JSC RN Bank
Financial statements

For the year ended 31 December 2014
together with independent auditor's report

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the shareholders and Board of Directors of
JSC RN Bank

We have audited the accompanying financial statements of JSC RN Bank, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Ernst & Young LLC

30 March 2015

Statement of financial position

As of 31 December 2014

(thousands of Russian Rubles)

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	9,029,855	5,230,893
Obligatory reserve with the CBR		115,696	14
Amounts due from credit institutions	6	1,337,745	–
Derivative financial assets	7	1,230,707	–
Loans to customers	8	25,609,447	250,857
Property and equipment		26,165	28,328
Intangible assets	9	562,519	759,847
Deferred income tax assets	10	68,605	5,726
Other assets	11	337,282	42,139
Total assets		**38,318,021**	**6,317,804**
Liabilities			
Amounts due to the CBR	12	1,002,404	–
Amounts due to credit institutions	13	19,080,781	–
Derivative financial liabilities	7	169,653	–
Amounts due to customers	14	9,603,470	3,960
Other liabilities	11	977,282	53,056
Total liabilities		**30,833,590**	**57,016**
Equity	15		
Share capital		3,333,091	1,333,891
Share premium		5,580,800	5,580,000
Accumulated deficit		(1,429,460)	(653,103)
Total equity		**7,484,431**	**6,260,788**
Total equity and liabilities		**38,318,021**	**6,317,804**

Signed and authorized for release on behalf of the Board of the Bank

Акционерное общество «РН Банк» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503 Россия г. Москва

Chairman of the Management Board
Bruno Robert Louis Kintzinger

Chief Accountant
Darya Lvova

"25" March 2015

The accompanying notes are an integral part of these financial statements.

Statement of profit or loss and comprehensive income

For the year ended 31 December 2014

(thousands of Russian Rubles)

	Notes	*2014*	*2013*
Interest income			
Loans to customers	17	1,744,341	889
Amounts due from credit institutions		266,487	165,389
Total interest income		**2,010,828**	**166,278**
Interest expense			
Amounts due to customers		(190,600)	–
Amounts due to credit institutions		(643,778)	(34,205)
Total interest expense		**(834,378)**	**(34,205)**
Net interest income/expense		**1,176,450**	**132,073**
Allowance for loan impairment	8	(833,574)	–
Net interest income after allowance for loan impairment		**342,876**	**132,073**
Fee and commission income	18	57,989	222
Fee and commission expense	18	(30,720)	(226)
Net fee and commission income/expenses		**27,269**	**(4)**
Net gains/(losses) from financial instruments at fair value through profit or loss		1,077,660	–
Net gains/(losses) from foreign currencies:		(1,039,131)	211
- dealing		*6,707*	*17*
- translation differences		*(1,045,838)*	*194*
Other income		4,408	7,353
Non-interest income		**42,937**	**7,564**
Personnel expenses	19	(542,459)	(136,387)
Other administrative expenses	19	(470,469)	(114,220)
Depreciation of property and equipment		(17,631)	(1,205)
Depreciation of intangible assets	9	(208,246)	(25,143)
Other provisions	6	(13,513)	–
Non-interest expense		**(1,252,318)**	**(276,955)**
Loss before income tax expense		**(839,236)**	**(137,322)**
Income tax benefit/(expense)	10	62,879	5,726
Total loss for the year		**(776,357)**	**(131,596)**
Total comprehensive loss for the year		**(776,357)**	**(131,596)**

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Darya Lvova

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г. МОСКВА

"25" March 2015

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2014

(thousands of Russian Rubles)

	Share capital	Share premium	Accumulated deficit	Total equity
31 December 2012	**913,891**	**–**	**(521,507)**	**392,384**
Loss for the year	–	–	(131,596)	**(131,596)**
Total comprehensive loss for the year	**–**	**–**	**(131,596)**	**(131,596)**
Issue of share capital	420,000	5,580,000	–	**6,000,000**
Shareholder contributions	–	–	500,000	**500,000**
Payments to shareholder	–	–	(500,000)	**(500,000)**
31 December 2013	**1,333,891**	**5,580,000**	**(653,103)**	**6,260,788**
Loss for the year	–	–	(776,357)	**(776,357)**
Total comprehensive loss for the year	**–**	**–**	**(776,357)**	**(776,357)**
Issue of share capital (Note 15)	1,999,200	800	–	**2,000,000**
31 December 2014	**3,333,091**	**5,580,800**	**(1,429,460)**	**7,484,431**

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"25" March 2015

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2014

(thousands of Russian Rubles)

	Notes	31 December 2014	31 December 2013
Cash flows from operating activities			
Interest received		2,213,387	165,523
Interest paid		(160,573)	(34,205)
Fees and commissions received		53,066	–
Fees and commissions paid		(31,636)	(210)
Realized gains less losses from dealing in foreign currencies		23,314	17
Other income received		9,408	2,353
Personnel expenses paid		(348,822)	(102,166)
Other operating expenses paid		(356,191)	(111,944)
Cash flows from operating activities before changes in operating assets and liabilities		**1,401,953**	**(80,632)**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(115,682)	(3)
Amounts due from credit institutions		(1,351,258)	–
Loans to customers		(26,432,596)	(250,278)
Other assets		(61,795)	(35,558)
Net increase/(decrease) in operating liabilities			
Amounts due to the CBR		1,000,000	–
Amounts due to credit institutions		18,403,462	–
Amounts due to customers		8,223,448	3,190
Other liabilities		406,205	12
Net cash flows from operating activities before income tax		**1,473,737**	**(363,269)**
Net cash from/(used in) operating activities		**1,473,737**	**(363,269)**
Cash flows from investing activities			
Purchase of property and equipment, intangible assets		(10,918)	(805,075)
Proceeds from sale of property and equipment		–	–
Net cash used in investing activities		**(10,918)**	**(805,075)**
Cash flows from financing activities			
Proceeds from issue of share capital	15	2,000,000	6,000,000
Shareholder contributions		–	500,000
Payments to shareholder		–	(500,000)
Proceeds from subordinated loans		–	–
Repayment of subordinated loans		–	(486,158)
Net cash from financing activities		**2,000,000**	**5,513,842**
Effect of exchange rates changes on cash and cash equivalents		336,143	251
Net increase in cash and cash equivalents		**3,798,962**	**4,345,749**
Cash and cash equivalents, beginning	5	5,230,893	885,144
Cash and cash equivalents, ending	5	**9,029,855**	**5,230,893**

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АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г.МОСКВА

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"25" March 2015

The accompanying notes are an integral part of these financial statements.

(thousands of Russian Rubles)

1. Principal activities

These are the financial statements of JSC RN Bank.

The Bank (former CJSC Bank Sibir) was formed in the Russian Federation (the city of Omsk) on 9 March 1989. In 1995, the Bank was reorganized into a limited liability partnership. In 2002 the Bank changed its legal form to a closed joint stock company. Since May 2013, the Bank is registered and located in Moscow. On 5 September 2013, following the decision of the sole shareholder (Decision No. 1 dated 5 September 2013), the Bank changed its name as follows:

Full corporate name of the Bank: Closed joint stock company RN Bank.
Short name: CJSC RN Bank.

Location (legal address): Russia 109028, Moscow, Serebryanicheskaya nab., 29.
Main State Registration Number: 1025500003737.
Record concerning the establishment was made in the Uniform State Register of Legal Entities on 6 November 2002.
Bank's identification code (BIC): 044583105.
Taxpayer identification number (TIN): 5503067018.
Contact telephone number: + 7 (495) 775-40-68.
Contact fax number: + 7 (495) 775-40-67.
Email address: help@rn-bank.ru
Web-site in Internet: www.rn-bank.ru

In 2014 the Bank changed its legal form from a closed joint stock company to a joint stock company. The decision was approved by the Shareholders on 31 October 2014. The change was made to the Unified Register of Legal Entities on 9 December 2014.

The Bank carries out its activities based on the following licenses:

- License No. 170 issued on 6 November 2013 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals);
- License No. 170 issued on 6 November 2013 to accept deposits from individuals denominated in rubles and foreign currencies.

