ZAO Raiffeisenbank

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

31 December 2014

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Independent Auditor's Report

To the Shareholders and Supervisory Board of ZAO Raiffeisenbank:

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

Management's Responsibility for the Consolidated Financial Statements

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

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 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 consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

9 February 2015
Moscow, Russian Federation

N.V. Kossova, Director (licence no. 01-000396), ZAO PricewaterhouseCoopers Audit

Audited entity: ZAO Raiffeisenbank

State Registration sertificate № 3292, issued by the Central Bank of the Russian Federation on 10 June 1996.

17/1 Troitskaya str., 129090 Moscow Russian Federation

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

In thousands of Russian Roubles	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	185 376 922	154 508 091
Mandatory cash balances with the Central Bank of the Russian Federation		5 898 114	5 640 263
Trading securities	8	9 639 559	20 363 257
Repurchase receivables related to trading securities	8	-	8 864 414
Other securities at fair value through profit or loss	9	16 576 708	14 205 197
Repurchase receivables related to other securities at fair value through profit or loss	9	2 279 673	22 324 651
Due from other banks	10	15 394 711	9 787 579
Loans and advances to customers	11	574 089 442	432 208 116
Investment securities available for sale	12	1 517 323	1 508 805
Investment securities held to maturity	13	509 782	508 655
Derivatives and other financial assets	17	56 776 692	9 570 065
Premises and equipment	15	14 403 185	13 845 951
Intangible assets	16	3 060 151	12 923 601
Deferred income tax asset	32	3 554 805	1 127 257
Current income tax assets		-	62 980
Investment in associates	14	2 160 097	1 753 512
Other assets	18	2 042 601	2 169 747
TOTAL ASSETS		**893 279 765**	**711 372 141**
LIABILITIES			
Due to other banks	19	77 521 587	65 999 725
Customer accounts	20	531 900 500	452 472 765
Term borrowings from the Parent Bank	22	61 993 150	33 172 282
Term borrowings from other financial institutions	22	9 821 410	6 266 921
Debt securities in issue	21	22 228 342	10 354 558
Derivatives and other financial liabilities	23	64 221 611	6 529 237
Current income tax liability		2 623 123	-
Insurance contracts		14 635 855	14 547 380
Other liabilities	24	7 675 796	6 245 010
TOTAL LIABILITIES		**792 621 374**	**595 587 878**
EQUITY			
Share capital	25	43 268 888	43 268 888
Share premium		591 083	591 083
Additional paid-in capital	26	1 520 016	1 520 016
Retained earnings and other reserves		55 278 404	70 404 276
TOTAL EQUITY		**100 658 391**	**115 784 263**
TOTAL LIABILITIES AND EQUITY		**893 279 765**	**711 372 141**

Approved for issue and signed on 9 February 2015.

Sergei Monin
Chairman of the Board

Arndt Roechling
Chief Financial Officer

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РАЙФФАЙЗЕНБАНК» г. Р. № 3292 МОСКВА

In thousands of Russian Roubles	Note	2014	2013
Interest income	27	80 780 822	66 911 237
Interest expense	27	(37 617 306)	(31 028 649)
Net interest income		**43 163 516**	**35 882 588**
Provision for loan impairment	11	(7 334 085)	(2 175 694)
Net interest income after provision for loan impairment		**35 829 431**	**33 706 894**
Fee and commission income	28	17 075 699	14 846 748
Fee and commission expense	28	(5 722 664)	(4 263 403)
Losses, net of gains from trading securities		(1 381 610)	(166 656)
Losses, net of gains from other securities at fair value through profit or loss		(2 246 954)	(19 396)
Gains less losses from disposals of investment securities available for sale		-	1 032 517
Gains less losses from trading in foreign currencies		6 358 959	3 189 091
Unrealized losses, net of gains from derivative financial instruments	29	(11 500 591)	(728 083)
Realized (losses net of gains)/gains less losses from derivative financial instruments	30	(343 743)	235 441
Foreign exchange translation gains net of losses/(losses, net of gains)		9 057 334	967 503
Ineffectiveness from hedge accounting	40	(246 817)	(282 620)
Impairment of Goodwill	16	(10 700 290)	-
Release of provisions for credit related commitments	23	312 921	231 271
Release of provision for investment securities held to maturity	13	974	14 250
Gains from the sale of loans	11	158 734	32 499
Other operating income		303 168	336 526
Share of results of associates	14	463 756	418 355
Operating income		**37 418 307**	**49 550 937**
Administrative and other operating expenses	31	(25 109 821)	(23 737 168)
Profit before tax		**12 308 486**	**25 813 769**
Income tax expense	32	(4 637 544)	(5 432 819)
Profit for the year		**7 670 942**	**20 380 950**
Items that may be reclassified subsequently to profit or loss:			
Revaluation of investment securities available for sale	12	-	21 463
Disposal of investment securities available for sale	12	-	(1 032 517)
Valuation reserve due to cash flow hedge	40	-	109 849
Income tax recorded directly in other comprehensive income	32	-	180 241
Other comprehensive income for the year, net of tax		**-**	**(720 964)**
Total comprehensive income for the year, net of tax		**7 670 942**	**19 659 986**

In thousands of Russian Roubles	Note	Share capital	Share premium	Additional paid-in capital	Retained earnings	Other reserves	Total
Balance at 1 January 2013		**43 268 888**	**591 083**	**1 520 016**	**61 111 074**	**960 160**	**107 451 221**
Profit for the year		-	-	-	20 380 950	-	20 380 950
Other comprehensive income		-	-	-	-	(720 964)	(720 964)
Total comprehensive income for 2013		**-**	**-**	**-**	**20 380 950**	**(720 964)**	**19 659 986**
Dividends paid	33	-	-	-	(11 326 944)	-	(11 326 944)
Balance at 31 December 2013		**43 268 888**	**591 083**	**1 520 016**	**70 165 080**	**239 196**	**115 784 263**
Profit for the year		-	-	-	7 670 942	-	7 670 942
Total comprehensive income for 2014		**-**	**-**	**-**	**7 670 942**	**-**	**7 670 942**
Dividends paid	33	-	-	-	(22 796 814)	-	(22 796 814)
Balance at 31 December 2014		**43 268 888**	**591 083**	**1 520 016**	**55 039 208**	**239 196**	**100 658 391**

In thousands of Russian Roubles	Note	2014	2013
Cash flows from operating activities			
Interest received		79 932 837	67 192 636
Interest paid		(34 217 235)	(28 196 609)
Fees and commissions received		17 104 652	14 864 720
Fees and commissions paid		(5 722 664)	(4 263 403)
Realized losses, net of gains from trading in trading securities		(584 298)	(112 294)
Realized gains less losses arising from other securities at fair value through profit or loss		(534 889)	70 128
Realized gains less losses from financial derivative instruments		(343 743)	235 441
Realized gains less losses arising from trading in foreign currencies		6 358 959	3 189 091
Cash proceeds from sale of loans	11	1 743 450	1 006 897
Other operating income received		296 298	83 162
Staff costs paid		(12 572 705)	(11 567 843)
Administrative and other operating expenses paid		(9 290 939)	(8 615 859)
Income tax paid		(4 028 505)	(5 993 199)
Cash flows from operating activities before changes in operating assets and liabilities		**38 141 218**	**27 892 868**
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(257 851)	133 529
Net (increase)/decrease in trading securities		18 905 933	(15 857 122)
Net (increase) in other securities at fair value through consolidated profit and loss		16 898 867	(513 257)
Net (increase)/decrease in due from other banks		(3 734 872)	7 488 084
Net (increase) in loans and advances to customers		(71 202 526)	(59 503 387)
Net (increase) in derivatives and other financial assets		69 564	(643 415)
Net decrease/(increase) in other assets		544 287	587 189
Net increase in due to other banks		7 693 674	10 976 888
Net increase/(decrease) in customer accounts		7 793 700	51 802 323
Insurance premiums received		8 996	6 854 042
Insurance claims paid		(23 117)	(250 359)
Net (decrease) in derivatives and other financial liabilities		2 647 364	(43 690)
Net increase/(decrease) in other liabilities		490 690	16 246
Net cash from operating activities		**17 975 927**	**28 939 939**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(2 168 031)	(3 103 583)
Proceeds from disposal of premises and equipment		93 000	-
Acquisition of intangible assets	16	(1 870 681)	(1 615 175)
Dividends received	14	57 171	650 000
Redemption of investment securities held-to-maturity		-	493 050
Acquisition of investment securities portfolio held-to-maturity		-	(500 000)
Proceeds from disposal of investment securities available for sale		-	1 032 517
Acquisition of securities available for sale		-	(1 500 000)
Net cash (used in)/from investing activities		**(3 888 541)**	**(4 543 191)**
Cash flows from financing activities			
Proceeds from term borrowings from the Parent Bank and other financial institutions		9 691 007	5 162 349
Repayment of term borrowings from the Parent Bank and other financial institutions		(19 607 419)	(17 242 759)
Proceeds from subordinated debt		11 330 756	-
Interest paid on term borrowings from the Parent Bank and other financial institutions		(1 505 943)	(1 378 074)
Proceeds from issuance of debt securities	33	12 296 162	10 765 397
Repayment of debt securities in issue	33	(198 039)	(13 682 362)
Interest paid on debt securities	33	(765 162)	(727 968)
Dividends paid	33	(22 796 814)	(11 326 944)
Net cash used in financing activities		**(11 555 452)**	**(28 430 361)**
Change in accrued interest on cash and cash equivalents		(9 410)	561
Effect of exchange rate changes on cash and cash equivalents		28 346 307	4 204 029
Net increase in cash and cash equivalents		**30 868 831**	**170 977**
Cash and cash equivalents at the beginning of the year		154 508 091	154 337 114
Cash and cash equivalents at the end of the year	**7**	**185 376 922**	**154 508 091**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2014 for ZAO Raiffeisenbank (hereinafter – the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a closed joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank is owned by Raiffeisen Bank International AG ("RBI") and Raiffeisen-Invest-Gesellschaft m.b.h., subsidiaries of Raiffeisen Zentralbank Osterreich AG (the "Parent Bank"), which is the ultimate controlling party of the Group.

Principal activity. The Group's principal business activity is banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1996. The Bank operates in all banking sectors of the Russian financial markets, including money market, investments, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Group, through operations of its subsidiaries and associates, is also involved in asset management, pension and leasing businesses. On 2 February 2005 the Bank was accepted to the State deposit insurance scheme, introduced by the Federal law No. 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2014 the Group had 6 branches within the Russian Federation and 205 outlets (2013: 6 branches and 187 outlets).

The number of the Group's employees as at 31 December 2014 was 8 110 (2013: 8 380).

Registered address and place of business. The Bank's registered address is: 17/1 Troitskaya Str., 129090 Moscow, Russian Federation. The Bank's main place of business is: 28 Smolenskaya-Sennaya, 119002 Moscow, Russian Federation.

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

2 Operating Environment of the Group

Russian Federation. A decline in crude oil prices by approximately 45% during 2014 has resulted in a slowdown in the Russian economy. The economy has also been impacted by international sanctions against certain Russian companies and individuals and the response by the Russian Federation to these sanctions. During the year ending 31 December 2014:

- the Russian Rouble weakened from RR 32,7 to RR 56,3 per US$;
- the Central Bank's key refinancing interest rate increased from 5,5% p.a. to 17,0% p.a.; and
- the RTS stock exchange index fell from 1 445 to 791.

Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. The Central Bank's key refinancing interest rate decreased from 17,0% p.a. to 15,0% as at 30 January 2015.

Subsequent to the year end Russian Rouble was RR 68,9 per US$ as at 31 January 2015, RTS stock exchange index was 735 as at 30 January 2015.

These events and the related uncertainty and volatility of the financial markets may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The future economic and regulatory situation may differ from management's current expectations.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, financial instruments categorized as at fair value through profit or loss, and financial assets and liabilities subject to fair value hedge. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

***Consolidated financial statements*.** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are initially measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities, over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately; (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Information on investment in associates is disclosed in Note 14.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The Group uses the last bid price as the quoted market price for financial assets and the last asking price as the quoted market price for financial liabilities.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different consolidated profit, income, total assets or total liabilities.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

***Initial recognition of financial instruments*. ** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price, which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of foreign exchange forwards, interest rate swaps and cross currency interest rate swaps that are not traded in an active market. Refer to note 41.

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

Cash and cash equivalents. Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

3 Summary of Significant Accounting Policies (Continued)

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

***Trading securities*.** Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Group may choose in rare circumstances to reclassify a non-derivative trading financial asset of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

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

Repurchase receivables. Repurchase receivables related to trading securities or Other securities at fair value through profit or loss represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. Accounting policy for Repurchase receivables is in line with accounting policy for correspondent portfolio.

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

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

Impairment of financial assets carried at amortized cost. Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

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

- the Group as a lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group as a lender would not otherwise consider;
- the disappearance of an active market for that financial asset because of financial difficulties;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganization;
- there is an adverse change in the payment status of the borrower as a result of changes in internal factors (unprofitable activity, drop in production, significant increase in receivables/payables) and external factors (changes in national or local economic conditions that impact the borrower);
- the value of collateral significantly decreases as a result of deteriorating market conditions; or
- any instalment is overdue more than ninety days and the late payment cannot be attributed to a delay caused by the settlement systems.

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

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

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

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

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

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

3 Summary of Significant Accounting Policies (Continued)

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit, financial guarantees, commitments to extend credit and undrawn credit lines. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. The principal criteria used to determine that there is objective evidence that expenditure to settle the commitment is required are the same to those principal criteria used to determine that there is objective evidence that an impairment loss has occurred for financial assets carried at amortized cost.

In cases where the fees are charged periodically in respect of an outstanding undrawn commitment, they are recognized as revenue on a time proportion basis over the respective commitment period.

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

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to consolidated profit or loss for the year.

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated profit or loss, the impairment loss is reversed through consolidated profit or loss for the year.

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

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Summary of Significant Accounting Policies (Continued)

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in due to other banks.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortized cost.

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in consolidated profit or loss for the year (within other operating income or expenses).

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

	Useful lives in years
Premises	40-50
Office and computer equipment	5-7
Leasehold improvements	over the term of the underlying lease

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

3 Summary of Significant Accounting Policies (Continued)

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

Software and licences are amortized over four year period.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

The recoverable value of goodwill represents the higher of its value in use and the fair value less cost to sell. Refer to Note 16.

Operating leases. Where the Group is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to consolidated profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

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

Finance lease receivables. Where the Group is a lessor in a lease, which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable within loans and advances to customers and are carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. Finance income from leases is recorded within interest income in consolidated profit or loss for the year.

Impairment losses are recognized in consolidated profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortized costs disclosed earlier in this note. Impairment losses are recognized through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks, term borrowings from the Parent Bank and from other financial institutions. Amounts due to other banks, term borrowings from the Parent Bank and other financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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

Insurance and investments contracts – classification. The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk exists when the Group has uncertainty in respect of at least one of the following matters at inception of the contract: occurrence of insurance event, date of occurrence of insurance event, and claim value in respect of occurred insurance event. Such contracts may also transfer financial risk.

3 Summary of Significant Accounting Policies (Continued)

Description of insurance products. The Group provides obligatory pension insurance under Federal Law 167-FZ “On obligatory pension insurance in the Russian Federation” of 15 December 2001.

Obligatory pension insurance is designed to provide a deferred annuity. Policyholder will receive, or can elect to receive, a life-contingent annuity at rates guaranteed at inception. The rate to convert on retirement and the contributions accumulated with interest into the life-long pension is stipulated by the Russian legislation. The contract transfers mortality risk to the Group at inception, because the Group might have to pay significant additional benefits for an individual contract if the annuitant elects to take the life-contingent annuity and survives longer than expected.

Investment contracts with discretionary participation feature. The Group classifies contract under non-state pension provision and concluded in accordance with existing non-state pension rules as investment contracts with discretionary participation feature. Discretionary participation feature arises where the policyholder has a contractual right to receive additional benefits in excess of guaranteed benefits from the issuer the additional benefits need to be:

a) Likely to be a significant portion of the total contractual benefits.

b) Contractually at the Group’s discretion regarding their amount or timing.

c) Contractually based on: the performance of a specified pool of contracts or a specified type of contract; realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or the profit or loss of the company, fund or other entity that issues the contract.

Under Federal Law 75-FZ “On non-state pension funds” of 7 May 1998 the Group must allocate at least 85% of investment return on assets covering liabilities back to these liabilities. This is a contractual term for both type of contracts – obligatory pension insurance and non-state pension provision. The 15% which the Group is not obliged to allocate to participants, but may allocate at its discretion, represents discretionary participation feature.

Under terms of non-state pension provision policyholder will receive, or can elect to receive, a life-contingent annuity at rates prevailing when the annuity begins.

Liability adequacy test. As at each reporting date the adequacy of the insurance and pension liabilities is tested. Testing of insurance and pension liabilities is performed to ensure adequacy of contractual liabilities. In performing these tests, current estimates of future contractual inflows and outflows are used. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognized in profit or loss.

Debt securities in issue. Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities in issue are stated at amortized cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

***Derivative financial instruments and hedge accounting*. ** Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency options and other derivative financial instruments are carried at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in consolidated profit or loss for the year (unrealized gains less losses from derivative financial instruments), unless the derivatives qualify as hedging instruments.

The Group designates certain derivatives as portfolio fair value hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

3 Summary of Significant Accounting Policies (Continued)

For the portfolio fair value hedge the hedged item is adjusted for the changes in its fair value attributable to the risk being hedged and those fair value changes are recognized in the consolidated statement of profit or loss (unrealized result from financial derivatives). The gain or loss relating to the hedging derivative is offset, in the consolidated profit or loss for the year, with the fair value gains and losses on the hedged item to the extent that the hedge is effective. The ineffective portion of the fair value changes is recognized immediately in the consolidated profit or loss for the year. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortized to profit or loss over the period to maturity and recorded as net interest income.

The fair value gains or losses that represent the effective part of the hedging relation are shown in the consolidated statement of profit or loss and other comprehensive income in “Unrealized losses, net of gains from derivative financial instruments”. The Re-/Devaluation of portfolio-hedged items are shown in the consolidated statement of financial position in “Loans and advances to customers”.

The fair value gains or losses that represent the ineffective part of the hedging relation are shown in the consolidated statement of profit or loss and other comprehensive income in “Ineffectiveness from hedge accounting”.

In order to assess hedge effectiveness the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period). Both tests need to be met for hedge accounting to be available.

A hedge is regarded as highly effective only if both of the following conditions are met:

1 At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in present values of cash flows attributable to the hedged risk during the period, for which the hedge is designated – prospective effectiveness test, range of 80%-125% is used; and

2 The actual results of the hedge – retrospective effectiveness test; range of 80%-125% is used.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged transaction is ultimately recognized in the consolidated profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of profit or loss and other comprehensive income as “Ineffectiveness from hedge accounting”.

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in consolidated profit or loss for the year except if it is recognized in other comprehensive income or directly in equity because it relates to consolidated transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

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

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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 the obligation can be made.

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

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

Additional paid-in capital. Any amounts contributed by shareholders in addition to share issues are recorded as additional paid – in capital in equity.

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

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

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through consolidated profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognized as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Fee and commission income on operations with plastic cards. Fee and commission income on operations with plastic cards is recognized upon customer's settlements with plastic cards and with references to reports by payment systems.

Realized and unrealized gains less losses from financial derivatives. The Group separates realized gains less losses from financial derivatives from total gains less losses from financial derivatives. Realized gains less losses from financial derivatives consist of profit and loss from closed financial derivatives, where profit and loss calculated as difference between cash received on settlement date and original cost of derivatives, received and accrued interest income, paid and accrued interest expense. Unrealized gains less losses from financial derivatives consist of change in clean present value of interest rate derivative instruments and foreign exchange derivative instruments, fair value of bought put option on corporate bonds, change in fair value of the hedged item (long-term deposit), which is subject to fair value hedge accounting.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment, in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognized in consolidated profit or loss for the year (as foreign exchange translation gains less losses).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

3 Summary of Significant Accounting Policies (Continued)

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2014 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 56,2584, EUR 1 = RR 68,3427 (2013: USD 1 = RR 32,7292, EUR 1 = RR 44,9699). The principle average rate of exchange used for translating income and expenses for USD in 2014 was USD 1 = RR 38,40611, EUR 1 = RR 50,99281 (2013: USD 1 = RR 31,9063, EUR 1 = RR 42,3122).

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

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

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

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

3 Summary of Significant Accounting Policies (Continued)

Starting 1 January 2014 realized result from financial derivatives (foreign exchange swaps, cross currency interest rate swaps, and interest rate swaps) is presented in net interest income. The foreign exchange swaps and cross currency interest rate swaps are used to fund foreign currency assets by RUR money market and customer deposits therefore they are designed for economic hedging purposes and not arbitrage motives. Interest rate swaps are used for interest rate hedging purposes. Management believes that accounting for the respective result within net interest income is more consistent with the interest margin dynamics and is in line with the Group's hedging strategy.

Unrealized changes in the fair value of all derivatives not meeting criteria for hedge accounting are not affected by this reclassification and continue to be shown below the net interest income in unrealized result.

The comparative information has been changed to make presentation consistent. The table below shows the effect of such reclassification.

The effect of reclassifications for presentation purposes was as follows on amounts for period ended 31 December 2013:

In thousands of Russian Roubles	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2013**
Interest Income			
Foreign exchange swap contracts	-	8 412 035	8 412 035
Cross-currency interest rate swap contracts	-	4 829 775	4 829 775
Interest rate swap contracts	-	4 128 792	4 128 792
Interest Expense			
Foreign exchange swap contracts	-	(876 054)	(876 054)
Cross-currency interest rate swap contracts	-	(4 980 758)	(4 980 758)
Interest rate swap contracts	-	(4 771 281)	(4 771 281)
Realized gains less losses from derivative financial instruments			
Foreign exchange swap contracts	7 535 981	7 535 981	-
Cross-currency interest rate swap contracts	(150 983)	(150 983)	-
Interest rate swap contracts	(642 489)	(642 489)	-

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 2 513 750 thousand (2013: RR 828 720 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 2 016 465 thousand (2013: RR 568 201 thousand), respectively.

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 41.

Structured entities. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the Group controls the structured entities, Management takes into consideration the factors presented in IFRS 10 “Consolidated Financial Statements”.

Goodwill. The recoverable amount of goodwill was estimated based on a value in use calculation. Refer to Note 16.

Consolidation of pension fund. Following the adoption of IFRS 10, Management reassessed its judgment in relation to the consolidation of Non-State Pension Fund by the Group, based on the criteria and guidance provided in the standard.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

6 New Accounting Pronouncements

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

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

6 New Accounting Pronouncements (Continued)

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

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

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity’s ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent’s financial statements.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2014**	**2013**
Cash on hand	70 997 518	28 018 369
Cash balances with the CBRF (other than mandatory reserve deposits)	27 726 222	29 147 887
Correspondent accounts and overnight placements with other banks:		
- Russian Federation	25 123 211	4 895 140
- Other countries	58 742 211	28 587 205
Placements with other banks with original maturities of less than three months	394 588	45 934 263
Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	2 393 172	17 925 227
Total cash and cash equivalents	**185 376 922**	**154 508 091**

7 Cash and Cash Equivalents (Continued)

At 31 December 2014 cash equivalents in the amount of RR 2 393 172 thousand (31 December 2013: RR 17 925 227 thousand) are effectively collateralised by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 2 760 279 thousand (31 December 2013: RR 20 331 660 thousand). The Group has a right to sell or repledge these securities received under reverse sale and repurchase agreements.

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months and deals with securities purchased under “reverse-repo agreements” with original maturities of less than three months represent balances with the largest and well-known foreign banks and top-rated Russian banks.

At 31 December 2014 the Group had three customers (31 December 2013: two customers) with balances above 10% of consolidated equity of the Group as at this date. The aggregated balance of these customers at 31 December 2014 was RR 81 150 652 thousand (31 December 2013 RR 63 652 013 thousand or 41,20%; 31 December 2014: 43,92%) of cash and cash equivalents.

Investment transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Non-cash investing activities		
Total amount of repossessed collateral in exchange for loans and advances to customers	602 771	563 745

The repossessed collateral is recognized as other assets. Refer to Note 18.

The credit quality analysis of cash equivalents balances is summarized as follows at 31 December 2014:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**		**Placements with other banks with original maturities of less than three months**	**Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months**	**Total**
		Russian Federation	**Other countries**			
Minimal risk	27 726 222	-	-	-	-	27 726 222
Excellent credit standing	-	-	355 903	-	-	355 903
Very good credit standing	-	-	52 678 131	-	-	52 678 131
Good credit standing	-	-	5 685 846	394 588	-	6 080 434
Sound credit standing	-	24 922 990	-	-	2 393 172	27 316 162
Acceptable credit standing	-	80 079	-	-	-	80 079
Marginal credit standing	-	101 874	12 076	-	-	113 950
Weak credit standing	-	-	10 255	-	-	10 255
Default	-	18 268	-	-	-	18 268
Unrated	-	-	-	-	-	-
Total cash equivalents	**27 726 222**	**25 123 211**	**58 742 211**	**394 588**	**2 393 172**	**114 379 404**

7 Cash and Cash Equivalents (Continued)

The credit quality analysis of cash equivalents balances is summarized as follows at 31 December 2013:

In thousands of Russian Roubles	Cash balances with the CBRF (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks		Placements with other banks with original maturities of less than three months	Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	Total
		Russian Federation	Other countries			
Minimal risk	29 147 887	-	-	-	-	29 147 887
Excellent credit standing	-	-	48 694	-	-	48 694
Very good credit standing	-	-	21 539 608	43 279 435	-	64 819 043
Good credit standing	-	-	6 955 671	-	-	6 955 671
Sound credit standing	-	4 361 548	2 618	2 152 979	727 101	7 244 246
Acceptable credit standing	-	12 766	-	501 849	-	514 615
Marginal credit standing	-	142 521	30 301	-	2 787 958	2 960 780
Weak credit standing	-	361 726	5 775	-	5 969 174	6 336 675
Very weak credit standing	-	15 484	-	-	8 351 330	8 366 814
Unrated	-	1 095	4 538	-	89 664	95 297
Total cash equivalents	**29 147 887**	**4 895 140**	**28 587 205**	**45 934 263**	**17 925 227**	**126 489 722**

Geographical, maturity and interest rate analysis of cash and cash equivalents are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

8 Trading Securities and Repurchase Receivables Related to Trading Securities

In thousands of Russian Roubles	2014	2013
Corporate bonds	3 557 170	21 691 811
Russian Federation Eurobonds	2 665 998	855 170
Federal loan bonds (OFZ)	1 817 714	5 419 124
Corporate eurobonds	1 348 768	943 348
Municipal bonds	249 909	318 218
Total trading securities and repurchase receivables related to trading securities	**9 639 559**	**29 227 671**

8 Trading Securities and repurchase receivables related to trading securities (Continued)

Estimation of fair value of trading securities is based on their market quotations.

