PJSC BEST EFFORTS BANK

Financial Statements

for the year ended 31 December 2014

Contents

AUDIT REPORT

ON THE ANNUAL FINANCIAL STATEMENTS OF
PJSC BEST EFFORTS BANK FOR FY 2014

To the Shareholders of
Public Joint Stock Company
Best Efforts Bank

AUDITEE:

Full Name: Public Joint Stock Company Best Efforts Bank.

Abbreviated Name: PJSC Best Efforts Bank.

Number and Date of State Registration Certificate:

- State Registration Certificate № 435 of the Credit Institution issued by the Central Bank of the Russian Federation on 3 October 1990;
- Certificate of Entry in the Unified State Register of Legal Entities № 1037700041323 issued by the Ministry on Taxes and Levies of the Russian Federation on 21 January 2003.

Location: 38/1 Dolgorukovskaya str., Moscow 127006, Russian Federation.

AUDITOR:

Full Name: Joint Stock Company Audit-Consulting Group Business Systems Development.

Abbreviated Name: JSC ACG RBS.

State Registration Number: 1027739153430.

Location: 5/3 Sushchevsky Val, Moscow 127018, Russian Federation.

Membership in Self-Regulatory Organization of Auditors:

- Full member of the self-regulatory organization of auditors Non-Profit Partnership Auditor Association Sodruzhestvo (NP AAS); Certificate No. 4632 of 20 August 2012.

Number in the Register of Auditors and Audit Organizations of the Self-Regulatory Organization of Auditors: 11206027697.

We have audited the accompanying annual financial statements of Public Joint Stock Company Best Efforts Bank (hereinafter referred to as "the Bank"), which are comprised of the Statement of Financial Position as of 31 December 2014, Statement of Profit and Loss and Other Comprehensive Income, Cash Flow Statement, and Statement of Changes in Equity for FY 2014, as well as notes to the significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Financial Statements

The management of PJSC Best Efforts Bank is responsible for the preparation and fair presentation of the annual financial statements in compliance with the International Financial Reporting Principles and the requirements of the Russian laws concerning financial reporting and internal controls required to prepare the annual financial statements that are free from any material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the truth and fairness of the annual financial statements based on our audit. We performed the audit in compliance with the federal standards on auditing and international standards on auditing. These standards require observing the applicable code of ethics as well as planning and performing the audit so as to obtain reasonable assurance that the financial statements are free from any material misstatements.

The audit included the audit procedures required to obtain audit evidence supporting the figures reported in the financial statements and relevant disclosures. Audit procedures are selected on the basis of our judgment that relied on the assessment of the material misstatement risk due to fraud or error. In assessment of this risk, we examined the system of internal control that ensures proper preparation and truth and fairness of the annual financial statements in order to select appropriate audit procedures but without an intention to express an opinion on the internal control system efficiency.

The audit also included the assessment of the appropriateness of applicable accounting policy and reasonableness of estimates derived by the Auditee's management as well as the evaluation of the overall presentation of the annual financial statements.

We believe that the audit evidence obtained in the course of the engagement provides a reasonable and sufficient basis to express an opinion on the truth and fairness of the annual financial statements.

Opinion

In our opinion, the annual financial statements, in all material respects, give a true and fair view of the financial position of PJSC Best Efforts Bank as of 31 December 2014, results of its financial performance and its cash flows for FY 2014 in compliance with the International Financial Reporting Standards and the requirements of the Russian laws to financial reporting.

Report of findings from the procedures performed in compliance with the requirements of Article 42 of Federal Law № 395-I *On Banks and Banking Activities* (as amended and supplemented) of 2 December 1990.

Management of PJSC Best Efforts Bank is responsible for the Bank's compliance with statutory requirements established by the Bank of Russia, as well as for maintaining internal controls and organizing risk management systems in accordance with the requirements imposed by the Bank of Russia on such systems.

In compliance with Article 42 of Federal Law № 395-I *On Banks and Banking Activities* during our audit of the Bank's annual financial statements for FY 2014 we have audited:

- the Bank's compliance as at 1 January 2015 with the statutory requirements imposed by the Bank of Russia;
- compliance of the Bank's internal controls and risk management systems with the requirements imposed by the Bank of Russia on such systems.

This audit was limited by the procedures that were selected on the basis of our judgment and included inquiries, analyses, inspections of documents, comparisons of the Bank's policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, reconciliations and comparisons of numerical data and other information.

Our findings from the procedures are reported below:

1) based on our procedures with respect to the Bank's compliance with the statutory requirements imposed by the Bank of Russia we established that :

the Bank's mandatory ratios as at 1 January 2015 were within the limits established by the bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank other than those that we considered necessary to enable us to express an opinion as to whether the Bank's annual financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, its financial performance and its cash flows for FY 2014 in compliance with the International Financial Reporting Standards and the requirements of the Russian laws to financial reporting;

2) based on our procedures with respect to compliance of the Bank's internal controls and risk management systems with the requirements of imposed by the Bank of Russia on such systems we found that:

- as at 31 December 2014 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors, the risk management function was not subordinated to and accountable to divisions accepting the respective risks in accordance with the regulations and recommendation of the Bank of Russia; the heads of the internal audit department and risk management department of the Bank comply with the qualification requirements established by the Bank of Russia;
- the Bank's internal documentation, effective as at 31 December 2014, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest, legal, liquidity, reputational risks, and for stress testing was approved by the authorized management bodies of the Bank in accordance with the regulations and recommendations of the Bank of Russia;

- as at 31 December 2014, the Bank maintained a system of reporting on its significant credit, operational, market, interest, legal, and reputational risks, as well as on the Bank's capital;

- the frequency and consistency of the reports prepared by the Bank's risk management function and the internal audit department during 2014, which cover the Bank's credit, operational, market, interest, legal, liquidity and reputational risks, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management function and the Internal Audit Department as to their assessment of the efficiency of the Bank's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2014, the Bank's Board of Directors and the executive management of the Bank had the responsibility for monitoring the Bank's compliance with the risk limits and capital adequacy ratios as established by the Bank's internal documentation, as well as the efficiency of risk management procedures applied by the Bank and their consistency.

Our procedures with respect to the Bank's internal controls and risk management systems were performed solely for the purpose of examining whether these controls and systems are in compliance with the requirements imposed by the Bank of Russia on such systems.

29 April 2015

Senior Manager
Audit Department,
acting on the basis of PoA № 111 as of 3 December 2014
(qualification certificate № 01-000319 as of 26 December 2011 duration unlimited)

E.V. Pelevina

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR FY 2014

	Note	2014 RUB '000	2013 RUB '000
Interest income	4	218,812	176,233
Interest expense	4	(144,623)	(65,806)
Net interest income		**74,189,**	**110,427**
Fee and commission income	5	26,320	14,328
Fee and commission expense	6	(8,851)	(1,674)
Net fee and commission income		**17,469**	**12,654**
Net income from financial assets available for sale	13.	(6,683)	32,248
Income from early discharge of issued debt liabilities		-	10,474
Net income from foreign currency transactions	7	40,741	14,966
Other income	8	2,233	38,394
Operating income		**127,949**	**219,163**
Recovery (creation) of impairment provisions	9	12,013	(26,388)
Other general and administrative expense	10	(117,267)	(147,104)
Profit before income tax		**22,695**	**45,671**
Income tax expense	11	(1,804)	(9,840)
Profit for the year		**20,891**	**35,831**
Other comprehensive income less income tax			
Financial assets available for sale:			
- Net change in fair value of financial assets available for sale		(27,434)	20,220
- Net change in fair value of financial assets available for sale transferred to profit or loss		5,346	(25,798)
Other comprehensive (loss) profit less income tax		**(22,088)**	**(5,578)**
Total comprehensive income for the year		**(1,197)**	**30,253**
Basic and diluted earnings per ordinary share (in RUB per share)	29	**0.37**	**0.63**

The accompanying Notes are an integral part of this Statement of Profit and Loss and Other Comprehensive Income.

These financial statements were approved by the Bank's Management Board on 28 April 2015 and were signed on their behalf by:

D.A. Shatsky

Acting in capacity of
Chairman of the Board

L.S. Grigorenko

Chief Accountant

[SEAL]

ПАО «Бест Эффортс Банк» Публичное акционерное общество «Бест Эффортс Банк» ОГРН 1037700041323 ИНН 7831000034 МОСКВА

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 RUB '000	2013 RUB '000
ASSETS			
Cash and cash equivalents	12	937,817	913,265
Statutory reserve with the Central Bank of the Russian Federation		11,478	14,054
Due from banks		1,722	982
Accounts receivable under REPO agreements		4,999	-
Positive fair value of derivative financial instruments	28	11,725	-
Financial assets available for sale:			
- owned by the Bank	13	605,491	645,662
- pledged under REPO agreements	13	1,592,104	470,721
Loans to customers	14	26,492	232,670
Current income tax receivables		34,959	36,253
Property, plant and equipment		4,141	5,794
Intangible assets		8,028	9,020
Other assets	15	4,252	14,564
Total assets		**3,243,208**	**2,342,985**
LIABILITIES			
Negative fair value of derivative financial instruments	28	534	-
Due to banks		11	11
Accounts payable on REPO agreements	16	1,451,193	400,060
Current accounts and deposits from customers	17	659,809	792,845
Debt liabilities issued	18	25,667	40,095
Other liabilities	19	13,450	16,233
Total liabilities		**2,150,664**	**1,249,244**
EQUITY			
Share capital	20	702,762	702,762
Additional capital		685,811	685,811
Reserve for revaluation of financial assets available for sale		(25,868)	(3,780)
Accumulated loss		(270,161)	(291,052)
Total equity		**1,092,544**	**1,093,741**
Total liabilities and equity		**3,243,208**	**2,342,985**

The accompanying Notes are an integral part of this Statement of Financial Position.