The Bank is a member of the deposit insurance system and was included in the register of banks participating in the obligatory insurance system on 3 February 2005 (Certificate No. 551). The system operates under the federal laws and regulations and is governed by the State Corporation "Agency for Deposits Insurance". Insurance covers the Bank’s liabilities to individual depositors in the amount up to RUB 1,400 thousand in 2014 (2013: RUB 700 thousand) per each individual in case of business failure or revocation of the CBR banking license.

As of 31 December 2014 the Bank:

- has no ratings assigned by Russian or international rating agencies;
- is not a member of a banking group;
- is not a professional participant of the securities market;
- has no branches and representative offices in the Russian Federation;
- does not have any subsidiaries or affiliates.

As of 31 December 2014, the average headcount of the Bank was 194 employees (31 December 2013: 78 employees).

As of 31 December 2014 and 31 December 2013, Limited Liability Company BARN B.V. – Netherlands is the sole shareholder of the Bank. The ownership in the share capital of the Bank: 100.00%.

2. Basis of preparation

Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS.

(thousands of Russian Rubles)

2. Basis of preparation (continued)

Basis of measurement

These financial statements have been prepared under the historical cost convention except for financial instruments at fair value. For example, derivative financial instruments have been measured by the Bank at fair value. The historical cost is deemed to be the fair value of consideration transferred in exchange of goods and services.

Presentation currency

These financial statements are presented in thousands of Russian rubles ("RUB").

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The application of this standard resulted in an increase in the share capital by RUB 64,091 thousand and an increase in accumulated deficit by the similar amount.

Reclassifications

The following reclassifications have been made to 2013 balances to conform to the 2014 presentation:

	As previously reported	***Reclassification amount***	***Amount as adjusted***
Other administrative expenses	(140,568)	26,348	(114,220)
Depreciation of property and equipment	–	(1,205)	(1,205)
Depreciation of intangible assets	–	(25,143)	(25,143)

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and interpretations effective for annual reporting periods beginning on 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for taxes and other levies when the activity that triggers payment, as identified by the legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21, in prior years.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

The following significant accounting policies have been applied in the preparation of the financial statements.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset or a requirement arises due to contractual encumbrances. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss represent financial assets and liabilities, which are:

- acquired principally for the purpose of reselling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed as a single portfolio and for which there is evidence of a recent actual pattern of near-term profit-taking;
- derivative financial instruments (except for derivative financial instruments designated as a hedging instrument in an effective hedge); or
- classified by the Bank as financial instruments at fair value through profit or loss at initial recognition.

Financial assets and liabilities are designated by the Bank as financial assets and liabilities at fair value through profit or loss if:

- these assets or liabilities are managed and evaluated on a fair value basis;
- designation of these assets and liabilities into the category of assets and liabilities at fair value through profit or loss eliminates or significantly reduces the mismatch which otherwise would arise, or if:
- the corresponding asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., Level 1 inputs) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, irrespective of whether this price is directly observable or is determined by calculation using another valuation technique.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The fair value of financial instruments traded in an active market at the reporting date is determined based on their quoted market price or dealer price quotations. Where quoted market prices are not available, the fair value of financial instruments is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include comparative data on recent transactions between unwilling parties, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

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 to realize the asset and settle the liabilities simultaneously.

The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory cash balances with the Central Bank of the Russian Federation

The Bank cannot use obligatory cash balances with the Central Bank of the Russian Federation to finance its day-to-day operating activities.

Foreclosed assets

Under certain circumstances, assets relating to defaulted loans are foreclosed. Foreclosed assets are measured at the lower of the carrying amount and the fair value less costs to sell.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including foreign currency forwards and swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Borrowings

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

Operating leases

Where the Bank is a lessee in leases where the lessor retains substantially all the risks and benefits of ownership of the assets, such leases are classified as operating leases. Leased assets are not recognized in the financial statements and lease expenses are recognized in profit or loss on a straight-line basis over the period of the lease.

Where the operating lease terminates prior to the expiration of the lease term, any payments due to the lessor as fines and forfeits are expensed in the period when such operating lease was terminated.

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans deemed by the Bank to be irrecoverable due to the lack of repayment sources including liquid collateral are written off against the associated allowance.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and to allowance accounts.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

Non-financial assets

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

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

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

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

Financial liabilities

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

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

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

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 shareholders recognized in equity, in which case it is recognized within other comprehensive income or within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation. The current income tax expense is the expected tax payable on the taxable income for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax regulation that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of property and equipment begins when they become available for use. Depreciation is accrued on a straight-line basis over the estimated useful live:

Property and equipment	***Depreciation period***
Furniture	5-7 years
Equipment	2-5 years
Computer equipment	2 years
Capital investments in leased property and equipment	3-6 years
Light vehicles	3 years
Other property and equipment	3-5 years

The asset’s residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

Intangible assets and goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is accrued on a straight-line basis over the useful life of an intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. At present, the useful life of intangible assets with finite useful life is estimated as not exceeding 5 years.

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Intangible assets and goodwill (continued)

Intangible assets with cost of no less than RUB 15 million are immediately expensed.

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

Collateral

The Bank obtains collateral against customers' obligations where necessary. Collateral is generally the pledge of the customer's assets entitling the Bank to claim such assets with regard to the customer's current and future obligations.

Other provisions

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

Pension obligations and other employee benefits

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium (additional paid-in capital).

Dividends

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

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

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

(thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

Fee and commission income

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

- *Fee and commission income earned from services that are provided over a certain period of time*

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

- *Fee and commission income from providing transaction services*

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

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Foreign currency transactions are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation are recognized in profit or loss as gains/losses from translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in profit or loss.

The official CBR exchange rates at 31 December 2014 and 31 December 2013 were RUB 56.2584 and RUB 32.7292 to 1 USD, respectively.

The official CBR exchange rates at 31 December 2014 and 31 December 2013 were RUB 68.3427 and RUB 44.9699 to 1 EUR, respectively.

The official CBR exchange rates at 31 December 2014 and 31 December 2013 were RUB 47.0644 and RUB 31.0568 to 100 JPY, respectively

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates is as follows:

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 21.

Allowance for loan impairment

A loan is impaired as a result of one or more events that occurred after the initial recognition of a loan and had an impact on the estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

The Bank estimates an allowance for impairment of loans issued to retail customers using its own model, which accounts for the following: past actual loss experience by each type of loan, probability of default based on the evaluation of the borrower's financial performance, and loss given default, including fair value and collateral liquidity.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

The Bank regularly reviews its loans and receivables to analyze them for impairment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

In case there are few available sources of historical data relating to the loss of similar borrowers, the Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties based on the accumulated experience. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, Early application is permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue from leases, insurance contracts and revenue arising from financial instruments and other contractual rights and obligations related to the scope of IAS 17 *Leases*, IFRS 4 *Insurance Contracts* and IAS 39 *Financial Instruments: Recognition and Measurement* (or, in case of earlier application, IFRS 9 *Financial Instruments*), respectively, is not within the scope of IFRS 15 and is subject to the corresponding standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to tariff-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of financial position and income statement and/or statement of other comprehensive income, respectively. The standard requires disclosures on the nature of, and risks associated with, the entity's tariff-regulation and the effects of that tariff-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that these amendments would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, Earlier application is permitted. These amendments are not expected to have any impact on the Bank.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted. These amendments are not expected to have any impact on the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Pursuant to the amendments, biological assets that meet the definition of bearer plants are excluded from the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments specify that products that grow on bearer plants will remain in the scope of IAS 41 will be measured at fair value less costs to sell. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to government grants related to bearer plants. The amendments become effective retrospectively for annual periods beginning on or after 1 January 2016. with earlier application permitted. These amendments are not expected to have any impact on the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Bank currently considers the possibility to apply these amendments for the purposes of preparation of its separate financial statements. These amendments will not have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors’ interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. With earlier application permitted. These amendments will not have any impact on the Bank's financial statements.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Standards issued but not yet effective (continued)

Annual improvements to IFRS: 2010-2012 cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include the following:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements to IFRS: 2011-2013 cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include the following:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Standards issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 30 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Bank is an existing IFRS preparer, this standard would not apply.