Trading securities are carried at fair value, which also reflects any credit risk related write-downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt trading securities at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Federal loan bonds**	**Corporate eurobonds**	**Russian Federation Eurobonds**	**Municipal bonds**	**Total**
Neither past due nor impaired (at fair value)						
Minimal risk	18 811	-	-	-	249 909	268 720
Excellent credit standing	203 825	-	-	-	-	203 825
Very good credit standing	15 540	-	707 173	-	-	722 713
Good credit standing	1 320 105	-	-	-	-	1 320 105
Sound credit standing	1 665 276	1 817 714	-	2 665 998	-	6 148 988
Acceptable credit standing	303 106	-	641 595	-	-	944 701
Marginal credit standing	30 507	-	-	-	-	30 507
Total trading securities and repurchase receivables related to trading securities	**3 557 170**	**1 817 714**	**1 348 768**	**2 665 998**	**249 909**	**9 639 559**

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

In thousands of Russian Roubles	**Corporate bonds**	**Federal loan bonds**	**Corporate eurobonds**	**Russian Federation Eurobonds**	**Municipal bonds**	**Total**
Neither past due nor impaired (at fair value)						
Minimal risk	397 581	5 419 124	-	855 170	318 218	6 990 093
Excellent credit standing	2 960 136	-	-	-	-	2 960 136
Very good credit standing	948 380	-	469 382	-	-	1 417 762
Good credit standing	5 959 892	-	-	-	-	5 959 892
Sound credit standing	9 840 228	-	62 884	-	-	9 903 112
Acceptable credit standing	862 861	-	411 082	-	-	1 273 943
Marginal credit standing	722 733	-	-	-	-	722 733
Total trading securities and repurchase receivables related to trading securities	**21 691 811**	**5 419 124**	**943 348**	**855 170**	**318 218**	**29 227 671**

For the disclosure of credit risk measurement refer to Note 35.

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

8 Trading Securities and repurchase receivables related to trading securities (Continued)

At 31 December 2014 there were no Repurchase Receivables related to trading securities that represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. At 31 December 2013 trading securities included securities with fair value of RR 8 864 414 thousand pledged under sale and repurchase agreements. Refer to Notes 19 and 37.

Geographical, maturity and interest rate analysis of trading securities and repurchase receivables related to trading securities are disclosed in Note 35.

9 Other Securities at Fair Value Through Profit or Loss and Repurchase Receivables Related to Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	**2014**	**2013**
Corporate bonds	10 020 972	19 895 411
Federal loan bonds (OFZ)	4 094 602	7 604 088
Eurobonds of the European Bank for Reconstruction and Development (EBRD bonds)	2 786 267	2 773 886
Municipal bonds	1 242 205	1 449 953
Corporate eurobonds	702 755	3 196 702
Bonds of the European Bank for Reconstruction and Development (EBRD bonds)	-	1 061 493
Russian Federal Eurobonds	-	27 562
Total other debt securities at fair value through profit and loss and repurchase receivables related to other securities at fair value through consolidated profit or loss	**18 846 801**	**36 009 095**
Corporate shares	9 580	520 753
Total other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through consolidated profit or loss	**18 856 381**	**36 529 848**

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Asset and Liability Committee of the Group ("ALCO") assesses performance of the investments based on their fair values in accordance with a strategy documented in the business plan.

Corporate shares are shares of Russian companies freely tradable in the Russian market.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

9 Other Securities at Fair Value Through Profit or Loss and Repurchase Receivables Related to Other Securities at Fair Value Through Profit or Loss (Continued)

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

In thousands of Russian Roubles	**Corporate bonds**	**Federal loan bonds**	**Corporate euro-bonds**	**EBRD eurobonds**	**Municipal bonds**	**EBRD bonds**	**Russian Federation Eurobonds**	**Total**
Neither past due nor impaired (at fair value)								
Minimal risk	1 856	-	219 288	-	412 066	-	-	633 210
Excellent credit standing	715 603	-	132 662	-	-	2 786 267	-	3 634 532
Very good credit standing	1	-	89 529	-	-	-	-	89 530
Good credit standing	2 640 420	81 842	220 859	-	407 391	-	-	3 350 512
Sound credit standing	6 234 873	4 012 760	33 184	-	422 748	-	-	10 703 565
Acceptable credit standing	428 219	-	-	-	-	-	-	428 219
Marginal credit standing	-	-	-	-	-	-	-	-
Weak credit standing	-	-	7 233	-	-	-	-	7 233
Total other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	**10 020 972**	**4 094 602**	**702 755**	**-**	**1 242 205**	**2 786 267**	**-**	**18 846 801**

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

In thousands of Russian Roubles	**Corporate bonds**	**Federal loan bonds**	**Corporate euro-bonds**	**EBRD eurobonds**	**Municipal bonds**	**EBRD bonds**	**Russian Federation Eurobonds**	**Total**
Neither past due nor impaired (at fair value)								
Minimal risk	-	7 604 088	905 151	2 773 886	761 350	1 061 493	27 562	13 133 530
Excellent credit standing	5 077 667	-	1 031 839	-	-	-	-	6 109 506
Very good credit standing	395 573	-	286 405	-	-	-	-	681 978
Good credit standing	5 323 081	-	443 161	-	511 422	-	-	6 277 664
Sound credit standing	8 930 425		520 167		177 181			9 627 773
Acceptable credit standing	168 665	-	-	-	-	-	-	168 665
Marginal credit standing	-	-	9 979	-	-	-	-	9 979
Total other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	**19 895 411**	**7 604 088**	**3 196 702**	**2 773 886**	**1 449 953**	**1 061 493**	**27 562**	**36 009 095**

9 Other Securities at Fair Value Through Consolidated Profit or Loss and Repurchase Receivables Related to Other Securities at Fair Value Through Consolidated Profit or Loss (Continued)

For the disclosure of credit risk measurement refer to Note 35.

Repurchase receivables related to Other securities at fair value through consolidated profit or loss represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements were short-term in nature and matured in January 2015. At 31 December 2014 Federal loan bonds (OFZ) included securities with fair value of RR nil thousand pledged under sale and repurchase agreements with CBRF (31 December 2013: RR 9 503 868 thousand). Corporate bonds included securities with fair value of RR nil thousand pledged under sale and repurchase agreements with CBRF (31 December 2013: RR 12 820 783 thousand). Corporate eurobonds included securities with fair value of RR 2 279 673 thousand pledged under sale and repurchase agreements (31 December 2013: RR nil thousand). Refer to Notes 19 and 37.

Geographical, maturity and interest rate analyses of other securities at fair value through consolidated profit or loss and repurchase receivables related to other securities at fair value through consolidated profit or loss are disclosed in Note 35.

10 Due from Other Banks

In thousands of Russian Roubles	**2014**	**2013**
Long-term placements with other banks with original maturities of more than one year	12 245 610	3 835 227
Short-term placements with other banks with original maturities of more than three months and less than one year	3 149 101	5 952 352
Total due from other banks	**15 394 711**	**9 787 579**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months and less than one year**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Very good credit standing	315 164	5 642 811	5 957 975
Good credit standing	1 114 632	5 397 397	6 512 029
Sound credit standing	258 028	-	258 028
Acceptable credit standing	1 259 002	801 532	2 060 534
Marginal credit standing	202 275	403 870	606 145
Total due from other banks	**3 149 101**	**12 245 610**	**15 394 711**

10 Due from Other Banks (Continued)

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

In thousands of Russian Roubles	**Short-term placements with other banks with original maturities of more than three months and less than one year**	**Long-term placements with other banks with original maturities of more than one year**	**Total**
Very good credit standing	704 040	15 383	719 423
Sound credit standing	1 052 878	329 470	1 382 348
Acceptable credit standing	2 678 256	2 483 191	5 161 447
Marginal credit standing	1 004 425	1 007 183	2 011 608
Weak credit standing	512 753	-	512 753
Total due from other banks	**5 952 352**	**3 835 227**	**9 787 579**

For the disclosure of credit risk management refer to Note 35.

At 31 December 2014 the Group had balances with ten counterparty banks (2013: nine banks) with aggregated amounts above RR 200 000 thousand. The total aggregated amount of these deposits was 14 800 437 RR thousand (2013: RR 9 097 995 thousand) or 98,78**%** of the total amount due from other banks (2013: 96,67%).

In total, credit risk exposure to financial institutions is estimated to have amounted to RR 100 434 936 thousand (2013: RR 109 528 560 thousand) comprising cash and cash equivalents, deposits and other amounts due from banks and financial derivatives.

Disclosure of the fair value of due from other banks is presented in Note 41.

Geographical, maturity and interest rate analysis of due from other banks are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

11 Loans and Advances to Customers

In thousands of Russian Roubles	**2014**	**2013**
Loans to corporate customers (Corporate loans)	347 282 547	233 432 719
Loans to medium entities (Middle business)	20 773 839	16 530 018
Loans to individuals (Retail loans)	210 110 051	181 691 514
Loans to small and micro entities (SME loans)	21 172 885	17 789 885
Loans to state and municipal organisations (Public sector)	4 262	48 797
Total gross loans and advances to customers	**599 343 584**	**449 492 933**
Less: Provision for loan impairment	(25 254 142)	(17 284 817)
Total loans and advances to customers	**574 089 442**	**432 208 116**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Loans to corporate customers**	**Loans to medium entities**	**Retail loans**	**Loans to small and micro entities**	**Total**
Provision for loan impairment at 1 January 2014	**9 600 286**	**540 973**	**6 460 459**	**683 099**	**17 284 817**
Charge of provision for impairment during the year	1 603 573	444 231	4 569 239	717 042	7 334 085
Disposal of provisions as a result of disposal of loans	(361 138)	(8 988)	(13 249)	(27 298)	(410 673)
Amounts written off during the period as uncollectible	(809 150)	(114 444)	(127 788)	(114 163)	(1 165 545)
Exchange differences on provision for loan impairment	1 819 388	39 777	351 801	492	2 211 458
Provision for loan impairment at 31 December 2014	**11 852 959**	**901 549**	**11 240 462**	**1 259 172**	**25 254 142**

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

In thousands of Russian Roubles	**Unsecured customer loans**	**Mortgage loans**	**Car loans**	**Credit cards and overdrafts**	**Total**
Provision for loan impairment at 1 January 2014	**3 679 256**	**540 030**	**930 904**	**1 310 269**	**6 460 459**
Charge of provision for impairment during the year	2 944 830	134 178	671 642	818 589	4 569 239
Disposal of provisions as a result of disposal of loans	(4 019)	(3 117)	(5 616)	(497)	(13 249)
Amounts written off during the period as uncollectible	(21 890)	(361)	(100 086)	(5 451)	(127 788)
Exchange differences on provision for loan impairment	35 212	167 496	83 020	66 073	351 801
Provision for loan impairment at 31 December 2014	**6 633 389**	**838 226**	**1 579 864**	**2 188 983**	**11 240 462**

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

In thousands of Russian Roubles	**Loans to corporate customers**	**Loans to medium entities**	**Retail loans**	**Loans to small and micro entities**	**Total**
Provision for loan impairment at 1 January 2013	**12 486 458**	**664 031**	**6 946 098**	**785 454**	**20 882 041**
Charge of provision for impairment during the year	171 953	76 393	1 727 602	199 746	2 175 694
Disposal of provisions as a result of disposal of loans	(106 574)	(19 182)	(2 105 021)	(115 831)	(2 346 608)
Amounts written off during the period as uncollectible	(3 195 533)	(180 269)	(208 348)	(186 887)	(3 771 037)
Exchange differences on provision for loan impairment	243 982	-	100 128	617	344 727
Provision for loan impairment at 31 December 2013	**9 600 286**	**540 973**	**6 460 459**	**683 099**	**17 284 817**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Unsecured customer loans**	**Mortgage loans**	**Car loans**	**Credit cards and overdrafts**	**Total**
Provision for loan impairment at 1 January 2013	**3 746 282**	**838 639**	**1 269 579**	**1 091 598**	**6 946 098**
Charge/(release) of provision for impairment during the year	1 225 696	(144 197)	118 372	527 731	1 727 602
Disposal of provisions as a result of disposal of loans	(1 257 413)	(173 002)	(367 783)	(306 823)	(2 105 021)
Amounts written off during the period as uncollectible	(50 880)	(6 384)	(135 310)	(15 774)	(208 348)
Exchange differences on provision for loan impairment	15 571	24 974	46 046	13 537	100 128
Provision for loan impairment at 31 December 2013	**3 679 256**	**540 030**	**930 904**	**1 310 269**	**6 460 459**

During 2014 year the Bank disposed loans to customers under cession and other agreements with the total gross value of RR 2 319 858 thousand (2013: RR 3 619 629 thousand) with cash proceeds of RR 1 743 450 thousand (2013: RR 1 006 897 thousand) and other assets with carrying value of RR 324 469 thousand (2013: RR 298 623 thousand). As of the date of disposal during the year ended 31 December 2014 these loans were provided for impairment in the total amount of RR 410 673 thousand (2013: RR 2 346 608 thousand). The net gain of a loan disposal during 2014 year recognized in the consolidated statement of profit or loss and other comprehensive income was RR 158 734 thousand (2013: gain of RR 32 499 thousand).

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

	2014		**2013**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	210 110 051	35,06%	181 691 514	40,42%
Manufacturing	124 938 531	20,84%	69 827 246	15,53%
Real estate	109 382 358	18,24%	68 286 124	15,19%
Trade	46 187 989	7,71%	44 916 800	9,99%
Mining	46 077 150	7,69%	28 885 701	6,43%
Transport, storage and communication	43 231 968	7,21%	28 571 549	6,36%
Financial Services	7 169 964	1,20%	8 051 301	1,79%
Electricity, gas and water supply	4 654 625	0,78%	8 595 845	1,91%
Hotels and restaurants	2 202 719	0,37%	6 639 662	1,48%
Agriculture, hunting and forestry	1 994 618	0,33%	1 481 698	0,33%
Cities and municipalities	4 823	0,00%	48 797	0,01%
Other	3 388 788	0,57%	2 496 696	0,56%
Total loans and advances to customers (before impairment provision)	**599 343 584**	**100,00%**	**449 492 933**	**100,00%**

At 31 December 2014 the Group had 11 borrowers (2013: 4 borrowers) with aggregated loan amount above RR 5 000 000 thousand with total exposure of RR 97 267 120 thousand (2013: RR 22 980 434 thousand).

11 Loans and Advances to Customers (Continued)

The Group has transferred a pool of fixed interest rate auto loans to individuals to finance the purchase of cars to Roof Russia S.A., a Luxembourg-based special purpose entity. At 31 December 2014 the amount of loans securitised was RR nil (2013: RR 86 561 thousand). The subsidiary is consolidated due to the requirements stated in IFRS 10 “Consolidated Financial Statements”, the activities of SPE are conducted on behalf of the Group, the Group has the decision making powers to control the SPE, the rewards of SPE are transferred to the Group in the form of dividends on the preference shares. For the carrying amount of the corresponding asset backed securities refer to Note 22.

The Group has transferred a pool of fixed interest rate mortgage loans to individuals to finance the purchase of habitation to CJSC Mortgage Agent Raiffeisen 01, a Russia-based special purpose entity. At 31 December 2014 the carrying amount of loans securitised was RR 3 170 606 thousand (2013: RR 4 207 877 thousand). The subsidiary is consolidated due to the requirements stated in IFRS 10 “Consolidated Financial Statements”, the activities of SPE are conducted on behalf of the Group, the Group has the decision making powers to control the SPE. For the carrying amount of the corresponding asset backed securities refer to Note 22.

The main principles used for the estimation of the fair value of collateral are summarized in the Policy of the Collateral valuation, approved for the Group.

The collateral coverage, which is taken into account, has the following characteristics:

- Valid legal title, which should be properly documented and legally enforceable under the applicable jurisdiction;
- Sustainable intrinsic value for at least the maximum tenor of the underlying credit contract, being regularly monitored and evaluated by the Group. In case of a decrease in value, appropriate measures to reflect this decrease are taken immediately by the Group;
- Realizable and willingness to realize. The collateral is realizable in cash within reasonable time, proven by a favourable track record of jurisdiction in the respective country.

The fair value of collateral is the estimated amount, for which a tangible/intangible asset could be exchanged at the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably prudent and without compulsion. In accordance with the internal procedures, the Group’s Risk Management Collateral Department regularly performs the assessment of the fair value of the collaterals using the Group’s internal guidelines and in some cases evaluation of collateral by independent appraisal companies.

The list of collateral that the Group requires from the customers includes residential real estate, other real estate, guarantees of the Parent Bank, cash deposits, other assets. Personal loans to individuals and credit cards are not secured. Mortgage loans and car loans to individuals are collateralized by the property and cars, correspondingly.

11 Loans and Advances to Customers (Continued)

Information about collateralized loans at 31 December 2014 is as follows:

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Middle business	Public sector	Total
Unsecured loans	115 970 551	121 579 523	3 914 336	910 516	55	242 374 981
Loans collateralised by:						
- commercial real estate	114 442 342	-	11 278 238	11 067 502	-	136 788 082
- guarantees and suretyships	71 193 477	2 276	4 047 998	7 408 910	13	82 652 674
- equipment and vehicles	18 262 014	40 953 112	635 836	1 039 309	-	60 890 271
- residential real estate	4 090 934	47 571 460	1 296 377	316 597	-	53 275 368
- other assets	9 973 780	3 680	100	25 986	-	10 003 546
- assignment of future receivables	10 899 804	-	-	5 019	-	10 904 823
- guarantees of Parent Bank	109 969	-	-	-	-	109 969
- cash deposits	2 339 676	-	-	-	4 194	2 343 870
Total loans and advances to customers (before impairment provision)	**347 282 547**	**210 110 051**	**21 172 885**	**20 773 839**	**4 262**	**599 343 584**

Information about collateralized loans at 31 December 2013 is as follows:

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Middle business	Public sector	Total
Unsecured loans	82 888 199	109 944 494	3 375 363	898 899	48 797	197 155 752
Loans collateralised by:						
- commercial real estate	70 927 651	-	7 040 990	7 598 545	-	85 567 186
- guarantees and suretyships	52 442 273	130 281	5 709 172	6 227 056	-	64 508 782
- equipment and vehicles	10 614 730	38 220 123	911 134	634 872	-	50 380 859
- residential real estate	1 406 857	33 344 715	753 226	250 106	-	35 754 904
- other assets	7 965 965	51 901	-	899 912	-	8 917 778
- assignment of future receivables	4 754 242	-	-	-	-	4 754 242
- guarantees of Parent Bank	2 298 014	-	-	-	-	2 298 014
- cash deposits	134 788	-	-	20 628	-	155 416
Total loans and advances to customers (before impairment provision)	**233 432 719**	**181 691 514**	**17 789 885**	**16 530 018**	**48 797**	**449 492 933**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Corporate loans**	**Middle business**	**SME loans**	**Public sector**	**Total**
Neither past due nor impaired loans, assessed for impairment on a collective basis					
Minimal risk	3 011 734	-	1 557	42	3 013 333
Excellent credit standing	60 906 660	-	12 285	-	60 918 945
Very good credit standing	50 102 892	-	36 752	13	50 139 657
Good credit standing	136 164 263	377 378	685 619	-	137 227 260
Sound credit standing	43 297 982	3 618 563	2 039 848	-	48 956 393
Acceptable credit standing	11 770 777	9 005 023	5 386 908	2 043	26 164 751
Marginal credit standing	7 582 775	6 345 929	8 517 162	2 164	22 448 030
Weak credit standing	11 138 124	232 085	2 450 356	-	13 820 565
Very weak credit standing	1 028 251	49 596	211 686	-	1 289 533
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**325 003 458**	**19 628 574**	**19 342 173**	**4 262**	**363 978 467**
Past due but not impaired loans, assessed for impairment on a collective basis					
- less than 30 days overdue	731 047	-	341 094	-	1 072 141
- 31 – 60 days overdue	97 050	55 519	88 213	-	240 782
- 61 – 90 days overdue	-	-	91 503	-	91 503
- 91 – 180 days overdue	-	-	1 025	-	1 025
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**828 097**	**55 519**	**521 835**	**-**	**1 405 451**
Loans individually determined to be impaired					
- not overdue	5 131 459	3 268	11 044	-	5 145 771
- less than 30 days overdue	10 045	-	54 725	-	64 770
- 31 – 60 days overdue	-	21 125	5 971	-	27 096
- 61 – 90 days overdue	-	-	75 784	-	75 784
- 91 – 180 days overdue	1 907 016	695 798	247 278	-	2 850 092
- 181 – 364 days overdue	6 480 787	147 528	405 509	-	7 033 824
- over 365 days overdue	7 921 685	222 027	508 566	-	8 652 278
Total loans individually determined to be impaired (gross)	**21 450 992**	**1 089 746**	**1 308 877**	**-**	**23 849 615**
Total gross loans and advances to customers	**347 282 547**	**20 773 839**	**21 172 885**	**4 262**	**389 233 533**
Less: Provision for loan impairment	(11 852 959)	(901 549)	(1 259 172)	-	(14 013 680)
Total loans and advances to customers	**335 429 588**	**19 872 290**	**19 913 713**	**4 262**	**375 219 853**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Corporate loans**	**Middle business**	**SME loans**	**Public sector**	**Total**
Neither past due nor impaired loans, assessed for impairment on a collective basis					
Minimal risk	2 396	-	-	-	2 396
Excellent credit standing	20 620 090	-	-	-	20 620 090
Very good credit standing	35 116 050	-	-	-	35 116 050
Good credit standing	80 728 231	591 732	199 953	-	81 519 916
Sound credit standing	37 549 196	2 512 247	4 201 273	31 424	44 294 140
Acceptable credit standing	26 310 856	6 472 657	2 069 465	17 373	34 870 351
Marginal credit standing	6 448 668	5 642 437	6 472 134	-	18 563 239
Weak credit standing	9 836 073	879 351	3 628 055	-	14 343 479
Very weak credit standing	2 932 896	50 877	258 097	-	3 241 870
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**219 544 456**	**16 149 301**	**16 828 977**	**48 797**	**252 571 531**
Past due but not impaired loans, assessed for impairment on a collective basis					
- less than 30 days overdue	-	34 948	130 805	-	165 753
- 31 – 60 days overdue	-	-	46 138	-	46 138
- 61 – 90 days overdue	-	-	16 176	-	16 176
- 91 – 180 days overdue	-	-	128	-	128
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**-**	**34 948**	**193 247**	**-**	**228 195**
Loans individually determined to be impaired					
- less than 30 days overdue	4 545 285	-	3 450	-	4 548 735
- 31 – 60 days overdue	-	-	41 551	-	41 551
- 61 – 90 days overdue	-	-	29 817	-	29 817
- 91 – 180 days overdue	2 261 453	-	189 315	-	2 450 768
- 181 – 364 days overdue	52 154	24 827	137 971	-	214 952
- over 365 days overdue	7 029 371	320 942	365 557	-	7 715 870
Total loans individually determined to be impaired (gross)	**13 888 263**	**345 769**	**767 661**	**-**	**15 001 693**
Total gross loans and advances to customers	**233 432 719**	**16 530 018**	**17 789 885**	**48 797**	**267 801 419**
Less: Provision for loan impairment	(9 600 286)	(540 973)	(683 099)	-	(10 824 358)
Total loans and advances to customers	**223 832 433**	**15 989 045**	**17 106 786**	**48 797**	**256 977 061**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Unsecured consumer loans**	**Mortgage loans**	**Car loans**	**Credit cards and overdrafts**	**Total Retail Loans**
Current and not impaired loans, assessed for impairment on a collective basis					
Very good credit standing	-	48 684 028	38 590 936	-	87 274 964
Good credit standing	91 045 699	-	-	13 554 547	104 600 246
Total current and not impaired loans, assessed for impairment on a collective basis	**91 045 699**	**48 684 028**	**38 590 936**	**13 554 547**	**191 875 210**
Past due but not impaired loans, assessed for impairment on a collective basis					
- less than 30 days overdue	1 887 997	992 350	762 162	1 385 880	5 028 389
- 31 – 60 days overdue	583 975	468 721	217 658	207 117	1 477 471
- 61 – 90 days overdue	394 696	215 824	117 409	128 291	856 220
Total past due but not impaired loans, assessed for impairment on a collective basis	**2 866 668**	**1 676 895**	**1 097 229**	**1 721 288**	**7 362 080**
Loans individually determined to be impaired					
- not overdue	59 021	154 681	21 065	35 705	270 472
- less than 30 days overdue	19 983	39 245	10 856	12 643	82 727
- 31 – 60 days overdue	15 556	75 204	8 215	7 452	106 427
- 61 – 90 days overdue	15 046	30 677	11 997	8 079	65 799
- 91 – 180 days overdue	1 001 720	360 606	284 994	329 678	1 976 998
- 181 – 364 days overdue	1 588 662	173 522	404 883	832 186	2 999 253
- over 365 days overdue	3 200 329	651 291	754 212	765 253	5 371 085
Total individually impaired loans (gross)	**5 900 317**	**1 485 226**	**1 496 222**	**1 990 996**	**10 872 761**
Total gross loans and advances to customers	**99 812 684**	**51 846 149**	**41 184 387**	**17 266 831**	**210 110 051**
Less: Provision for loan impaired	(6 633 389)	(838 226)	(1 579 864)	(2 188 983)	(11 240 462)
Total loans and advances to customers	**93 179 295**	**51 007 923**	**39 604 523**	**15 077 848**	**198 869 589**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Unsecured consumer loans**	**Mortgage loans**	**Car loans**	**Credit cards and overdrafts**	**Total Retail Loans**
Neither past due nor impaired loans, assessed for impairment on a collective basis					
Very good credit standing	-	39 492 284	36 708 224	-	76 200 508
Good credit standing	84 608 193	-	-	9 993 240	94 601 433
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**84 608 193**	**39 492 284**	**36 708 224**	**9 993 240**	**170 801 941**
Past due but not impaired loans, assessed for impairment on a collective basis					
- less than 30 days overdue	1 263 015	573 998	530 901	1 049 153	3 417 067
- 31 – 60 days overdue	384 100	147 941	141 966	129 388	803 395
- 61 – 90 days overdue	239 211	75 092	77 119	75 017	466 439
Total past due but not impaired loans, assessed for impairment on a collective basis	**1 886 326**	**797 031**	**749 986**	**1 253 558**	**4 686 901**
Loans individually determined to be impaired					
- less than 30 days overdue	199 851	205 450	71 954	198 428	675 683
- 31 – 60 days overdue	19 448	3 653	4 281	11 459	38 841
- 61 – 90 days overdue	16 728	29 547	16 732	10 656	73 663
- 91 – 180 days overdue	559 841	105 972	159 075	182 673	1 007 561
- 181 – 364 days overdue	906 935	330 604	187 164	127 660	1 552 363
- over 365 days overdue	1 601 502	551 977	453 114	247 968	2 854 561
Total individually impaired loans (gross)	**3 304 305**	**1 227 203**	**892 320**	**778 844**	**6 202 672**
Total gross loans and advances to customers	**89 798 824**	**41 516 518**	**38 350 530**	**12 025 642**	**181 691 514**
Less: Provision for loan impairment	(3 679 256)	(540 030)	(930 904)	(1 310 269)	(6 460 459)
Total loans and advances to customers	**86 119 568**	**40 976 488**	**37 419 626**	**10 715 373**	**175 231 055**

11 Loans and Advances to Customers (Continued)

For the disclosure of credit risk management and credit ratings description refer to Note 35.