These financial statements were approved by the Bank's Management Board on 28 April 2015 and were signed on their behalf by:

D.A. Shatsky

Acting in capacity of
Chairman of the Board

L.S. Grigorenko

Chief Accountant

ОГРН 1037700041323 * ИНН 7831000034 Публичное акционерное общество «Бест Эффортс Банк» ПАО «Бест Эффортс Банк» * МОСКВА *

[SEAL]

CASH FLOW STATEMENT FOR FY 2014

	Note	2014 RUB '000	2013 RUB '000
CASH FLOW FROM OPERATING ACTIVITIES			
Interests received		191,656	155,304
Interests paid		(144,342)	(70,619)
Fees and commissions received		27,267	14,551
Fees and commissions paid		(8,851)	(1,674)
Net gain on financial assets available for sale		-	32,248
Net gain from early discharge of issued debt liabilities		-	10,474
Net gain from foreign currency transactions		(123,685)	8,018
Other income		2,092	38,394
Other general and administrative expense and payroll expense paid		(112,917)	(146,809)
(Increase) decrease of operating assets			
Statutory reserves in the Central Bank of the Russian Federation		2,576	(6,602)
Due from banks		(1,828)	(882)
Accounts receivable under REPO agreements		(4,999)	-
Financial assets available for sale		(1,087,205)	(454,409)
Loans to customers		216,766	457,996
Other assets		11,742	(13,524)
Increase (decrease) of operating liabilities			
accounts payable under REPO agreements		1,050,399	400,000
Current accounts and deposits from customers		(115,421)	153,530
Debt liabilities issued		(15,000)	(66,178)
Other liabilities		(15,143)	2,317
Net cash flow from operating activities before income tax		**(126,893)**	**512,135**
Income tax paid		(1,804)	(2,427)
Net cash flow from operating activities		**(128,697)**	**509,708**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		-	-
Sale of property, plant and equipment and intangible assets		499	1,534
Net cash flow from investing activities		**499**	**1,534**
Net increase (decrease) of cash and cash equivalents		**(128,198)**	**511,242**
Effect of fluctuation in exchange rates of cash and cash equivalents		152,750	9,479
Cash and cash equivalents as at the beginning of the year		913,265	392,544
Cash and cash equivalents as of the end of the year	12	**937,817**	**913,265**

The accompanying Notes are an integral part of this Cash Flow Statement.

These financial statements were approved by the Bank's Management Board on 28 April 2015 and were signed on their behalf by:

D.A. Shatsky

Acting in capacity of
Chairman of the Board

L.S. Grigorenko

Chief Accountant

STATEMENT OF CHANGES IN EQUITY FOR FY 2014

RUB '000	Share Capital	Additional Capital	Reserve for revaluation of financial assets available for sale	Retained Earnings (accumulated loss)	Total
Balance as at 1 January 2013	702,762	685,811	1,798	(326,883)	1,063,488
Total comprehensive income					
Profit for the year	-	-	-	35,831	35,831
Other comprehensive income					
Net change in fair value of financial assets available for sale less deferred income tax	-	-	20,220	-	20,220
Net change in fair value of financial assets available for sale transferred to profit or loss less deferred income tax	-	-	(25,798)	-	(25,798)
Total other comprehensive income	-	-	(5,578)	-	(5,578)
Total comprehensive income for the year	**-**	**-**	**(5,578)**	**35,831**	**30,253**
Balance as at 1 january 2014	**702,762**	**685,811**	**(3,780)**	**(291,052)**	**1,093,741**
Total comprehensive income					
Profit for the year	-	-	-	20,891	20,891
Other comprehensive income					
Net change in fair value of financial assets available for sale less deferred income tax	-	-	(27,434)	-,	(27,434)
Net change in fair value of financial assets available for sale transferred to profit or loss less deferred income tax	-	-	5,346	-	5,346
Other comprehensive loss	-	-	(22,088)	-	(22,088)
Total comprehensive income for the year	**-**	**-**	**(22,088)**	**20,891**	**(1,197)**
Balance as at 31 December 2014	**702,762**	**685,811**	**(25,868)**	**(270,161)**	**1,092,544**

The accompanying Notes are an integral part of this Statement of Changes in Equity.

These financial statements were approved by the Bank's Management Board on 28 April 2015 and were signed on their behalf by:

D.A. Shatsky

Acting in capacity of
Chairman of the Board

L.S. Grigorenko

Chief Accountant

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

INTRODUCTION

Organizational Structure and Principal Activities

Public Joint Stock Company BEST EFFORTS BANK (hereinafter referred to as "the Bank") was founded by the decision of its shareholders as an open joint stock company on the 3 of October 1990. According to the decision of the extraordinary general meeting of the Bank's shareholders on the 8th of December 2014 the name of the Bank was changed from ALOR BANK (open joint stock company) to BEST EFFORTS BANK (public joint stock company). Apart from that, according to this decision the location of the Bank was also changed from 5/2 Ordzhonikidze str., Moscow 115419 to 38/1 Dolgorukovskaya str., Moscow 127006.

The Bank operates on the basis of license № 435 issued by the Central Bank of the Russian Federation (hereinafter referred to as "the Central Bank"). The Bank participates in the Russian state deposit insurance program from the 26th of August 2005.

As at 1 January 2015, the Bank was controlled by the Non-Commercial Partnership of RTS' financial market development. Non-Commercial Partnership of RTS' financial market development is a membership non-commercial organization founded by legal entities with the purpose of assisting its members in ensuring the effective functioning of financial markets.

The Bank does not have any branches or subsidiaries. As at 31 December 2013, the Bank had one structural unit:

- additional *Central* office: 38/1 Dolgorukovskaya str., Moscow 127006.

All assets and liabilities of the Bank are located in the Russian Federation.

As at 31 December 2014, the Bank's average headcount was 45 employees (61 employees – as at 31 December 2013).

Economic Environment

The Banks operations are primarily located in the Russian Federation. Consequently, The Bank is exposed to economic and financial risks at the markets of the Russian Federation, which display characteristics of a developing market. The legal and regulatory framework of the Russian Federation continues to develop, but is subjects to varying interpretations and frequent changes, which together other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

In 2014, the macroeconomic situation in Russia is characterized by the gradual slow down of the development dynamics. Aggravation of the geopolitical environment and reinforcement of economic sanctions in respect of Russia in 2014 resulted in the growth of uncertainty and sharp deterioration of business confidence. Restriction of access to international financial resources of Russian companies and tightening of monetary policy resulted in the growth of the cost of lending that had even greater negative impact on the investment demand and consumer sentiment reinforcing capital outflow and inflation. The drop of oil process and deterioration of foreign economic situation from the middle of 2014 resulted in the further decline of economic growth.

The greatest slowdown was witnessed in investing activity. In 2014, currencies of countries with developing markets, including the Russian Rouble, were significantly devaluated against major world currencies. The drop of the Russian national currency was connected with high geopolitical risks, significant drop of world oil prices and increased demand of credit institutions on currency liquidity, including for the purpose of foreign debt servicing. Management of the Bank believes that they make all the necessary measures to maintain the Bank's economic stability in the current environment.

The accompanying financial statements reflect Management's assessment of the possible impact of the current business environment on the operations and financial position of the Bank. The further business environment may differ from Management's assessment.

BASIS OF PRESENTATION

The Bank maintains its accounting records in compliance with the requirements of the effective laws of the Russian Federation. These financial statements have been prepared on the basis of these accounting records with adjustments required to bring them, in all material respects, in line with the IFRS.

Applied Standards

These financial statements of the Bank are prepared in accordance with the requirements of the International Financial Reporting Standards (hereinafter – "IFRS").

Basis of Measurement

These financial statements are prepared on a historical cost convention, except financial instruments that are measured at fair value, the changes in which are reflected in profit or loss for the period, and financial assets available for sale that are stated at fair value.

Functional and Presentation Currency

The functional currency of the Bank is the Russian Rouble. Being the national currency of the Russian Federation it reflects best of all the economic essence of the majority of the Bank's operations and the underlying circumstances relevant to them.

The Russian Rouble is also the presentation currency for these financial statements.

All figures in these financial statements are rounded to the whole thousands of Roubles.

Accounting Estimates and Judgements

Preparation of financial statement in accordance with IFRS requires Management to make judgments and use estimates and assumptions that influence the applied accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from such estimates

Estimates and the underlying assumptions are reviewed on the regular basis. Adjustments in estimates are recognized in the reporting period when the relevant estimates are reviewed, and in any subsequent periods that are effected by them.

Note 14 discloses information about the significant uncertainties and critical judgments concerning the application of accounting policies to loan impairment.

Changes in Accounting Policies and Basis of Presentation

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

- *Investment Entities* – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interest in Other Entities* and IAS 27 *Separate Financial Statements*

  These amendments provide an exception from the requirement of consolidation for entities that can be qualified as investment entities in accordance with IFRS 10. According to this exception from the requirement of consolidation investment entities must account for their subsidiaries at fair value through profit or loss.

  The Bank believes that these amendments will not have any impact on the financial statements because the Bank does not have any entities subject to consolidation.

- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*

  Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*

  These amendments cancel the requirement to disclose information about the recoverable amount, if the cash-generating unit includes goodwill or intangible assets with indefinite useful lives, and there is no impairment.

- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 Financial Instruments: Recognition and Measurement

  This amendment provides an exception to the requirement to discontinue hedge accounting when a novation of a derivative, which has been designated as a hedging instrument, satisfies certain requirements.

  The Bank believes that this amendment will not have any impact on the financial statements because the Bank does apply hedge accounting in accordance with IFRS.

- IFRIC 21 *Levies*

  The interpretation clarifies that a liability for a levy is recognized when the activity that triggers payment, as identified by the relevant legislation, occurs. In the event of a mandatory payment, when an obligation to pay arises after a minimum threshold is reached, the interpretation clarifies that an obligation is not recognized until a certain minimum threshold is reached.

SIGNIFICANT ACCOUNTING POLICIES

Below you will find the main accounting policies that were applied in the preparation of these financial statements and have been applied consistently for several years, except for the changes in the accounting policies that are described in Note 2.

Foreign Currencies

Foreign currency transactions are translated into the Bank's functional currency at the exchange rates that are effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated into the functional currency at the exchange rate that is effective at the reporting date. Profit and loss from operations with monetary assets and liabilities denominated in foreign currency is the difference between the amortized cost in the functional currency as of the beginning of the period adjusted for the amount of interests accrued at the effective interest rate and payments made during the period and amortized cost in the foreign currency translated into the functional currency at the exchange rate that is effective at the end of the reporting period. Exchange differences arising on the translation into foreign currency are recognized in profit or loss, except for the differences arising on translation of equity financial instruments available for sale, or cash flows that qualify for hedging transactions, that are recognized inother comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, cash at the Central Bank on the Nostro accounts, Nostro accounts at other banks, short-term deposits at the Central Bank and short-term deposits at other banks with maturity of 3 months or less. Statutory reserves in the Central Bank are not considered to be cash and cash equivalents because of the restrictions of use.

Financial Instruments

Classification

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

- acquired principally for the purpose of selling or repurchasing in the nearest future;

- part of the portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making;

- derivative financial instruments (except for derivative financial instruments that are effective hedging instruments); or

- designated as measured at fair value through profit or loss upon initial recognition.

The Bank may designate financial assets and liabilities as measured at fair value through profit or loss where either:

- the assets and liabilities are managed, evaluated and reported internally on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or

- the asset or liability contains an embedded derivative financial instrument that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivative financial instruments with positive fair value, as well as options purchased, are reported as assets. All trading derivative financial instruments with negative fair value, as well as options written, are recorded as liabilities.

Management determines the appropriate classification of financial instruments upon initial recognition. Derivative financial instruments and financial instruments classified as measured at fair value through profit or loss are not reclassified out of measured at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of measured at fair value though profit or loss or available for sale categories, if the Bank has an intention and ability to hold it for foreseeable future or until their maturity. Other financial instruments may be reclassified out of measured at fair value though profit or loss or available for sale categories in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to reoccur in the nearest future.

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

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

Investment held to maturity are non0derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has an intention and ability to hold until maturity, other than those that:

- the Bank upon initial recognition designates as measured at fair value through profit or loss;
- the Bank designtes as available for sale; or
- meet the definition of loans and receivables.

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, investment held to maturity, or financial instruments measured at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial instruments are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, at the case of a financial asset or liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

After initial recognition financial assets, including derivative financial assets that are assets, are measured at their fair values without any deductions of transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest rate method;
- investments held to maturity that are measured at amortized cost using the effective interest rate method;
- equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured, which are measured at cost.

All financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, are measured at amortized cost.

Amortized Cost

Amortized cost of a financial asset or liability is the cost of the assets or liability upon initial recognition net of principle paid adjusted for the amount of accrued amortization the difference between the initially recognized cost and the cost at the settlement date, using the effective interest rate method net of impairment losses.

Premiums and discounts, including initial transaction costs, are included into the carrying amount of the related instrument and are amortized on the basis of the effective interest rate of this instrument.

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Profit and Loss on Subsequent Remeasurement

Profit and loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- profit and loss on a financial instrument classified as measured at fair value through profit or loss is recognized in profit or loss;

- profit and loss on a financial asset available for sale is reocgnized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest income on a financial asset available for sale is recognized when it arises in profit or loss using the effective interest rate

For financial assets and liabilities measured at amortized cost, profit and loss is recognized in profit and loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, but does not retain the control over the financial asset. Any interest in the transferred financial asset that satisfies the requirements for derecognition owned by the Bank is recognized as a separate asset or liability in the statement of financial position.

The Bank derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

The Bank enters into transactions whereby it transfers assets recognized in the statement of financial position, but retains all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, than the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

If in transfer of an asset the Bank retains the control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank also derecognizes and writes off assets that are deemed to be uncollectable.

Repurchase and Reverse Repurchase Agreements

Securities sold in repurchase and reverse repurchase transactions (hereinafter – "REPO agreements") are accounted for as financing transactions secured by collateral where the securities continue to be recognized in the statement of financial position, and liabilities to counterparties included into accounts payable under REPO agreements are recorded within amounts owed credit institutions or amounts owed to customers, as appropriate. The difference arising from pricing spreads for the underlying securities is considered to be interest expense and is recognized in profit or loss over the period that the related REPO agreement is open using the effective interest rate method.

Securities acquired in repurchase and reverse repurchase transactions are accounted for as due from credit institutions or loans to customers, as appropriate. Any related income arising from pricing spreads for the underlying securities is recognized as interest income over the period that the related REPO agreement is open using the effective interest rate method.

If assets acquired under REPO agreements are sold to third parties, the obligation to return securities is recorded as a trading liability and is measured at fair value.

Derivative Financial Instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and securities, as well as any combination of these instruments.

Derivatives are initially recognized at fair value as of the date of the transaction, and are subsequently remeasured at fair value. All derivative financial instruments are recoded as assets, if their fair value is positive, and as liabilities, if their fair value is negative.

Changes in the fair value of derivative financial instruments are recognized immediately in profit or loss.

Derivatives may be embedded into other contractual agreement ("host contract"). An embedded derivative is separated from the host contract and is accounted for as a separate derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in the fair value recognized in profit or loss. Derivative financial instruments embedded in financial assets and liabilities measured at fair value through profit or loss are not separated from a host contract.

Despite of the fact that the Bank carries out trading transactions with derivative financial instruments with the purpose of hedging risks, these transactions do not satisfy the criteria to be accounted for as hedging transactions.

Offsetting

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

Prperty, Plant and Equipment

Owned Assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment

Leased Assets

Lease, which transfers substantially all risks and rewards of ownership to the Bank, is classified as a finance lease. Items of property, plant and equipment acquired as part of finance lease are recognized at the lower of the fair value of the asset and the present value of the minimum lease payment as of the date of the lease start less accumulated depreciation of impairment losses.

Depreciation

Depreciation is provided to write off the cost on a straight-line basis over the estimated useful life of an asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows

- buildings and permanent improvements	from 10 to 50 years
- furniture and equipment	from 5 to 20 years
- computers and office equipment	from 2 to 5 years

Intangible Assets

Intangible assets are recognized at historical cost less accumulated depreciation and impairment loses.

Costs attributes to acquisition of licenses for special software and its implementation are capitalized in the cost of the respective intangible asset.

Depreciation is provided to write off the cost on a straight-line basis over the estimated useful life of the asset and is recorded in profit or loss. Intangible assets are of limited and unlimited useful life. Intangible assets of limited useful life are amortized during the term of their beneficial use. Useful lives of intangible assets vary from 3 to 5 years.

Impairment

At the end of each reporting period, the Bank reviews its financial assets or a group of financial assets for impairment. If there is any evidence of impairment, the Bank assesses the losses from impairment.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a financial asset (occurrence of losses) and if that event has had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or provisions, restructuring of a financial asset or a group of financial assets on conditions that the Bank would not otherwise consider, indicators that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of a collateral, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with the defaults in the group.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its historical cost is objective evidence of impairment.

Financial Assets Carried at Amortized Cost

Financial assets carried at amortized cost consist principally of loans and other receivables. The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a loan or receivable (occurrence of losses) and if that event has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or provisions, restructuring of a financial asset or a group of financial assets on conditions that the Bank would not otherwise consider, indicators that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of a collateral, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with the defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes a loan into the group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included into the collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related provision for loan impairment. The Bank writes off a loan balance (and any related provisions for impairment losses) when Management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial Assets Carried at Cost

Financial assets carried at cost include unquoted equity instruments included in investments available-for-sale that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Financial Assets Available for Sale

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in the provision for impairment related to the time value of money are recognized as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial Assets

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

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

Provisions

Provisions are recognized in the statement of financial position when the Bank 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit Reated Commitments

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

Financial guarantees issued by the Bank represent an obligation to pay a certain amount to a beneficiary as a compensation of loss, incurred as a result of the debtor's failure to make payment when due in accordance with the terms of the financial instrument.

Such guarantees are initially recognized at fair value less transaction costs and are subsequently measured at the higher of created provision and initial cost less, where applicable, accumulated amortization of commission income, received under the financial guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

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

Loan commitments are not recognized, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

Share Capital

Share capital contributed before 1 January 2003 is recognized at the cost adjusted with account of inflation. Charter capital contributed after 1 January 2003 is recognized at the historical cost.

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference Shares

Preference shares that are not subject to repurchase and do not include dividends are classified as equity.

Repuchase of Shares

If the Bank repurchases its own shares, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The right of the bank to declare and pay dividends is regulated by the effective laws of the Russian Federation.