Annual improvements to IFRS: 2012-2014 cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Bank. They include the following:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods." The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 provides explanation that the evaluation of the maturity of the market of high-quality corporate bonds shall be based on the currency in which the obligation is denominated and not on the country to which such obligation applies. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(thousands of Russian Rubles)

4. Significant accounting judgments and estimates (continued)

Standards issued but not yet effective (continued)

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2014	*31 December 2013*
Cash on hand	10	10
Current accounts with the CBR	1,138,061	78,524
Balances on nostro accounts with other credit institutions rated not lower than BBB	18,028	15,302
Term deposits (up to 90 days) with other banks rated not lower than BBB	7,873,756	5,137,057
Total cash and cash equivalents	**9,029,855**	**5,230,893**

Cash and cash equivalents are neither impaired, nor past due.

As of 31 December 2014, the Bank had balances with 4 counterparties (2013: 5 counterparties). As of 31 December 2014, balances of counterparties vary from 14.45% to 25.43% of the total amount of cash and cash equivalents (31 December 2013: the total balance with the largest counterparty: 34.7% or RUB 1,813,466 thousand).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2014	*31 December 2013*
Term deposits with credit institutions	1,351,258	–
Allowance for impairment	(13,513)	–
Amounts due from credit institutions	**1,337,745**	**–**

As of 31 December 2014, the Bank had balances with one counterparty (2013: 0 counterparties).

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the financial statements, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or reference rate and is the basis upon which changes in the value of derivatives are measured. Notional amounts reflect the volume of transactions outstanding at the year-end and do not indicate a credit risk.

The Bank measures derivative financial instruments using valuation techniques based on the market interest rates. Significant changes in the specified variables may produce materially different estimates of fair values.

(thousands of Russian Rubles)

7. Derivative financial instruments (continued)

Below are fair values of the derivative financial assets and liabilities held for trading and their nominal values as of 31 December 2014:

	31 December 2014			
	Nominal value		*Fair value*	
	Assets	*Liabilities*	*Asset*	*Liabilities*
Currency exchange contracts				
Swaps – foreign [(1)]	2,600,576	1,842,436	626,732	–
Currency interest contracts				
Swaps – foreign [(1)]	6,691,755	8,246,356	603,975	169,653
	9,292,331	**10,088,792**	**1,230,707**	**169,653**

(1) Foreign contracts are contracts concluded with non-residents of the Russian Federation.

As of 31 December 2013, the Bank had no positions in derivative financial instruments.

As of 31 December 2014, the Bank had positions in the currency exchange swaps, which are contractual agreements between two parties to exchange movements in foreign currency rates, and currency interest swaps, which are contractual agreements stipulating that on the fixed date a party shall pay a fixed interest to the other party and shall receive a payment of the interest at a floating rate.

8. Loans to customers

Loans to customers comprise:

	31 December 2014	*31 December 2013*
Loans to legal entities		
Factoring	5,340,625	–
Total gross loans of legal entities	**5,340,625**	**–**
Loans to individuals		
Car loans	21,102,396	250,857
Total gross loans of individuals	**21,102,396**	**250,857**
Allowance for impairment	(833,574)	–
Total loans to customers	**25,609,447**	**250,857**

Allowance for impairment of loans to customers

Below are movements in the allowance for impairment of loans by customers for the year ended 31 December 2014:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2014	–	–	**–**
Creation of provisions	775,485	58,089	**833,574**
31 December 2014	**775,485**	**58,089**	**833,574**
Allowance for impairment on a collective basis	637,198	36,994	**674,192**
Allowance for impairment on an individual basis	138,287	21,095	**159,382**

Allowance for impairment by groups of loans to customers for the year ended 31 December 2013 was not accrued.

(thousands of Russian Rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Loans before allowance for impairment and the respective impairment amount as of 31 December 2014 are presented in the table below:

	Loans, gross	*Provision*	*Loans less allowance for impairment*
Loans to legal entities			
Loans not individually impaired	**5,023,708**	**637,198**	**4,386,510**
- not overdue	5,023,708	637,198	4,386,510
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
Loans individually impaired	**316,917**	**138,287**	**178,630**
- not overdue	316,917	138,287	178,630
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
- 90 to 180 days overdue	–	–	–
- over 180 days overdue	–	–	–
Total loans to legal entities	**5,340,625**	**775,485**	**4,565,140**
Loans to individuals			
Loans not individually impaired	**21,078,435**	**36,994**	**21,041,441**
- not overdue	20,937,969	36,747	20,901,222
- less than 31 days overdue	120,597	212	120,385
- 31 to 90 days overdue	19,869	35	19,834
Loans individually impaired	**23,961**	**21,095**	**2,866**
- not past due	5,228	4,207	1,021
- less than 31 days overdue	1,942	1,464	478
- 31 to 90 days overdue	5,524	4,979	545
- 90 to 180 days overdue	3,823	3,322	501
- over 180 days overdue	7,444	7,123	321
Total loans to individuals	**21,102,396**	**58,089**	**21,044,307**
Total loans to customers	**26,443,021**	**833,574**	**25,609,447**

Loans before allowance for impairment and the respective impairment amount as of 31 December 2013 are presented in the table below:

	Loans, gross	*Provision*	*Loans less allowance for impairment*
Loans to legal entities			
Loans not impaired	–	–	–
- not overdue	–	–	–
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
Impaired loans:	–	–	–
- not overdue	–	–	–
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
- 90 to 180 days overdue	–	–	–
- over 180 days overdue	–	–	–
Total loans to legal entities	–	–	–
Loans to individuals			
Loans not impaired	**250,857**	–	**250,857**
- not overdue	250,857	–	250,857
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
Impaired loans:	–	–	–
- not overdue	–	–	–
- less than 31 days overdue	–	–	–
- 31 to 90 days overdue	–	–	–
- 90 to 180 days overdue	–	–	–
- over 180 days overdue	–	–	–
Total loans to individuals	**250,857**	–	**250,857**
Total loans to customers	**250,857**	–	**250,857**

(thousands of Russian Rubles)

8. Loans to customers (continued)

Key assumptions and judgments in loan impairment assessment

A loan is impaired as a result of one or more events that occurred after the initial recognition of a loan and had an impact on the estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

Objective evidence of impairment of loans to legal entities and individuals is in particular associated with the following:

- The Client has outstanding payments which are more than 90 days overdue (fully or partially) at least under one loan agreement.
- The Client is subject to legal actions and complaints as a defendant in cases related to unsettled loans issued by the Bank.
- The loans of the Client were removed from the Bank's balance sheet.
- The Client's debt was restructured and the outstanding amount was reduced through forgiving or postponement of the principle amount and/or interest and/or commission payment (as appropriate).
- The Client is subject to the insolvency procedure (liquidation/ bankruptcy).

The Bank determines the impairment allowance for loans to legal entities based on the following:

- Financial position of the Client and its ability to meet obligations to the Bank.
- Collateral considered while assessing future cash flows comprises collateral which may be sold on the market.

Impaired loans

As of 31 December 2014, interest income on impaired loans totaled RUB 719 thousand (31 December 2013: RUB 0).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Financing of legal entities: charges over vehicles, charges over spare parts, bank guarantees, corporate or personal guarantees, formal guarantee of the car manufacturer assuming the client's risk in case of default;
- Retail lending: charges over vehicles, personal guarantees.

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements. Fair value of collateral is determined based on the market value identified at the time when the loan/finance was raised, and is reassessed on a regular basis.