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial performance of the borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for Retail loans or whether there are any other known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract for Corporate, Middle Business, SME and Public sector loans.

Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. Past due but not impaired loans are assessed for impairment on collective basis. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Fair value of the collateral was determined by the Group’s credit department using the Group’s internal guidelines on the basis of an internal expert evaluation and an independent appraiser’s evaluation.

These internal guidelines describe collateral management and valuation process including: 1) analysis of a legal title, 2) visual assessment of collateral, 3) assessment of fair value, 4) assessment according to Basel II requirements, 5) documentation, 6) accounting in core system. Fair valuation is being done on a regular basis by specialists with appropriate qualification. Market prices are collected from different open information sources and calculated using different models. Verification of assessment is being done using four eyes principle.

Valuation of collateral, including periodic reassessment of fair value, is performed by the Bank’s credit department or by an independent appraiser with the use of templates and methodology provided by the Group’s credit department. Valuation reports of independent appraisers are verified for compliance with the Group guidelines. The following methods and techniques are used for valuation:

- Residential real estate: (i) Sales comparison approach; (ii) Market value matrixes per square meter; (iii) Statistical methods based on market data;
- Commercial real estate: (i) Sales comparison approach; (ii) Income approach (Discounted Cash Flow or Direct Capitalization methods); (iii) For real estate under construction and infrastructure objects – Costs of Replacement approach;
- Quoted financial instruments: Market quotes;
- Other assets: (i) Sales comparison approach; (ii) Income approach (Discounted Cash Flow or Direct Capitalization methods); (iii) Costs of Replacement approach; (iv) Nominal or face value (e.g. for non-quoted shares).

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

The following disclosure is based on Weighted Collateral Value (WCV), which is equal to fair value discounted according to Internal Bank’s policies. It reflects the lowest value, which the Bank would be able to achieve under a forced sale scenario in case the collateral has to be liquidated, and the price volatility of the asset. For different types of collateral different discounts are applied according to inherent risk. The following considerations are taken into account:

- different levels of reliability of the originally assessed market value (difference between internal/external valuation, different sources of information regarding market values, etc.);
- unforeseeable market price fluctuations;
- different grade of maturity of secondary market (e.g. real estate);

11 Loans and Advances to Customers (Continued)

- lower sales price expectations under forced sale scenarios (market is usually well informed about forced sales and prices drop immediately);
- different levels of fraud risk for different collateral types (mostly depending on the level of control applied by the bank);
- refinancing cost of the lending unit in case of longer realization process.

Main collateral types are discounted using the following ranges:

- Real estate – 35-100%;
- Equipment and vehicles – 45-100%;
- Guarantees – 0-100%;
- Other – 0-100%.

The effect of collateral at 31 December 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Weighted Collateral Value**	**Carrying value of the assets**	**Weighted Collateral Value**
Corporate loans	15 848 176	28 091 064	319 581 412	43 912 255
Retail loans	13 113 067	24 368 034	185 756 522	15 202 130
SME loans	6 007 819	6 135 597	13 905 894	3 624 512
Middle business	3 564 565	5 810 238	13 307 725	4 069 210
Public sector	-	-	4 262	-
Total	**38 533 626**	**64 404 934**	**532 555 815**	**66 808 107**

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Weighted Collateral Value**	**Carrying value of the assets**	**Weighted Collateral Value**
Corporate loans	53 292 820	92 139 596	170 539 613	31 702 070
Retail loans	70 541 609	71 564 838	104 689 446	1 205 411
SME loans	5 218 413	8 862 530	11 888 373	3 435 659
Middle business	4 447 349	7 521 337	11 541 696	4 254 137
Public sector	-	-	48 797	-
Total	**133 500 191**	**180 088 301**	**298 707 925**	**40 597 277**

Disclosure of the fair value of the Group's loans and advances to customers at 31 December 2014 and 2013 is presented in Note 41. Geographical, maturity and interest rate analysis of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

12 Investment Securities Available for Sale

In thousands of Russian Roubles	**2014**	**2013**
Eurobonds of the European Bank for Reconstruction and Development	1 517 323	1 508 805
Total investment securities available for sale	**1 517 323**	**1 508 805**

As of 31 December 2014 eurobonds were neither past due nor impaired and had excellent credit standing risk rating.

This bond is denominated in the Russian Roubles and matures in 2016 and has coupon rates of 10,91%.

For the disclosure of credit risk management refer to Note 35.

Geographical, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 35.

13 Investment Securities Held to Maturity

In thousands of Russian Roubles	**2014**	**2013**
Corporate bonds	510 760	510 607
Total gross investment securities held to maturity	**510 760**	**510 607**
Less: Provision for impairment	(978)	(1 952)
Total investment securities held to maturity	**509 782**	**508 655**

Movements in the provision for impairment of investment securities held to maturity are as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Provision for impairment of corporate bonds at 1 January	**1 952**	**16 202**
Release of provision for impairment of corporate bonds during the year	(1 952)	(16 202)
Provision for impairment of corporate bonds during the year	978	1 952
Provision for impairment of corporate bonds at 31 December	**978**	**1 952**

For disclosure of credit risk management refer to Note 35.

Refer to Note 41 for the disclosure of the fair value of each class of investment securities held to maturity. Geographical, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 35.

14 Investment in Associates

In thousands of Russian Roubles	2014	2013
Raiffeisen Leasing	1 980 049	1 589 379
Raiffeisen Life	180 048	164 133
Raiffeisen Investment	-	-
Total investment in associates	**2 160 097**	**1 753 512**

The table below summarizes the movements in the carrying amount of the Group's investment in associates.

In thousands of Russian Roubles	2014	2013
Carrying amount at 1 January	**1 753 511**	**1 985 157**
Dividends paid	(57 170)	(650 000)
Share of results of associates for the reporting period	463 756	418 355
Carrying amount at 31 December	**2 160 097**	**1 753 512**

The Group's interests in its principal associates were as follows:

	2014		**2013**	
Name	**% ownership interest held (% of voting rights if different)**	**Place of business (country of incorporation if different)**	**% ownership interest held (% of voting rights if different)**	**Place of business (country of incorporation if different)**
Raiffeisen Leasing	50%	Russian Federation	50%	Russian Federation
Raiffeisen Life	25%	Russian Federation	25%	Russian Federation
Raiffeisen Investment	49,9%	Russian Federation	49,9%	Russian Federation

Summarized financial information of each material associate is as follows at 31 December 2014:

In thousands of Russian Roubles	Raiffeisen Leasing	Raiffeisen Life
Current assets	6 978 132	1 417 743
Non-current assets	7 211 990	5 169 762
Current liabilities	5 229 402	223 030
Non-current liabilities	4 919 213	6 431 765
Revenue	1 173 829	3 415 715
Total comprehensive income	781 339	292 345

Summarized financial information of each material associate is as follows at 31 December 2013:

In thousands of Russian Roubles	Raiffeisen Leasing	Raiffeisen Life
Current assets	7 669 561	548 438
Non-current assets	5 957 306	3 489 417
Current liabilities	4 883 489	204 027
Non-current liabilities	5 484 616	3 092 813
Revenue	1 202 628	2 757 282
Total comprehensive income	779 209	242 375

15 Premises and Equipment

In thousands of Russian Roubles	**Note**	**Premises**	**Office and computer equipment**	**Leasehold improve-ments**	**Construc-tion in progress**	**Total**
Cost at 1 January 2013		6 038 282	6 838 822	1 803 960	4 274 164	18 955 228
Accumulated depreciation		(739 264)	(4 338 911)	(1 114 850)	-	(6 193 025)
Carrying amount at 1 January 2013		**5 299 018**	**2 499 911**	**689 110**	**4 274 164**	**12 762 203**
Additions		1 128 405	1 019 007	65 703	890 468	3 103 583
Transfers		-	50 508	5 452	(55 960)	-
Depreciation charge	31	(526 414)	(1 161 126)	(184 515)	-	(1 872 055)
Disposals (at cost)		(55 761)	(156 445)	(98 445)	(56 361)	(367 012)
Disposals (accumulated depreciation)		3 951	121 870	93 411	-	219 232
Carrying amount at 31 December 2013		**5 849 199**	**2 373 725**	**570 716**	**5 052 311**	**13 845 951**
Cost at 31 December 2013		7 110 926	7 751 892	1 776 670	5 052 311	21 691 799
Accumulated depreciation		(1 261 727)	(5 378 167)	(1 205 954)	-	(7 845 848)
Carrying amount at 31 December 2013		**5 849 199**	**2 373 725**	**570 716**	**5 052 311**	**13 845 951**
Additions		1 110 613	1 006 129	38 121	13 168	2 168 031
Transfers		3 409 670	-	3 386	(3 413 056)	-
Depreciation charge	31	(258 667)	(1 027 628)	(163 827)	-	(1 450 122)
Disposals (at cost)		(137 436)	(419 794)	(10 035)	-	(567 265)
Disposals (accumulated depreciation)		32 288	366 988	7 314	-	406 590
Carrying amount at 31 December 2014		**10 005 667**	**2 299 420**	**445 675**	**1 652 423**	**14 403 185**
Cost at 31 December 2014		11 493 773	8 338 227	1 808 142	1 652 423	23 292 565
Accumulated depreciation		(1 488 106)	(6 038 807)	(1 362 467)	-	(8 889 380)
Carrying amount at 31 December 2014		**10 005 667**	**2 299 420**	**445 675**	**1 652 423**	**14 403 185**

Construction in progress consists mainly of construction and refurbishment of premises. Upon completion, assets are transferred to premises and equipment.

16 Intangible Assets

In thousands of Russian Roubles	Note	Goodwill	Software and licenses	Total
Cost at 1 January 2013		10 700 290	3 458 468	14 158 758
Accumulated amortization		-	(2 081 112)	(2 081 112)
Carrying amount at 1 January 2013		**10 700 290**	**1 377 356**	**12 077 646**
Additions		-	1 615 175	1 615 175
Amortization charge	31	-	(759 496)	(759 496)
Disposals (at cost)		-	(1 026 103)	(1 026 103)
Disposals (accumulated amortization)		-	1 016 379	1 016 379
Carrying amount at 31 December 2013		**10 700 290**	**2 223 311**	**12 923 601**
Cost at 31 December 2013		10 700 290	4 047 540	14 747 830
Accumulated amortization and impairment		-	(1 824 229)	(1 824 229)
Carrying amount at 31 December 2013		**10 700 290**	**2 223 311**	**12 923 601**
Additions		-	1 870 681	1 870 681
Amortization charge	31	-	(1 015 712)	(1 015 712)
Disposals (at cost)		-	(20 287)	(20 287)
Disposals (accumulated amortization)		-	2 158	2 158
Impairment of Goodwill		(10 700 290)	-	(10 700 290)
Carrying amount at 31 December 2014		**-**	**3 060 151**	**3 060 151**
Cost at 31 December 2014		10 700 290	5 897 934	16 598 224
Accumulated amortization and impairment		(10 700 290)	(2 837 783)	(13 538 073)
Carrying amount at 31 December 2014		**-**	**3 060 151**	**3 060 151**

The goodwill is tested annually for impairment.

On each balance-sheet date goodwill is examined with a view to its future economic utility on the basis of Cash Generating Unit. The Cash Generating Unit is defined by the Management. The carrying value of the Cash Generating Unit (including any allocated goodwill) is compared with its recoverable value. The recoverable value represents the higher of an item's value in use and the fair value less cost to sell, which in this case was value in use. It is based on the expected cash flows in accordance with the business plan of the unit. It is discounted at an interest rate reflecting the risk involved. The estimation of future earnings requires judgment of the past and actual performance and the expected development in the respective markets and overall macro-economic environment.

The estimation of the future development of the Cash Generating Unit starts with macro-economic facts (gross domestic product, inflation expectations) and considers specific market conditions and the business policy. To reflect correctly the development of the Bank in the next 10 years a financial model was built basing on the Management view and assumptions. Expected results that go beyond the 10 years period are determined via the present value of a perpetuity taking into account a long term growth rate. In case the recoverable value of a cash generating unit is lower than the carrying value an impairment is measured in the amount of the difference between the two values. The impairment loss is recognized in the income statement under other net operating income.

16 Intangible Assets (Continued)

The growth rate used in this plan accounts for the current economic situation. The deterioration of the Russian economy has negatively influenced the Russian banking sector. As a result long term assumptions have been revised. RBI Group shall still maintain a strong presence on the Russian market, but due to risk considerations growth assumptions compared to the past have been reduced. These expectations resulted in an impairment of Goodwill amounting to RR 10 700 290 thousand (2013: nil thousand) for RBRU, mainly due to an increase in the discount rate but also due to modified business assumptions. The increase is mainly due to higher inflation rate and the downgrade of the sovereign country rating. The management estimated that the recoverable amount of the CGU approximated the book value of equity.

The following table shows key assumptions that have been made:

	2014	2013
Discount rates	from 17% to 21%	from 10% to 14%
Growth rates	up to 4%	from 6,9% up to 15,1%
Planning period	10 years	10 years

17 Derivatives and Other Financial Assets

In thousands of Russian Roubles	Note	2014	2013
Fair value of currency rate based financial derivatives	41	48 554 933	6 327 998
Plastic card receivables		2 026 975	2 081 135
Fair value of interest rate based financial derivatives	41	6 142 184	1 092 927
Trade receivables		52 600	68 005
Total derivatives and other financial assets		**56 776 692**	**9 570 065**

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

As at 31 December 2014 and as at 31 December 2013 derivatives and other financial assets of the Group are neither past due nor impaired. The Group has net settled derivative financial instruments with the counterparties with the credit rating of good and above (Refer to Note 35).

Refer to Note 40 for the disclosure of the fair value of each class of derivatives and other financial assets. Geographical, maturity, and interest rate analyses of derivatives and other financial assets are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

18 Other Assets

In thousands of Russian Roubles	2014	2013
Prepayments for services and equipment	1 205 969	1 315 108
Repossessed collateral	602 771	563 745
Prepaid taxes other than on income	37 145	30 894
Other	196 716	260 000
Total other assets	**2 042 601**	**2 169 747**

Repossessed collateral represents real estate assets and other assets acquired by the Group in settlement of overdue loans. The Group currently evaluates the possibilities of disposing of these assets. The assets were initially recognized at a fair value of RR 602 771 thousand when acquired (2013: RR 563 745 thousand).

As of 31 December 2014 current portion of non-financial assets comprised RR 2 052 603 thousand (2013: 2 169 747 thousand).

19 Due to Other Banks

In thousands of Russian Roubles	2014	2013
Direct sale and repurchase agreements with securities with the CBRF and other banks and other financial institutions	1 983 277	32 105 288
Short-term placements of other banks	7 967 318	25 922 707
Long-term placements of other banks	5 943 601	6 112 118
Correspondent accounts and overnight placements of other banks	20 670 570	1 859 612
Secured funding facility with Central Bank maturing in 2015-2016	40 956 821	-
Total due to other banks	**77 521 587**	**65 999 725**

Carrying value of each class of due to other banks approximates fair value at 31 December 2014 and 31 December 2013. Refer to Note 41.

At 31 December 2014 included in due to banks are deposits of RR 96 145 thousand (31 December 2013: RR 124 043 thousand) held as collateral for irrevocable commitments under guarantees.

At 31 December 2014, included in amounts due to other banks are liabilities of RR 1 983 277 thousand (2013: RR 32 105 288 thousand) from sale and repurchase agreements. Refer to Notes 8, 9 and 37. As at 31 December 2014 the fair value of securities purchased under reverse securities sale and repurchase agreements and sold under direct sale and repurchase agreements with other banks amounted to RR nil thousand (31 December 2013: RR 6 314 931 thousand). Bank gets access to the CBR secured funding facility amounted to RR 40 956 822 thousand, pledged with corporate loans in the amount of RR 59 594 077 thousand. CBR secured funding has the interest rate from 17,25% to 18,75% and maturity: from 6 to 18 months.

Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

20 Customer Accounts

In thousands of Russian Roubles	2014	2013
State and public organisations		
- Current/settlement accounts	1 555 536	1 493 824
- Term deposits	13 127	215 681
Legal entities		
- Current/settlement accounts	132 306 314	111 384 866
- Term deposits	87 039 761	78 020 744
Individuals		
- Current/demand accounts	137 328 703	107 209 879
- Term deposits	173 657 059	154 147 771
Total customer accounts	**531 900 500**	**452 472 765**

20 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	310 985 763	58,47%	261 357 650	57,76%
Manufacturing	59 067 666	11,10%	62 598 538	13,84%
Trade	43 024 277	8,09%	37 578 587	8,31%
Real estate	34 055 246	6,40%	31 807 911	7,03%
Financial services	25 050 156	4,71%	22 503 568	4,97%
Transport and communication	24 229 413	4,56%	16 489 713	3,64%
Mining	11 917 453	2,24%	4 581 622	1,01%
Electricity, gas and water supply	6 993 826	1,31%	5 676 170	1,26%
Other	16 576 700	3,12%	9 879 006	2,18%
Total customer accounts	**531 900 500**	**100,00%**	**452 472 765**	**100,00%**

At 31 December 2014 the Group had no customers (31 December 2013: no customers) with balances above 10% of consolidated equity of the Group as at this date.

At 31 December 2014 included in customer accounts are deposits of RR 36 196 thousand (31 December 2013: RR 98 946 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 37.

At 31 December 2014 included in customer accounts are deposits of RR 4 446 495 thousand (31 December 2013: RR 2 348 781 thousand) held as collateral for irrevocable commitments under guarantees. Refer to Note 37.

Disclosure of the fair value of the Group's customer accounts at 31 December 2014 is presented in Note 41.

Geographical, maturity and interest rate analysis of customer accounts are disclosed in Note 35. The information on related party balances is disclosed in Note 43.

21 Debt Securities in Issue

In thousands of Russian Roubles	**2014**	**2013**
Bonds issued on domestic market	19 790 404	10 160 941
Promissory notes	1 415 089	193 617
Bonds issued on external market	1 022 849	-
Total debt securities in issue	**22 228 342**	**10 354 558**

As at 31 December 2014 the Group had bonds issued on the domestic market with a balance of RR 19 790 404 thousand (2013: RR 10 160 941 thousand). These bonds are denominated in the Russian Roubles, comprise of two tranches of RR 10 000 000 and RR 10 000 000 (2013: one tranche of RR 10 000 000) and mature in 2018 (2013: in 2018) and have coupon rates of 7,65% and 10,5% respectively (2013: 7,65%).

Disclosure of fair value of debt securities in issue is presented in Note 41

Geographical, maturity and interest rate analyses of debt securities in issue is disclosed in Note 35.

22 Term Borrowings from the Parent Bank and from Other Financial Institutions

In thousands of Russian Roubles	2014	2013
Loans from the Parent Bank maturing in 2015-2017	45 335 058	33 172 282
Subordinated loans from the Parent Bank maturing in 2019-2021	16 658 092	-
Total term borrowings from the Parent Bank	**61 993 150**	**33 172 282**

In August 2014 the Group raised two Subordinated loans from the Parent Bank. Loan in the amount of USD 130 193 thousand is made available for an indefinite period of time. Borrower may repay the loan at its option but only with the consent of the lender and a written consent of CBR, on the 5th anniversary of the date of inclusion the loan into own funds and each subsequent anniversary of the date. Loan in the amount USD 165 091 thousand has maturity date on August 16, 2021. For both loans the Group shall pay interest on the outstanding principal amounts at the Libor dependent floating interest rates.

Carrying value of term loans from the Parent Bank approximates fair value at 31 December 2014 and 31 December 2013 as all these liabilities bear floating interest rate. Refer to Note 41.

In thousands of Russian Roubles	Note	2014	2013
Notes issued under a DPR Programme maturing in 2017-2019		9 355 939	5 681 262
Loans from development banks maturing in 2015		465 471	585 659
Total term borrowings from other financial institutions		**9 821 410**	**6 266 921**

Refer to Note 35 for the amount of current term borrowings from the Parent Bank and from other financial institutions.

In June 2012 the Group issued floating rate loan participation notes of Series 2012-A in the amount of USD 50 000 thousand, Series 2012-B in the amount of 75 000 thousand and Series 2012-C in the amount of 50 000 thousand secured by the Bank's diversified payment rights, i.e. the rights to funds being transferred to the Bank's USD and EUR correspondent accounts. The principal of the notes is repaid quarterly starting for Series 2012-A notes from August 2014, for Series 2012-B and Series 2012-C notes from August 2015 with the final maturity of Series 2012-A notes in May 2017 and Series 2012-B and Series 2012-C notes in May 2019. Outstanding amount of secured obligations amounts to USD 175 000 thousand. Outstanding amount of secured obligations amounts to USD 166 667 thousand (31 December 2013: USD 175 000 thousand).

In December 2014 the Group issued floating rate loan participation notes of Series 2014-1 in the amount of USD 15 790 thousand, Series 2014-2 in the amount of 2 370 thousand with final maturity of Series 2014-1 in November 2017 and Series 2014-2 in March 2018. Notes are unsecured and to be used for funding of structured products.

Term borrowings from other financial institutions are represented by long term obligations of the Group denominated in the Russian Roubles, US Dollars and Euros and issued by large international banks. These borrowings have maturity dates ranging from 2015 up to 2019 (2013: from 2014 up to 2018) and Libor dependent floating interest rates.

Carrying value of each class of term borrowings from the Parent Bank and from other financial institutions approximates fair value at 31 December 2014 and 31 December 2013 as all these liabilities bear floating interest rate. Refer to Note 41.

The Group is subject to certain covenants related to its term borrowings from other financial institutions. Refer to Note 37.

Geographical, maturity and interest rate analyses of term borrowings from the Parent Bank and from other financial institutions are disclosed in Note 35. Information on related party transactions is presented in Note 43.

23 Derivatives and Other Financial Liabilities

In thousands of Russian Roubles	Note	2014	2013
Fair value of currency rate based financial derivatives	41	57 662 938	2 901 540
Fair value of interest rate based financial derivatives	41	3 260 581	2 715 515
Shortselling of trading assets		2 764 825	-
Plastic cards payables		281 141	271 964
Provision for credit related commitments	37	130 156	391 586
Trade payables		105 177	198 885
Settlements on conversion operations		16 309	23 324
Other		484	26 423
Total derivatives and other financial liabilities		**64 221 611**	**6 529 237**

Movement in the provisions for credit related commitments during year ended 31 December 2014 includes provision release of RR 312 921 thousand (2013: provision release of RR 231 271 thousand). Fx effect in amount RR (51 491) thousand was removed from *Release of provisions for credit related commitments* to *Foreign exchange translation gains less losses* during the year ended 31 December 2014 (RR (16 478) thousand during the year ended 31 December 2013).

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Disclosure of the fair value of the Group's derivatives and other financial liabilities at 31 December 2014 is presented in Note 40.

Currency, geographical and liquidity analyses of derivatives and other financial liabilities are disclosed in Note 35. Information on related party transactions is presented in Note 43.

24 Other Liabilities

In thousands of Russian Roubles	2014	2013
Accrued staff bonuses	2 532 429	2 863 930
Other accrued expenses	2 663 823	1 580 582
Liabilities for equipment purchase	1 194 367	895 679
Provisions for liabilities and charges	571 328	411 490
Taxes other than on income	226 322	165 072
Deferred commission income from financial guarantees	70 776	50 926
Commission on credit related commitments	22 768	13 665
Other	393 983	263 666
Total other liabilities	**7 675 796**	**6 245 010**

As of 31 December 2014 current portion of non-financial liabilities comprised RR 7 675 796 thousand including current income tax liability (2013: 6 245 010 thousand including current income tax liability).

24 Other Liabilities (Continued)

Movements in provisions for liabilities and charges are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Carrying amount at 1 January	**411 490**	**481 973**
Provision charge during the year	323 771	81 843
Utilisation of provision	(75 897)	-
Release of provision	(133 036)	(152 326)
Carrying amount at 31 December	**526 328**	**411 490**

Information on related party balances is disclosed in Note 43.