Dividends on ordinary shares are accounted for by deduction from the retained earnings when they are declared.

Taxation

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

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for assets and liabilities the initial recognition of which affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income and Expense Recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Fees and commissions are recognized in profit or loss when the corresponding service is provided.

Net income from transaction with financial assets measured at fair value through profit or loss includes profit or loss from sale and change of fair value of such financial assets and liabilities measured at fair value through profit or loss.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment Reporting

The Bank is involved only in the banking activity. The Bank does not have any separate subdivisions or components that engage in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank), whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operations of the Bank and its assets are mainly located in the Russian Federation, and the Bank does not have clients with revenues exceeding 10% of the total revenues.

New Standards and Interpretation not yet Adopted

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

- IFRS 9 published in July 2014 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Bank realizes that the new standard introduces significant changes into the procedure of recognizing financial instruments, and, is likely to have a significant effect on the financial statements. The Bank did not assess the potential impact of these changes. The Bank does not intend to adopt this standard early. The standard will be applied retrospectively, with certain exceptions for reporting periods beginning on 1 January 2018 or later.

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

INTEREST INCOME AND EXPENSE

	2014 RUB '000	2013 RUB '000
Interest income		
Financial assets available for sale	171,540	58,590
Cash and cash equivalents	24,602	27,347
Loans to customers	17,611	86,699
Accounts receivable under REPO agreements	5,059	3,597
	218,812	**176,233**
Interest expense		
Accounts payable under REPO agreements	(78,504)	(8,777)
Current accounts and deposits from customers	(60,043)	(53,449)
Certificates of deposit and promissory notes	(5,958)	(3,557)
Due to banks	(118)	(23)
	(144,623)	**(65,806)**

FEE AND COMMISSION INCOME

	2014 RUB '000	2013 RUB '000
Bank guarantees issued	15,380	7,119
Brokerage	5,131	-
Accounts maintenance and servicing	3,203	5,012
Foreign currency transactions and currency control	1,853	2,087
Other	753	110
	26,320	**14,328**

FEE AND COMMISSION EXPENSE

	2014 RUB '000	2013 RUB '000
Stock exchange transactions	(6,073)	-
Settlements	(830)	(940)
Brokerage	(737)	(1)
Foreign currency transactions	(463)	(521)
Other	(748)	(212)
	(8,851)	**(1,674)**

NET INCOME FROM FOREIGN CURRENCY TRANSACTIONS

	2014 RUB '000	2013 RUB '000
Loss from spot transactions and derivatives	(13,016)	-
Profit from revaluation of financial assets and liabilities	153,235	6,948
(Loss) profit from foreign exchange transactions	(99,478)	8,018
	40,741	**14,966**

OTHER INCOME

	2014 RUB '000	2013 RUB '000
Income from information services	683	35,208
Other	1,550	3,186
	2,233	**38,394**

RECOVERY (CREATION) OF PROVISIONS FOR IMPAIRMENT

	2014 RUB '000	2013 RUB '000
Loans and advances issued to banks	(41)	-
Loans and advances issued to customers (Note 14)	11,364	(23,324)
Other assets (Note 15)	690	(3,064)
	12,013	**(26,388)**

OTHER GENERAL AND ADMINISTRATIVE EXPENSE

	2014 RUB '000	2013 RUB '000
Salaries	70,189	85,000
Taxes ad social security costs	13,576	16,507
Operating lease expense	5,666	15,151
Taxes other than on income	3,186	3,229
Information and telecommunication services	2,911	1,785
Depreciation and amortization	2,282	3,520
Insurance	1,518	1,696
Technical maintenance of PP&E	1,457	897
Advertising and marketing	1,266	604
Inventory costs write off	890	2,232
Security	879	3,533
Professional services	851	302
Expense on property write off	467	,1,362
Travel	26	308
Other	12,103	10,978
	117,267	**147,104**

INCOME TAX EXPENSE

	2014 RUB '000	2013 RUB '000
Current income tax expense	1,804	9,840
Total income tax expense	**1,804**	**9,840**

In 2014 the applicable income tax rate for current and deferred tax in the Russian Federation is 20% (2013: 20%).

Calculation of the effective income tax rate

	2014 RUB '000	%	2013 RUB '000	%
Profit (loss) before tax	22,695		45,671	
Income tax calculated using the effective interest rate	(4,539)	(20.0)	(9,134)	(20.0)
Costs not decreasing taxable profit	(742)	(3.3)	(924)	(2.0)
Income taxed at a lower rate	171	0.8	-	-
Changes in unrecognized deferred tax asset	3,306	14,6	218	0.5
	(1,804)	**(7.9)**	**(9,840)**	**(21.5)**

Income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets as at 31 December 2014 and 31 December 2013.

Deferred tax benefits can be received only if the Bank will receive income against which unused tax loss can be offset, and if there will be no changes in the Russian laws that will impede the Bank from using these tax benefits in future periods. Deferred tax assets are not reflected in the financial statements because of the uncertainty that they can be received.

Tax effect from temporary differences as at 31 December 2014 can be presented as follows:

2014 **RUB '000**	**Balance as at 1 January 2014**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance as at 31 December 2014**
Loans and advances to banks	-	53	-	53
Financial assets at fair value through profit or loss	-	(2,309)	-	(2,309)
Financial assets available for sale для продажи	(162)	1,221	4,418	5,477
Loans to customers	134	(14)	-	120
Property, plant and equipment	493	(565)	-	(72)
Other assets	2,716	(2,107)	-	609
Other liabilities	347	415	-	762
Unrecognized deferred tax asset	(3,528)	3,306	(4,418)	(4,640)
	-	-	-	-

Tax effect from temporary differences as at 31 December 2013 can be presented as follows:

2013 **RUB '000**	**Balance as at 1 January 2013**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance as at 31 December 2013**
Financial assets availabe for sale	(1,116)	(162)	1,116	(162)
Loans to customers	556	(422)	-	134
Property, plant and equipment	65	428	-	493
Other assets	1,771	945	-	2,716
Other liabilities	1,354	(1,007)	-	347
Unrecognized deferred tax asset	(2,630)	218	(1,116)	(3,528)
	-	-	-	-

Tax effect on components of other comprehensive income for 2014 and for 2013 can be presented as follows:

	2014			2013		
RUB '000	**Profit before tax**	**Income tax expense**	**Profit after tax**	**Profit before tax**	**Income tax expense**	**Profit after tax**
Net change in fair value of financial assets available for sale	(33,189)	5,755	(27,434)	25,554	(5,334)	20,220
Net change in fair value of financial assets available for sale transferred to profit or loss	6,683	(1,337)	5,346	(32,248)	6,450	(25,798)
Other comprehensive income	**(26,506)**	**4,418**	**(22,088)**	**(6,694)**	**1,116**	**(5,578)**

CASH AND CASH EQUIVALENTS

	2014 RUB '000	2013 RUB '000
Cash	20,463	22,081
Nostro accounts at the Central Bank of the Russian Federation	31,916	56,547
Nostro accounts at other banks and credit institutions	568,657	381,870
Broker account	316,781	307,720
Short-term deposits t other banks	-	145,047
	937,817	**913,265**

Cash and cash equivalents are neither impaired nor past due.

As at 31 December 2014 the Bank has two counterparties (31 December 2013: two counterparties) which individually hold over 10% of cash and equivalents. As at 31 December 2014 the total balances of these counterparties were RUB 717,614 thousand (31 December 2013: RUB 613,164 thousand).

FINANCIAL ASSETS AVAILABLE FOR SALE

	2014 RUB '000	2013 RUB '000
Owned by the Bank		
Debt instruments and other fixed income instruments		
- Corporate bonds		
rated from BBB- to BBB+	478,296	208,859
rated from BB- to BB+	-	375,848
rated from below B+	70,345	60,955
Total corporate bonds	**548,641**	**645,662**
Equity instruments		
- Corporate shares	56,850	-
Total equity instruments	**56,850**	**-**
	605,491	**645,662**
Pledged under REPO agreements		
- Bonds of the Government of the Russian Federation		
- Bonds of the Government of the Russian Federation	55	-
Total bonds of the Government of the Russian Federation	**55**	**-**
- Corporate bonds		
rated from BBB- to BBB+	196,886	214,453
rated from BB- to BB+	1,137,497	256,268
rated below B+	257,253	-
Total corporate bonds	**1,591,636**	**470,721**
Equity instruments		
- Corporate shares	413	-
Total equity instruments	**413**	**-**
	1,592,104	**470,721**

Financial assets available for sale are neither past due nor impaired.