(thousands of Russian Rubles)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

Below are the fair values of collateral broken down by the types of loans to customers and types of collateral, except for overcollaterisation, as of 31 December 2014:

	Fair value of collateral (as of the reporting date)	*Carrying amounts of loans to customers*
Loans to legal entities		
Loans not individually impaired		
- Vehicles	4,590,088	–
– Guarantees of credit institutions	152,060	–
- Corporate sureties	27,134,549	–
- No collateral	–	–
Total non-impaired loans, gross	**31,876,697**	**5,023,708**
Loans individually impaired		
- Vehicles	301,400	–
- Corporate guarantees	17,100	–
- Corporate sureties	818,950	–
- No collateral	–	–
Total impaired loans, gross	**1,137,450**	**316,917**
Total loans to legal entities	**33,014,147**	**5,340,625**
Loans to individuals		
Loans not individually impaired		
- Vehicles	38,477,462	–
- Personal guarantees	–	–
- Personal sureties	55,915	–
- No collateral	–	–
Total non-impaired loans, gross	**38,533,377**	**21,078,435**
Loans individually impaired		
- Vehicles	12,348	–
- Personal guarantees	–	–
- Personal sureties	–	–
- No collateral	–	–
Total impaired loans, gross	**12,348**	**23,961**
Total loans to individuals	**38,545,725**	**21,102,396**
Total loans to customers	**71,559,872**	**26,443,021**

As of 31 December 2014 there are 2 renegotiated loans issued to legal entities and individuals with value of RUB 1,066 thousand.

As of 31 December 2013, loans issued to legal entities and individuals did not include renegotiated loans.

Concentration of loans to customers

As of 31 December 2014, the concentration of loans issued to the ten largest groups of interrelated parties totaled RUB 3,274,452 thousand (12% of gross loan portfolio). An allowance of RUB 395,458 thousand was recognized against these loans. In 2013, the Bank did not issue loans to legal entities.

(thousands of Russian Rubles)

9. Intangible assets

The movements in intangible assets during 2014 were as follows:

	Computer software
Cost	
31 December 2013	784,990
Acquisitions	10,918
Disposals	(68,871)
31 December 2014	**727,037**
Accumulated amortization	
31 December 2013	(25,143)
Amortization charge	(208,246)
Disposals	68,871
31 December 2014	**(164,518)**
Net book value	
31 December 2014	**562,519**

The movements in intangible assets during 2013 were as follows:

	Computer software
Cost	
31 December 2012	–
Acquisitions	784,990
Disposals	–
31 December 2013	**784,990**
Accumulated amortization	
31 December 2012	–
Amortization charge	(25,143)
Disposals	–
31 December 2013	**(25,143)**
Net book value	
31 December 2013	**759,847**

The list of individually significant intangible assets as of 31 December 2014 is set out below:

	Book value	*Remaining useful life, months*
CFT system software (automated banking system)	236,666	45
NeoFlex Front Office software (system for processing loan applications for loans to individuals)	231,427	45
Credit Reseau software (system for automated corporate lending)	27,467	45

10. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current income tax expense	–	–
Deferred tax benefit – origination and reversal of temporary differences	62,879	5,726
Income tax benefit	**62,879**	**5,726**

Russian legal entities must file income tax declarations. The standard income tax rate for companies (including banks) was 20% for 2014 and 2013.

(thousands of Russian Rubles)

10. Taxation (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	*2013*
Loss before tax	**(839,236)**	**(137,322)**
Statutory tax rate	20%	20%
Income tax at the applicable income tax rate	**167,847**	**27,464**
Non-deductible expenditures and non-taxable income	(11,778)	(6,438)
Unrecognized deferred tax asset movement	(87,464)	(15,300)
Other	(5,726)	–
Income taxed at lower tax rates	–	–
Income tax carried forward not recognized as deferred tax asset	–	–
Income tax benefit	**62,879**	**5,726**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	1 January 2014	*Recognized in profit or loss*	*31 December 2014*
Allowance for impairment	(892)	124,367	123,475
Derivative financial instruments	0	(225,961)	(225,961)
Other assets	4,287	38,513	42,800
Other liabilities	2,331	125,960	128,291
Tax loss carried forward	77,847	87,464	165,311
Provision for non-recognized deferred tax asset	(77,847)	(87,464)	(165,311)
Total deferred tax assets/(liabilities)	**5,726**	**62,879**	**68,605**

	1 January 2013	*Recognized in profit or loss*	*31 December 2013*
Allowance for loan impairment	–	(892)	(892)
Property and equipment	634	(634)	–
Other assets	1,472	2,815	4,287
Other liabilities	1,158	1,173	2,331
Tax loss carried forward	59,283	18,564	77,847
Provision for non-recognized deferred tax asset	(62,547)	(15,300)	(77,847)
Total deferred tax assets/(liabilities)	**–**	**5,726**	**5,726**

The Bank's tax losses to be carried forward amount to RUB 165,311 thousand.

As of 31 December 2014, the Bank has available tax losses carried forward, which comprise:

- tax losses for 2009 in the amount of RUB 129,100 thousand, that result in deferred tax asset in the amount of RUB 25,820 thousand if 20% tax rate is applied (tax losses carried forward expire in 2019, if not utilized);
- tax losses for 2012 in the amount of RUB 167,310 thousand, that result in deferred tax asset in the amount of RUB 33,463 thousand if 20% tax rate is applied (tax losses carried forward expire in 2022, if not utilized);
- tax losses for 2013 in the amount of RUB 92,810 thousand, that result in deferred tax asset in the amount of RUB 18,564 thousand if 20% tax rate is applied (tax losses carried forward expire in 2023, if not utilized);
- tax losses for 2014 in the amount of RUB 437,320 thousand, that result in deferred tax asset in the amount of RUB 87,464 thousand if 20% tax rate is applied (tax losses carried forward expire in 2024, if not utilized);

The Bank recognized a tax asset equal to its estimated sufficient taxable profit available in the foreseeable future to realize the deferred tax asset in accordance with the Bank's business plan which is adjusted for expected adverse economic changes in the market where the Bank operates.

(thousands of Russian Rubles)

11. Other assets and liabilities

Other assets comprise:

	31 December 2014	*31 December 2013*
Prepayments	48,095	21,973
Prepaid taxes other than income tax	32,296	–
Guaranteed deposits under lease agreements	18,506	13,962
Receivables from insurance companies	225,020	
Other	13,365	6,204
Less: allowance for impairment of other assets	–	–
Other assets	**337,282**	**42,139**

Other liabilities comprise:

	31 December 2014	*31 December 2013*
Payroll payable	205,297	31,554
Trade payables	343,784	16,553
Agency fees under insurance agreements	228,326	–
Taxes payable	189,873	4,933
Other	10,002	16
Other liabilities	**977,282**	**53,056**

12. Amounts due to the CBR

Amounts due to the CBR comprise:

	31 December 2014	*31 December 2013*
Short-term loans	1,002,404	–
Amounts due to the CBR	**1,002,404**	**–**

13. Amounts due to credit institutions

Amounts due from credit institutions comprise:

	31 December 2014	*31 December 2013*
Short-term deposits of the banks rated not lower than BBB maturing within 1 year	14,976,706	–
Long-term deposits of the banks rated not lower than BBB maturing after 1 year	4,104,075	–
Amounts due to credit institutions	**19,080,781**	**0**

As of 31 December 2014, the Bank raised RUB 11,721,881 thousand (2013: RUB 0) as deposits of resident banks and RUB 7,358,900 (2013: RUB 0) as deposits of non-resident banks.

As of 31 December 2014, the Bank had balances on short-term and long-term deposits with three counterparties (2013: 0 balance with credit institutions). As of 31 December 2014, balances with all counterparties totaled as follows: 56.7% – resident bank, 38.57% – non-resident bank, 5.34% resident bank of the total amounts due to credit institutions.

14. Amounts due to customers

Amounts due to customers comprise:

	31 December 2014	*31 December 2013*
Current accounts and demand deposits		
- Corporate customers	1,517	770
- Retail customers	467,664	3,190
Short-term deposits of legal entities maturing within a year	5,831,286	–
Long-term deposits of legal entities maturing after one year	3,303,003	–
Amounts due to customers	**9,603,470**	**3,960**

(thousands of Russian Rubles)

14. Amounts due to customers (continued)

As of 31 December 2014, the Bank raised RUB 665,806 thousand (2013: RUB 0) as deposits of resident legal entities and RUB 8,468,483 (2013: RUB 0) as deposits of non-resident legal entities.