25 Share Capital

In thousands of RR, except for number of shares	**Number of outstanding shares, in thousands**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2013	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2013	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2014	**36 565**	**36 711 260**	**43 268 888**

At 31 December 2014, all of the Bank’s outstanding shares were authorised, issued and fully paid in.

During 2014 the Group did not receive a capital contribution from its shareholders.

All ordinary shares have a nominal value of RR 1 004 thousand per share (2013: RR 1 004 thousand per share) and rank equally. Each share carries one vote.

26 Additional Paid-in Capital and Other Reserves

Additional paid-in capital comprises free of charge donations made by the shareholder to the Bank.

At 31 December 2014 additional paid-in capital in amount of RR 1 520 016 thousand represents amounts contributed by shareholders in addition to the share purchase (2013: RR 1 520 016 thousand).

Other reserves comprise fair value differences on investments available for sale and cash flow hedges net of deferred tax.

In accordance with the Russian legislation, the Bank on a standalone basis distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank’s unconsolidated reserves under Russian Accounting Rules at 31 December 2014 are RR 58 601 431 thousand (2013: RR 56 806 864 thousand).

27 Interest Income and Expense

In thousands of Russian Roubles	**2014**	**2013**
Interest income		
Loans and advances to retail customers	29 176 523	22 523 842
Loans and advances to legal entities	23 024 830	20 051 102
Foreign exchange swap contracts	9 606 321	8 412 035
Cross-currency interest rate swap contracts	5 333 528	4 829 775
Interest rate swap contracts	6 404 104	4 128 792
Other securities at fair value through profit and loss and repurchase receivables related to other securities at fair value through profit or loss	2 155 117	2 936 491
Trading securities and repurchase receivables related to trading securities	1 714 745	1 802 787
Due from other banks	1 678 950	1 261 633
Interest income from reverse repo transactions	1 389 208	849 006
Debt securities held to maturity	56 251	70 506
Interest income on impaired financial assets	113 470	32 714
Investment securities available for sale	127 775	12 554
Total interest income	**80 780 822**	**66 911 237**
Interest expense		
Term deposits of individuals	6 149 766	6 267 688
Term deposits of legal entities	5 742 825	5 407 191
Foreign exchange swap contracts	3 449 352	876 054
Cross-currency interest rate swap contracts	4 955 652	4 980 758
Interest rate swap contracts	6 464 883	4 771 281
Current/settlement accounts	3 643 363	2 586 434
Interest expense from repo transactions	1 956 090	1 418 805
Term placements of other banks	1 263 898	1 328 845
Debt securities in issue	1 045 891	1 203 773
Term borrowings from the Parent Bank	1 187 122	1 015 095
Insurance liabilities	186 052	713 150
Term borrowings from other financial institutions	263 789	436 580
Correspondent accounts of other banks	81 791	22 995
Placements of the Central Bank	1 226 832	-
Total interest expense	**37 617 306**	**31 028 649**
Net interest income	**43 163 516**	**35 882 588**

28 Fee and Commission Income and Expense

In thousands of Russian Roubles	2014	2013
Fee and commission income		
Commissions on operations with plastic cards	8 245 405	6 672 203
Insurance agency commission	1 775 482	1 413 979
Commissions on settlement transactions	1 612 708	1 316 196
Commissions on documentary business and guarantees	1 178 443	1 273 119
Commissions on cash operations	941 538	853 406
Early and late repayment fee	694 034	623 061
Fiduciary activities	634 505	511 863
Credit facility fee	488 410	723 796
Commissions on export operations	387 103	460 281
Commissions on transactions with securities	195 360	289 606
Commissions from investment banking	109 315	250 901
Commissions on transfer payments	39 803	99 118
Other	773 593	359 219
Total fee and commission income	**17 075 699**	**14 846 748**
Fee and commission expense		
Commissions on operations with plastic cards	4 013 273	2 790 940
Commissions on settlement transactions	866 564	680 332
Commissions on cash operations	370 778	294 868
Commissions on transactions with securities	145 790	256 635
Credit facility fee	127 191	1 888
Commissions on transfer payments	69 081	61 321
Commissions on documentary business	4 549	41 704
Other	125 438	135 715
Total fee and commission expense	**5 722 664**	**4 263 403**
Net fee and commission income	**11 353 035**	**10 583 345**

29 Unrealized (Losses, net of Gains)/Gains less Losses from Derivative Financial Instruments

In thousands of Russian Roubles	2014	2013
Foreign exchange forwards	4 096 975	14 210
Cross currency interest rate swaps	2 346 551	148 625
Interest rate swaps	1 345 640	608 811
Forwards with securities	3 293	-
Foreign exchange options	(147 828)	639
Foreign exchange swaps	(19 145 222)	(1 500 368)
Total unrealized gains less losses/(losses, net of gains) from derivative financial instruments	**(11 500 591)**	**(728 083)**

30 Realized Gains less Losses from Derivative Financial Instruments

In thousands of Russian Roubles	2014	2013
Foreign exchange options	28 775	19 948
Foreign exchange futures	(50 350)	(15 523)
Foreign exchange forwards	(322 168)	231 016
Total realized gains less losses from derivative financial instruments	**(343 743)**	**235 441**

31 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2014	2013
Staff costs		12 197 260	11 954 887
Rent expenses		2 096 136	2 079 914
Professional services		1 599 388	539 305
Depreciation and impairment of premises and equipment	15	1 450 122	1 872 055
IT services		1 361 816	1 447 012
Premises and equipment maintenance expenses		1 294 855	1 091 671
Deposit insurance fee		1 071 225	926 460
Amortization of intangible assets	16	1 015 712	759 496
Advertising and marketing		863 677	1 089 569
Communication expenses		608 147	497 725
Security expenses		217 939	230 820
Taxes other than on income		208 225	210 058
Other		1 125 319	1 038 196
Total administrative and other operating expenses		**25 109 821**	**23 737 168**

Included in staff costs are statutory social security and pension contributions of RR 1 866 118 thousand (2013: RR 1 831 558 thousand). Staff costs also comprise employee bonuses in the amount of RR 1 433 368 thousand (2013: RR 1 896 830 thousand). Provisions for employee bonuses generated monthly on accrual basis.

Included in staff costs are the contributions to the defined contribution pension plan, paid by the Group for its employees in the amount of RR 107 830 thousand (2013: RR 87 564 thousand).

32 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	2014	2013
Current tax	7 566 872	5 191 135
Deferred tax	(2 427 547)	241 684
Tax refund	(501 781)	-
Income tax expense for the year	**4 637 544**	**5 432 819**

32 Income Taxes (Continued)

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

The income tax rate applicable to the majority of the Group's 2014 income is 20% (2013: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 10% to 20% (2013: 9% – 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2014	2013
Profit before tax	**12 308 486**	**25 813 769**
Theoretical tax charge at statutory rate (2014: 20%; 2013: 20%)	2 461 697	5 162 754
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	191 001	208 107
- Impairment of Goodwill	2 140 058	-
- Income on government securities taxed at different rates	(5 076)	(27 249)
- Income earned in tax free jurisdictions	2 089	(9 707)
- Income from resubmission of tax declaration	(501 781)	-
- Non-taxable loss from other taxable jurisdictions	418 171	(8 530)
- Other	(68 615)	107 444
Income tax expense for the year	**4 637 544**	**5 432 819**

The income in amount RR 501 781 thousand was recognised in the year 2014 as a result of resubmission of tax declaration for previous periods to the Russia tax authorities.

(d) Deferred taxes analyzed by type of temporary difference

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

In thousands of Russian Roubles	31 December 2013	Credited/ (charged) to profit or loss	Charged directly to OCI	Reclassifi cation	31 December 2014
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(1 039 660)	(81 614)	-	-	(1 121 274)
Loan impairment provision	(1 610 136)	(425 181)	-	-	(2 035 317)
Fair valuation of trading securities and repurchase receivables related to trading securities and other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	345 493	110 276	-	-	455 769
Debt securities in issue	-	45 110	-	-	45 110
Loans and advances to customers	1 928 857	(790 838)	-	-	1 138 019
Accruals	590 915	467 915	-	-	1 058 830
Fair value of derivative financial instruments	(360 774)	2 903 225	-	-	2 542 451
Provision for credit related commitments	78 317	(52 286)	-	-	26 031
Deferrals	1 490 671	140 933	-	-	1 631 604
Associates	(223 663)	81 317	-	-	(142 346)
Valuation reserve of investment securities available for sale	(81 688)	-	-	-	(81 688)
Other	8 925	28 691	-	-	37 616
Net deferred tax asset	**1 127 257**	**2 427 548**	**-**	**-**	**3 554 805**

32 Income Taxes (Continued)

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

In thousands of Russian Roubles	31 December 2012	Credited/ (charged) to profit or loss	Charged directly to OCI	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(953 846)	(85 814)	-	(1 039 660)
Loan impairment provision	(632 584)	(977 552)	-	(1 610 136)
Fair valuation of trading securities and repurchase receivables related to trading securities and other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	293 267	52 226	-	345 493
Loans and advances to customers	1 308 181	620 676	-	1 928 857
Accruals	868 778	(277 863)	-	590 915
Fair value of derivative financial instruments	(570 016)	209 242	-	(360 774)
Provision for credit related commitments	121 276	(42 959)	-	78 317
Deferrals	1 281 832	208 839	-	1 490 671
Associates	(273 151)	49 488	-	(223 663)
Valuation reserve of investment securities available for sale	(283 898)	-	202 210	(81 688)
Valuation reserve due to cash flow hedge	21 969	-	(21 969)	-
Other	6 892	2 033	-	8 925
Net deferred tax asset	**1 188 700**	**(241 684)**	**180 241**	**1 127 257**

(e) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2014			2013		
In thousands of Russian Roubles	Before-tax amount	Income tax expense	Net-of-tax amount	Before-tax amount	Income tax expense	Net-of-tax amount
Investment securities available-for-sale:						
- Gains arising during the year	-	-	-	(1 011 054)	202 210	(808 844)
Cash flow hedge:						
- Valuation reserve due to cash flow hedge arising during the year	-	-	-	109 849	(21 969)	87 880
Other comprehensive income/(expense)	**-**	**-**	**-**	**(901 205)**	**180 241**	**(720 964)**

33 Dividends

In thousands of Russian Roubles	2014	2013
Dividends payable at 1 January	-	-
Dividends declared during the year	22 796 814	11 326 944
Dividends paid during the year	(22 796 814)	(11 326 944)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year, in the Russian Roubles	**623**	**310**

All dividends are declared and paid in the Russian Roubles.

34 Segment Analysis

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

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

The Group is organized on a basis of three primary business divisions:

- Corporate banking – comprises corporate lending, loans to corporate entities and state and municipal organizations, corporate deposit services, trade finance operations, structured corporate lending, corporate finance advisory services and leasing services.
- Retail banking – comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal instalment loans and loans to small and medium entities, auto loans and mortgages, money transfers and private banking services.
- Proprietary business – comprises securities trading, debt and equity capital markets services, foreign currency and derivative products, structured financing, lending, including loans and advances to banks and other financial institutions and other transactions.

In addition to the primary business divisions, the performance of the Group is being assessed on a basis of seven geographical regions (“Hubs”) located across the Russian Federation. These geographical hubs are: Moscow, Centre, North – West, Siberia, South, Ural and Volga.

(b) Factors that management used to identify the reportable segments

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

(c) Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments’ profits or losses rather than in other comprehensive income; (ii) use of an intersegment transfer pricing system, (iii) different classification of certain lines of income and expenses and (iv) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis. In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates, which are determined by reference to market interest rate benchmarks.

Segment assets and liabilities are reported to the CODM net of inter-segment assets and liabilities.

34 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities by business divisions

Assets and liabilities of business segments of the Group are set out below:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Corporate business	352 939 835	247 691 004
Retail business	227 808 611	200 394 659
Proprietary business	299 101 390	239 651 596
Total business division assets	**879 849 836**	**687 737 259**
Corporate business	181 790 824	157 163 543
Retail business	333 290 471	277 958 315
Proprietary business	265 588 215	148 218 528
Total business division liabilities	**780 669 510**	**583 340 386**

Investments in associates are not allocated between segments. Non-financial assets and liabilities are located in Russia.

Business divisions of the Group for the year ended 31 December 2014 are as follows:

In thousands of Russian Roubles	**Corporate business**	**Retail business**	**Proprietary business**	**Total**
Net interest result	9 821 523	22 830 787	7 990 850	40 643 160
Net fee and commission result	4 259 787	11 370 213	55	15 630 055
Provision for loan impairment	(2 081 465)	(5 250 641)	(20 795)	(7 352 901)
Trading result	(329 620)	4 928	(1 950 977)	(2 275 669)
Valuation result from hedge accounting and other derivative instruments	3 119	-	1 358 594	1 361 713
Net income from investments	(117 144)	-	(1 136 980)	(1 254 124)
General administrative expenses	(4 425 683)	(18 008 001)	(1 599 442)	(24 033 126)
Other operating profit/loss	-	-	(346 622)	(346 622)
Total business division result before tax	**7 130 517**	**10 947 286**	**4 294 683**	**22 372 486**
Income taxes	-	-	-	(4 714 124)
Total business division result after tax	**7 130 517**	**10 947 286**	**4 294 683**	**17 658 362**

34 Segment Analysis (Continued)

Business divisions of the Group for the year ended 31 December 2013 are as follows:

In thousands of Russian Roubles	**Corporate business**	**Retail business**	**Proprietary business**	**Total**
Net interest result	8 709 470	18 510 998	2 792 613	30 013 081
Net fee and commission result	4 262 680	9 096 462	(242 621)	13 116 521
Provision for loan impairment	(106 337)	(1 901 691)	-	(2 008 028)
Trading result	(59 414)	10 912	6 752 669	6 704 167
Valuation result from hedge accounting and other derivative instruments	(7 762)	-	189 820	182 058
Net income from investments	12 848	532 517	482 006	1 027 371
General administrative expenses	(4 160 751)	(16 941 539)	(1 655 443)	(22 757 733)
Other operating profit/loss	-	-	(282 998)	(282 998)
Total business division result before tax	**8 650 734**	**9 307 659**	**8 036 046**	**25 994 439**
Income taxes	-	-	-	(5 430 931)
Total business division result after tax	**8 650 734**	**9 307 659**	**8 036 046**	**20 563 508**

Major customers

The Group does not have any single customer, from which it earns revenue representing 10% of more of the total consolidated revenues. Based on domicile of the customers substantially all of the revenues are from the Russian customers.

Major ratio calculations for the reportable segment of the Group for the year ended 31 December 2014 and the year ended 31 December 2013 are set out below:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Capital expenditure	**4 582 209**	**4 718 759**
Cost/income ratio	45,54%	46,09%
Average equity	108 221 327	111 622 154
Return on equity before tax	20,26%	23,13%
Return on equity after tax	16,18%	18,27%

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets. Calculation of return on equity excludes the impairment of Goodwill.

34 Segment Analysis (Continued)

(e) Information about reportable segment profit or loss, assets and liabilities by geographical location

Hubs of the Group for the year ended 31 December 2014 are as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2014**
Head office	295 230 593	234 532 440
Moscow	289 377 662	208 916 518
Centre	27 038 051	23 431 537
North-West	86 856 039	61 684 163
Siberia	47 231 836	47 739 612
South	37 316 863	30 337 072
Ural	42 999 990	40 211 733
Volga	53 798 802	40 884 184
Total hub assets	**879 849 836**	**687 737 259**
Head office	245 654 347	129 409 571
Moscow	382 710 595	333 062 904
Centre	13 078 433	12 001 918
North-West	72 763 374	63 898 578
Siberia	17 892 785	11 738 961
South	11 484 377	9 960 726
Ural	14 546 221	9 816 796
Volga	22 539 378	13 450 932
Total hub liabilities	**780 669 510**	**583 340 386**

Investments in associates are not allocated between segments. Non-financial assets and liabilities are located in Russia.

34 Segment Analysis (Continued)

Hubs of the Group for the year ended 31 December 2014 are as follows:

In thousands of Russian Roubles	Head Office	Moscow	Centre	North-West	Siberia	South	Ural	Volga	Total
Net interest result	7 386 707	17 412 189	1 691 770	4 583 990	2 866 798	2 055 187	2 030 323	2 616 196	40 643 160
Net fee and commission result	(357 794)	9 825 465	629 037	2 377 790	900 864	687 228	675 672	891 793	15 630 055
Provision for loan impairment	(4 352)	(1 179 309)	(537 361)	(649 526)	(2 722 572)	(728 151)	(772 343)	(759 287)	(7 352 901)
Trading result	(1 952 550)	(320 217)	850	14 901	(6 094)	5 115	1 176	(18 850)	(2 275 669)
Valuation result from hedge accounting and other derivative instruments	1 361 713	-	-	-	-	-	-	-	1 361 713
Net income from investments	(1 254 124)	-	-	-	-	-	-	-	(1 254 124)
General administrative expenses	(1 282 722)	(12 653 159)	(1 028 742)	(2 822 855)	(2 011 761)	(1 332 109)	(1 257 533)	(1 644 245)	(24 033 126)
Other operating loss	(346 622)	-	-	-	-	-	-	-	(346 622)
Total hub result before tax	**3 550 256**	**13 084 969**	**755 554**	**3 504 300**	**(972 765)**	**687 270**	**677 295**	**1 085 607**	**22 372 486**
Income taxes	(4 714 124)	-	-	-	-	-	-	-	(4 714 124)
Total hub result after tax	**(1 163 868)**	**13 084 969**	**755 554**	**3 504 300**	**(972 765)**	**687 270**	**677 295**	**1 085 607**	**17 658 362**

34 Segment Analysis (Continued)

Hubs of the Group for the year ended 31 December 2013 are as follows:

In thousands of Russian Roubles	**Head Office**	**Moscow**	**Centre**	**North-West**	**Siberia**	**South**	**Ural**	**Volga**	**Total**
Net interest result	2 241 087	15 153 259	1 291 949	3 458 138	2 573 572	1 567 552	1 780 521	1 947 003	30 013 081
Net fee and commission result	(548 581)	7 985 760	513 122	2 055 292	883 476	628 568	802 353	796 531	13 116 521
Provision for loan impairment	-	(225 301)	(298 913)	12 414	(356 454)	(272 553)	(709 484)	(157 737)	(2 008 028)
Trading result	6 753 093	(40 121)	-	22 652	-	2 352	-	(33 809)	6 704 167
Valuation result from hedge accounting and other derivative instruments	182 058	-	-	-	-	-	-	-	182 058
Net income from investments	1 027 371	-	-	-	-	-	-	-	1 027 371
General administrative expenses	(1 443 527)	(11 079 705)	(1 045 656)	(2 716 887)	(2 161 985)	(1 316 656)	(1 265 113)	(1 728 204)	(22 757 733)
Other operating loss	(282 998)	-	-	-	-	-	-	-	(282 998)
Total hub result before tax	**7 928 503**	**11 793 892**	**460 502**	**2 831 609**	**938 609**	**609 263**	**608 277**	**823 784**	**25 994 439**
Income taxes	(5 430 931)	-	-	-	-	-	-	-	(5 430 931)
Total hub result after tax	**2 497 572**	**11 793 892**	**460 502**	**2 831 609**	**938 609**	**609 263**	**608 277**	**823 784**	**20 563 508**

34 Segment Analysis (Continued)

(f) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Reconciliation of segment revenues, segment result and other material items is presented below.

In thousands of Russian Roubles	2014	2013
Total interest and fee and commission result for segment	**56 273 215**	**43 129 602**
Reclassification of interest result to trading result	1 256 130	6 325 952
Reclassification of commission result to trading result	(4 494 750)	(2 581 663)
Reclassification of provision for loan impairment to interest result and unwinding effect	-	(886)
Effect of the consolidation of the subsidiaries and other adjustments	1 481 956	(407 072)
Total net interest and fee and commission result	**54 516 551**	**46 465 933**

Total revenue comprises interest and similar income and fee and commission income.

Reconciliation of reportable segment result is presented below.

In thousands of Russian Roubles	2014 Segment Russia	2013 Segment Russia
Total segment result	**17 455 847**	**20 563 508**
Consolidation of subsidiaries and equity accounting for associates	575 540	(249 163)
Intercompany adjustments and other	339 845	66 605
Impairment of Goodwill	(10 700 290)	-
Profit after tax	**7 670 942**	**20 380 950**

Reconciliation of other material items of income or expenses for the year ended 31 December 2014 is as follows:

In thousands of Russian Roubles	Total amount for reportable segment	Reclassifi-cations	Effect of consolidation of the subsidiaries and equity accounting for the associates	As reported under IFRS
Material income or expenses for year ended 31 December 2014				
Net interest result	40 643 160	1 256 130	1 264 226	43 163 516
Net fee and commission result	15 630 055	(4 494 750)	217 730	11 353 035
Provision for loan impairment	(7 352 901)	-	490 471	(6 862 430
Trading result	(2 275 669)	3 238 620	(381 132)	581 819
Valuation result from hedge accounting and other derivative instruments	1 361 713	-	-	1 361 713
Net income from investments	(1 254 124)	-	(991 856)	(2 245 980)
Depreciation and amortization	(2 443 502)	-	(22 332)	(2 465 834)
Other administrative expenses	(21 589 624)	-	70 956	(21 518 668)
Share of profit of associates	-	-	463 756	463 756
Other operating profit/loss	(346 622)	-	(475 531)	(822 153)
Income taxes	(4 714 124)	-	76 580	(4 637 544)

34 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2013 is as follows:

In thousands of Russian Roubles	**Total amount for reportable segment**	**Reclassifi-cations**	**Effect of consolidation of the subsidiaries and equity accounting for the associates**	**As reported under IFRS**
Material income or expenses for year ended 31 December 2013				
Net interest result	30 013 081	6 325 066	(455 559)	35 882 588
Net fee and commission result	13 116 521	(2 581 663)	48 487	10 583 345
Provision for loan impairment	(2 008 028)	886	78 740	(1 928 402)
Trading result	6 704 167	(4 026 909)	376 044	3 053 302
Valuation result from hedge accounting and other derivative instruments	182 058	282 620	(286 826)	177 852
Net income from investments	1 027 371	-	-	1 027 371
Depreciation and amortization	(2 670 203)	-	38 652	(2 631 551)
Other administrative expenses	(20 087 530)	-	20 109	(20 067 421)
Share of profit of associates	-	-	418 355	418 355
Other operating profit/loss	(282 998)	-	(418 672)	(701 670)
Income taxes	(5 430 931)	-	(1 888)	(5 432 819)

Trading result, net income from investments and valuation result from hedge accounting and other derivative instruments comprise gains less losses from trading securities, gains less losses from trading in foreign currencies, unrealized and realized gains less losses from derivative financial instruments and foreign exchange translation losses, net of gains, ineffectiveness from hedge accounting, gain from redemption of investment securities available for sale, gains less losses from other securities at fair value through profit or loss and provision for investment securities held to maturity.

35 Financial Risk Management

The Group’s risk management function is conducted regarding financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and credit risk concentrations. Its primary objectives are to identify and assess risks, establish risk limits, assume risk mitigation measures, ensure that all material risks are measured and limited, and that business in general is evaluated from a risk/return perspective. The operational and legal risk management functions are meant to ensure that internal policies and procedures work properly to minimize operational and legal risks.

Risk management is in accordance with RZB Risk Management Policy and CBR requirements.

Responsibility for the Group’s risk management activities are divided among the following: Risk and Credit Management Directorate, Assets and Liabilities Committee (ALCO), Credit Committee, Problem Loan Committee, Operational Risk Committee and other authorized bodies of the Group within the scope of responsibilities delegated by the Group’s Supervisory and Management Board and in accordance with the Group’s Charter.

35 Financial Risk Management (Continued)

Risk and Credit Management Directorate

The Risk and Credit Management Directorate is responsible for:

- preparation of internal documents based on local regulatory requirements and the Bank's and Bank's group risk management standards;
- identification, evaluation and controlling all types of risks to which the Bank is exposed to;
- independent analysis of all types of risks, including risks associated with the Bank's credit activity;
- independent monitoring of the Bank's clients' financial and business situation;
- credit analysis of borrowers and assignment of internal ratings: monitoring of borrowers' performance and credit quality;
- acceptance, evaluation, monitoring and revaluation of the collaterals, including collateral for derivatives' deals;
- support of credit transactions at all stages of credit life coming after credit decision;
- credit and collateral documentation preparation;
- monitoring of the clients fulfilment of obligations in accordance with the loan documentation and credit decisions;
- managing the process of limit establishing, monitoring and limit breach cases escalation;
- problem assets management;
- analysis and monitoring of retail portfolios;
- management of credit, underwriting and fraud prevention processes within retail lending; scorecards development;
- development and support of regular reporting on performance and collection of retail portfolios;
- centralized regulatory and internal credit, market and liquidity risk reporting;
- qualitative and quantitative analysis of the credit, market and liquidity risk;
- Risk Weighted Assets analysis and monitoring; Basel II/III implementation and maintenance;
- economic capital management;
- stress-testing conduction; stress test results analysis and reporting;
- quality assurance of the risk management data and risk data quality performance monitoring and reporting;
- evaluation of potential and incurred losses and calculation of provisions;
- assurance of the effective market risk management, optimization of the risk/return ratio; analysis and control of the market risk for the Bank and subsidiaries;
- liquidity and market risk management by setting limits;
- development and implementation of the Bank operational risk management and anti-fraud prevention methodology and regulations; coordination of the Bank anti-fraud prevention, detection and recovery processes;
- coordination and control of operational risk management activities for the Bank and its subsidiaries;
- evaluation of fair value of financial instruments.

35 Financial Risk Management (Continued)

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is responsible for the development and implementation of the Bank's asset and liability management strategy. The following items are recognized as the ALCO's main areas of responsibility:

- Development and implementation of Asset and Liability management strategy;
- Economic and Regulatory Capital adequacy plan realization;
- Target balance sheet indicators development and establishment;
- Market and Liquidity Risk identification;
- Market and Liquidity Risk Model development, Model parameters approval;
- Strategic decisions on Market and Liquidity Risks management, concentration issues for market and liquidity risks;
- Asset and liabilities pricing;
- Strategic decisions on directions of Capital Markets, ALM and IB activities;
- Product approval process for Capital Markets, ALM and IB.