LOANS TO CUSTOMERS

	2014 RUB '000	2013 RUB '000
Loans to legal entities		
Loans to small and medium entities	27,374	270,494
Total loans to legal entities	**27,374**	**270,494**
Provision for impairment	(882)	(37,824)
Loans to customers less provision for impairment	**26,492**	**232,670**

Analysis of changes in provisions for impairments of loans to customers for 2014 and 2013 is given in the table below:

	31 December 2014 RUB '000	31 December 2013 RUB '000
Provision for impairment as at the beginning of the year	37,824	14,500
Net (recovery) creation of provision for impairment	(11,364)	23,324
Loans to customers write off	(25,578)	-
Provision for impairment as at the end of the year	**882**	**37,824**

Credit quality of loans to customers

The following table provides information on the credit quality of the loans to customers as at 31 December 2014:

	Loans before deduction of impairment provision RUB '000	Provision for impairment RUB '000	Loans after deduction of impairment provision RUB '000	Provision for impairment vs loans before deduction of impairment provision (%)
Loans to legal entities				
Loans to small and medium enterprises				
Loans without individual indicators of impairment	27,374	(882)	26,492	3.22
Total loans to small and medium enterprises	**27,374**	**(882)**	**26,492**	**3.22**
Total loans to customers	**27,374**	**(882)**	**26,492**	**3.22**

The following table provides information on the credit quality of the loans to customers as at 31 December 2013:

	Loans before deduction of impairment provision RUB '000	Provision for impairment RUB '000	Loans less impairment provision RUB '000	Provision for impairment vs loans before deduction of impairment provision (%)
Loans to legal entities				
Loans to small and medium enterprises				
Loans without indicators of individual impairment	244,068	(12,204)	231,864	5.00
Overdue and impaired loans:				
- not overdue	848	(42)	806	4.95
- overdue over 90 days, but less than 1 year	25,578	(25,578)	-	100.00
Total overdue and impaired loans	26,426	(25,620)	806	96.95
Total loans to small and medium enterprises	**270,494**	**(37,824)**	**232,670**	**13.98**
Total loans to customers	**270,494**	**(37,824)**	**232,670**	**13.98**

Key assumptions and judgements used to assess loan impairment

Loans to legal entities

Impairment of a loan takes place as a result of one or several events that happen after initial recognition of the loan and influence the estimated future cash flows from the loan that can be reliably measured. For loans that do not have individual indicators of impairment, there is no objective evidence of impairment that can be related directly to them.

Objective evidence of impairment of loans issued to legal entities include:

- overdue payments under loan agreements;
- significant deterioration of the borrower's financial position;
- deterioration of economic situation, negative changes in the markets where the borrower operates;
- restructuring of a loan on conditions that the Bank would not otherwise consider.

The Bank assess the amount of provision for impairment of loans issued to legal entities on the basis of on its past loss experience for such types of loans.

Significant assumptions used by Management in assessing the amount of provision for impairment of loans issued to legal entities includes an assumption that as at 31 December 2014 the annual level of actually incurred loses was 3.22% (31 December 2013: 5.00%).

Changes in these estimates may affect the amount of loan impairment provision. For instance, if the net present value of estimated future cash flows had changed for plus/minus one percent, as at 31 December 2014 the amount of the provision for impairment of loans issued to legal entities would have been RUB 212 thousand lower/higher (31 December 2013: RUB 1,861 thousand).

Analysis of colleteral

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

31 December 2014 **RUB '000**	**Loans to customers, carrying amount**	**Fair value of colletral assesed as of the loan issuance date**
Rights of claim	11,785	11,785
No collateral	14,707	-
Total loans to legal entities	**26,492**	**11,785**

31 December 2013 **RUB '000**	**Loans to customers, carrying amount**	**Fair value of colletral assesed as of the loan issuance date**
Real estate	183,133	152,643
Rights of claim	40,731	40,731
Stock-in-trade	8,000	8,000
No collateral	806	-
Total loans to legal entities	**232,670**	**201,374**

The tables above exclude overcollateralization.

The recoverability of loans issued to legal entities which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date. For most of the loans, the amounts presented in the table are higher, and are based on the fair value of collateral measured as of the loan issuance date.

For loans that are secured by several types of collateral, the type of collateral that is the most significant to assess impairment is disclosed. Guarantees and commitments from individuals, for instance, shareholders of borrowers-small and medium enterprises, is not taken into account for impairment assessment purposes. Therefore, such loans and loans that are not secured by collateral, or are partially covered by collateral are disclosed in *No collateral* category.

Industry and geographic analysis of the loan portfolio

Loans were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2014 RUB '000	2013 RUB '000
Financial services	27,374	42,876
Production	-	110,848
Trading	-	67,650
Overdrafts	-	25,578
Construction	-	23,542
	27,374	**270,494**
Impairment provision	(882)	(37,824)
	26,492	**232,670**

Significant credit exposures

As at 31 December 2014 and 2013, there are no loans to customers, which individually comprised more than 10% of gross loans to customers:

Sale of loans

In 2014, the Bank sold loans to legal entities for RUB 100,448 thousand. The total value of loans sold, including principal, accrued interests and penalties was RUB 100,448 thousand.

In 2013, the shareholders and Management of the Bank made a decision to decrease the amount of cash placed in loans. To implement this decision the Bank sold loans issued to retail customers for RUB 52,711 thousand. The total value of loans sold including principal, accrued interests and penalties was RUB 52,995 thousand.

OTHER ASSETS

	2014 RUB '000	2013 RUB '000
Accounts receivable	3,413	4,361
Impairment provision	(3,413)	(4,135)
Total other financial assets	-	226
Advance payments	2,958	13,119
Other	1,556	4,584
Impairment provision	(262)	(3,365)
Total other nonfinancial assets	4,252	14,338
Total other assets	**4,252**	**14,564**

Movements in impairment provision

	2014 RUB '000	2013 RUB '000
Impairment provision as at the beginning of the year	7,500	4,591
Net (recovery) creation of impairment provision	(690)	3,064
Other assets write off	(3,135)	(155)
Impairment provision as at the end of the year	**3,675**	**7,500**

As at 31 December 2014, other assets include RUB 3,413 thousand overdue receivable of RUB 3,413 thousand (31 December 2013: RUB 4,135 thousand).

ACCOUNTS PAYABLE UNDER REPO AGREEMENTS

	2014 RUB '000	2013 RUB '000
Central Bank of the Russian Federation	1,350,647	400,060
Other credit institution	100,546	-
	1,451,193	**400,060**

As at 31 December 2014 the Bank pledged securities with the fair value of RUB 1,592,104 thousand as collateral for REPO agreements (31 December 2013: RUB 470,721 thousand).

CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	2014 RUB '000	2013 RUB '000
Current accounts and demand deposits		
- Retail customers	14,218	25,295
- Legal entities	316,785	64 ,905
Fixed-term deposits		
- Retail customers	2,452	72,931
- Legal entities	326,354	629,714
	659,809	**792,845**

As at 31 December 2014, the Bank has one customer whose balances individually comprised more than 10% of total current accounts and deposits from customers (as at 31 December 2014: two customers). As at 31 December 2014 the total balances of current accounts and deposits from customers were RUB 250,916 thousand (31 December 2013: RUB 537,115 thousand).

DEBT LIABILITIES ISSUED

	2014 RUB '000	2013 RUB '000
Debt liabilities issued	25,667	40,095
	25,667	**40,095**

OTHER LIABILITIES

	2014 RUB '000	2013 RUB '000
Settlements with suppliers	2,615	3,588
Total other financial liabilities	**2,615**	**3,588**
Dividends payable	4,553	4,553
Employee compensation payable	3,477	1,282
Payable under return of commission	1,278	2,399
Other taxes payable	93	2,802
Other non-financial liabilities	1,434	1,609
Total other non-financial liabilities	**10,835**	**12,645**
Total other liabilities	**13,450**	**16,233**

SHAREHOLDERS EQUITY

Issued share capital and share premium

Registered, issued and circulating share capital of the Bank consists of 56,490,000 ordinary shares (31 December 2013: 56,490,000) and 100,000 preference shares (31 December 2013: 100,000). The nominal value of each ordinary share is 10 RUB, the nominal value of each preference share is 1 RUB.

The holders of ordinary shares are entitled to receive dividends as annually declared and are entitled to one vote per share at annual and other general meetings of the Bank's shareholders.

The holders of preference shares are entitled to receive dividends as annually declared at annual and other general meetings of the Bank's shareholders. The holders of preference shares do not have voting rights at general meetings of the Bank's shareholders. Shareholders-holders of preference shares acquire voting rights at the general meeting of shareholders by the decision introducing amendments to the Bank's articles of association limiting the rights of shareholders-holders of preference shares.

	31 December 2014 RUB '000	31 December 2013 RUB '000
Nominal value of ordinary shares	564,900	564,900
Nominal value of preference shares	100	100
Inflation adjustment	137,762	137,762
Shareholders equity	**702,762**	**702,762**

Dividends

Distributions to participants are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the requirements of the legislation of the Russian Federation as of the reporting date the amount available for distribution to the participant constitutes RUB 80,190 thousand (31 December 2013: RUB 66,172 thousand).

RISK MANAGEMENT

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. Market risk, credit risk and liquidity risk are the main risks the Bank's operations are exposed to.

Risk management policies and procedures

The Banks policy in tackling the risks is aimed at identification, analysis and management of risks the Bank is exposed to, at establishment of risk limits and the relevant controls, as well as at regular assessment of the risk levels and the extent they correlate with the established risk limits. Risk management policies and procedures are reviewed at a regular basis in order to reflect the changes in the market situation and in the products and services offered by the Bank, as well as emerging best practices.

The Board of Directors is responsible for the appropriate functioning of the risk management controls, for managing key risks, for approving risk management policies and procedures, and for major transactions approval.

The Management Board is responsible for the implementation of the risk management strategy, monitoring risks, implementation of measures to minimize risks, and also ensures that the Bank operates within the established risk limits.

In order to implement risk regulating processes and risk management principles the Bank created the following Committees:

- Credit Committee;
- Assets and Liabilities Management Committee (hereinafter – "ALM Committee".

The Risk Control Department is responsible for identification and assessment of risks, analysis and forecasts of the risk levels, working out recommendations to minimize risks, informing the Bank's management on the current and forecasted risk levels.