As of 31 December 2014, the Bank had balances on short term and long term deposits with three legal entities (2013: 0 balance with customers). As of 31 December 2014, balances with all counterparties totaled as follows: 92.7% – resident legal entity, 7.3% – non-resident legal entity of the total short-term and long-term deposits.

15. Equity

Movements in ordinary shares outstanding, issued and fully paid were as follows:

	Number of shares	*Nominal value (RUB thousand)*	*Inflation adjustment*	*Total*
31 December 2012	**607,000**	**1.4**	**64,091**	**913,891**
Issue of share capital	300,000	1.4	–	**420,000**
31 December 2013	**907,000**	**1.4**	**64,091**	**1,333,891**
Issue of share capital	1,428,000	1.4		**1,999,200**
31 December 2014	**2,335,000**	**1.4**	**64,091**	**3,333,091**

The total number of authorized ordinary shares is 2,335,000 (2013 – 907,000) with a face value per share of RUB 1,400. All authorized shares have been issued and fully paid.

Throughout 2014, the share capital of the Bank was increased from RUB 1,333,891 thousand up to RUB 3,333,091 thousand due to placement of the additional issue of shares subject to the following terms:

- The Bank issued 1,428,000 ordinary book-entry registered shares with a nominal value of RUB 1,400 per share and a total nominal value of RUB 1,999,200 thousand;
- Additional issue of ordinary book-entry registered shares was placed via private offering with BARN B.V. (Netherlands), the Bank's sole shareholder. The issue was placed after receipt of statutory registration of the decision to issue additional shares from the CBR;
- On 29 September 2014, BARN B.V. (Netherlands), the sole shareholder of the Bank, purchased the shares of the additional issue within the limits established in the Agreement for the purchase of ordinary registered shares of 19 September 2014 for the nominal value of RUB 1,400.56 per share;
- The increase in the capital of the Bank totaled RUB 2,000,000 thousand of which RUB 1,999,200 thousand were taken to share capital and RUB 800 thousand as share premium.

In 2013 year the share capital of the Bank was increased from RUB 913,891 thousand up to RUB 1,333,891 thousand due to placement of the additional issue of shares subject to the following terms:

- the Bank issued 300,000 ordinary book-entry registered shares with a nominal value of RUB 1,400 per share and a total nominal value of RUB 420,000 thousand;
- additional issue of ordinary book-entry registered shares was placed via private offering with CJSC "UniCredit Bank", which was the Bank's sole shareholder. The issue was placed after receipt of statutory registration of the decision to issue additional shares from the CBR;
- on 26 July 2013, additional issue of 300,000 Bank's shares with a nominal value of RUB 1,400 per share was purchased by CJSC "UniCredit Bank", the Bank's sole shareholder, within established limits under Securities Purchase Agreement No. (unnumbered) of 26 July 2013 at RUB 20,000 per share;
- the increase in the capital of the Bank totaled RUB 6,000,000 thousand, of which RUB 420,000 thousand were taken to share capital and RUB 5,580,000 thousand amounted to share premium.

16. Commitments and contingencies

Operating environment

The Bank operates primarily within the Russian Federation. As a result, the Bank is exposed to economic and financial risks at the markets of the Russian Federation that possess characteristics of an emerging market. The economy is particularly sensitive to changes in prices for oil and gas. Legal, tax and regulatory systems continue to evolve and are subject to frequent changes.

(thousands of Russian Rubles)

16. Commitments and contingencies (continued)

Operating environment (continued)

Political and economic instability in the region, in particular recent events in Ukraine, have already had and may continue to have an adverse effect on the Russian economy, including ruble depreciation, interest rate step-up, decreasing liquidity and difficulties in raising finance. These events, including current and future international sanctions against Russian entities and individuals and resulting uncertainty and volatility of finance markets, may significantly affect the operations and financial position of the Bank with the results hardly projectable.

Despite the fact that management believes it is taking all necessary measures to support the sustainability and growth of business, future economic and regulatory environment may fail to meet expectations of the Bank's management and may have an adverse effect on the financial position and operating results of the Bank. Currently, such effect is hard to project.

Inflation in the Russian Federation remains at a relatively high level (according to the data provided by the state statistical agencies, CPI growth for the years ended 31 December 2014 and 2013 was 11.4% and 6.45% respectively).

Legal

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 will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

The Russian transfer pricing legislation was amended and came into force on 1 January 2013. The new requirements are more detailed and closer to international principles developed by OECD. The new rules enables tax authorities to charge additional tax on controlled transactions, i.e. transactions entered into with related parties as well as certain types of transactions with unrelated parties, if the transaction does not comply with the arm’s-length principle. Due to the absence of law enforcement precedents based on the new rules, consequences of any disputes with tax authorities relating to prices can not be estimated reliably, but may influence the Bank's financial results and performance.

As at 31 December 2014, the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December, the Bank’s financial commitments and contingencies comprised the following:

	2014	*2013*
Less than 1 year	116,740	81,946
From 1 to 5 years	180,190	204,193
Operating lease commitments	**296,930**	**286,139**

The Bank entered into operating lease agreement for the office premises that are the Bank's location and business address. In accordance with the agreement the total period of lease is 5 years with the options of renewal upon expiry and early termination. Lease payments are increasing annually, which reflects market trends.

The Bank also entered into operating lease agreements for the cars used by the Bank in carrying out its core activities. The term of the agreements is 2 years.

During 2014 RUB 71,362 thousand are recognized as operating lease expenses in profit or loss (2013: RUB 18,306 thousand) (note 19).

(thousands of Russian Rubles)

17. Interest income

	2014	*2013*
Loans to legal entities	844,006	–
Loans to individuals	900,335	889
Loans to customers	**1,744,341**	**889**

18. Net fee and commission income

Net fee and commission income comprises:

Net fee and commission income

	2014	*2013*
Commission on factoring transactions	57,989	–
Agency commission for insurance	–	222
Fee and commission income	**57,989**	**222**
Commission for cash acceptance and transfer	28,443	–
Cash operations	617	174
Settlement operations	1,660	42
Other	–	10
Fee and commission expense	**30,720**	**226**
Net fee and commission income	**27,269**	**(4)**

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

Personnel expenses

	2014	*2013*
Personnel benefits	464,027	117,536
Payroll related taxes and charges	78,432	18,851
Total personnel expenses	**542,459**	**136,387**

Other general and administrative expenses

	2014	*2013*
Promotion expenses	92,579	–
Audit	10,880	–
Communications and information services	68,866	20,459
Business travel	15,664	1,713
Advisory services	25,733	–
Taxes other than income tax	34,403	21,014
Training, participation in conferences	648	–
Security	1,537	614
Professional services	29,092	32,516
Lease expenses (note 16)	71,362	18,306
Advertising and marketing, entertainment	51,679	6,353
Repair and maintenance of property and equipment	27,637	4,546
Telecommunication services	5,471	–
Personnel expenses	24,989	–
Low-value and short-life items, expenses for materials for administrative and other needs	2,909	–
Other	7,020	8,699
Total general and administrative expenses	**470,469**	**114,220**

(thousands of Russian Rubles)

20. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating, legal, reputational and country risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

20.1. Internal controls

The Bank has established internal controls that are harmonized with the nature and scale of transactions and the level and combination of the risks assumed.

Internal controls are aimed at, among other things, ensuring the following:

- Appropriate and comprehensive risk assessment and management process, effectiveness of financial and operational activities, efficiency of asset and liability management;
- Appropriate reliability, security and stability of the Bank in line with the nature and scale of transactions, protection of the rights of shareholders, customers and creditors of the Bank;
- Accuracy, completeness and objectivity as well as timely preparation and presentation of (statutory) financial statements, statistical and other reports and safeguarding information security;
- Compliance with statutory regulations, Bank's founding and internal documents;
- Noninvolvement of the Bank and its personnel in illegal activities, including money laundering and terrorism financing as well as ensuring timeliness of data submitted to the state agencies and the CBR.