ALCO is presided over by the Chairman of the Bank's Management Board.

Credit Committee

The Credit Committee is responsible for managing the Group's credit risks, including:

- consideration and recommendation for approval the Group's credit policy;
- vote or approve limits application, Credit Strategies, modification of limits;
- vote or approve Limit Reviews;
- approval and amendment of terms and conditions of credit products;
- regular review of product strategies, industry reviews, etc.

The composition of the Credit Committee is approved by the Supervisory Board and includes senior managers whose activities involve risk assessment (e.g. specialists, heads of the units in the Risk and Credit Management Directorate) and client relations. The Credit Committee is chaired by the Head of the Risk and Credit Management Directorate, who is responsible for ensuring the Bank's risk management policies realization and compliance.

The authorities of the Credit Committee are approved by the Supervisory Board of the Bank. The Credit Committee of the Bank has the authority to approve Limit Applications for different types of customers: Financial Institutions, Sovereign, Sub-Sovereign, Country Limits, Corporate and Small and micro business, in accordance with the Bylaw of the Credit Committee.

Approval authority of the Credit Committee regarding corporate clients is regulated by Credit Committee bylaws rules established by HO if the Bank and approved by Supervisory board.

The Credit Committee has the right to delegate approval authority to lower approval bodies.

Granting Bank's credit risk products is allowed only with approved limit, i.e. after credit limit application's approval (including customer's credit worthiness and risks' appraisal) by respective approval authority. Consideration of the credit limit application by the respective risk management unit is a mandatory phase of its approval. Similar requirements refer to limit's enlargement, prolongation and also regular monitoring during which a borrower's risk profile changes, after the original lending decision was made (e.g. regarding his/her financial situation, the terms and conditions, or collateral), are detected.

35 Financial Risk Management (Continued)

Applications in excess of CC Approval Authority need approval of the upervisory Board/Executive Credit Committee which might require further approvals by the respective approval bodies in the Parent Bank.

The Group's Supervisory Board/Executive Credit Committee and the Parent Bank Managing Board

The Group's Supervisory Board and the Parent Bank Managing Board are responsible for approving limit applications when the total credit limit for GCC exceeds the approval powers of the local Credit Committee. The Executive Credit Committee is a standing advisory body of the Supervisory Board, where the credit decisions in the approval power of the Group's Supervisory Board are delegated and which meets on a regular basis.

The Group's Supervisory Board is authorized to approve loan applications from a group of connected customers (GCC) with a total credit limit of less than EUR 100 million. Loan applications from a GCC with a total credit limit exceeding EUR 100 million must be approved by the Parent Bank Managing Board. Loan applications that exceed certain reporting limits set by the Parent Bank must be approved by both the Parent Bank Supervisory Board and the Parent Bank Managing Board.

Problem Loan Committee of the Bank

All problem loans are reviewed by the Problem Loan Committee or the Small Problem Loan Committee. The issues of the financial instruments revaluation are considered by the Financial Committee. The Problem Loan Committee has the authority of decision making on customers with "work-out" risk status, including approval of applications for restructuring, approval action plans, write-offs, and establishment and release provisions. Members of the Problem Loan Committee are appointed by the Group's Supervisory Board and meet on a monthly basis.

The Problem Loan Committee is authorized to:

- approve strategy, action plan and other issues related to work-out customers with internal limit to the respective GCC of up to EUR 10 million;
- approve setting up or the release of provisions for a GCC up to EUR 2,5 million during financial year;
- approve direct write-off of up to EUR 500 000 and write-off against provisions of up to EUR 2 million during financial year;
- approve external costs related to the recovery of problem loans of up to EUR 500 000 during financial year.

Members of the Small Problem Loan Committee are appointed by Problem Loan Committee and are approved by the Group's Supervisory Board. Number of members must equal at least three persons. The Small Problem Loan Committee meets on a weekly basis.

The Small Problem Loan Committee is authorized to:

- approve applications for restructuring of problem loans of the customers with credit limit of up to EUR 1 million;
- approve applications for restructuring of problem loans with RBI GCC internal limit of up to EUR 2 million;
- approve applications for restructuring of problem loans with RBI GCC internal limit of over EUR 2 million only on the below mentioned cases:
  - change of principal payment schedule for a period of up to six months;
  - prolongation of the principal payment maturity date not more than six months;
  - deferral of repayment by no more than three months;
  - review of limits; or
  - combination of the above.

35 Financial Risk Management (Continued)

Decisions beyond the approval powers of the Small Problem Loan Committee must be approved by the Problem Loan Committee.

Decisions beyond the approval powers of the Problem Loan Committee must be approved by the Group's Supervisory Board.

Financial Committee of the Bank

Financial Committee is responsible for the decision taking on the methods of financial instruments revaluation and parameters applied for revaluation for both current and new products and also for changes implementation in these methods and parameters.

Credit risk. The Group's credit risk mainly relates to the possibility of a financial loss due to a borrower's creditworthiness and/or inability to meet its obligations. The Group manages its credit risk in close cooperation with the credit risk management team at the Parent Bank level. The Group's risk management system is integrated into risk management system of the Parent bank. The main risk policies and principles are laid out by the Parent Bank.

Credit risk management and lending decisions are based on the respective credit risk manuals and policies and the corresponding tools and processes that have been developed for this purpose.

The main principles of the fair value of the collateral value are documented in the Collateral evaluation Policy approved by the Group. The considered collateral has the following characteristics:

- There is a real proprietorship which should be documented in a proper manner and have legal force in accordance with the respective jurisdiction;
- There is a stable internal value for the period not less than maximum term of the credit agreement, which is monitored and appraised by the Group on a regular basis. In case of value decrease the Group should take proper measures without any delays for this decrease booking;
- There is a possibility and willingness to sell collateral. Collateral is possible to be realized in the form of cash in during appropriate terms. Possibility of collateral selling should be approved by favorable practice of the jurisdiction on the respective country; and
- There is a little correlation or there is no correlation between the collateral value and customer's creditworthiness (as an example of the high correlation might be issued bonds applied as a collateral): the higher correlation is the higher discount to the collateral value is.

The fair value of the collateral is a calculated one to the amount of which tangible or intangible asset is possible to be changed on the date of appraisal during the deal between independent customer and independent seller acting on the voluntary basis after proper marketing when participants were acting consciously and without compulsion. In accordance with the internal procedures, Collateral Management Department appraises the fair value of the collateral on a regular basis applying internal instructions of the Group and a possibility of the collateral evaluation by the independent appraisals. The list of kinds of the collateral, which Group requires from the customers, includes residential real estate, other real estate, guarantees of the Parent Bank, cash deposits and other assets. Loans to physical entities and credit cards do not have collateral. Mortgages and carloans are, consequently, collateralized by real estate and the cars.

In accordance with the Bank of Russia and internal rules the Group performs re-valuation all kinds of the collateral on a regular basis with the following frequency:

- Commercial and residential real estate, equipment, transport ships and accounts receivable – on a quarterly basis;
- Guarantees, cash – on a daily basis;
- Other assets – dependent on a type of asset, but not less than once a quarter.

35 Financial Risk Management (Continued)

The Group manages its credit portfolio on the basis of return on risk adjusted capital. The Group analyzes credit transactions and retail portfolios by calculating the expected loss and determining the unexpected loss on its loan portfolio. “Expected loss” is the loss that the Group expects over a one-year period in its credit portfolio for corporate customers and the loss the Group expects over a seven-month period for its credit portfolio for retail customers, based on its historical loss experience. In calculating expected loss, the Group takes into account a number of factors, including default probability and expected exposure at default, which the Group estimates based on client – and product-specific factors that reflect the risk characteristics of different types of credit exposures and facilities. Expected loss is a useful measure for planning purposes. “Unexpected loss” is the Group’s estimate of the maximum negative deviation of the possible loss from the expected loss that it is likely to face within a one-year period. In the Group’s risk management system, the expected loss in lending business is factored into the pricing of products in the form of standard risk costs. Unexpected loss is taken into account through the allocation of capital and is part of individual pricing decisions as well. The Group adjusts the expected loss model in order to calculate the incurred losses of its loan portfolio.

The Group analyzes credit risk associated with traditional banking products, such as loans, as well as credit risk for derivative financial instruments. The Group particularly attempts to limit its potential default risk from over the counter (“OTC”) derivative transactions. The Group measures its credit exposure from OTC derivative transactions as the cost of replacing the contract if its counterparty were to default on its obligations.

The Group’s Corporate credit risk management, Financial Markets risk management and Retail risk management divisions are responsible for implementing its credit risk management policies and procedures as approved by the Parent Bank’s management board.

The Group structures the levels of credit risk it undertakes by placing the relevant type of credit risk limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to a quarterly review in accordance with the requirements of the Central Bank of Russian Federation. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee and the Group Supervisory Board.

The exposure to any borrower, including financial institutions, is at the same time restricted by sub-limits covering on – and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of borrowers’ and potential borrowers’ ability to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 37.

Approval of a loan requires an evaluation and recommendation from the Group’s and Credit Management Directorate and unanimous approval from the proper authority.

Those best practices that have proved themselves in the last few years stayed in place:

- Special research regarding the real estate portfolio;
- Portfolio research – SWOT analysis of industries and majors;
- Daily tight monitoring (including external and internal sources of information) of clients with respective action in case of negative trends are observed on customer and/or portfolio/sub-portfolio level.

35 Financial Risk Management (Continued)

The Group implemented an early warning system, which is a specialized tool meant to identify problem corporate and project finance customers early on and allow defaults to be prevented by taking appropriate action. The system is based on 44 warning signals and consolidates information from internal and external sources. Within the system, the corporate portfolio and each individual borrower is screened regularly to detect these warning signals, which would indicate an upcoming problem loan. Based on its findings, every customer is assigned a so-called “client risk status” and an action plan is developed in case of the status deterioration.

The Group’s financial institutions risk management (i.e. banks and securities houses, insurance, finance and factoring companies, brokers, asset management houses, leasing companies, subsidiaries of the above mentioned financial institutions and similar entities, sovereign and sub-sovereign borrowers) is implemented through research, analysis, and ensuring that the risk management standards, policies, practices and tools of the Parent Bank are adhered to by all business units in the credit process, the daily control of limits observance (including real-time control for treasury and securities types of credit risk limits), and reporting.

Limits are subject to constant monitoring. This controlling function includes daily real-time monitoring of Treasury and Capital markets operations within the existing treasury & securities types of credit risk limits, operations with securities, derivatives, Money Market and REPO transactions (counterparty, issuer), and commercial limits. Monthly monitoring covers exposure, disbursed cash and the off-balance sheet commitment.

Country risk management is fully managed by the Parent Bank through system of country limits. All country limits of the Group are approved, monitored and administrated by the Parent Bank.

Asset class segmentation as an initial stage of the rating process

Asset class segmentation is one of the first steps in determining a client’s asset class (risk segment) and respecting rating model.

The basic standards for asset class segmentation are determined by the Parent Bank directives and establish common rules across the whole Parent Bank Group and also in internal documents of the Head Office of the Group.

The asset class segmentation and rating process are used for the Risk Weighted Assets calculation in order to meet the Basel II/III Accord requirements as well as the European Banking Legislation.

Rating models

The rating process determines a creditworthiness estimation. The Group applies internal ratings based approach for the assessing credit risk, for the definition of which different risk classification procedures (rating and scoring models) are used depending on the asset class.

All non-retail rating models are developed by the Parent Bank. The models are centralized and used throughout the whole Group. Calculation of the rating is executed by the Group with the usage of special software tools. Ratings under models Corporate, SMB, Local and Regional Governments and Project Finance are assigned by the Groups’ head office.

The analysis of local customers/counterparties (rated by “Financial Institutions”, “Insurance”, “Sovereign” and “Collective investment Funds” rating models) is done locally and reviewed by Parent Bank. Initial analysis of the local (in the view of the Parent Bank) customers/counterparties related to the “Financial Institutions”, “Insurance”, “Sovereign” and “Collective investment Funds” ratings models is executed directly by the subsidiaries (including Raiffeisenbank Russia), after that the respective parameters of the customer or the deal are transferred to the Parent Bank where they are repeatedly analyzed in accordance with the rules of responsibility allocation, which is internally documented. Ratings on the mentioned rating models are assigned by the Parent Bank.

35 Financial Risk Management (Continued)

Rating models' application for the certain customer is determined depending on the asset class of the borrower/counterparty/issuer in the view of the Bank. The rating model for Corporate customers ranks creditworthiness in 30 rating grades (27 non-default rating grades and 3 defaulted ones); before December 2013, credit standing of corporate customers was ranked in ten rating grades. The rating models for the other non-retail asset classes; "Small and Medium Business" rating model has seven major classes, three of which have three additional categories FI, CIU, Insurance, Local and Regional Governments and Sovereigns – rank creditworthiness in ten rating grades; Project Finance rating model ranks creditworthiness in five grades (due to supervisory slotting criteria approach according to Basel 2). At this in the corporate rating model three sub-grades are matched to each of the grade 9A, B and C, except for 10^{th} grade (default)), at the same time there are 7 main grades, 3 of which have 3 sub additional sub-grades (A, B and C).

Judgment on a counterparty is based on the analysis of the statistical data, and also on the credit analyst's professional expertise. In the framework of some rating models counterparties are appraised by the comparison with externally available data, and also with the use of behavioral date.

The Retail rating scale contains 11 categories (nine rating grades for non-defaulted customers, one grade for defaults and one "Not rated" category).

The following separate non-retail rating models are used by the Group:

1 *Corporate* – for corporate counterparts;

2 *SMB* – for customers belonging to small medium business;

3 *Insurance* – for insurance companies (both life & non-life);

4 *FI* – for all types of financial institutions, except insurance companies;

5 *Sovereigns* – for countries' central governments and relates to countries' non-commercial public sector entities (PSEs);

6 *LRG* – for local administrations and regional governments, and is related to non-commercial PSEs;

7 *CIUs* – for Collective Investment Undertakings;

8 *Project Finance* – for separate projects.

By that in the corporate asset class two kinds of the respective rating models are pointed out:

- Rating model for the regular corporate customers – CO4; and
- Rating model for the large corporate customers – LCO1.

Justification of one or another rating model applying is based on the 2 criteria: amount of the customer's assets and its gross revenue, thresholds for which are established on the level of the Group. The respective financial ratios of the customer should fulfill both of the mentioned conditions during 2 last continuous reporting periods (excess of the actual gross and assets amount above the settled thresholds) to LCO1 rating model apply.

The non-retail rating process (except for FI, Insurance, CIUs and Sovereigns rating models) is headed by the Rating Unit of the Group's head office. The Rating Unit consists of analysts of Group's head office and regional branches. Ratings and credit analyses are done by both head office and regional analysts. The application of rating methodology and quality and approval of ratings are under centralized control.

The main tasks within FI, Insurance, CIUs and Sovereigns rating process are responsibility of central analysts of the Parent Bank, but local credit analysts are participating in rating process of the local counterparties providing analytical charts and their analysis and rating spreadsheets. For Sovereign customers responsibility of rating process is fully laid on risk respective divisions of the Parent Bank.

35 Financial Risk Management (Continued)

For retail customers scorecards are applied automatically in application processing systems.

The Group's rating scales, which are shown below, are unified amongst all the subsidiaries of the Parent Bank and reflect the range of default probabilities defined for each rating class.

The rating tools are kept under regular review by the Parent Bank and updated if necessary. The Group regularly validates applied rating models and appraised predictive power of the models.

The Group's internal ratings scales and their mapping based on Probability of Default are presented in the table below.

Rating description	Group's Retail rating	Group's Corporate rating	Group's SMB rating	Group's FI, Sovereign, LRG rating	Group's Insurance rating	Group's CIU rating	Group's Project Finance rating
Minimal risk	0,5	1A, 1B, 1C		A1	0,5	C1	
Excellent credit standing	1,0	2A, 2B, 2C		A2	1,0	C2	6,1
Very good credit standing	1,5	3A, 3B, 3C		A3	1,5	C3	
Good credit standing	2,0	4A, 4B, 4C	4B	B1	2,0	C4	6,2
Sound credit standing	2,5	5A, 5B, 5C	5B	B2	2,5	C5	
Acceptable credit standing	3,0	6A, 6B, 6C	6A, 6B, 6C	B3	3,0	C6	6,3
Marginal credit standing	3,5	7A, 7B, 7C	7A, 7B, 7C	B4	3,5	C7	
Weak credit standing	4,0	8A, 8B, 8C	8A, 8B, 8C	B5	4,0	C8	6,4
Very weak credit standing	4,5	9A, 9B, 9C	9B	C	4,5	C9	
Default	5,0	10A, 10B, 10C	10A	D	5,0	D	6,5

Appraisal of the exposure at default is based on the amount the credit requirement exposed to the default risk. For a loan, this is represented by the total exposure amount at the date of default.

Basel II requires IRB banks to internally estimate risk parameters. In particular in the framework of the foundation approach, based on the internal ratings, such ratios as exposure at default, loss given default and maturity (for non-retail assets) are appraised.

Private Individuals

Private individual credit risk appears when performing risk-bearing transactions for private individual customers. A borrower could be defined as a private individual customer in case of lending for his own personal use. Basic types of private individual loans are mortgages, auto loans, personal loans and credit cards. For each type of private individual loan, the Group has established a product approval process, which is approved by the Parent Bank.

35 Financial Risk Management (Continued)

When establishing private individual credit risk limits, the Group usually follows the general guidelines set for the entire Parent Bank group and the guidelines for the Group (as a subsidiary of the Parent Bank). The decision on whether or not to provide a loan to a private individual customer depends on:

- the customer's conformity with the basic conditions, which are documented separately for each type of credit product;
- the customer's scoring data;
- the customer's financial status (his/her ability to pay);
- the results of a security check;
- credit history data;
- and collateral (if it exists).

The Group uses certain reports for credit risk analyses on a monthly basis, such as consumer portfolio reports, branch monitoring reports, product reports, risk cost reports, vintage reports, collection bucket reports, collection target tracking and analytical fraud reports.

For debt securities, the Group uses internal ratings to manage credit risk exposure. The Bank extrapolates the ratings model on its subsidiaries as well.

Collection for Private Individuals and Micro Business

Collection for Private individuals and Micro Business' objective is to obtain money owing from delinquent customer in such a way as to maintain customer service while minimizing bad debt losses and maximizing resource effectiveness in a cost-effective manner.

Collection process starts when customer account becomes past due and involves various activities, which depend on delinquency stage, product, customer situation, legal environment, etc.

Within collection process two specialized tools implemented in the Bank are used: Debt Manager system meant for delinquent customers tracking and auto dialer system meant for making calls to customers in automatic mode and connection customers with Collection officers when both are available.

Collection for Private individuals and Micro Business' responsibilities are divided between Soft collection department (customers with 1-30 days past due), Medium collection department (customers with 31-90 days past due), Late collection department (customers with 90 and more days past due) and Restructuring department.

The main objective of Collection for Private individuals and Micro Business is to bring past due customers back to current delinquency status or/and minimizing potential credit losses for the Bank.

Credit limits. The Group monitors direct credit exposure to FI, Sovereign and LRG using a system of limits developed by the Parent Bank. The limits include finance type of credit risk limits (Lending, Letter of credits & Letter of guarantees, Contingencies, Finance underwriting, credit risk insurance, overdraft on Loro-accounts, positive balance on Nostro-accounts), securities type of credit risk limits (Issuer investment/trading/underwriting, Issuer equities trading, Securities settlement, Securities options/futures) and treasury type of credit risk limits (Treasury settlement, Global facility (MM & FX/Derivatives), Repo style). For limit application a counterparty should have the assigned internal rating, which is the base for limit value in its favor. Limits and ratings are reviewed at least once a year. Financial standing of FI, Sovereign & Sub-Sovereign counterparties is monitored on a regular basis according to the Parent Bank and Central Bank of Russia requirements. Exposures in the frame of the established limits on FIs, Sovereign & Sub-Sovereign are monitored on a daily basis.

Exposure to other groups of borrowers (other than FIs, Sovereign & Sub-Sovereign) is also monitored by setting limits on different types and terms of transactions for each individual counterparty and industry segment (economic entity), including regular monitoring of borrowers' creditworthiness based on evaluations and rating systems.

35 Financial Risk Management (Continued)

The Bank sets credit limits on the following:

- Assets exposed to credit risk;
- Short-term interbank transactions with counterparty banks;
- Investments in issuers' debt securities;
- Investments in groups of interrelated counterparties;
- An economic entity's liabilities to the Group.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by the Credit Committee. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

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

Credit risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 10 and 11.

Market risk. Market risk is the risk of loss due to adverse changes in interest rates, exchange rates, equity prices, commodity prices, bond issuer credit spreads, which may affect the Group's equity, profit or the market value of its assets and liabilities. Market risk derives from on- and off-balance sheet positions in the Bank's treasury, investment banking and lending operations.

The Group's market risk management approach encompasses the recognition, measurement, monitoring and management of market risk that results from the Group's banking business on a group basis. The Group encounters market risk in both trading and non-trading activities (including interest rate positions, balance sheet structures and hedging positions).

The Group's market risk management unit is in charge of identifying and assessing market risks and establishing procedures to control market risks, including monitoring position limits and exposures. The Bank's market risk management unit also assesses market risk for new businesses and products, including structured products. The Assets and Liabilities Management Department and Markets and Investment Banking Directorate, which trade within the trading limits set by the market risk management unit and approved by the ALCO/Parent Bank' MACO/CC, performs trading and market positioning for the Bank. The Bank is subject to the policies and limits set by the Parent Bank and approved by the Parent Bank's market risk committee.

The Bank's market risk management unit is in charge of daily limit monitoring and reporting to the Parent Bank, and is responsible for reporting any limited breach to the Bank's management and Parent Bank. In the case of a limit breach, the Parent Bank's MACO has the right to intervene in the Bank's risk management activities and practices.

Risk management tools

The Bank manages market risks by controlling the market risk limits for all trading portfolios (domestic and foreign fixed income securities, foreign exchange and equity positions) by using risk management tools such as position limits, value at risk, stress tests, back-testing, interest rate gap and sensitivity analysis and stop-loss limits.

35 Financial Risk Management (Continued)

Value at Risk (VaR)

VaR is a statistically-based estimate of a potential loss in the Bank's trading portfolio, including fixed income, equity and foreign exchange positions, as well as a decrease in the economic value of the Banking Book, from adverse changes in market parameters. As is standard for the Parent Bank and the Group, VaR measures are calculated at a 99% confidence level, and there is a specified statistical probability of 1% that actual loss could be greater than the VaR estimate. Limits on VaR are applied for by the Bank's Assets and Liabilities Management Department and Markets and Investment Banking Directorate, recommended by the Bank's market risk management unit, approved by the ALCO internally and then approved by the Parent Bank's Market Risk Committee (MACO).

In 2010, the Group started to use a new model of measuring VaR that was developed and put into force by the Parent Bank. This model is now standard for all network units of the Parent Bank.

The main parameters of the new model are:

- hybrid simulation (combined Monte Carlo-Historical scenarios);
- currency risk and interest rate risk covered and simulated together (including diversification effect);
- based on a two-year time series with Volatility De-clustering (approx. 80% short-term and 20% long-term volatility).

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

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those of an extreme nature;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. VaR is only an estimate, which is subject to stochastic uncertainty. There is a 1% chance that the loss could exceed VaR;
- as VaR is only calculated at the end of the day, it does not necessarily reflect exposures that may arise on positions during the trading day.

VaR is dependent upon the Bank's position and the volatility of market prices. VaR of an unchanged position reduces if market volatility declines, and vice versa.

The Parent Bank calculates VaR for the Bank based on reported risk positions in the Trading Book and the Banking Book. The Parent Bank performs VaR calculations on a regular basis in EUR and compares the results to the VaR limits approved for the Bank. When a limit is exceeded, it is reported to the local Management and the Parent Bank's Market Risk Committee.

VaR summary for currency and interest rate risks for the year ending 31 December 2014 and 2013:

In thousands of Russian rubles		**31 December 2014** *1-day VaR*
Trading Book	Currency risk	138 490
	Interest rate risk	403 742
	Currency risk and interest rate risk (including diversification effect)	471 066
Banking Book	Interest rate risk	3 621 585
Total for the Bank	**Currency risk**	**138 490**
	Interest rate risk	**3 597 129**
	Currency risk and interest rate risk (including diversification effect)	**3 889 939**

35 Financial Risk Management (Continued)

In thousands of Russian rubles		**31 December 2013** *1-day VaR*
Trading Book	Currency risk	38 989
	Interest rate risk	58 201
	Currency risk and interest rate risk (including diversification effect)	84 790
Banking Book	Interest rate risk	87 844
Total for the Bank	**Currency risk**	**38 989**
	Interest rate risk	**133 525**
	Currency risk and interest rate risk (including diversification effect)	**153 494**

To calculate VaR, the Parent Bank uses the open risk positions of the Bank.

The Bank's market risk management unit monitors VaR limits and exposures. The distribution of potential profits and losses from the VaR model provides an indication of potential trading revenue volatility, and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. VaR is based on a one-day calculation and provides an estimate of the range of daily mark-to-market profit and loss that the Bank may incur on its current portfolio under normal market conditions.

Stress tests

The main advantage of VaR risk assessment – its reliance on the empirical data – is at the same time its biggest drawback. Extreme market moves that may cause substantial deterioration of the Bank's position have to be assessed by putting stress on a number of standard deviations of market returns. The resulting figures serve as a rough indicator of the magnitude of a likely loss under the corresponding scenario. The Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests indicate the potential size of losses that could arise in extreme conditions.

Stress testing helps measure the Bank's exposure to extreme market movements and provides an indication of the potential loss that could arise as a result of such movements. Stress testing is designed to ensure that a wide range of possible outcomes is explored in order to understand the Bank's vulnerability, and to ensure that the governance and control framework is comprehensive, transparent and responsive to market conditions and developments, both globally and in the Russian economy.