Credit, market and liquidity risks are managed and controlled by the Management Board, Internal Audit Department, Credit Committee and ALM Committee, both at the portfolio level on the whole, and at the level of separate transaction. To enhance the efficiency of decision-making, risk management function is divided between different departments of the Bank, depending on the risk type and the size of the risk exposure.

Both internal and external risk factors are identified and managed within the departments of the Bank. Attention is given to identification of the whole list of risk factors and determination of the sufficiency of the current risk minimizing procedures.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

ALM Committee is responsible for market risk management. ALM Committee approves internal market risk norms on the basis of risk tackling recommendations and suggestions made by the Risk Control Department.

The Bank manages its market risk by setting open position limits in relation to the size of portfolio of certain financial instruments, terms of interest rate change, currency position, loss limits and by regular monitoring of compliance with them, the results of which are reviewed and approved by the Management Board.

Interest rate risk

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014 Average effective interest rate, %			2013 Average effective interest rate, %		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	8.0%	-	-	7.0%	-	-
Accounts receivable under REPO agreements	19.0%	-	-	-	-	-
Financial assets available for sale	13.3%	-	-	9.1%	-	-
Loans to customers	15.9%	-	-	13.4%	-	-
Interest bearing liabilities						
Accounts payable under REPO agreements	17.1%	-	-	5.5%	-	-
Current accounts and deposits from customers						
- Fixer-term deposits	19.1%	2.5%	-	6.9%	1.8%	-
Debt liabilities issued	9.5%	-	-	9.1%	-	-

Interest rate sensitivity analysis

Interest rate risk management based on the analysis of the term when interest rates are reviewed is supplemented by monitoring the assets and liabilities sensitivity. An analysis of sensitivity of profit or loss and equity (less taxes) to changes in the interest rates (repricing risks) based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014 RUB '000	2013 RUB '000
100 bp parallel decrease	8,660	853
100 bp parallel increase	(8,660)	(853)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of debt financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2014		2013	
	Net profit or loss RUB '000	Equity RUB '000	Net profit or loss RUB '000	Equity RUB '000
100 bp parallel decrease	-	14,099	-,	7,071
100 bp parallel increase	-	(14,099)	-,	(7,071)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2014:

	RUB RUB '000	USD RUB '000	EUR RUB '000	Total RUB '000
ASSETS				
Cash and cash equivalents	440,583	142,254	354,980	937,817
Statutory reserves with the Central Bank of the Russian Federation	11,478	-	-	11,478
Due to banks	-	1,722	-	1,722
Accounts receivable under REPO agreements	4,999	-	-	4,999
Positive fair value of derivative financial instruments	11,725	-	-	11,725
Financial assets available for sale	2,140,333	57,262	-	2,197,595
Loans to customers	26,492	-	-	26,492
Total assets	**2,635,610**	**201,238**	**354,980,**	**3,191,828**
LIABILITIES				
Negative fair value of derivative financial instruments	-	534	-	534
Due to banks	11	-	-	11
Accounts payable under REPO agreements	1,450,770	423	-	1,451,193
Current accounts and deposits from customers	578,757	67,348	13,704	659,809
Debt liabilities issued	25,667	-	-	25,667
Other financial liabilities	2,615	-	-	2,615
Total liabilities	**2,057,820**	**68,305**	**13,704**	**2,139,829**
Effect of derivative financial instruments expresed in foreign currencies	**486,705**	**(133,089)**	**(341,714)**	**11,902**
Net position	**1,064,495**	**(156)**	**(438)**	**1,063,901**

The foreign currency exposure structure of assets and liabilities as at 31 December 2013 is as follows:

	RUB RUB '000	USD RUB '000	EUR RUB '000	Total RUB '000
ASSETS				
Cash and cash equivalents	535,555	369,724	7,986	913,265
Statotury reserves with the Central Bank of the Russian Federation	14,054	-	-	14,054
Due from banks	982	-	-	982
Financial assets available for sale	1,116,383	-	-	1,116,383
Loans to customers	232,670	-	-	232,670
Other financial assets	226	-	-	226
Total assets	**1,899,870**	**369,724**	**7,986**	**2,277,580**
LIABILITIES				
Due to banks	11	-	-	11
Accounts payable under REPO agreements	400,060	-	-	400,060
Current accounts and deposits from customers	781,548	3,279	8,018	792,845
Debt liabilities issued	40,095	-	-	40,095
Other financial liabilities	3,588	-	-	3,588
Total liabilities	**1,225,302**	**3,279**	**8,018**	**1,236,599**
Net position	**674,568**	**366,445**	**(32)**	**1,040,981**

A weakening of the Russian Rouble, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014 RUB '000	2013 RUB '000
10% appreciation of USD against RUB	(12)	29,316
10% appreciation of EUR against RUB	(35)	(3)

A strengthening of the Russian Rouble against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the risk of financial losses of the Bank if a customer or counterparty fails to meet its contractual obligations. The bank manages its credit risk through approved policies and procedures that include requirements to establish and observe credit risk concentration limits, as well as through creation of the Credit Committee and ALM Committee that are responsible for making decisions on credit risk regulation and for control over compliance with internal limits and norms

The credit policies of the Bank, as well as amendments to this policies, are considered by the Credit Committee and the Management Board, and are approved by the Bank's Board of Directors.

The credit policies regulates the Bank's credit operations and other operations containing the credit risk (hereinafter – "the credit operations") that are carried out with retail and corporate clients, including different kinds of short-term and long-term lending, issue of guarantees and letters of credit, acceptance of guarantees as collateral for liabilities of corporate clients, acceptance of letters of credit.

Credit polices cover transactions exposed to credit risk with financial institutions (credit institutions, payment/settlement systems, depositary institutions, clearing houses, financial companies), including interbank lending, conversion operations, limiting risks on operations with Nostro accounts, issue/acceptance of guarantees, acceptance of the letters of credit, transactions dealing with sale/purchase of financial assets on a deferred payment basis (supply of financial assets), etc., as well as participation in syndicated loans and co-loans that enable the Bank to divide the risk.

Procedures used to consider loan applications, methodology used to assess the creditworthiness of borrowers and counterparties, requirements to loan documentation are set forth in the Regulations on lending under different lending programs.

Loan applications from corporate clients are passed over for consideration to Active Operations Department that is responsible for corporate credit portfolio. Reports of analysts of this Department are based on the structural analysis of borrower's business and financial position. The Credit Committee reviews loan applications on the basis of the documents provided by the Active Operations Department. Before the Credit Committee approves separate transactions, the documents are reviewed by legal adviser to the Management Board. Security Department tests clients' economic security.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

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

The maximum exposure to credit risk recognized on the statement of financial position at 31 December 2014 and 2013 is as follows:

	31 December 2014 RUB '000	31 December 2013 RUB '000
ASSETS		
Cash and cash equivalents	917,354	891,184
Statotury reserves with the Central Bank of the Russian Federation	11,478	14,054
Due to banks	1,722	982
Accounts payable under REPO agreements	4,999	-
Positive fair value of derivative financial instruments	11,725	-
Debt liabilities available for sale	2,140,332	1,116,383
Loans to clients	26,492	232,670
Other financial assets	-	226
Total maximum risk level	**3,114,102**	**2,255,499**

The Bank receives collateral for loans to customers in the form of real estate pledge and other assets and guarantees pledge. The value of collateral is assessed at the date of loan issue, and, as a rule, is not reviewed, except for the cases when the loans is considered impaired on the individual basis. If the market value of collateral decreases, the borrower is usually asked to provide additional collateral.

Collateral is not usually provided for the rights of claim on derivative financial instruments, investments in securities, loans and advances issued to banks, except for the cases when securities are received under reverse REPO transactions and securities lending transactions.

For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 14.

For the maximum credit risk exposure in respect of unrecognized contract commitments as of the reporting date refer to Note 23.

As at 31 December 2014, the Bank has one counterparty (31 December 2013: two counterparties) whose credit risk exposure exceeds 10% of the maximum level of credit risk exposure. Credit risk exposure in respect of this counterparty as at 31 December 2014 is RUB 484,276 thousand (31 December 2013: RUB 613,164 thousand).

Liquidity risk

Liquidity risk is the risk that the Bank may face difficulties in meeting its payment obligations. Liquidity risk arises when the terms of maturity of assets and liabilities do not coincide. Matching and/or controlled mismatching of assets and liabilities maturities and interest rates is the key factor in managing liquidity risk. Due to the diverse nature of the Bank's operations and related uncertainties full coincidence between assets and liabilities maturities is not common practice at financial institutions, which gives an opportunity to increase the return on operations, but also increases the risk of losses.

The Bank maintains the required liquidity level in order to ensure the continuing availability of cash required to settle all liabilities as they mature.

The Bank strives to actively maintain diversified and stable structure of financing sources consisting of debt securities issued, long-term and short-term loans from other banks, deposits from major corporate and retail clients, as well as to diversify highly liquid asset portfolio in order to be able to react quickly and without sharp swings to unforeseeable liquidity requirements.

Risk liquidity factors, segregation of liquidity management function and responsibilities, liquidity assessment and management methods, reporting and information exchange procedures in the course of liquidity risk management are described in detail on the *Liquidity Risk Management Regulation*.