Internal control management is performed by the following bodies within the scope of their powers as set forth in the Bank's founding and internal documents:

- General Shareholders' Meeting;
- Board of Directors;
- Management Board;
- Chairman of the Management Board;
- Audit Commission (Auditor);
- Chief Accountant / Deputy Chief Accountant;
- Internal Control, Operational Risks and Compliance Committee;
- Internal Audit Function;
- Internal Control Function;
- Risk Management Department;
- Other personnel or divisions responsible for internal control within their scope of activities.

The Bank's internal control system includes the following areas of focus:

- Control over organization of Bank's operations performed by the management bodies;
- Control over functioning of the banking risk management system and banking risk assessment;
- Control over distribution of powers with respect to banking operations and other transactions;
- Control over data flow management (information provision and transmission) and information security assurance;
- Control over anti-money laundering and counter-terrorism financing;
- Ongoing monitoring of internal control system to assess its compliance with the Bank's operating objectives, detection of deficiencies, proposal development, and control over enhancement of the Bank's internal control system ("monitoring of the internal control system").

Control and monitoring over the system of banking risk management and internal control are performed by the Bank on a regular basis as provided in its internal regulations.

The Bank takes appropriate measures to enhance internal control aimed at ensuring its effectiveness, including subject to changing internal and external factors that affect the Bank's activities.

(thousands of Russian Rubles)

20. Risk management (continued)

20.1. Internal controls (continued)

Monitoring of the internal control system is performed by the management and personnel of various business units, including departments responsible for banking operations and other transactions and their recognition in accounting and reporting as well as the Internal Audit Function and Internal Control Function/head of the Internal Control Function, auditors engaged by the Bank's shareholders.

Frequency of monitoring of various types of banking activities is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities. Audit plans of the Internal Audit Function are annually approved by the Bank's Board of Directors.

The results of the review are documented and communicated to the respective managers of the Bank and its departments.

The Bank's Internal Audit Function is formed to perform the audit and assist the Bank’s management bodies in ensuring the Bank’s effective operation, protecting interests of the Bank's shareholders and customers and continuously monitoring and assessing the effectiveness and adequacy of internal controls, including:

- the effectiveness of financial and operating activities;
- the fairness of accounting records, accuracy, completeness and objectivity of financial statements;
- the effectiveness of the risk management system;
- compliance with Russian statutory regulations, Bank’s founding and internal documents;
- the effectiveness of asset and liability management, including physical asset security.

The Bank has ensured consistency, independence and objectivity of the Internal Audit Function, professional qualification of its head and personnel, also there has been established environment for the Internal Audit Function to comply with its duties efficiently and smoothly. The Internal Audit Function operates under direct control of the Board of Directors.

The Bank has established the procedures of:

- control (including additional audits) over measures taken to eliminate violations identified by the Internal Audit Function;
- reporting of the Internal Audit Function at least semiannually on the measures taken to follow the recommendations and to eliminate the identified violations to the Board of Directors.

20.2. Credit risk

Credit risk is the risk that the Bank will incur a loss because its borrowers or counterparties failed to discharge their contractual obligations.

The Bank has developed credit policies and procedures for the financing of end consumers and dealers which provide guidelines on evaluation of the borrower's financial performance, procedure for lending decision-making, control over timely repayment of loans.

Credit risk management is performed through:

- monitoring;
- setting limitation;
- diversification;
- scenario analysis.

In accordance with the requirements of the CBR the Bank limits risk concentrations per borrower or group of related borrowers, maximal large credit risk, aggregate risk on Bank’s insiders, maximum amount of loans, bank guarantees and sureties provided by the bank to its participants (shareholders). Actual exposures against limits are monitored by the Accounting Department daily.

Additionally, the Bank limits concentrations of exposure to individual customers and counterparties, as well as groups of related customers depending on the level of accepted credit risk.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(thousands of Russian Rubles)

20. Risk management (continued)

20.2. Credit risk (continued)

Credit quality per class of financial assets[i]

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

In the table below loans to banks of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. The Bank classifies liabilities of individuals and legal entities other than banks into two main categories: Standard loans, including those past due but not impaired, and individually impaired loans.

		Neither past due nor impaired					
		High grade	*Standard grade*	*Sub-standard grade*	*Standard loans*	*Individually impaired loans*	*Total*
	Notes	***2014***	***2014***	***2014***	***2014***	***2014***	***2014***
Cash and cash equivalents	5	–	–	–	9,029,845	–	**9,029,845**
Amounts due from credit institutions	6	–	–	–	1,351,258	–	**1,351,258**
Loans to customers:	8						
Individuals		–	–	–	21,078,435	23,961	**21,102,396**
Legal entities		–	–	–	5,023,708	316,917	**5,340,625**
Total		–	–	–	**36,483,246**	**340,878**	**36,824,124**

As of 31 December 2013, the Bank had no amounts due from credit institutions or loans issued to legal entities. All loans issued to individuals were classified as high quality loans and were not past due.

		Neither past due nor impaired					
		High grade	*Standard grade*	*Sub-standard grade*	*Standard loans*	*Individually impaired loans*	*Total*
	Notes	***2013***	***2013***	***2013***	***2013***	***2013***	***2013***
Cash and cash equivalents	5	–	–	–	5,230,883	–	**5,230,883**
Loans to customers:	8						
Individuals		–	–	–	250,857	–	**250,857**
Legal entities		–	–	–	–	–	–
Total		–	–	–	**5,481,740**	–	**5,481,740**

Past due loans include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

Aging analysis of past due but not impaired loans per class of financial assets

		Less than 30 days	*31 to 90 days*	*Total*
	Notes	***2014***	***2014***	***2014***
Amounts due from credit institutions		–	–	**–**
Loans to customers:	8			
Individuals		120,597	19,869	**140,466**
Legal entities		–	–	**–**
Total		**120,597**	**19,869**	**140,466**

As of 31 December 2013, the Bank had no amounts overdue.

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

i The totals should reconcile to the respective items of the IFRS statement of financial position.

(thousands of Russian Rubles)

20. Risk management (continued)

20.3. 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 interest rate, equity financial instruments exposed to general and specific market movements and changes in the level of volatility of market prices and currency exchange rates.

The purpose of market risk management is to maintain the risk accepted by the Bank at the appropriate level defined by the Bank subject to its business strategy. The priority is to ensure maximum safety of assets and equity by reducing (excluding) the possibility of loss incurred on the Bank's operations at financial markets as well as other Bank's operations involving the acceptance of risk exposure.

The Bank manages its market risk by setting open position limits in relation to interest rate repricing and currency positions and stop-loss limits which are monitored on a monthly basis and reviewed and approved by the Management Board.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

As of 31 December 2014 and 2013, a reduction in the value of the Russian ruble to other currencies would have caused increase (reduction) in equity and profit or loss as indicated in the following table. This analysis was performed net of tax and is based on 10% change in currency exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014	***2013***
10% appreciation of USD against RUB	703	4
10% appreciation of EUR against RUB	10,857	2
10% appreciation of JPY against RUB	14,493	–

As of 31 December 2014 and 2013, the appreciation of the Russian ruble against the above-mentioned currencies would produce the reverse effect with all other variables held constant.

(thousands of Russian Rubles)

20. Risk management (continued)

20.3 Market risk (continued)

The table below discloses the Bank's currency risk exposure as of 31 December 2014 and 2013. Currency risk is limited and controlled based on the balance between open current position and the Bank's equity. This ratio cannot exceed 10% for each foreign currency and 20% of overall amount of open positions.