Back-testing

The effectiveness of the VaR model is subject to a back-testing assessment. Back-testing detects cases of above-VaR loss and compares the frequency of VaR breaches to the given confidence level.

In back-testing, the Bank compares the 1-day VaR calculated on positions at the close of each business day with the actual revenues arising on the same positions on the next business day. These revenues ("back-testing revenues") exclude non-trading components, such as commissions and fees, but include revenues from intra-day trading (so called, "dirty back-testing"). If the result is negative and exceeds the 1-day VaR, a "back-testing exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a back-testing exception is expected, on average, one day out of a hundred, i.e. approximately three times a year.

The Bank uses an interest rate sensitivity analysis to assess interest rate risk for its banking portfolio, which consists of loans, deposits, interbank money market transactions, fixed-income held-to-maturity securities and interest rate derivatives and for its trading portfolio, which consists of fixed income trading securities and interest rate derivatives that hedge the exposure of fixed income trading securities. The Group calculated interest rate sensitivity (Basis Point Value) for each portfolio by calculating the change in the present market value of all future cash flows with interest rate shift for 1 bp, calculated taking the current market interest rate that the Bank uses for internal pricing, to the value of all future cash flows in the current market increased by one basis point.

35 Financial Risk Management (Continued)

Limitation of trading positions

The Bank establishes Stop-Loss/High Watermark limits to react on significant losses on its trading activities. All cases of Stop-Loss/High Watermark limit breaches are subject to escalation to ALCO and Group MACO committees.

The Bank uses a set of position limits to prevent the concentration of certain financial instruments, including trading securities and open foreign exchange positions, as well as in the Bank's overall portfolio, in order to maintain the market value of the overall portfolio. The position limits are set for individual positions and for the overall portfolio and account for certain market conditions, including liquidity.

Currency risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RUB and EUR/RUB exchange rate fluctuations).

As part of managing currency risk, the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The control system also includes limits on Value at Risk (see the description of Value at Risk measure for details), and stop-loss limits, each monitored on a daily basis.

Foreign exchange risk management is done centrally by the Capital Markets Division for the Bank's Head Office and all regional and Moscow branches.

The Bank's Capital Markets Division undertakes daily aggregation of the currency position of the Bank and takes measures for maintaining of the Bank's currency position on a minimum level. The Bank uses spot transaction, forwards and USD futures contracts tradable on MICEX and RTS and OTC market as the main instruments for hedging currency risk.

35 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2014:

In thousands of Russian Roubles	RUR	USD	EUR	Other	Total
Cash and cash equivalents	64 673 312	59 079 720	60 331 955	1 291 935	185 376 922
Mandatory cash balances with the Central bank of the Russian Federation	5 898 114	-	-	-	5 898 114
Trading securities and repurchase receivables related to trading securities	8 328 550	1 311 009	-	-	9 639 559
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	15 888 566	2 958 235	-	-	18 846 801
Due from other banks	9 401 135	5 991 838	-	1 738	15 394 711
Loans and advances to customers	301 034 122	246 032 648	25 558 997	1 463 675	574 089 442
Investment securities available for sale	1 517 323	-	-	-	1 517 323
Securities held-to-maturity	509 782	-	-	-	509 782
Derivatives and other financial assets	37 926 305	18 518 793	326 515	5 079	56 776 692
Total monetary financial assets	**445 177 209**	**333 892 243**	**86 217 467**	**2 762 427**	**868 049 346**
Due to other banks	67 458 447	6 045 849	3 928 695	88 596	77 521 587
Customer accounts	271 656 150	161 931 264	94 071 600	4 241 486	531 900 500
Term borrowings from the Parent Bank	-	57 881 851	4 111 299	-	61 993 150
Term borrowings from other financial institutions	-	9 821 410	-	-	9 821 410
Debt securities in issue	19 985 021	1 022 849	1 220 472	-	22 228 342
Derivatives and other financial liabilities	7 497 614	55 332 810	1 341 098	50 089	64 221 611
Insurance contracts	14 635 855	-	-	-	14 635 855
Total monetary financial liabilities	**381 233 087**	**292 036 033**	**104 673 164**	**4 380 171**	**782 322 455**
Less fair value of currency derivatives	**27 722 240**	**(35 652 725)**	**(1 136 906)**	**(40 614)**	**(9 108 005)**
Currency derivatives	**49 567 089**	**(79 587 024)**	**17 998 734**	**2 913 196**	**(9 108 005)**
Net position including currency derivatives	**85 788 791**	**(2 078 089)**	**679 943**	**1 336 066**	**85 726 891**

35 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2013 is presented below:

In thousands of Russian Roubles	RUR	USD	EUR	Other	Total
Cash and cash equivalents	72 507 966	57 633 708	23 730 775	635 642	154 508 091
Mandatory cash balances with the Central bank of the Russian Federation	5 640 263	-	-	-	5 640 263
Trading securities and repurchase receivables related to trading securities	28 340 456	887 215	-	-	29 227 671
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	31 854 942	4 154 153	-	-	36 009 095
Due from other banks	8 957 803	828 681	-	1 095	9 787 579
Loans and advances to customers	285 086 371	132 116 370	15 005 375	-	432 208 116
Investment securities available for sale	1 508 805	-	-	-	1 508 805
Securities held-to-maturity	508 655	-	-	-	508 655
Derivatives and other financial assets	7 754 787	1 028 696	781 469	5 113	9 570 065
Total monetary financial assets	**442 160 048**	**196 648 823**	**39 517 619**	**641 850**	**678 968 340**
Due to other banks	58 315 966	6 857 276	824 674	1 809	65 999 725
Customer accounts	293 938 889	93 874 729	61 060 498	3 598 649	452 472 765
Term borrowings from the Parent Bank	-	28 002 087	5 170 195	-	33 172 282
Term borrowings from other financial institutions	-	6 264 762	2 159	-	6 266 921
Debt securities in issue	10 231 888	14 900	107 770	-	10 354 558
Derivatives and other financial liabilities	2 379 523	4 053 561	93 979	2 174	6 529 237
Insurance contracts	14 547 380	-	-	-	14 547 380
Total monetary financial liabilities	**379 413 646**	**139 067 315**	**67 259 275**	**3 602 632**	**589 342 868**
Less fair value of currency derivatives	**4 542 822**	**(1 783 940)**	**664 541**	**3 035**	**3 426 458**
Currency derivatives	**31 927 361**	**(60 389 894)**	**28 609 199**	**3 279 792**	**3 426 458**
Net position including currency derivatives	**90 130 941**	**(1 024 446)**	**203 002**	**315 975**	**89 625 472**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 39.

35 Financial Risk Management (Continued)

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Bank calculates VaR for the Parent Bank monitoring, using EUR as the basis currency, and for local purposes the Bank performs the sensitivity analysis.

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

In thousands of Russian Roubles	**At 31 December 2014** **Impact on profit or loss/equity**
US Dollars strengthening by 30%	(623 427)
US Dollars weakening by 30%	623 427
Euro strengthening by 30%	203 983
Euro weakening by 30%	(203 983)
US Dollars strengthening/Euro weakening by 30%	(419 444)
US Dollars weakening/Euro strengthening by 30%	419 444

In thousands of Russian Roubles	**At 31 December 2013** **Impact on profit or loss/equity**
US Dollars strengthening by 30%	(307 334)
US Dollars weakening by 30%	307 334
Euro strengthening by 30%	60 901
Euro weakening by 30%	(60 901)
US Dollars strengthening/Euro weakening by 30%	(246 433)
US Dollars weakening/Euro strengthening by 30%	246 433

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

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

The Group is exposed to interest rate risk, principally through the mismatch of assets and liabilities by maturities/review of interest rates of assets and liabilities in various currencies.

The Market Risk Management monitors on a daily basis and sets limits on the level of interest rate sensitivity that may be undertaken. The Parent Bank's market risk committee sets interest rate sensitivity limits for the Group's Russian Rouble, US Dollar Euro and other currencies positions and for the Group's overall exposure. In addition Group uses interest rate swaps and cross currency interest rate swap to hedge its exposure to interest rate risk, however hedge accounting is not applied due to failure of effectiveness test.

35 Financial Risk Management (Continued)

The table below summarizes the Group's exposure to interest rate risks.

In thousands of Russian Roubles	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2014					
Total financial assets	522 321 490	47 589 682	247 300 646	50 847 108	868 058 926
Total financial liabilities	451 402 133	193 202 881	108 338 753	29 378 688	782 322 455
Net interest sensitivity gap at 31 December 2014	**70 919 357**	**(145 613 199)**	**138 961 893**	**21 468 420**	**85 736 471**
31 December 2013					
Total financial assets	426 189 298	45 975 660	185 697 564	21 626 571	679 489 093
Total financial liabilities	389 186 071	94 107 205	103 533 905	2 515 687	589 342 868
Net interest sensitivity gap at 31 December 2013	**37 003 227**	**(48 131 545)**	**82 163 659**	**19 110 884**	**90 146 225**

Exposure to interest rate risk includes both fixed and floating rate instrument.

As of 31 December 2014, if RUR interest rates at that date had been 600 basis points (bp) lower while USD and EUR interest rates had been 1 basis point (bp) lower[1], with all other variables held constant, the economic value of the Bank's balance sheet would have been RR 7 061 564 thousand higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. If RUR interest rates had been 600 basis points (bp) higher while USD and EUR interest rates had been 200 basis point (bp) higher, with all other variables held constant, the economic value of the Bank's balance sheet would have been RR 4 473 373 thousand lower, mainly as a result of higher interest expense on short-term and variable rate liabilities.

As of 31 December 2013, if interest rates at that date had been 200 basis points (bp) lower[2], with all other variables held constant, the value of the Bank's balance sheet would have been RR 3 084 979 thousand higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. If interest rates had been 200 basis points (bp) higher, with all other variables held constant, the economic value of the Bank's balance sheet would have been RR 2 516 876 thousand lower, mainly as a result of higher interest expense on short-term and variable rate liabilities.

The table below summarizes sensitivities of fair value of the Bank's derivative portfolios to reasonably possible changes in interest rates applied as at 31 December 2014, with other variables held constant:

In thousands of Russian Roubles	RR: 600 bp + Other: 200 bp +	RR: 600 bp - Other: 1 bp -[3]
Foreign exchange forward contracts	(317 834)	492 150
Interest rate swap contracts	2 801 297	(3 702 524)
Cross-currency swap contracts	241 562	(1 243 941)

[1] As of 31 December 2014 the 1 basis point (bp) decrease was applied to hard currencies (Euro, US Dollars) because the level of interest rates of hard currencies (Euro, US Dollars) at that date did not allow to lower them by 200 basis points (bp).
[2] As of 31 December 2013 the 200 basis points (bp) decrease of interest rates was applied only to Rouble assets and liabilities because the level of interest rates of hard currencies (Euro, US Dollars) at that date did not allow to lower them by 200 basis points (bp), so the basic decrease of 1 basis point (bp) was applied.
[3] As of 31 December 2014 the 1 basis point (bp) decrease was applied to hard currencies (Euro, US Dollars) because the level of interest rates of hard currencies (Euro, US Dollars) at that date did not allow to lower them by 200 basis points (bp).

35 Financial Risk Management (Continued)

The table below summarizes sensitivities of fair value of the Bank's derivative portfolios to reasonably possible changes in interest rates applied as at 31 December 2013, with other variables held constant:

In thousands of Russian Roubles	**200 bp +**	**200 bp -**[4]
Foreign exchange forward contracts	3 167	(78 144)
Interest rate swap contracts	1 641 399	(667 525)
Cross-currency swap contracts	(39 945)	(1 270 092)

The Group monitors interest rates for its financial instruments. The table below summarizes the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortization of the respective assets/liabilities. The table below summarizes the data as of 31 December 2014:

	RUR	**USD**	**EUR**	**Other**
Assets				
Cash and cash equivalents	9,05%	0,07%	0,00%	0,00%
Trading securities and repurchase receivables related to trading securities	10,26%	8,91%	-	-
Other securities at fair value through profit and loss and repurchase receivables related to other securities at fair value through profit or loss	11,96%	4,57%	-	-
Investment securities held-to-maturity	11,57%	-	-	-
Due from other banks	10,73%	0,58%	-	-
Loans and advances to customers				
- Corporate loans	13,35%	4,69%	5,97%	4,07%
- Retail loans	17,08%	13,94%	7,59%	-
- SME loans	16,02%	-	9,44%	-
- Middle loans	15,18%	8,32%	5,86%	4,07%
- Public sector	2,99%	-	-	-
Investment securities available for sale	11,05%	-	-	-
Liabilities				
Due to other banks	17,57%	2,76%	1,64%	0,43%
Customer accounts				
- Current/settlement accounts – Corporate	1,92%	0,48%	0,27%	-
- Current/settlement accounts – Retail	0,14%	0,07%	0,06%	0,01%
- Current/settlement accounts – Public	0,03%	0,05%	0,03%	0,10%
- Term deposits – Corporate	15,26%	2,54%	2,69%	1,10%
- Term deposits – Retail	8,43%	2,34%	2,04%	1,08%
- Term deposits – Public	10,08%	-	-	-
Term borrowings from the Parent Bank	-	2,39%	1,57%	-
Term borrowings from other financial institutions	-	2,08%	-	-
Debt securities in issue	9,28%	-	-	-

During the year the level of interest rates for loans and deposits was quite stable. However, significant fluctuations took place in the last month of the year due to economic situation.

[4] As of 31 December 2013 the 200 basis points (bp) decrease of interest rates was applied only to Rouble assets and liabilities because the level of interest rates of hard currencies (Euro, US Dollars) at that date did not allow to lower them by 200 basis points (bp), so the basic decrease of 1 basis point (bp) was applied

35 Financial Risk Management (Continued)

Average rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

Loans and advances to customers	
Loans to legal entities	3,47% to 27,47% p.a.
Loans to individuals	5,11% to 37,90% p.a.
Customer accounts	
Term deposits of legal entities	0,18% to 17,32% p.a.
Term deposits of individuals	2,11% to 11,29% p.a.

The table below summarizes the data as of 31 December 2013:

	RUR	USD	EUR	Other
Assets				
Cash and cash equivalents	3,56%	0,12%	0,12%	0,00%
Trading securities and repurchase receivables related to trading securities	8,66%	4,65%	-	-
Other securities at fair value through profit and loss and repurchase receivables related to other securities at fair value through profit or loss	7,40%	4,58%	-	-
Due from other banks	8,07%	0,96%	-	-
Loans and advances to customers				
- Corporate loans	9,83%	5,81%	6,10%	-
- Retail loans	16,41%	13,74%	7,60%	-
- SME loans	16,05%	26,72%	9,91%	-
- Middle loans	11,53%	7,91%	7,51%	-
- Public sector	13,94%	-	-	-
Investment securities available for sale	6,59%	-	-	-
Investment securities held-to-maturity	11,57%	-	-	-
Liabilities				
Due to other banks	6,38%	4,43%	2,98%	-
Customer accounts				
- Current/settlement accounts – Corporate	1,80%	0,20%	0,11%	-
- Current/settlement accounts – Retail	0,22%	0,05%	0,05%	0,01%
- Current/settlement accounts – Public	2,91%	0,08%	0,03%	0,10%
- Term deposits – Corporate	6,06%	2,24%	1,21%	-
- Term deposits – Retail	6,60%	2,54%	2,60%	1,08%
- Term deposits – Public	6,42%	-	-	-
Term borrowings from the Parent Bank	-	2,47%	1,96%	-
Term borrowings from other financial institutions	-	2,15%	2,50%	-
Debt securities in issue	7,80%	-	-	-

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

Normally the Bank does not pay any interest on current accounts maintained by corporate customers. However, in certain cases the Bank may decide to serve interest on current account balances of a specific corporate customer in view of special agreements with this customer.

35 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	Austria	Other European Union	Other countries	Total
Assets					
Cash and cash equivalents	126 636 239	50 321 527	4 511 521	3 907 635	185 376 922
Mandatory cash balances with the Central bank of the Russian Federation	5 898 114	-	-	-	5 898 114
Trading securities and repurchase receivables related to trading securities	8 290 791	-	1 348 768	-	9 639 559
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	15 367 359	-	3 489 022	-	18 856 381
Due from other banks	9 431 004	5 646 987	-	316 720	15 394 711
Loans and advances to customers	528 880 889	515	41 742 333	3 465 705	574 089 442
Investment securities available for sale	-	-	1 517 323	-	1 517 323
Securities held to maturity	509 782	-	-	-	509 782
Derivatives and other financial assets	34 464 773	18 978 278	3 196 235	137 406	56 776 692
Total financial assets	**729 478 951**	**74 947 307**	**55 805 202**	**7 827 466**	**868 058 926**
Liabilities					
Due to other banks	67 156 943	4 107 410	5 519 854	737 380	77 521 587
Customer accounts	517 289 651	978 230	10 434 348	3 198 271	531 900 500
Term borrowings from the Parent Bank	-	61 993 150	-	-	61 993 150
Term borrowings from other financial institutions	-	-	9 355 939	465 471	9 821 410
Debt securities in issue	21 205 493	-	1 022 849	-	22 228 342
Derivatives and other financial liabilities	9 335 272	50 795 644	4 044 748	45 947	64 221 611
Insurance contracts	14 635 855	-	-	-	14 635 855
Total financial liabilities	**629 623 214**	**117 874 434**	**30 377 738**	**4 447 069**	**782 322 455**
Net balance sheet position	**99 855 737**	**(42 927 127)**	**25 427 464**	**3 380 397**	**85 736 471**
Credit related commitments (Note 37)	**269 469 507**	**1 218 832**	**15 948 287**	**4 171 580**	**317 808 206**

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country, in which they are physically held.

As of 31 December 2014 the Group had no exposure to sovereign debt of Greece, Cyprus, Spain, Portugal or Italy.

35 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	Austria	Other European Union	Other countries	Total
Assets					
Cash and cash equivalents	82 645 611	40 448 961	2 724 821	28 688 698	154 508 091
Mandatory cash balances with the Central bank of the Russian Federation	5 640 263	-	-	-	5 640 263
Trading securities and repurchase receivables related to trading securities	28 284 323	-	943 348	-	29 227 671
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	29 497 767	-	7 032 081	-	36 529 848
Due from other banks	8 664 662	13 746	1 636	1 107 535	9 787 579
Loans and advances to customers	405 023 026	2 676	25 726 383	1 456 031	432 208 116
Investment securities available for sale	1 508 805	-	-	-	1 508 805
Securities held-to-maturity	508 655	-	-	-	508 655
Derivatives and other financial assets	5 257 568	2 716 102	1 567 261	29 134	9 570 065
Total financial assets	**567 030 680**	**43 181 485**	**37 995 530**	**31 281 398**	**679 489 093**
Liabilities					
Due to other banks	59 617 366	4 773 510	1 080 446	528 403	65 999 725
Customer accounts	435 789 337	1 857 283	12 478 226	2 347 919	452 472 765
Term borrowings from the Parent Bank	-	33 172 282	-	-	33 172 282
Term borrowings from other financial institutions	-	2 158	5 684 529	580 234	6 266 921
Debt securities in issue	10 354 558	-	-	-	10 354 558
Derivatives and other financial liabilities	1 552 536	3 245 847	1 650 540	80 314	6 529 237
Insurance contracts	14 547 380	-	-	-	14 547 380
Total financial liabilities	**521 861 177**	**43 051 080**	**20 893 741**	**3 536 870**	**589 342 868**
Net balance sheet position	**45 169 503**	**130 405**	**17 101 789**	**27 744 528**	**90 146 225**
Credit related commitments (Note 37)	**235 076 072**	**886 965**	**7 944 912**	**2 224 987**	**246 132 936**

As of 31 December 2013 the Group had no exposure to sovereign debt of Greece, Cyprus, Spain, Portugal or Italy.

Liquidity risk. Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its financial obligations when they come due without incurring unacceptable losses (extremely high funding costs). The risk arises as the bank might not be able to meet both expected and unexpected current and future cash flow and collateral needs efficiency. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, deposits maturities or early withdrawals, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset and Liability Committee of the Group.

35 Financial Risk Management (Continued)

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

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due both in normal and in stressed conditions; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against internal and regulatory requirements. The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios are:

- Instant liquidity ratio (N2 must be not less than 15% as required by the CBRF), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 48,54% at 31 December 2014 (at 31 December 2013 N2 of the Bank was 42,46%).
- Current liquidity ratio (N3 must be not less than 50% as required by the CBRF), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 58,72% at 31 December 2014 (at 31 December 2013 N3 of the Bank was 77,18%).
- Long-term liquidity ratio (N4 must be not more than 120% as required by the CBRF), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 112,99% at 31 December 2014 (at 31 December 2013 N4 of the Bank was 90,87%).

The daily liquidity position (aggregate and for major currencies) is monitored and regular liquidity stress testing under scenarios covering both normal and severe market conditions is performed by Liquidity Risk Management Division. Liquidity Risk Management Division estimates liquidity sufficiency of the Bank for the next 30 days in the absence of external support from the market and implementation of stress outflow (stress scenario assumes not only offensive of market crisis but implementation of the crisis name). Both the limit of liquidity sufficiency in separate currencies and the limit of liquidity sufficiency in all currencies are established in order to comply sufficient liquidity for the next 30 days.

The table below shows liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the balance sheet because the balance sheet amounts are based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date, in which case the derivatives are included based on the expected cash flows.

The table below shows maturity analysis of non-derivative financial assets at their undiscounted amounts and based on their contractual maturities, except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

35 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	185 376 922	-	-	-	185 376 922
Mandatory cash balances with the Central Bank of the Russian Federation	5 898 114	-	-	-	5 898 114
Trading securities and repurchase receivables related to trading securities	9 639 559	-	-	-	9 639 559
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	18 856 381	-	-	-	18 856 381
Due from other banks	2 306 159	9 815 978	4 056 070	-	16 178 207
Loans and advances to customers	109 632 654	147 170 582	389 417 035	121 948 257	768 168 528
Investment securities available for sale	1 517 323	-	-	-	1 517 323
Investment securities held to maturity	-	56 096	528 048	-	584 144
Gross settled swaps and forwards:					
- inflows	98 916 435	34 376 561	78 070 369	-	211 363 365
- outflows	(90 731 229)	(30 446 478)	(51 467 612)	-	(172 645 319)
Net settled derivatives	2 151 240	4 084 960	996 726	(140 632)	7 092 294
Other financial assets	2 079 575	-	-	-	2 079 575
Total financial assets	**345 643 133**	**165 057 699**	**421 600 636**	**121 807 625**	**1 054 109 093**
Liabilities					
Due to other banks	32 084 940	39 326 617	14 659 691	-	86 071 248
Customer accounts	382 709 695	106 941 457	43 600 107	6 420 053	539 671 312
Term borrowings from Parent Bank	1 909 410	24 985 907	33 777 531	10 288 824	70 961 672
Term borrowings from other financial institutions	586 046	2 042 924	8 014 765	-	10 643 735
Debt securities in issue	601 986	2 350 892	25 848 081	-	28 800 959
Insurance contracts	14 435	955 819	55 313	13 610 288	14 635 855
Gross settled swaps and forwards:					
- inflows	(117 669 735)	(67 243 677)	(33 158 657)	-	(218 072 069)
- outflows	143 618 122	79 138 480	47 328 449	-	270 085 051
Net settled derivatives	805 838	1 771 274	1 032 676	(4 354)	3 605 434
Credit related commitments before provisioning	98 159 871	64 644 968	116 432 349	38 571 018	317 808 206
Other financial liabilities	3 298 092	-	-	-	3 298 092
Total potential future payments for financial obligations	**546 118 700**	**254 914 661**	**257 590 305**	**68 885 829**	**1 127 509 495**
Liquidity gap arising from financial instruments	**(200 475 567)**	**(89 856 962)**	**164 010 331**	**52 921 796**	**(73 400 402)**

35 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	154 508 091	-	-	-	154 508 091
Mandatory cash balances with the Central Bank of the Russian Federation	5 640 263	-	-	-	5 640 263
Trading securities and repurchase receivables related to trading securities	29 227 671	-	-	-	29 227 671
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	36 529 848	-	-	-	36 529 848
Due from other banks	2 521 318	5 053 181	2 979 365	-	10 553 864
Loans and advances to customers	91 472 912	117 287 816	290 224 528	83 786 868	582 772 124
Investment securities available for sale	1 508 805	-	-	-	1 508 805
Investment securities held to maturity	-	56 096	584 144	-	640 240
Gross settled swaps and forwards:					
- inflows	128 522 481	32 656 442	52 283 396	-	213 462 319
- outflows	(127 985 062)	(32 362 902)	(53 256 301)	-	(213 604 265)
Net settled derivatives	(865)	469 521	671 427	417	1 140 500
Other financial assets	2 149 140	-	-	-	2 149 140
Total financial assets	**324 094 602**	**123 160 154**	**293 486 559**	**83 787 285**	**824 528 600**
Liabilities					
Due to other banks	59 778 019	389 640	6 374 153	-	66 541 812
Customer accounts	327 496 428	78 206 374	52 178 772	1 807 547	459 689 121
Term borrowings from Parent Bank	1 143 299	13 268 883	20 296 732	-	34 708 914
Term borrowings from other financial institutions	258 743	566 192	5 625 878	517 774	6 968 587
Debt securities in issue	31 950	889 680	13 103 937	-	14 025 567
Insurance contracts	32 575	33 850	93 484	14 387 471	14 547 380
Gross settled swaps and forwards:					
- inflows	(53 635 156)	(22 620 148)	(30 285 885)	(999 222)	(107 540 411)
- outflows	53 630 609	22 028 683	30 284 188	1 021 821	106 965 301
Net settled derivatives	64 443	1 196 829	1 482 882	154 117	2 898 271
Credit related commitments before provisioning	80 428 497	43 587 886	87 029 709	35 086 844	246 132 936
Other financial liabilities	912 182	-	-	-	912 182
Total potential future payments for financial obligations	**470 141 589**	**137 547 869**	**186 183 850**	**51 976 352**	**845 849 660**
Liquidity gap arising from financial instruments	**(146 046 987)**	**(14 387 715)**	**107 302 709**	**31 810 933**	**(21 321 060)**

35 Financial Risk Management (Continued)

The above analysis is based on contractual maturities; therefore, the entire portfolio of trading securities and repurchase receivables related to trading securities is classified within demand and less than three months based on Management's assessment of portfolio's reliability.

