprising investment portfolio.
[2] Foreign exchange risk is defined as the risk arising from the net open position of the Bank and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices by one BPV:

	2014	2013
Total VAR	186 151	98 518
Interest Rate VAR	137 614	51 313
Spread VAR	14 831	52 244
Foreign exchange VAR	37 279	21 188

Operational risk

Operational risk definition and risk management principles

The Group defines as “operational” the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework

The Bank follows the UniCredit Group’s operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management of the Bank holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Bank's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee of the Bank being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Bank's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Bank's Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- key operational risk indicators;
- scenario analysis;
- operational risk limits control;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential operational risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating at the Bank which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure of the Bank, leveraging mainly on the expertise of the ORM Unit and Organization Department.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

(Thousands of Russian Roubles)

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deals as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency, legal entity and risk product (asset or liability).

  In accordance with the Group methodology discount factors include:

  - for assets: Risk free rate + expected loss + unexpected loss
  - for liabilities: Risk free rate + own credit spread (liquidity spreads)

- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value valuation of derivative instruments are based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value.

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	332 555 937	327 034 093	223 403 672	223 504 788
Loans to customers	826 851 401	852 715 500	548 607 344	580 441 850
Investment securities held-to-maturity	-	-	299 993	299 191
Financial liabilities				
Amounts due to credit institutions	209 956 341	210 922 593	152 653 594	151 810 815
Amounts due to customers	810 620 505	827 401 485	529 544 946	534 985 153
Debt securities issued	62 007 167	59 722 181	50 737 686	50 976 208

(Thousands of Russian Roubles)

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	327 034 093	327 034 093
Loans to customers	-	-	852 715 500	852 715 500
Financial liabilities				
Amounts due to credit institutions	-	-	210 922 593	210 922 593
Amounts due to customers	-	-	827 401 485	827 401 485
Debt securities issued	-	59 722 181	-	59 722 181

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	223 504 788	223 504 788
Loans to customers	-	-	580 441 850	580 441 850
Investment securities held-to-maturity	-	299 191	-	299 191
Financial liabilities				
Amounts due to credit institutions	-	-	151 810 815	151 810 815
Amounts due to customers	-	-	534 985 153	534 985 153
Debt securities issued	-	50 976 208	-	50 976 208

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites				
- held by the Group	1 326 696	2 858 252	-	4 184 948
- pledged under repurchase agreements	-	263 368	-	263 368
Investment securities available-for-sale				
- held by the Group	26 451 655	6 093 587	-	32 545 242
- pledged under repurchase agreements	-	21 815 961	-	21 815 961
Derivative financial assets	-	81 685 033	-	81 685 033
Derivative financial assets designated for hedging	-	12 003 652	-	12 003 652
Total	**27 778 351**	**124 719 853**	**-**	**152 498 204**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	104 534 651	-	104 534 651
Derivative financial liabilities designated for hedging	-	20 464 088	-	20 464 088
Total	**-**	**124 998 739**	**-**	**124 998 739**

(Thousands of Russian Roubles)

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites				
- held by the Group	136 142	7 906 906	-	8 043 048
- pledged under repurchase agreements	3 303 137	230 260	-	3 533 397
Investment securities available-for-sale				
- held by the Group	2 728 842	16 720 049	-	19 448 891
- pledged under repurchase agreements	19 755 677	13 034 257	-	32 789 934
Derivative financial assets	-	9 610 569	-	9 610 569
Derivative financial assets designated for hedging	-	4 131 332	-	4 131 332
Total	**25 923 798**	**51 633 373**	**-**	**77 557 171**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	8 153 454	-	8 153 454
Derivative financial liabilities designated for hedging	-	6 601 742	-	6 601 742
Total	**-**	**14 755 196**	**-**	**14 755 196**

The table above does not include AFS equity investments of RUR 8 540 thousand (31 December 2013: RUR 8 496 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

During the year ended 31 December 2014 there were no transfers from levels 1 to level 2 for available-for-sale investment securities (2013: RUR 2 239 747 thousand). During the year ended 31 December 2013 the transfers from level 2 to level 1 category amounted to RUR 720 168 thousand for available-for-sale investment securities. During the year ended 31 December 2014 and 31 December 2013 there were no transfers for trading securities.

The following table shows reconciliation for the year ended 31 December 2013 for the fair value measurements in Level 3 for the fair value hierarchy:

	Equity investments available-for-sale 2013
As at the beginning of the year	**7 742 614**
Total gains (losses):	
- in profit or loss	6 123 108
- in other comprehensive income	(5 446 181)
Disposal:	(8 419 541)
As at the end of the year	**-**

(Thousands of Russian Roubles)

30. RELATED PARTY DISCLOSURES

The Group's ultimate shareholder is the UniCredit S.P.A, the parent company of UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and UniCredit S.P.A (ultimate parent) were as follows:

	2014	Weighted average interest rate, %	2013	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	-	-	1 905 989	7.1%
- In EUR	519 897	0.0%	225 606	0.0%
- In USD	119 834 946	3.3%	129 336 010	0.3%
Derivative financial assets	3 661		-	
Other assets	126 927		87 141	
Amounts due to credit institutions				
- In Russian Roubles	4 872 000	6.4%	963 548	0.0%
- In EUR	17 621 039	2.1%	10 411 201	2.4%
- In USD	44 510 280	2.2%	46 924 855	2.2%
- In other currencies	-	-	155 404	0.3%
Derivative financial liabilities	17 342 174		-	
Derivative financial liabilities designated for hedging	10 224		-	
Other liabilities	448 834		170 175	
Commitments and guarantees issued	10 441 771		3 592 476	
Commitments and guarantees received	98 489 972		2 043 830	