	2014					*2013*			
	RUB	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*JPY (RUB equivalent)*	*Total*	*RUB*	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*Total*
Assets									
Cash and cash equivalents	7,646,879	7,028	1,375,935	13	**9,029,855**	5,228,928	1,224	741	**5,230,893**
Obligatory reserve with the CBR	115,696	–	–	–	**115,696**	14	–	–	**14**
Amounts due from credit institutions	1,337,745	–	–	–	**1,337,745**	–	–	–	**–**
Derivative financial instruments	1,230,707	–	–	–	**1,230,707**	–	–	–	**–**
Loans to customers	25,609,447	–	–	–	**25,609,447**	250,857	–	–	**250,857**
Property and equipment	26,165	–	–	–	**26,165**	28,328	–	–	**28,328**
Intangible assets	562,519	–	–	–	**562,519**	759,847	–	–	**759,847**
Deferred income tax assets	68,605	–	–	–	**68,605**	5,726	–	–	**5,726**
Other assets	337,282	–	–	–	**337,282**	42,139	–	–	**42,139**
Total assets	**36,935,045**	**7,028**	**1,375,935**	**13**	**38,318,021**	**6,315,839**	**1,224**	**741**	**6,317,804**
Liabilities									
Amounts due to the CBR	1,002,404	–	–	–	**1,002,404**	–	–	–	**–**
Amounts due to credit institutions	14,976,706	–	4,104,075	–	**19,080,781**	–	–	–	**–**
Derivative financial liabilities	169,653	–	–	–	**169,653**	–	–	–	**–**
Amounts due to customers	3,292,766	–	410,090	5,900,614	**9,603,470**	3,960	–	–	**3,960**
Deferred income tax liabilities	–	–	–	–	**–**	–	–	–	**–**
Other liabilities	977,282	–	–	–	**977,282**	53,056	–	–	**53,056**
Total liabilities	**20,418,811**	**–**	**4,514,165**	**5,900,614**	**30,833,590**	**57,016**	**–**	**–**	**57,016**
Net balance sheet position	**16,516,234**	**7,028**	**(3,138,230)**	**(5,900,601)**	**7,484,431**	**6,258,823**	**1,224**	**741**	**6,260,788**
Off balance sheet liabilities	**–**	**–**	**3,246,804**	**6,045,527**	**9,292,331**	**–**	**–**	**–**	**–**
Net position	**16,516,234**	**7,028**	**108,574**	**144,926**	**16,776,762**	**6,258,823**	**1,224**	**741**	**6,260,788**

(thousands of Russian Rubles)

20. Risk management (continued)

20.4. Interest risk

Interest risk – risk of financial losses resulted by unfavorable changes of interest rates. Interest rate risk can be reflected in variations, the Bank's net interest income and a change in the market value of assets and liabilities that are sensitive to changes in interest rates.

To calculate and monitor interest rate risk, the Bank uses the methodology of the reporting form the Bank of Russia 0409127 "Information on interest rate risk", approved Statute № 2332-U dated 12 November 2009. In the calculation of the Bank includes all the balance sheet, as well off-balance sheet instruments financial instruments that are sensitive to changes in interest rates, with the exception of off-balance sheet instruments, for which the total interest rate risk is calculated in accordance with the Regulation number 387-P. Such off-balance sheet financial instruments include currency-interest rate swap contracts.

31 December 2014	*Less than 30 days*	*31-90 days*	*91-180 days*	*181 days – 1 year*	*More than 1 year*	*Not sensitive to changes in interest rates*	*Total*
Total balance sheet and off-balance sheet assets	13,307,425	4,363,454	3,215,415	3,507,558	15,147,217	2,297,956	**41,839,025**
Total balance sheet and off-balance sheet liabilities	6,625,310	7,990,286	5,245,224	3,955,310	7,577,303	9,921,662	**41,315,095**
Cumulative GAP	**6,682,115**	**(3,626,832)**	**(2,029,809)**	**(447,752)**	**7,569,914**	**x**	**x**
GAR ratio (accumulated cumulative relative GAP)	2.01	1.21	1.05	1.02	**x**	**x**	**x**
Changes in net interest income:							
+400 basis points	256,139	(120,890)	(50,745)	(4,478)	x	x	**x**
-400 basis points	(256,139)	120,890	50,745	4,478	x	x	**x**
Time factor	0.9583	0.8333	0.625	0.25	x	x	**x**

31 December 2013	*Less than 30 days*	*31-90 days*	*91-180 days*	*181 days – 1 year*	*More than 1 year*	*Not sensitive to changes in interest rates*	*Total*
Total balance sheet and off-balance sheet assets	4,794,074	363,335	19,391	43,069	177,616	910,955	**6,308,440**
Total balance sheet and off-balance sheet liabilities	–	–	–	–	–	6,308,440	**6,308,440**
Cumulative GAP	**4,794,074**	**363,335**	**19,391**	**43,069**	**177,616**	**x**	**x**
GAR ratio (accumulated cumulative relative GAP)	–	–	–	–	**x**	**x**	**x**
Changes in net interest income:							
+400 basis points	183,766	12,111	485	431	x	x	**x**
-400 basis points	(183,766)	(12,111)	(485)	(431)	x	x	**x**
Time factor	0.9583	0.8333	0.625	0.25	x	x	**x**

The tables below summarizes the impact on the income statement and the capital of the assumed changes in interest rates in the direction of a possible increase or decrease by 400 basis points. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

31 December 2014	*Effect on profit before income tax effect*	*Effect on equity*
Increase in basis points (+400)	80,026	80,026
Decrease in basis points (-400)	(80,026)	(80,026)

31 December 2013	*Effect on profit before income tax effect*	*Effect on equity*
Increase in basis points (+400)	196,793	196,793
Decrease in basis points (-400)	(196,793)	(196,793)

(thousands of Russian Rubles)

20. Risk management (continued)

20.5. Operational risk

Operational risk is one of the main risks inherent to the Bank's operations. Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and/or non-compliance with applicable legislation of internal practices and procedures of banking and other transactions, their breach by the employees of the Bank and/or other persons (through inadvertent or deliberate actions or omission to act), inappropriate (insufficient) functionalities (specifications) of IT and other systems applied by the Bank and/or their failures (malfunctions), or ensuing from the effect of external events.

The Bank's operational risk management policy involves prevention of operational risk and identification of new operational risks arising in the course of the Bank's activities and also develops procedures to identify, evaluate and prevent these risks.

The Bank manages its operational risk in accordance with CBR Letter No. 76-T of 24 May 2005 *On organizing management of operational risks in credit institutions* and recommendations of the Basel Committee on banking supervision.

Operational risk management system is based on principle of segregating powers and duties among all levels of the Bank's Management.

Risk management department regularly provides operational risk report that covers data on the level of operational risk across the Bank's business lines, risk mitigation measures, etc. The report is presented to heads of structural units, executive bodies and the Board of Directors.

The Bank assesses operational risk in accordance with CBR Regulation No. 346-P of 3 November 2009 *On the procedure for calculating operational risk exposure*.

Compliance with prudential ratios

During 2014 and 2013, the Bank complied with prudential ratios set by the CBR.

20.6. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations or make current payments on instructions of its customers unless it will restructure its assets and/or urgently mobilize adequate funds for making such payments. Liquidity risk arises when the maturity of assets and liabilities does not match.

Liquidity management policy was developed in the Bank to ensure control over liquidity and meet its payment obligations in full and on a timely basis. The liquidity management policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- development of fund-raising plans using borrowed funds;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and projected cash flows arising from projected future business. Then it provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term funds in credit institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Any decisions on the liquidity management policy are taken by the Finance Committee and implemented by the Treasury. Summary of the report prepared by the Treasury is communicated to the Management of the Bank and the Board of Directors.