The Bank's liquidity management and control system includes the following elements:

- the Bank's Management Board that is responsible for the general organization of efficient liquidity management and control over liquidity position ;

- ALM Committee that is responsible for liquidity management decision-making, ensuring efficient liquidity management and implementing controls over liquidity position and implementation of the relevant decisions;

- Risk Control Department that is responsible for liquidity position analysis;

- Treasury that is responsible for ensuring compliance with the established norms and limits in active banking transactions;

- the Bank's head office and additional offices that are responsible for providing information about the inflows and clients' payments;

- the Bank's internal documents regulating the Bank's liquidity level and setting forth measures to maintain liquidity: documents describing liquidity position analysis procedure, decisions of managing bodies on mobilization of assets, implementation of new banking products, involvement of additional resources, etc.;

- the system ensuring provision of regular and current information and reports on the Bank's liquidity to regulatory authorities;

- Internal Control Department that is responsible for ensuring compliance with all risk management procedures.

Financial Reporting Division of the Accounting and Financial Reporting Department on a daily basis calculates statutory economic standards in compliance with the procedures established by the Central Bank, as well as assesses the actual value of statutory liquidity ratio and the size of risks the Bank is exposed to.

An inherent element of liquidity management is a regular review of liquidity position based on the short-term liquidity forecast and data taken from the repots. If there is an inconsistency between the forecasted and actual results, the Bank analyses these inconsistencies with the purpose to introduce adjustments into liquidity management system. In order to assess a perspective liquidity position a short-term liquidity forecast is made.

Liquidity level forecast is made by extrapolation of the current liquidity level with account of adjustment for the planned changes in the asset and liability structure on the basis of data provided by the Bank's divisions that are responsible for such information.

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the liabilities or off-balance commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

Analysis of financial liabilities, by expected maturities, as at 31 December 2014 can be presented as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total gross amount of outflow	Carrying amount
Non-derivative financial liabilities						
Negative fair value of derivative financial instruments	178	356			534	534
Due to banks	11	-	-	-	11	11
Accounts receivable under REPO agreeemnts	1,451,193	-	-	-	1,451,193	1,451,193
Current accounts and deposits from customers	586,517	46,391	30,260	-	663,168	659,809
Debt liabilities issued	-	-	-	25,667	25,667	25,667
Other financial liabilities	2,330	-	285	-	2,615	2,615
Total liabilities	**2,040,229**	**46,747**	**30,545**	**25,667**	**2,143,188**	**2,139,829**
Off-balance credit commitments	**19,800**	**-**	**106,250**	**162,225**	**288,275**	**288,275**

Analysis of financial liabilities, by expected maturities, as at 31 December 2013 can be presented as follows:.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total gross amount of outflow	Carrying amount
Non-derivative financial liabilities						
Due to banks	11	-	-	-	11	11
Accounts receivable under REPO agreeemnts	400,060	-	-	-	400,060	400,060
Current accounts and deposits from customers	600,061	196,602	-	-	796,663	792,845
Debt liabilities issued	-	16,511	-	23,584	40,095	40,095
Other financial liabilities	3,232	-	356	-	3,588	3,588
Total liabilities	**1,003,364**	**213,113**	**356**	**23,584**	**1,240,417**	**1,236,599**
Off-balance credit commitments	**333,785**	**-**	**-**	**-**	**333,785**	**333,785**

According to the Russian laws, individuals can withdraw their demand deposits from the Bank at any time, however, in most cases, they lose the right to receive accrued interest income. Consequently, such deposits net of accrued interest income are disclosed in the table below in *Demand and less than 1 month* category. Information about the contractual maturities of these deposits is given later on:

	2014 RUB '000	**2013 RUB '000**
Demand and less than 1 month	-	24,021
From 1 to 3 months	62	7,720
From 3 to 12 months	2,390	41,135
From 1 year to 5 years	-	55
	2,452	**72,931**

The table below shows the analysis of assets and liabilities by their contractual maturity as at 31 December 2014, except for financial assets available for sale. These securities are disclosed in Demand and less than 1 month category as the Bank's Management believes that the majority of these financial instruments can be sold by the Bank within the short term.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	No maturity	Total
Non-derivative financial assets							
Cash and cash equivalents	937,817	-	-	-	-	-	937,817
Statutory reserve with the central bank of the Russian Federation	10,151	803	524	-	-	-	11,478
Due from banks	-	-	-	-	-	1,722	1,722
Accounts receivable under REPO agreements	4,999	-	-	-	-	-	4,999
Positive fair value of derivative financial instruments	11,725	-	-	-	-	-	11,725
Financial assets available for sale	2,197,595	-	-	-	-	-	2,197,595
Loans to clients	14,708	-	11,784	-	-	-	26,492
Total assets	**3,176,995**	**803**	**12,308**	**-**	**-**	**1,722**	**3,191,828**
Non-derivative financial liabilities							
Negative fair value of derivative financial instruments	178	356	-	-	-	-	534
Due to banks	11	-	-	-	-	-	11
Accounts payable under REPO agreements	1,451,193	-	-	-	-	-	1,451,193
Current accounts and deposits from clients	581,919	46,074	31,816	-	-	-	659,809
Debt liabilities issued	-	-	-	25,667	-	-	25,667
Other financial liabilities	2,330	-	285	-	-	-	2,615
Total liabilities	**2,035,631**	**46,430**	**32,101**	**25,667**	**-**	**-**	**2,139,829**
Net position	**1,141,364**	**(45,627)**	**(19,793)**	**(25,667)**	**-**	**1,722**	**1,051,999**

The table below shows the analysis of assets and liabilities by their contractual maturity as at 31 December 2013, except for financial assets available for sale. These securities are disclosed in Demand and less than 1 month category as the Bank's Management believes that the majority of these financial instruments can be sold by the Bank within the short term.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	No maturity	Total
Non-derivative financial assets							
Cash and cash equivalents	913,265	-	-	-	-	-	913,265
Statutory reserve with the central bank of the Russian Federation	10,622	3,432	-	-	-	-	14,054
Due from banks	-	-	-	-	-	982	982
Financial assets available for sale	1,116,383	-	-	-	-	-	1,116,383
Loans to customers	-	61,390	136,593	34,687	-	-	232,670
Other financial assets	-	-	-	-	-	226	226
Total assets	**2,040,270**	**64,822**	**136,593**	**34,687**	**-**	**1,208**	**2,277,580**
Non-derivative financial liabilities							
Due to banks	11	-	-	-	-	-	11
Accounts payable under REPO agreements	400,060	-	-	-	-	-	400,060
Current accounts and deposits from clients	550,330	201,325	41,135	-	55	-	792,845
Debt liabilities issued	-	16,511	-	23,584	-	-	40,095
Other financial liabilities	3,232	-	356	-	-	-	3,588
Total liabilities	**953,633**	**217,836**	**41,491**	**23,584**	**55**	**-**	**1,236,599**
Net position	**1,086,637**	**(153,014)**	**95,102**	**11,103**	**(55)**	**1,208**	**1,040,981**

The table below shows the analysis of financial assets available for sale by their contractual maturity as at 31 December 2014 and 31 December 2013:

	2014 RUB '000	2013 RUB '000
From 1 to 3 months	203,167	48,717
From 3 to 12 months	553,965	264,956
From 1 year to 5 years	756,829	561,685
Over 5 years	626,371	241,025
No maturity	57,263	-
Financial assets available for sale	**2,197,595**	**1,116,383**

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

	Requirement	2014, %	2013, %
instant liquidity ratio (N2)	Not less than 15%	51.9	88.0
current liquidity ratio (N3)	Not less than 50%	72.9	167.8
long-term liquidity ratio (N4)	Not more than 120%	0.0	1.0

CAPITAL MANAGEMENT

The Bank's lead regulator, the Central Bank, sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital (equity) of credit institutions. As at 31 December 2014, the minimum level of a ratio of capital to risk weighted assets (equity (capital) adequacy ratio) was 10%. As at 31 December 2014, the minimum basic capital adequacy ratio (hereinafter – "N1.1 ratio"), the minimum additional capital adequacy ratio (hereinafter – "N1.2 ratio") and the minimum equity adequacy ratio (hereinafter – "N1.0 ratio") were 5.5%, 5.5% and 10.0% respectively. Starting from 1 January 2015 the minimum level of N1.2 ratio is 6.0%. As at 31 December 2014 and 31 December 2013 the Bank's capital adequacy ratio was compliant with the statutory required level.

The calculation of capital adequacy based on requirements set by Regulation № 395-P of the Central Bank as at 31 December is as follows:

	2014 RUB '000	2013 RUB '000
Basic capital	1,067,875	1,066,559
Additional capital	84	11,392
Total capital	**1,067,959**	**1,077,951**
Risk weighted assets	**3,565,959**	**2,774,376**
N1.1 ratio (%)	**29.9%**	**38.4%**
N1.2 ratio (%)	**29.9%**	**38.4%**
N1.0 ratio (%)	**29.9%**	**38.8%**

CREDIT RELATED CONTINGENCIES

At any moment the Bank may have to be required to provide loan resources. These commitments may involve issue of loans resources in the form of approved loans, credit card limits and overdrafts.

The Bank issues bank guarantees and letters of credit with the purpose to ensure fulfillment of the clients' obligations to third parties. Such agreements record the limits of the Bank's liabilities, and, as a rule, are effective up to one year.

When the Bank issues guarantees, loan off-balance commitments and letters of credit, the Bank applies the same risk management policies and procedures as upon issue of loans to customers.

Contractual amounts of off-balance liabilities are presented, by category, in the table below. Amounts disclosed in the table in respect of loan commitments presuppose that these liabilities will be settled in full. Amounts disclosed in the table in respect of guarantees and letters of credit are the maximum amounts of accounting losses that would have been recognized as of the reporting date, if the counterparties failed to fulfill their contractual obligations.