	2014	2013
Interest income	2 593 943	435 219
Interest expense	(2 797 339)	(1 675 200)
Fee and commission income	25 036	15 756
Fee and commission expense	(206 024)	(46 989)
(Losses)/gains on financial assets and liabilities held for trading	(18 845 128)	33 464
Personnel expenses	(19 642)	(18 451)
Other income	-	201

(Thousands of Russian Roubles)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	2014	Weighted average interest rate, %	2013	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	10 994 784	13.0%	3 000	6.5%
- In EUR	8 193 844	0.4%	13 354 913	0.0%
- In USD	1 139 014	4.1%	4 073	0.0%
- In other currencies	2 736	0.0%	1 685	0.0%
Derivative financial assets	6 801 297		2 223 130	
Derivative financial assets designated for hedging	3 067 860		1 244 897	
Loans to customers				
- In Russian Roubles	731 662	5.0%	675 403	5.0%
- In EUR	2 675 568	6.1%	1 824 030	6.2%
Intangible assets	886 550		172 375	
Other assets	39 162		2 360	
Amounts due to credit institutions				
- In Russian Roubles	2 286 350	22.2%	1 186 328	5.0%
- In EUR	2 709 370	0.0%	95 056	0.0%
- In USD	5 663 104	2.3%	3 948 408	2.3%
- In other currencies	1 967	0.0%	1 436	0.0%
Derivative financial liabilities	12 052 242		3 208 485	
Derivative financial liabilities designated for hedging	15 000 188		3 829 564	
Amounts due to customers				
- In Russian Roubles	22 482	19.2%	833 700	5.5%
- In EUR	391 218	2.1%	509 554	0.1%
- In USD	-	-	23 300	0.5%
Other liabilities	976 985		190 472	
Commitments and guarantees issued	16 872 379		15 184 104	
Commitments and guarantees received	6 441 018		3 700 784	

	2014	2013
Interest income	7 058 765	3 985 132
Interest expense	(5 896 541)	(3 221 975)
Fee and commission income	20 193	20 859
Fee and commission expense	(51 683)	(35 621)
Losses on financial assets and liabilities held for trading	(4 972 236)	(329 159)
Other income	808	21 328
Personnel expenses	(58 653)	(23 832)
Other administrative expenses	(100 382)	(45 095)

(Thousands of Russian Roubles)

Subordinated loans from the members of the UniCredit Group were as follows for 2014 and 2013:

	2014	2013	
	UniCredit Bank Austria AG	**UniCredit Bank Austria AG**	**Other companies controlled by the UniCredit Group**
Subordinated loans at the beginning of the year	12 326 113	12 655 191	2 435 466
Subordinated debt repaid during the year	(3 503 430)	(1 640 920)	(2 551 024)
Accrual of interest, net of interest paid	255 981	127 932	(10 970)
Effect of exchange rates changes	4 674 560	1 183 910	126 528
Subordinated loans at the end of the year	**13 753 224**	**12 326 113**	**-**

Total compensation of the key management personnel included in personnel expenses for the year ended 31 December 2014 comprised short-term benefits in the amount of RUB 168 708 thousand and other long-term benefits in the amount of RUB 176 181 thousand (2013: RUB 106 910 thousand and RUB 100 739 thousand, respectively) and post-employment benefits in the amount of RUB 1 033 thousand (2013: RUB 909 thousand).

31. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

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

Capital and Capital adequacy ratio under the CBR requirements

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation N 395-P "Calculation of own funds (Basel III) by credit institution" as at 31 December 2014 and 2013 was as follows (unaudited):

	2014	2013
Core equity Tier I	118 209 092	104 647 076
Tier I	118 209 092	104 647 076
Additional capital	15 373 802	25 132 496
Total capital	**133 582 894**	**129 779 572**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

(Thousands of Russian Roubles)

The Capital adequacy ratios, computed in accordance with the CBR Regulation N 139- I "Obligatory banking ratios", as at 31 December 2014 and 31 December 2013 were as follows:

	2014	2013
Total capital adequacy ratio H1.0 (limit 10%)	13.2%	14.4%
Core equity Tier I capital adequacy ratio H1.1 (limit 5%)	11.7%	11.7%
Tier 1 capital adequacy ratio H1.2 (limit 5.5%)	11.8%	11.7%

Due to the introduction of restrictive political and economic measures affecting the situation in the financial markets, as well as to reduce the regulatory risks due to the volatility of the exchange rate, the CBR in December 2014 introduced a relief for the calculation of capital adequacy ratios and regulations.

In the calculation of capital, the Bank reclassified debt securities from the category "available for sale" to the category "held to maturity" at fair value prevailing on 1 October 2014. In calculating the ratios, the Bank used the official exchange rates of foreign currencies against the Rouble set by the CBR as of 1 October 2014.

Capital and Capital adequacy ratio under Basel III and Basel II requirements (unaudited)

Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

Starting from 2014, the Group calculates risk weighted assets in accordance with the requirements of Basel III. In the requirements of Basel III there is no concept of the Tier III capital. Subordinated loans, received by the Group, have no possibility to be considered as loss absorbtion capacity of the Bank and as a result can not be included in Tier II capital.

The capital and capital adequacy ratio, computed in accordance with the Basel III and Basel II requirements as at 31 December 2014 and 2013 were as follows (unaudited):

	2014	2013
Core equity Tier 1	117 755 188	116 273 282
Tier II capital	-	6 263 636
Tier III capital	-	2 890 315
Total capital	**117 755 188**	**125 427 233**
Risk weighted assets	**1 268 832 782**	**771 708 451**
Core equity Tier 1 capital ratio	9.3%	15.1%
Total capital ratio	9.3%	16.3%