Payments in respect of gross settled forwards will be accompanied by related cash inflows, which are disclosed at their present values in Note 39. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors contractual maturities based on carrying amount of assets and liabilities, which may be summarized as follows at 31 December 2014 and 31 December 2013:

in thousands of Russian Roubles, 31 December 2014	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	185 376 922	-	-	-	185 376 922
Mandatory cash balances with the Central bank of the Russian Federation	5 898 114	-	-	-	5 898 114
Trading securities and repurchase receivables related to trading securities	9 639 559	-	-	-	9 639 559
Other securities at fair value through profit or loss and repurchase receivables related to other securities at fair value through profit or loss	18 856 381	-	-	-	18 856 381
Due from other banks	2 267 616	9 513 932	3 613 163	-	15 394 711
Loans and advances to customers	86 469 080	113 483 709	293 498 583	80 638 070	574 089 442
Investment securities available for sale	1 517 323	-	-	-	1 517 323
Securities held-to-maturity portfolio	-	-	509 782	-	509 782
Derivatives and other financial assets	11 397 416	7 003 454	37 673 316	702 506	56 776 692
Total financial assets	**321 422 411**	**130 001 095**	**335 294 844**	**81 340 576**	**868 058 926**
Due to other banks	30 591 390	34 395 692	12 534 505	-	77 521 587
Customer accounts	381 178 436	104 529 597	40 219 507	5 972 960	531 900 500
Term borrowings from the Parent bank	1 002 360	23 348 094	28 333 523	9 309 173	61 993 150
Term borrowings from other financial institutions	270 042	2 035 780	7 515 588	-	9 821 410
Debt securities in issue	98 435	1 027 465	21 102 442	-	22 228 342
Derivatives and other financial liabilities	30 425 014	13 586 751	19 723 578	486 268	64 221 611
Insurance contracts	14 435	955 819	55 313	13 610 288	14 635 855
Total financial liabilities	**443 580 112**	**179 879 198**	**129 484 456**	**29 378 689**	**782 322 455**
Net liquidity gap at 31 December 2014	**(122 157 701)**	**(49 878 103)**	**205 810 388**	**51 961 887**	**85 736 471**
Cumulative gap at 31 December 2014	**(122 157 701)**	**(172 035 804)**	**33 774 584**	**85 736 471**	**-**

35 Financial Risk Management (Continued)

in thousands of Russian Roubles, 31 December 2013	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	154 508 091	-	-	-	154 508 091
Mandatory cash balances with the Central bank of the Russian Federation	5 640 263	-	-	-	5 640 263
Trading securities	29 227 671	-	-	-	29 227 671
Other securities at fair value through profit or loss	36 529 848	-	-	-	36 529 848
Due from other banks	2 146 531	4 825 435	2 815 613	-	9 787 579
Loans and advances to customers	76 478 010	89 046 250	213 833 532	52 850 324	432 208 116
Investment securities available for sale	1 508 805	-	-	-	1 508 805
Securities held-to-maturity portfolio	-	-	508 655	-	508 655
Derivatives and other financial assets	3 179 472	2 282 140	4 018 111	90 342	9 570 065
Total financial assets	**309 218 691**	**96 153 825**	**221 175 911**	**52 940 666**	**679 489 093**
Due to other banks	59 139 557	345 234	6 514 934	-	65 999 725
Customer accounts	324 793 589	76 895 383	49 360 793	1 423 000	452 472 765
Term borrowings from the Parent bank	659 558	12 716 640	19 796 084	-	33 172 282
Term borrowings from other financial institutions	23 228	307 995	5 425 076	510 622	6 266 921
Debt securities in issue	62 470	119 826	10 172 262	-	10 354 558
Derivatives and other financial liabilities	1 465 324	1 030 412	3 451 435	582 066	6 529 237
Insurance contracts	28 915	14 518 465	-	-	14 547 380
Total financial liabilities	**386 172 641**	**105 933 955**	**94 720 584**	**2 515 688**	**589 342 868**
Net liquidity gap at 31 December 2013	**(76 953 950)**	**(9 780 130)**	**126 455 327**	**50 424 978**	**90 146 225**
Cumulative gap at 31 December 2013	**(76 953 950)**	**(86 734 080)**	**39 721 247**	**90 146 225**	**-**

The entire portfolio of trading securities and repurchase receivables related to trading securities is classified within demand and less than one month based on management's assessment of the portfolio's realizability and eligibility.

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

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

35 Financial Risk Management (Continued)

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

Operational Risk. In line with the proposed Basel II banking regulatory reforms, the Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The Group considers operational risk as a distinct class of risks and views operational risk management as a comprehensive practice comparable to the management of credit and market risk.

In accordance with the Basel documents the process of operational risk management includes following activities: identification, evaluation/measurement, monitoring and control/risk reduction. At the moment Bank uses the standardized approach (STA) and is in the process of transition to the advanced measurement approach (AMA).

Principles and structure of operational risk management, implemented by the Group is determined in the official methodological document “Set of methodological documents for application of advanced measurement approach for operational risk management”, developed on the basis of the directives of the Parent Bank (RBI), Russian legislation and regulatory requirements of Basel II. These documents define the roles and responsibilities of operational risk management at the Bank. Regulatory requirements by the Central Bank of the Russian Federation for operational risk management are reviewed regularly, thus ensuring compliance with legal requirements at a reasonable and effective approach to managing of Operational Risk.

Operational Risk Management is identifying, measuring, managing and monitoring exposures, resulting from inadequate or failed internal processes, human interaction and systems, or from external events.

The Operational Risk Management Framework is designed in a way as to increase the transparency of operational risks for the entire Group, to strengthen the management of the operational risk and ensure compliance with all regulatory requirements.

Governance:

- Operational Risk Policy & Strategy clearly define the operating model and strategy for Operational risk.
- Supporting documents provide detailed requirements and instructions.
- Roles and responsibilities are clearly with scope, mandate and hierarchy within three lines of defense model.
- Exceptions and escalation clearly define the escalation process in line with roles and responsibilities.

Instruments and methods:

- Operational risk is identified, measured, managed and monitored used different instruments and methods.
- Risk assessment: assessment of Business Environment and risks present after control or mitigation actions.
- Scenario analysis in for the identification of low probability but sever impact operational risk incidents.
- Operational Risk Event Collection: collection and analysis of operational risk events provides information on the effectiveness of internal controls.

35 Financial Risk Management (Continued)

- Early Warning Indicators for advanced notification of potential changes in the operational risk exposure.
- Integrate analysis and reporting provides management with an integrated view of operational risk exposure and insights into risk drivers and emerging risks and connection with risk appetite and operational risk capital.

Operational Risk Management Cycle:

- Operational risk is managed with Risk Management cycle:
- Identification: Identifying and analysing operational risk inherent in all material product, activity, process or system.
- Measurement: Ensuring quantitative and qualitative measurement are of sufficient quality and integrity to support effective tactical and strategic decision-making.
- Management:
- Management of Operational risk including:
  - Risk avoidance;
  - Risk mitigation;
  - Risk transfer;
  - Risk acceptance.
- Monitoring:

  For sustainment and continual improvement. The main objective of monitoring process is to regular review Operational risk management cycle:
  - the efficiency of the cycle and its individual components (identification, assessment, management);
  - to ensure proper management of operational risks;
  - tools and methods for operational risk management in order to ensure their relevance and usefulness for assessing the operational risk;
  - to ensure effectiveness of implemented measures for risk mitigation, their regular review for necessary adjustments.

Capital Requirement:

- Internal and External Loss Data;
- Business Environment and Internal Control Factors;
- Scenario Analysis;
- Operational Risk Capital.

The Three lines of defence operating model establishes the appropriate responsibility for the management of operational risk.

The first line of defence is the risk originating units whose business activities give rise to risk. The risk originating units own operational risk. The Operational Risk Managers (ORM) and Dedicated Operational Risk Specialists (DORS) are responsible for the day-to-day management of OR in a manner consistent with the Group-wide principles.

35 Financial Risk Management (Continued)

The second line of defence provides an independent assessment of operational risk, oversight and challenges the first line of defence. (The second line of defence is comprised of Head of the Risk Management, Operational Risk Controlling department and Operational Risk Management Committee).

The third line of defence is Internal Audit, it reviews effectiveness and suitability of the general risk management processes. The audit function shall not be part of the day-by-day OR Mgmt. process in order to act as an independent review function.

Management

Operational risks are inherent in all of the Group's business activities and given economic limitations they cannot be fully eliminated. However, operational risk can be effectively managed in order to reduce exposure to financial loss, reputational impact or regulatory sanction. An effective system of internal controls is a prerequisite of sound operational risk management. It includes:

- Risk avoidance: refusing to engage in or withdrawing from an activity where the risk cannot be appropriately managed;
- Risk mitigation: putting in place effective controls that limit the frequency and severity of loss to manageable level;
- Risk acceptance: deciding to accept a risk without further mitigation or transfer for a period of time; and
- Risk transfer: share risks with other parties (e.g. insurance companies or outsourcing).

Monitoring

Monitoring is focused on regularly reviewing:

- The Operational Risk measurement cycle: focusing on the effectiveness of the cycle as a whole and its individual components (identification, measurement, management) to ensure sound Operational Risk measurement;
- The Operational Risk measurement instruments & methods to ensure their relevance and validity in assessing Operational Risk; and

Ensuring that mitigation measures, which are implemented are functioning effectively, reviewed regularly and necessary adjustments occur.

Operational Risk management functions are organized as follows:

The Three lines of defence operating model establishes the appropriate accountability for the management of operational risk.

The first line of defence is units whose business activities give rise to risk. The units own operational risk. The Operational Risk Managers (ORM) and Dedicated Operational Risk Specialists (DORS) are responsible for the day-to-day management of OR in a manner consistent with the Group-wide principles. The second line of defence provides an independent assessment of operational risk, oversight and challenges the first line of defence (Chief Risk Officer, Operational Risk Committee, Operational Risk Controlling), The third line of defence is Internal Audit, it reviews effectiveness and suitability of the general risk management processes. The audit function shall not be part of the day-by-day Operational Risk measurement process in order to act as an independent review function.

Operational Risk Management Division is responsible for overall operational risk control functions.

35 Financial Risk Management (Continued)

The main Operational Risk functions and responsibilities include are as follows:

- review and approval of the Bank internal documents and procedures;
- new product, processes and projects risk assessment;
- annual operational risk assessment for business areas;
- identification and control of operational losses;
- definition and set up of Early Warning Indicators (EWI) for business areas;
- operational risk incidents collection and control;
- scenario analysis;
- recommendations on risk mitigation measures;
- escalation of EWIs issues to the Operational Risk Committee;
- coordination of the Bank anti-fraud prevention, detection and recovery processes;
- collection, response and monitoring of electronic fraud incidents;
- review and approval reimbursements for fraudulent operations with plastic cards and remote banking systems;
- initiate and conduct the meetings of Operational Risk Committee.

Due to changes of the economic conditions in Russia during II-IV quarters 2014 ZAO Raiffeisenbank implemented the following measures in order to mitigate the negative effect of the recession:

- Current credit portfolio of the Bank was reconsidered, and problem assets were identified and reclassified immediately;
- The target risk appetite was reconsidered for the industries characterized by higher impact due to the recession;
- The Bank implemented additional analysis of every issued loan from the point of view of stability of the customers' business model within the changed economic environment. Raiffeisenbank pays special attention to the customers belonging to cyclical industries – both at the loan origination stage and at the financial standing post-control stage, due to the fact that these industries are mainly affected by the changed macroeconomic conditions; depreciation on the national currency and drop of the prices for energy resources). Besides, special attention is paid to foreign currency lending and monitoring of customers with high FX risk;
- The Bank implemented additional measures of market and liquidity risk control and enforced the procedures for monitoring and forecasting its liquidity position. The internal limit for open currency position and the position in rubles as such, as well as the trading position in bonds were decreased;
- As far as Private individuals lending is concerned, the Bank implemented stricter requirements to customers' credit quality as well as to the quality of collateral. The Bank limited lending for customers with higher risk profile in terms of social and demographic characteristics, credit history and collateral quality.

36 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Austrian Banking Act, which assumes major principles of the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining the calculation.

36 Management of Capital (Continued)

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level. According to requirements set by the CBRF statutory capital ratio has to be maintained above minimum level of 10%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank’s Chief Executive Officer and Chief Accountant. Management believes the Bank meets all the requirements in relation to the minimum amount of regulatory capital set by the CBRF.

Regulatory capital is based on the Bank’s reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Tier 1 capital		
Net assets under Russian GAAP	84 006 264	71 361 655
Less: intangible assets, The negative value of the additional capital and shares of subsidiaries	(1 267 041)	(1 636 037)
Subordinated debt	7 324 472	-
Total Tier 1 Capital	**90 063 695**	**69 725 618**
Tier 2 capital		
Subordinated debt	9 287 733	-
Other	13 965 672	24 683 509
Total Tier 2 capital	**23 253 405**	**24 683 509**
Total regulatory capital	**113 317 100**	**94 409 127**

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

The Group applies the Internal Ratings-based (IRB) Approach for a calculation of capital requirement for Non Retail Customers credit risk that assumes reliance on internal estimates of risk components in determining the capital requirement for a given exposure.

36 Management of Capital (Continued)

The composition of the Group's capital calculated in accordance with the Austrian Banking Act, which assumes major principles and requirements of Basel Accord is as follows:

In thousands of Russian Roubles	2014	2013
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings and other reserves	55 278 404	70 404 276
Less: equity instruments	-	-
Less: deferred tax	(3 554 805)	(1 127 257)
Total tier 1 capital before deductions	**97 103 586**	**114 657 006**
Less: intangible assets	(3 060 151)	(12 923 601)
Total tier 1 capital	**94 043 435**	**101 733 405**
Tier 2 capital		
Revaluation reserve for equity instruments	(1 688)	(1 688)
Subordinated debt	16 612 205	-
Less: insurance holding companies	(173 709)	(173 709)
Items from additional own funds plus LLP surplus	300 840	1 642 536
Total tier 2 capital	**16 737 648**	**1 467 139**
Total capital	**110 781 083**	**103 200 544**

36 Management of Capital (Continued)

The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of Russian Roubles	**2014**	**2013**
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings	55 039 208	70 165 080
Other reserves	239 196	239 196
Total tier 1 capital before deductions	**100 658 391**	**115 784 263**
Less: goodwill	-	(10 700 290)
Less: DTA	(3 554 805)	(1 127 257)
Less: Cash flow hedge reserve	-	(109 849)
Total tier 1 capital	**97 103 586**	**103 846 867**
Tier 2 capital		
Subordinated debt	16 612 205	-
Items from additional own funds plus LLP surplus	300 840	1 642 536
Total tier 2 capital	**16 913 045**	**1 642 536**
Total capital	**114 016 631**	**105 489 403**

The Group and the Bank have complied with all externally imposed capital requirements throughout 2014 and 2013.

Risk weighted assets

In thousands of Russian Roubles	**2014**	**2013**
Total Risk weighted assets	**622 449 708**	**539 056 513**
Capital Adequacy Ratio by Austrian Banking Act	17,80%	19,14%
Capital Adequacy Ratio by Basel III	18,32%	19,57%

The Bank manages capital ratios using different capital amounts calculated in accordance with the above mentioned Capital Adequacy regulations.

37 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, Management is of the opinion that certain losses could be incurred in respect of claims and, accordingly, has made provisions for the legal cases in these consolidated financial statements.

37 Contingencies and Commitments (Continued)

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2012 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties as determined under the Russian Tax Code all cross-border transactions (irrespective of whether performed between related or unrelated parties) transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time and barter transactions. Significant difficulties exist in interpreting and applying the transfer pricing legislation in practice. Any prior existing court decisions may provide guidance but are not legally binding for decisions by other or higher level courts in the future.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income will be subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group’s tax positions and recognised deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group’s operations to which the CFC legislation will apply to.

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

Capital expenditure commitments. At 31 December 2014 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 72 551 thousand (2013: RR 593 930 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar such commitments.

37 Contingencies and Commitments (Continued)

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

In thousands of Russian Roubles	**2014**	**2013**
Not later than 1 year	766 184	661 202
Later than 1 year and not later than 5 years	3 322	3 056
Total operating lease commitments	**769 506**	**664 258**

Compliance with covenants. The Group is subject to certain covenants related primarily to its other borrowed funds (Note 22). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's Management believes that the Group is in compliance with its covenants as at 31 December 2014 as well as at 31 December 2013.

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Undrawn credit lines and Overdraft facilities (revocable)	111 245 331	91 348 915
Guarantees issued (irrevocable)	71 282 135	55 711 430
Undrawn commitments to issue documentary instruments (revocable)	61 097 071	44 707 877
Undrawn credit lines and Overdraft facilities (irrevocable)	15 218 959	20 187 874
Undrawn commitments to issue documentary instruments (irrevocable)	36 630 715	19 431 034
Import letters of credit (irrevocable)	20 726 893	14 058 886
Export letters of credit (irrevocable)	1 607 102	686 920
Credit related commitments before provision	**317 808 206**	**246 132 936**
Less: Provision for credit related commitments (Note 23)	(130 156)	(391 586)
Total credit related commitments	**317 678 050**	**245 741 350**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of guarantee contracts was RR 70 776 thousand at 31 December 2014 (2013: RR 50 926 thousand).

37 Contingencies and Commitments (Continued)

In thousands of Russian Roubles	2014	2013
Russian Roubles	218 901 979	177 754 116
US Dollars	64 982 391	45 594 205
Euro	32 796 649	22 723 935
Other	1 127 187	60 680
Total credit related commitments before provision	**317 808 206**	**246 132 936**

Outstanding credit related commitments by segments as of 31 December 2014 are as follows:

In thousands of Russian Roubles	Credit lines, Overdraft facilities and Commitments to issue documentary instruments	Guarantees and Letters of credit	Total contingencies and commitments
Credit related commitments to corporate customers (Corporate business)	173 661 795	85 213 628	258 875 423
Credit related commitments to medium entities (Middle business)	14 298 434	7 835 828	22 134 262
Credit related commitments to individuals (Retail business)	32 353 734	89 699	32 443 433
Credit related commitments to small and micro entities (SME business)	3 877 417	476 976	4 354 393
Credit related commitments to state and municipal organisations (Public sector)	695	-	695
Credit related commitments before provision	**224 192 075**	**93 616 131**	**317 808 206**
Less: Provision for credit related commitments	(14 187)	(115 969)	(130 156)
Total credit related commitments	**224 177 888**	**93 500 162**	**317 678 050**

Outstanding credit related commitments by segments as of 31 December 2013 are as follows:

In thousands of Russian Roubles	Credit lines, Overdraft facilities and Commitments to issue documentary instruments	Guarantees and Letters of credit	Total contingencies and commitments
Credit related commitments to corporate customers (Corporate business)	133 580 591	65 746 879	199 327 470
Credit related commitments to medium entities (Middle business)	10 293 508	4 030 497	14 324 005
Credit related commitments to individuals (Retail business)	28 238 513	163 422	28 401 935
Credit related commitments to small and micro entities (SME business)	3 562 445	516 438	4 078 883
Credit related commitments to state and municipal organisations (Public sector)	643	-	643
Credit related commitments before provision	**175 675 700**	**70 457 236**	**246 132 936**
Less: Provision for credit related commitments	(84 513)	(307 073)	(391 586)
Total credit related commitments	**175 591 187**	**70 150 163**	**245 741 350**

37 Contingencies and Commitments (Continued)

Assets pledged and restricted. Mandatory cash balances with the Bank of Russia in the amount of RR 5 898 114 thousand (2013: RR 5 640 263 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

As at 31 December 2014 restricted cash represents monetary funds in the amount of RR 36 196 thousand which collateralise settlements on irrevocable letters of credit (2013: RR 98 946 thousand).

As at 31 December 2014 restricted cash represents monetary funds in the amount of RR 4 446 495 thousand which collateralise settlements on irrevocable commitments under guarantees (2013: RR 2 348 781 thousand).

The Group had assets pledged as collateral with the following carrying value:

In thousands of Russian Roubles	Note	31 December 2014 Asset pledged	31 December 2014 Related liability	31 December 2013 Asset pledged	31 December 2013 Related liability
Repurchase receivables related to trading securities	8, 19	-	-	8 864 414	7 398 092
Repurchase receivables related to other securities at fair value through profit or loss	9, 19	2 279 673	1 983 277	22 324 651	19 182 009
Total		**2 279 673**	**1 983 277**	**31 189 065**	**26 580 101**

As at 31 December 2014 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Note 7) which the Group has the right to sell or repledge in the absence of default of the counterparty was RR 2 393 172 thousand (31 December 2013: RR 17 925 227 thousand). As at 31 December 2014 the fair value of such securities repledged under direct sale and repurchase agreements with other banks amounted to RR nil thousand (31 December 2013: RR 6 314 931 thousand). Refer to Note 19.

38 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements include cash equivalents in the amount of RR 2 393 172 thousand (31 December 2013: RR 17 925 227 thousand) thousand effectively collateralized by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 2 760 279 thousand (31 December 2013: RR 20 331 660 thousand). The liability to transfer securities is not recognized in consolidated statement of financial position as at 31 December 2014.

Financial instruments subject to offsetting also include Derivatives and Other Financial Assets in the amount of RR 12 335 547 thousand (31 December 2013: RR 6 322 491 thousand).

In addition instruments subject to offsetting include due to other banks in the amount of RR 1 983 277 thousand (2013: RR 32 105 288 thousand) which are collateralized by securities purchased under reverse securities sale and repurchase agreements with the fair value of RR 2 279 673 thousand (31 December 2013: RR 31 189 065 thousand) recognized with Trading securities and Other securities at fair value through profit or loss.

Financial instruments subject to offsetting also include Derivatives and Other Financial Liabilities in the amount of RR 30 954 352 thousand (31 December 2013: RR 2 842 122 thousand) thousand.

38 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below summarizes assets and liabilities subject to offsetting as at 31 December 2014:

	Gross amounts before offsetting in the statement of financial position	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position**		**Net amount of exposure**
				Financial instru-ments	**Cash collateral received**	
In thousands of Russian Roubles	**(a)**	**(b)**	**(c) = (a) - (b)**	**(d)**	**(e)**	**(c) - (d) - (e)**
Assets						
Cash and cash equivalents						
- Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	2 393 172	-	2 393 172	2 393 172	-	-
Derivatives and Other Financial Assets						
- Fair value of currency rate based financial derivatives	12 335 547	-	12 335 547	12 335 547	-	-
Total assets subject to offsetting, master netting and similar arrangement	**14 728 719**	**-**	**14 728 719**	**14 728 719**	**-**	**-**
Liabilities						
Due to other banks						
- Sale and repurchase agreements with securities with the CBRF and other banks and financial institutions	1 983 277	-	1 983 277	1 983 277	-	-
Derivatives and Other Financial Liabilities						
- Fair value of currency rate based financial derivatives	30 954 352	-	30 954 352	30 954 352	-	-
Total liabilities subject to offsetting, master netting and similar arrangement	**32 937 629**	**-**	**32 937 629**	**32 937 629**	**-**	**-**

38 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below summarizes assets and liabilities subject to offsetting as at 31 December 2013:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments	Cash collateral received	
In thousands of Russian Roubles	**(a)**	**(b)**	**(c) = (a) - (b)**	**(d)**	**(e)**	**(c) - (d) - (e)**
Assets						
Cash and cash equivalents						
- Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	17 925 227	-	17 925 227	17 925 227	-	-
Derivatives and Other Financial Assets						
- Fair value of currency rate based financial derivatives	6 322 491	-	6 322 491	6 322 491	-	-
Total assets subject to offsetting, master netting and similar arrangement	**24 247 718**	**-**	**24 247 718**	**24 247 718**	**-**	**-**
LIABILITIES						
Due to other banks						
- Sale and repurchase agreements with securities with the CBRF and other banks and financial institutions	32 105 288	-	32 105 288	32 105 288	-	-
Derivatives and Other Financial Liabilities						
- Fair value of currency rate based financial derivatives	2 842 122	-	2 842 122	2 842 122	-	-
Total liabilities subject to offsetting, master netting and similar arrangement	**34 947 410**	**-**	**34 947 410**	**34 947 410**	**-**	**-**

39 Transfers of Financial Assets

Transfers that did not qualify for derecognition of the financial asset in its entirety

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods.

Sale and repurchase transactions. At 31 December 2014, the Group has other securities at fair value through profit or loss represented by Corporate eurobonds of RR 2 279 673 thousand (Note 9) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 19 for the carrying value of obligations from these sale and repurchase transactions.

Securitization transactions. The Group has transferred a pool of fixed interest rate auto and mortgage loans to individuals in the total amount of to special purpose vehicles (refer to Note 11). The subsidiary is consolidated due to the requirements stated in IFRS 10 “Consolidated Financial Statements” and therefore respective portfolios are recognized in the consolidated statement of financial position.

Transfers that qualified for derecognition of the financial asset in its entirety

Cession. During 2014 year the Bank disposed loans to customers under cession and other agreements (Refer to Note 11). The Group does not have any continuing involvement in the assets, no risks or rewards are retained.