	2014 RUB '000	2013 RUB '000
Undrawn credit lines	-	1,760
Guarantees and letters of credit	288,275	332,025
	288,275	**333,785**

Many of the disclosed liabilities can be terminated without their partial or full settlement. As a result, these liabilities do not entail anticipated cash outflow. The majority of loans and credit line liabilities are not the Bank's absolute obligations.

As at 31 December 2014, the Bank did not have any counterparties the total amount of loan liabilities to whom comprised more than 10% of the total capital. As at 31 December 2013, the Bank had one counterparty the total amount of loan liabilities to whom comprised more than 10% of the total capital. As at 31 December 2013, total liabilities to this counterparty were RUB 150,000 thousand.

OPERATING LEASE

Bank as a lessee

Operating lease liabilities where the Bank acts as a lessee and that cannot be annulled unilaterally as at December 2014 were as follows:

	2014 RUB '000	2013 RUB '000
Less than 1 year	4,094	2,821
Between 1 and 5 years	6,602	1,336
	10,696	**4,157**

The Bank leases a number of premises and equipment under operating lease agreements. The leases typically run for an initial period from five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. Operating lease liabilities do not include contingent liabilities.

CONTINGENT LIABILITIES

Outstanding litigations

In the ordinary course of business the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints (if any) will not have a material adverse effect on the financial position or further operations of the Bank.

Taxation contingencies

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

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market interval or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five methods of market price determination prescribed by the Tax Code.

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 in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated. However, Management believes that they can significantly affect the financial position and/or the overall operations of the Bank.

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

RELATED PARTY TRANSACTIONS

Transaction with the Board of Directors and the Management Board

The total amount of remuneration included into *Payroll expenses* as at December 2014 and 2013 is as follows:

	2014 RUB '000	2013 RUB '000
Short-term remuneration to the Board of Directors and the Management Board	10,406	13,499
	10,406	**13,499**

As at 31 December 2014 and 31 December 2013, the outstanding balances and the related average effective interest rates on transactions with related parties are as follows:

	31 December 2014		31 December 2013	
	RUB '000	Average effective interest rates	RUB '000	Average effective interest rates
Statement of financial position				
LIABILITES				
Current accounts and deposits:				
Current accounts:				
- in RUB	135	0.0%	7,578	0.0%
Demand deposits:				
- in RUB	-	0.0%	15,428	10.1%

In 2014 and 2013, the amounts included into profit or loss from transactions with the Board of Directors and Management Board were as follows:

	2014 RUB '000	2013 RUB '000
Statement of comprehensive income		
Interest income	-	14
Interest expense	(132)	(1,551)
Fee and commission income	10	81
Net loss from foreign currency transactions	-	(269)
Other general and administrative expense	(10,406)	(13,600)

Other related party transactions

Other related parties include entities that are shareholders of the Banks and associated entities and persons. As at 31 December 2014 and 31 December 2013, the outstanding balances and the related average effective interest rates on related party transactions were as follows

	31 December 2014		31 December 2013	
	RUB '000	Average effective interest rates	RUB '000	Average effective interest rates
Statement of financial position				
ASSETS				
Cash and cash equivalents:				
Nostro accounts in other banks and financial institutions:				
- in RUB	4,079	-	-	-
- in USD	9,626	-	-	-
Broker account in RUB	310,005	8.0%	304,740	8.0%
Financial assets available for sale:				
- pledged under REPO agreements	97,111	-	-	-
Other assets	-	-	226	-
LIABILITIES				
Accounts payable under REPO agreements:				
- in RUB	85,017	10.5%	-	-
- in USD	423	0.0%	-	-
Current accounts and deposits of customers:				
Current accounts:				
- in RUB	69,746	0.0%	1,579	0.0%
- in USD	9,266	0.0%	-	0.0%
Demand deposits:				
- in RUB	326,502	19.0%	147,698	5.7%

As at 31 December 2014, the Bank issued a guarantee to a shareholder amounting to RUB 27,500 thousand (31 December 2013: RUB 150,000 thousand).

In 2014 and 2013 the amounts included into profit or loss from other related party transactions were as follows:

	2014 RUB '000	2013 RUB '000
Statement of comprehensive income		
Interest income	24,326	21,777
Interest expense	(59,788)	(12,966)
Fee and commission income	11,841	1,399
Fee and commission expense	(19)	(128)
Net loss from foreign currency transactions	(399)	(76)
Other income	1	6
Creation of impairment provision	(249)	-

FINANCIAL ASSETS AND LIABILITES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The table below shows the carrying amount and fair values of financial assets and liabilities as at December 2014:

	Measured at fair value	Loans and receivables	Available fore sale	Other carried at amortized cost	Total recognized amount	Fair value
Cash and cash equivalents	-	937,817	-	-	937,817	937,817
Statutory reserves with the Central Bank of the Russian Federation	-	11,478	-	-	11,478	11,478
Due to banks	-	1,722	-	-	1,722	1,722
Accounts receivable under REPO agreements	-	4,999	-	-	4,999	4,999
Positive fair value of derivative financial instruments	11,725	-	-	-	11,725	11,725
Financial assets available for sale	-	-	2,197,595	-	2,197,595	2,197,595
Loans to customers:						
- loans to legal entities	-	26,492	-	-	26,492	26,492
	11,725	**982,508**	**2,197,595**	**-**	**3,191,828**	**3,191,828**
Negative fair value of derivative financial instruments	(534)	-	-	-	(534)	(534)
Due from banks	-	-	-	(11)	(11)	(11)
Accounts payable under REPO agreements	-	-	-	(1,451,193)	(1,451,193)	(1,451,193)
Current accounts and deposits of customers	-	-	-	(659,809)	(659,809)	(659,809)
Debt liabilities issued	-	-	-	(25,667)	(25,667)	(25,667)
Other financial liabilities	-	-	-	(2,615)	(2,615)	(2,615)
	(534)	**-**	**-**	**(2,139,295)**	**(2,139,829)**	**(2,139,829)**

The table below shows the carrying amount and fair values of financial assets and liabilities as at December 2013:

	Loans and receivables	Available for sale	Other carried at amortized cost	Total recognized amount	Fair value
Cash and cash equivalents	913,265	-	-	913,265	913,265
Statutory reserves with the Central Bank of the Russian Federation	14,054	-	-	14,054	14,054
Due from banks	982	-	-	982	982
Financial assets available for sale	-	1,116,383	-	1,116,383	1,116,383
Loans to customers:					
- loans to legal entities	232,670	-	-	232,670	232,670
Other financial assets	226	-	-	226	226
	1,161,197	**1,116,383**	**-**	**2,277,580**	**2,277,580**
Due to banks	-	-	(11)	(11)	(11)
Accounts receivable under REPO agreements	-	-	(400,060)	(400,060)	(400,060)
Current accounts and deposits from customers	-	-	(792,845)	(792,845)	(792,845)
Debt liabilities issued	-	-	(40,095)	(40,095)	(40,095)
Other financial liabilities	-	-	(3,588)	(3,588)	(3,588)
	-	**-**	**(1,236,599)**	**(1,236,599)**	**(1,236,599)**

The Bank performed an assessment of the fair value of its financial instruments, as required by IFRS 7 Financial Instruments: Disclosures.

The estimated fair value of financial instruments available for sale is based on quoted market prices at the reporting date without any deduction for transaction costs.

The fair values of all other financial assets and liabilities are measured using the discounted cash flow method on the basis of estimated future cash flows and discount rates used for similar instruments as of the reporting date. In using the discounted cash flow method the future cash flows are measured on the basis Management's estimates and the discount rate is the market rate used for similar instruments as at the reporting date. The rates disclosed for the main financial instruments, by currency, in Note 21 Risk Management *Interest Rate Risk* section are not materially different from the market rates effective as of the reporting date.

As at 31 December 2014 and 31 December 2013, Management concluded that the fair values of all financial assets and financial liabilities are not materially different from their carrying values.

Measurement of fair value is aimed at a more precise determination of the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction on the measurement date. However, due to existing uncertainties and subjectivity of estimates the fair value should not be regarded as the amount for which an asset can be immediately sold or a liability can be immediately settled.

Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

	Level 1	Level 2	Total
Positive fair value of derivative financial instruments	-	11,725	11,725
Financial assets available for sale			
- Debt instruments and other fixed income instruments	2,140,332	-	2,140,332
- Equity instruments	57,263	-	57,263
Negative fair value of derivative financial instruments	-	534	534

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

	Level 1	Total
Financial assets available for sale		
- Debt instruments and other fixed income instruments	1,116,383	1,116,383

DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the analysis of derivative financial instruments as at 31 December 2014:

	Notional transaction cost 2014 RUB '000	Fair value 2014 RUB '000
Purchase of USD for RUB		
Less than 1 month	12,827	(178)
Between 1 and 3 months	57,732	(356)
Purchase of RUB for USD		
Less than 1 month	148,586	2,314
Purchase of RUB for EUR		
Less than 1 month	351,125	9,411
		11,191

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit or loss from ordinary shares by the weighted average of ordinary shares circulating during the year.

The Bank does not have ordinary shares that potentially reduce the amount of earnings per share. So, therefore, the diluted earnings per share are equal to the basic earnings per share.

	2014	2013
Net income for period payable to shareholders	20,891	35,831
Weighted average of circulating ordinary shares (in thousand shares)	56,490	56,490
	0.37	**0.63**

D.A. Shatsky

Acting in capacity of
Chairman of the Board

[SEAL]

L.S. Grigorenko

Chief Accountant