40 Derivative Financial Instruments and Hedging

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

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

40 Derivative Financial Instruments (Continued)

In thousands of Russian Roubles	Note	2014 Contracts with positive fair value	2014 Contracts with negative fair value	2013 Contracts with positive fair value	2013 Contracts with negative fair value
Foreign exchange spot contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		1 385 641	136 482	46 539	2
- USD payable on settlement (-)		(87 726)	(776 859)	(99 305)	(474 125)
- Euros receivable on settlement (+)		44 131	685 879	44 962	746 756
- Euros payable on settlement (-)		(1 366 287)	(136 629)	(319 705)	-
- RR receivable on settlement (+)		-	-	-	-
- RR payable on settlement (-)		-	-	-	-
- Other currencies receivable on settlement (+)		43 692	89 589	329 378	-
- Other currencies payable on settlement (-)		-	-	-	(274 994)
Net fair value of foreign exchange spot contracts	17, 23	**19 451**	**(1 538)**	**1 869**	**(2 361)**
Foreign exchange forward and swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		109 903 221	11 432 357	30 650 757	29 513 382
- USD payable on settlement (-)		(22 863 396)	(174 482 993)	(92 223 850)	(37 542 201)
- Euros receivable on settlement (+)		4 303	31 549 234	8 411 258	3 094 625
- Euros payable on settlement (-)		(28 529 639)	(4 144 235)	(189 316)	(746 074)
- RR receivable on settlement (+)		23 206 726	110 929 553	82 893 514	35 935 662
- RR payable on settlement (-)		(64 994 584)	(9 671 266)	(30 530 420)	(32 306 901)
- Other currencies receivable on settlement (+)		1 289 797	2 141 353	2 292 407	1 484 487
- Other currencies payable on settlement (-)		(373 029)	(278 206)	(283 758)	(267 728)
Net fair value of foreign exchange forward and swap contracts	17, 23	**17 643 399**	**(32 524 203)**	**1 020 592**	**(834 748)**
Interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		6 321 323	5 132 018	1 235 387	1 624 386
- USD payable on settlement (-)		(5 118 273)	(7 454 847)	(514 988)	(3 513 171)
- Euros receivable on settlement (+)		221 547	3 399	157 335	16 511
- Euros payable on settlement (-)		(19 411)	(61 550)	(54 430)	(60 315)
- RR receivable on settlement (+)		14 132 634	1 712 587	1 766 587	4 333 397
- RR payable on settlement (-)		(9 398 928)	(2 592 187)	(1 496 964)	(5 116 323)
Net fair value of interest rate swap contracts	17, 23	**6 138 892**	**(3 260 580)**	**1 092 927**	**(2 715 515)**
Cross-currency interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		69 769 713	-	66 296 439	-
- USD payable on settlement (-)		-	(73 921 086)	(18 268 507)	(38 289 505)
- Euros receivable on settlement (+)		-	19 956 682	17 566 430	-
- Euros payable on settlement (-)		-	-	-	-
- RR receivable on settlement (+)		-	29 181 238	1 359 858	36 262 042
- RR payable on settlement (-)		(39 084 576)	-	(61 686 395)	-
Net fair value of cross-currency interest rate swap contracts	17, 23	**30 685 137**	**(24 783 166)**	**5 267 825**	**(2 027 463)**
Net fair value of foreign exchange options	17, 23	**206 949**	**(354 033)**	**37 712**	**(36 968)**
Forwards with securities					
- USD receivable on settlement (+)		-	-	-	-
- USD payable on settlement (-)		-	-	-	-
- Euros receivable on settlement (+)		-	-	-	-
- Euros payable on settlement (-)		-	-	-	-
- RR receivable on settlement (+)		2 946	-	-	-
- RR payable on settlement (-)		-	347	-	-
Net fair value of forwards with securities		**2 946**	**347**	**-**	**-**
Total net fair value of derivative financial instruments		**54 696 774**	**(60 923 173)**	**7 420 925**	**(5 617 055)**

40 Derivative Financial Instruments (Continued)

As at 31 December 2014 positive fair value of foreign exchange options was RR 206 949 thousand (31 December 2013: RR 37 712 thousand) and negative fair value amounted to RR 354 033 thousand (31 December 2013: RR 36 968 thousand).

As at 31 December 2014 total of net positive fair values of the derivative financial instruments in the amount of RR 54 696 774 thousand (31 December 2013: RR 7 420 925 thousand) was recorded within derivatives and other financial assets (Note 17). Total of net negative fair values of the derivative financial instruments in the amount of RR 60 923 173 thousand (31 December 2013: RR 5 617 055 thousand) was recorded within derivatives and other financial liabilities (Note 23).

The Group hedged interest rate risk associated with variable rate deposits with interest rate swaps. During 2011 and in prior years all the cash flow hedge transactions were discontinued due to failing of the hedge effectiveness test. However, the hedged transactions (cash flows), have been expected to occur. Accordingly, the cumulative gain/loss on the hedging instrument recognized in other comprehensive income during the periods when the hedge was effective remained in other comprehensive income and it has been reclassified to profit or loss when the hedged cash flows affected profit or loss. In 2014 the Group has credited RR nil thousand (RR 109 849 thousand in 2013) before tax in the valuation reserve due to cash flow hedge in other comprehensive income. In 2014 year the amount of RR nil thousand (2013: RR 109 849 thousand was reclassified from other comprehensive income to profit or loss.

The Group hedged interest rate risk associated with fixed rate loans to customers with interest rate swaps. The total portion of the fair value gains/losses attributable to the change of interest rates, which was determined as the effective portion of the hedge during 2014, amounted to loss of RR 3 474 210 thousand (2013: nil thousand), while the ineffectiveness amounted to loss of RR 246 817 thousand (2013: loss of RR 172 771 thousand). Both these amounts were recognized in the consolidated profit or loss.

As at 31 December 2014 the positive fair values of the hedging derivative financial instruments was RR 3 953 919 thousand (31 December 2013: RR nil thousand) and negative fair value amounted to RR 107 118 thousand (31 December 2013: RR nil thousand). As at 31 December 2014 the fair values of the hedged items was RR 29 747 419 thousand (31 December 2013: RR nil thousand).

The amount of the negative fair value adjustment attributable to the hedged risk and recorded in the balance of the loans to customers, which were being hedged, amounted to gain of RR 3 474 210 thousand (31 December 2013: the loans to customers amounted to gain of RR 172 771 thousand).

41 Fair Value of Financial Instruments

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

41 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements

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

	31 December 2014			31 December 2013		
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Assets at fair value						
Financial assets						
Trading securities						
- Corporate bonds	3 542 894	14 276	**3 557 170**	21 691 811	-	**21 691 811**
- Federal loan bonds (OFZ)	1 817 714	-	**1 817 714**	5 419 124	-	**5 419 124**
- Corporate eurobonds	1 348 768	-	**1 348 768**	943 348	-	**943 348**
- Russian Federation Eurobonds	2 665 998	-	**2 665 998**	855 170	-	**855 170**
- Municipal bonds	249 909	-	**249 909**	318 218	-	**318 218**
- Corporate shares	-	-	**-**	-	-	**-**
Other securities at fair value through profit and loss						
- Corporate bonds	10 013 739	7 233	**10 020 972**	19 895 411	-	**19 895 411**
- Federal loan bonds (OFZ)	4 094 602	-	**4 094 602**	7 604 088	-	**7 604 088**
- Corporate eurobonds	702 755	-	**702 755**	3 196 702	-	**3 196 702**
- Eurobonds of EBRD	-	2 786 267	**2 786 267**	2 773 886	-	**2 773 886**
- Municipal bonds	1 242 205	-	**1 242 205**	1 449 953	-	**1 449 953**
- Bonds of EBRD	-	-	**-**	1 061 493	-	**1 061 493**
- Corporate shares	9 580	-	**9 580**	520 753	-	**520 753**
- Russian Federal eurobonds	-	-	**-**	27 562	-	**27 562**
Investment securities available for sale	1 517 323	-	**1 517 323**	1 508 805	-	**1 508 805**
Derivatives and other financial assets carried at fair value						
- Fair value of currency rate based financial derivatives	-	48 554 933	**48 554 933**	-	6 327 998	**6 327 998**
- Fair value of interest rate based financial derivatives	-	6 142 184	**6 142 184**	-	1 092 927	**1 092 927**
Total assets recurring fair value measurements	**27 205 487**	**57 504 893**	**84 710 380**	**67 266 324**	**7 420 925**	**74 687 249**

41 Fair Value of Financial Instruments (Continued)

thousands of Russian Roubles	31 December 2014 Quoted price in an active market (Level 1)	31 December 2014 Valuation technique with inputs observable in markets (Level 2)	31 December 2014 Total	31 December 2013 Valuation technique with inputs observable in markets (Level 2)	31 December 2013 Total
Liabilities carried at fair value					
Financial liabilities					
Derivatives and other financial liabilities					
- Fair value of currency rate based financial derivatives	-	57 662 938	**57 662 938**	2 901 540	**2 901 540**
- Fair value of interest rate based financial derivatives	-	3 260 581	**3 260 581**	2 715 515	**2 715 515**
- Shortselling of trading assets	2 764 825	-	**2 764 825**	-	**-**
Total liabilities recurring fair value measurements	**2 764 825**	**60 923 519**	**63 688 344**	**5 617 055**	**5 617 055**

The valuation technique based on discounted cash flows is used in the fair value measurement for level 2 measurements at 31 December 2014. The following main inputs are relevant:

- ***Spot and Forward currency exchange rates.*** Cash Rate, Interest Rate Futures quotes and IRS quotes are used for foreign currencies, implied RUB rates are derived from foreign exchange forward contracts.
- ***Cross currency interest rate swaps (CCIRS) curves.*** CCIRS are used for discounting and projection of cash flows and are derived from Cash Rate quotes, Futures quotes and Interest Rate Swap quotes available from Chicago Merchandile (for futures) and contributors which quote these instruments on Over the counter market.
- ***Adjustment for credit risk.*** The Bank has the Credit Value Adjustment (also known as Credit Risk Adjustment or Default Risk Adjustment) which reflects the probability of default of the counterparty and Debit Value Adjustment which reflects the possibility of our default. Credit Value Adjustment (CVA) is an adjustment to the price of derivatives reflecting expected losses arising from the possible default of the counterparty both by counterparty and by instrument.

  CVA is calculated with a Monte-Carlo methodology simulating both expected exposure coming from derivative positions with counterparty (estimated with Group market risk calculation approach) and the default event coming from counterparty Default Probability and Recovery Rate. CVA itself is calculated for each counterparty by calculating Bank's expected losses on the event of having positive derivative position revaluation with defaulted counterparty adjusted by the recovery rate. The adjustment is calculated based on observable market inputs.
- ***Shortselling of trading assets*** are selling deals of bond securities that the Group has obtained as collaterals in reverse repo agreements or currently doesn't keep in its own securities' portfolio.

The fair value of shares is determined by multiplying the number of shares by the market price as the share of the shareholding is immaterial.

In August 2014 EBRD was quoted by one broker only. Due to high bid-ask spread value it was decided by Valuation Jour Fix to start pricing the bond by the following model: EBRD Eurobonds in portfolio have floating coupon ROISFIX3m + 0,45% and the Bank projected it using the RUONIA Swap curve. Discounting is done using the YTM Values of liquid fixed coupon bonds of the same issuer.

41 Fair Value of Financial Instruments (Continued)

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

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

	31 December 2014				31 December 2013			
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Carrying value**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Carrying value**
FINANCIAL ASSETS CARRIED AT AMORTIZED COST								
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	3 149 101	-	**3 149 101**	-	5 952 352	-	**5 952 352**
- Long-term placements with other banks with original maturities of more than three months	-	12 245 610	-	**12 245 610**	-	3 833 745	-	**3 835 227**
Loans and advances to customers								
- Corporate loans	-	-	329 767 022	**335 429 588**	-	-	224 605 653	**223 832 433**
- Retail loans	-	-	188 241 477	**198 869 589**	-	-	173 123 224	**175 231 055**
- Small and medium entities loans	-	-	17 451 014	**19 913 713**	-	-	17 149 278	**17 106 786**
- Loans to middle business	-	-	18 871 352	**16 872 290**	-	-	16 056 160	**15 989 045**
- Public sector loans	-	-	3 966	**4 262**	-	-	48 355	**48 797**
Investment securities held to maturity								
- Corporate bonds	500 942	-	-	**509 782**	509 788	-	-	**508 655**
Total	**500 942**	**15 394 711**	**554 334 831**	**586 993 935**	**509 788**	**9 786 097**	**430 982 670**	**442 504 350**

41 Fair Value of Financial Instruments (Continued)

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

In thousands of Russian Roubles	**31 December 2014** Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique not based on observable market data technique (Level 3)	Carrying value	**31 December 2013** Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique not based on observable market data technique (Level 3)	Carrying value
FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	20 670 570	-	**20 670 570**	-	1 859 612	-	**1 859 612**
- Short-term placements of other banks	-	7 967 318	-	**7 967 318**	-	25 922 707	-	**25 922 707**
- Long-term placements of other banks	-	6 238 955	-	**5 943 601**	-	6 284 550	-	**6 112 118**
- Sale and repurchase agreements with securities with CBRF	-	1 983 277	-	**1 983 277**	-	32 105 288	-	**32 105 288**
- Placements of Central Bank	-	40 956 821	-	**40 956 821**	-	-	-	**-**
Customer accounts								
- Current/settlement accounts of legal entities	-	132 306 314	-	**132 306 314**	-	111 384 866	-	**111 384 866**
- Term deposits of legal entities	-	87 898 649	-	**87 039 761**	-	78 581 797	-	**78 020 744**
- Current/demand accounts of individuals	-	137 328 703	-	**137 328 703**	-	107 209 879	-	**107 209 879**
- Term deposits of individuals	-	174 910 032	-	**173 657 059**	-	156 877 745	-	**154 147 771**
- Current/settlement accounts of state and public organisations	-	1 555 536	-	**1 555 536**	-	1 493 824	-	**1 493 824**
- Term deposits of state and public organisations	-	13 127	-	**13 127**	-	215 681	-	**215 681**
Insurance contracts	-	14 635 855	-	**14 635 855**	-	-	-	**-**
Debt securities in issue								
- Bonds issued on domestic market	18 735 862	-	-	**19 790 404**	10 112 041	-	-	**10 160 941**
- Promissory notes		1 415 089	-	**1 415 089**	193 617	-	-	**193 617**
- Bonds issued on external market		1 022 849		**1 022 849**				
Term borrowings from the Parent Bank	-	61 993 150	-	**61 993 150**	-	33 172 282	-	**33 172 282**
Term borrowings from other financial institutions								
- Term borrowings from other financial institutions	-	465 471	-	**465 471**	-	585 563	-	**585 659**
- Loans secured by diversified payment rights	-	9 355 939	-	**9 355 939**	-	5 681 262	-	**5 681 262**
Other financial liabilities	-	-	-	**-**	-	-	-	-
- Provision for other credit related commitments	-	-	130 156	**130 156**	-	-	391 586	**391 586**
Total	**18 735 862**	**700 717 655**	**130 156**	**718 231 000**	**10 305 658**	**561 375 056**	**391 586**	**568 657 837**

41 Fair Value of Financial Instruments (Continued)

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

For assessment of fair value of loans and advances to customer categorized at Level 3, the Bank uses Discounted cash flows model.

The Bank calculates FV for loans with fixed interest rate with remaining maturity of more than one year. The Bank uses the following assumptions:

- the fair values of loans with floating rate are considered to be equal to the carrying value because the interest payments are based on LIBOR or MIBOR depending on the terms of agreement;
- the fair value of loans with remaining maturity less than one year are considered to be equal to the carrying value due to the fact that effect of fair value recalculation based on current market rates is not material.

For corporate loans and deposits with maturity more than one year the Bank discounts monthly payments at weighted average rate by product type and currency type calculated based on contractual rates for loans issued by the Bank during the last two weeks before the reporting date.

For loans and deposits of private individuals with maturity more than one year the Bank discounts monthly payments at weighted average rate by product type and currency type calculated based on the loans issued at the end of the last two weeks before the reporting date.

42 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

42 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

In thousands of Russian Roubles	**Loans and receiva-bles**	**Trading assets**	**Assets designated at FVTPL**	**Available for sale financial assets**	**Held to maturity financial assets**	**Total**
ASSETS						
Cash and cash equivalents	185 376 922	-	-	-	-	185 376 922
Mandatory cash balances with the Central Bank of the Russian Federation	5 898 114	-	-	-	-	5 898 114
Trading securities	-	9 639 559	-	-	-	9 639 559
Repurchase receivables as trading securities	-	-	-	-	-	-
Repurchase receivables as other securities at fair value through profit or loss	-	-	2 279 673	-	-	2 279 673
Other securities at fair value through profit or loss	-	-	16 576 708	-	-	16 576 708
Due from other banks						
- Short-term placements with other banks with original maturities of more than three months	3 149 101	-	-	-	-	3 149 101
- Long-term placements with other banks with original maturities of more than three months	12 245 610	-	-	-	-	12 245 610
Loans and advances to customers						
- Loans to corporate customers	335 429 588	-	-	-	-	335 429 588
- Loans to Middle companies	19 872 290	-	-	-	-	19 872 290
- Loans to individuals	198 869 589	-	-	-	-	198 869 589
- Loans to small and medium entities	19 913 713	-	-	-	-	19 913 713
- Loans state and municipal organisations	4 262	-	-	-	-	4 262
Investment securities available for sale	-	-	-	1 517 323	-	1 517 323
Investment securities held to maturity	-	-	-	-	509 782	509 782
Derivatives and other financial assets						
- Fair value of currency rate based financial derivatives	-	48 554 933	-	-	-	48 554 933
- Fair value of interest based financial derivatives	-	6 142 184	-	-	-	6 142 184
- Plastic cards receivables	2 026 975	-	-	-	-	2 026 975
- Trade receivables	52 600	-	-	-	-	52 600
TOTAL FINANCIAL ASSETS	**782 838 764**	**64 336 676**	**18 856 381**	**1 517 323**	**509 782**	**868 058 926**

As of 31 December 2014 and 31 December 2013 trading assets of the Group include derivatives designated as hedging instruments.

As of 31 December 2014 and 31 December 2013 all of the Group’s financial liabilities except for derivatives and shortsales were carried at amortized cost. Derivatives belong to the fair value through consolidated profit or loss measurement category.

42 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

As of 31 December 2014 and 31 December 2013 financial guarantees of the Group were carried at amortized cost. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

In thousands of Russian Roubles	Loans and receiva-bles	Trading assets	Assets designated at FVTPL	Available for sale financial assets	Held to maturity financial assets	Total
ASSETS						
Cash and cash equivalents	154 508 091	-	-	-	-	154 508 091
Mandatory cash balances with the Central Bank of the Russian Federation	5 640 263	-	-	-	-	5 640 263
Trading securities	-	20 363 257	-	-	-	20 363 257
Repurchase receivables as trading securities	-	8 864 414	-	-	-	8 864 414
Repurchase receivables as Other securities at fair value through profit or loss	-	-	22 324 651	-	-	22 324 651
Other securities at fair value through profit or loss	-	-	14 205 197	-	-	14 205 197
Due from other banks						
- Short-term placements with other banks with original maturities of more than three months	5 952 352	-	-	-	-	5 952 352
- Long-term placements with other banks with original maturities of more than three months	3 835 227	-	-	-	-	3 835 227
Loans and advances to customers						
- Loans to corporate customers	223 832 433	-	-	-	-	223 832 433
- Loans to Middle companies	15 989 045	-	-	-	-	15 989 045
- Loans to individuals	175 231 055	-	-	-	-	175 231 055
- Loans to small and medium entities	17 106 786	-	-	-	-	17 106 786
- Loans state and municipal organisations	48 797	-	-	-	-	48 797
Investment securities available for sale	-	-	-	1 508 805	-	1 508 805
Investment securities held to maturity	-	-	-	-	508 655	508 655
Derivatives and other financial assets						
- Fair value of currency rate based financial derivatives	-	6 327 998	-	-	-	6 327 998
- Fair value of interest based financial derivatives	-	1 092 927	-	-	-	1 092 927
- Plastic cards receivables	2 081 135	-	-	-	-	2 081 135
- Trade receivables	68 005	-	-	-	-	68 005
TOTAL FINANCIAL ASSETS	**604 293 189**	**36 648 596**	**36 529 848**	**1 508 805**	**508 655**	**679 489 093**

43 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0,00% – 0,00% p.a.)	37 926 173	13 341	-	-	-
Placements with other banks with original maturities of less than three months (contractual interest rate: 0,10% – 0,10% p.a.)	12 376 848	18 500	-	-	-
Due from other banks (contractual interest rate: 0,60% – 0,60% p.a.)	5 642 811	-	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 1,89% – 16,69% p.a.)	-	-	4 021 830	235 442	-
Purchased intangible assets less accumulated depreciation	279 711	-	-	-	-
Derivatives and other financial assets	18 980 654	14 698	-	-	-
Investments in associates	-	-	2 267 544	-	-
Due to other banks (contractual interest rate: 1,65% – 15,00% p.a.)	327 691	4 364 960	-	-	36 664
Customer accounts (contractual interest rate: 0,28% – 21,85% p.a.)	-	-	2 326 426	-	-
Term borrowings from the Parent Bank (contractual interest rate: 1,48% – 3,16% p.a.)	62 018 086	6 335	-	-	-
Debt securities in issue (contractual interest rate: 3,64% – 5,46% p.a.)	-	1 022 849	-	-	-
Other liabilities	-	-	-	420 264	70 755
Derivatives and other financial liabilities	50 858 242	5 777	1 089	-	-

43 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2014 were as follows:

In thousands of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associates	Members of the Managing Board	Other related parties
Interest income	11 665 746	143 940	240 592	20 303	-
Interest expense	(7 879 419)	(178 861)	(80 559)	-	(6 208)
Fee and commission income	23 651	8 168	2 106	-	-
Fee and commission expense	(177 850)	(11)	-	-	-
Gains less losses/(losses, net of gains) from trading in foreign currencies	(193 461)	(118 003)	15 911	-	-
Realized gains less losses from financial derivatives	-	-	-	-	-
Unrealized gains less losses from financial derivatives	(7 931 801)	-	-	-	-
Ineffectiveness from the hedge accounting	-	-	-	-	-
Administrative and other operating expenses	(1 430 958)	(11 507)	-	(491 264)	(130 709)
Other operating income	-	-	-	-	-
Share of profit of associates	-	-	463 756	-	-

At 31 December 2014, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associates	Other related parties
Guarantees issued by the Group at the year end	1 216 386	385 686	-	-
Guarantees received by the Group at the year end	1 402 109	846 339	-	98 000
Letters of credit issued by the Group at the year end	1 018 109	-	-	-
Undrawn credit lines	-	-	8 144 966	-
Interest rate swap agreements – notional amount as at the year end	300 366 730	-	-	-
Interest rate swap agreements – fair values as at the year end	2 549 390	-	-	-
Cross currency interest rate swap agreements – notional amount receivable as at the year end	83 066 539	-	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	89 857 466	-	-	-
Cross currency interest rate swap agreements – fair values as at the year end	(7 844 990)	-	-	-
Foreign currency derivative financial instruments – principal amount purchased	177 259 648	1 624 889	-	-
Foreign currency derivative financial instruments – principal amount sold	199 664 137	1 611 245	-	-
Foreign currency derivative financial instruments – fair value	(26 586 344)	8 922	-	-

43 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0,01% – 4,00% p.a.)	21 564 786	42 875	-	-	-
Placements with other banks with original maturities of less than three months (contractual interest rate: 0,03% – 0,45% p.a.)	43 279 434	-	-	-	-
Due from other banks (contractual interest rate: 0,00% – 8,20% p.a.)	669 994	403 495	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2,61% – 15,49% p.a.)	-	-	4 604 871	238 810	-
Purchased intangible assets less accumulated depreciation	395 515	-	-	-	-
Derivatives and other financial assets	2 716 102	724	-	-	-
Investments in associates	-	-	1 753 512	-	-
Due to other banks (contractual interest rate: 0,26% – 9,27% p.a.)	204 023	4 623 736	-	-	54 528
Customer accounts (contractual interest rate: 0,00% – 0,00% p.a.)	-	-	2 738 386	-	-
Term borrowings from the Parent Bank (contractual interest rate: 1,69% – 3,18% p.a.)	34 363 625	-	-	-	-
Other liabilities	-	-	-	339 599	-
Derivatives and other financial liabilities	3 246 667	-	722	-	-

The income and expense items with related parties for the year 2013 were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Interest income	169 921	42 949	307 858	16 568	-
Interest expense	(1 037 689)	(167 623)	(68 910)	-	(47 129)
Fee and commission income	24 580	7 227	4 327	-	-
Fee and commission expense	(57 844)	-	-	-	-
Gains less losses/(losses, net of gains) from trading in foreign currencies	(165 696)	(16 590)	11 983	-	-
Realized gains less losses from financial derivatives	1 725 915	40 453	-	-	-
Unrealized gains less losses from financial derivatives	(1 186 893)	(10 033)	-	-	-
Ineffectiveness from the hedge accounting	(109 849)	-	-	-	-
Administrative and other operating expenses	(744 633)	(14 350)	-	(313 066)	-
Other operating income	-	-	3 614	-	-
Share of profit of associates	-	-	418 355	-	-

43 Related Party Transactions (Continued)

At 31 December 2013, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**
Guarantees issued by the Group at the year end	480 531	94 381	22 811
Guarantees received by the Group at the year end	610 603	493 011	-
Letters of credit issued by the Group at the year end	-	-	20 641
Undrawn credit lines	-	400 000	3 023 519
Interest rate swap agreements – notional amount as at the year end	131 576 390	-	-
Interest rate swap agreements – fair values as at the year end	(1 160 912)	-	-
Cross currency interest rate swap agreements – notional amount receivable as at the year end	71 284 400	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	71 178 913	-	-
Cross currency interest rate swap agreements – fair values as at the year end	575 329	-	-
Foreign currency derivative financial instruments – principal amount purchased	24 290 537	986 638	-
Foreign currency derivative financial instruments – principal amount sold	24 087 170	986 477	-
Foreign currency derivative financial instruments – fair value	55 838	327	-

The Bank's immediate parent is Raiffeisen Bank International AG (2013: Raiffeisen Bank International AG). The Bank is ultimately controlled by Raiffeisen Zentralbank Osterreich AG (2013: Raiffeisen Zentralbank Osterreich AG). Included in the "other related parties" are balances, income and expenses from the transactions with the company, which may have significant influence on the Group.

Key management compensation is presented below:

	2014		**2013**	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	178 373	-	142 831	-
- Short-term bonuses	312 891	405 188	169 559	335 129
Share-based compensation:				
- Cash-settled share-based compensation	-	15 076	676	4 470
Total	**491 264**	**420 264**	**313 066**	**339 599**

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

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