(thousands of Russian Rubles)

20. Risk management (continued)

20.6 Liquidity risk (continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

	2014, %	*2013, %*
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	152.13	2,532.10
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	195.60	27,189.00
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	95.67	3.20

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2014	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Amounts due to the CBR	1,002,404	–	–	–	–	–	**1,002,404**
Amounts due to credit institutions	1,025,890	5,399,122	9,096,391	4,300,583	–	–	**19,821,986**
Derivative financial liabilities	–	–	169,653	–	–	–	**169,653**
Amounts due to customers	3,069,586	2,711,892	571,142	3,444,951	–	–	**9,797,571**
Other liabilities	377,354	587,326	12,602	–	–	–	**977,282**
Total liabilities	**5,475,234**	**8,698,340**	**9,849,788**	**7,745,534**	**–**	**–**	**31,768,896**

As at 31 December 2013	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Amounts due to the CBR	–	–	–	–	–	–	**–**
Amounts due to credit institutions	–	–	–	–	–	–	**–**
Derivative financial liabilities	–	–	–	–	–	–	**–**
Amounts due to customers	3,960	–	–	–	–	–	**3,960**
Other liabilities	4,948	16,553	31,555	–	–	–	**53,056**
Total liabilities	**8,908**	**16,553**	**31,555**	**–**	**–**	**–**	**57,016**

Risks assumed by the Bank

(thousands of Russian Rubles)

20. Risk management (continued)

20.6. Liquidity risk (continued)

As of 31 December 2014, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	9,029,855	–	–	–	–	–	**9,029,855**
Obligatory reserve with the CBR	–	–	–	–	–	115,696	**115,696**
Amounts due from credit institutions	1,337,745	–	–	–	–	–	**1,337,745**
Derivative financial assets	626,732	–	–	603,975	–	–	**1,230,707**
Loans to customers	723,327	3,883,745	6,468,970	14,515,103	18,302	–	**25,609,447**
Property and equipment	–	–	–	–	–	26,165	**26,165**
Intangible assets	–	–	–	–	–	562,519	**562,519**
Deferred income tax assets	–	–	–	–	–	68,605	**68,605**
Other assets	241,715	61,942	15,118	18,507	–	–	**337,282**
Total assets	**11,959,374**	**3,945,687**	**6,484,088**	**15,137,585**	**18,302**	**772,985**	**38,318,021**
Liabilities							
Amounts due to the CBR	1,002,404	–	–	–	–	–	**1,002,404**
Amounts due to credit institutions	1,019,562	5,318,165	8,638,980	4,104,074	–	–	**19,080,781**
Derivative financial liabilities	–	–	169,653	–	–	–	**169,653**
Amounts due to customers	3,066,793	2,672,121	561,553	3,303,003	–	–	**9,603,470**
Other liabilities	377,354	587,326	12,602	–	–	–	**977,282**
Total liabilities	**5,466,113**	**8,577,612**	**9,382,788**	**7,407,077**	**–**	**–**	**30,833,590**
Net position	**6,493,261**	**(4,631,925)**	**(2,898,700)**	**7,730,508**	**18,302**	**772,985**	**7,484,431**

As of 31 December 2013, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	4,877,933	352,960	–	–	–	–	**5,230,893**
Obligatory reserve with the CBR	–	–	–	–	–	14	**14**
Loans to customers	17,003	18,705	63,063	151,459	627		**250,857**
Property and equipment	–	–	–	–	–	28,328	**28,328**
Intangible assets	–	–	–	–	–	759,847	**759,847**
Deferred income tax assets	–	–	–	–	–	5,726	**5,726**
Other assets	28,176	–	293	13,670	–	–	**42,139**
Total assets	**4,923,112**	**371,665**	**63,356**	**165,129**	**627**	**793,915**	**6,317,804**
Liabilities							
Amounts due to customers	3,960	–	–	–	–	–	**3,960**
Other liabilities	4,948	16,553	31,555	–	–	–	**53,056**
Total liabilities	**8,908**	**16,553**	**31,555**	**–**	**–**	**–**	**57,016**
Net position	**4,914,204**	**355,112**	**31,801**	**165,129**	**627**	**793,915**	**6,260,788**

(thousands of Russian Rubles)

20. Risk management (continued)

20.7. Legal risk

Legal risks inherent to the Bank's activities are as follows:

- Risks to perform transactions that are considered invalid in compliance with the applicable legislation of the Russian Federation;
- Risks to conclude agreements containing inadequate provisions concerning the Bank's responsibility or provisions that may cause significant impairment of assets or growing liabilities of the Bank;
- Risks associated with a possible unfavorable outcome of litigations involving the Bank;
- Risks arising from changes in applicable legislation and judicial practices pertaining to key business issues of the Bank.

To manage the legal risk, the Bank applies internal rules for the approval and sign-off of legally significant documents. As regards its core activities, the Bank develops and uses standard contract templates as well as regularly monitors effective legislation and promptly communicates key changes that are significant to the Bank to its management and personnel of the business units involved. The Bank has internal rules for the approval and sign-off of Bank's responses to certain claims (complaints) made by its customers and requests submitted by state authorities. Moreover, the Bank has a process in place ensuring that new contracts that are significant to the Bank comply with effective legislation and that counterparties that are legal entities have due legal capacity. The overall law enforcement practice applicable to the Bank operations is being established.

The above risks are not specific to the Bank but inherent to all financial institutions.

Current and potential claims against the Bank

As of 31 December 2014, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial and business performance.

20.8. Strategic risk

Strategic risk is a risk of losses which the Bank may incur as result of mistakes (deficiencies) in making decisions defining the Bank's strategy due to lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lack or insufficient resources required (financial, material and technical, etc.).

The Management Board formulates development strategy of the Bank for a period from three to five years as well as business plan for the current financial year that are approved by the Board of Directors. The Management Board provides results of business plan implementation in the current financial year on a monthly basis and results of development strategy implementation on an annual basis.
The Management Board introduces respective amendments to the strategy and the business plan, if required, and they are approved by the Board of Directors.

20.9. Reputational risk

The Bank has consistent corporate reputation, promotes positive image of the Bank, quality of its services and nature of its business in general, based on the actual operating results. The risk that the Bank may incur losses as a result of business reputation deterioration is assessed by the Management of the Bank as minimal.

20.10. Country risk

Country risk (including non-payment risk) is a risk that the Bank may incur losses as a result of foreign counterparties (legal or individual persons) failing to meet their obligations or doing that improperly due to economic, political and social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to specifics of the national legislation (irrespective of the counterparty’s financial position).

The Bank is the resident in the Russian Federation and is operating in the Russian Federation.

The Bank engages in transactions with non-resident counterparties registered in the EU and Japan.

(thousands of Russian Rubles)

21. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of 31 December 2014, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	–	9,029,855	–	**9,029,855**
Amounts due from credit institutions	–	1,337,745	–	**1,337,745**
Loans to customers	–	–	23,819,670	**23,819,670**
Derivative financial instruments	–	1,230,707	–	**1,230,707**
Other assets	–	–	337,282	**337,282**
Total assets for which fair values are disclosed	**–**	**11,598,307**	**24,156,952**	**35,755,259**
Liabilities for which fair values are disclosed				
Amounts due to the CBR	–	1,002,404	–	**1,002,404**
Amounts due to credit institutions	–	19,025,595	–	**19,025,595**
Amounts due to customers	–	–	9,111,580	**9,111,580**
Derivative financial instruments	–	169,653	–	**169,653**
Other liabilities	–	–	977,282	**977,282**
Total liabilities for which fair values are disclosed	**–**	**20,197,652**	**10,088,862**	**30,286,514**

As of 31 December 2013, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	–	5,230,893	–	**5,230,893**
Loans to customers	–	–	250,857	**250,857**
Other assets	–	–	42,139	**42,139**
Total assets for which fair values are disclosed	**–**	**5,230,893**	**292,996**	**5,523,889**
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	3,960	**3,960**
Other Liabilities	–	–	53,056	**53,056**
Total liabilities for which fair values are disclosed	**–**	**–**	**57,016**	**57,016**

(thousands of Russian Rubles)

21. Fair value measurements (continued)

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2014			*31 December 2013*		
	Carrying amount	*Fair value*	*Unrecognized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognized gain/(loss)*
Financial assets						
Cash and cash equivalents	9,029,855	9,029,855	–	5,230,893	5,230,893	–
Amounts due from credit institutions	1,337,745	1,337,745	–	–	–	–
Loans to customers	25,609,447	23,819,669	(1,789,778)	250,857	250,857	–
Other assets	337,282	337,282	–	42,139	42,139	–
Total financial assets	**36,314,329**	**34,524,551**	**(1,789,778)**	**5,523,889**	**5,523,889**	**–**
Financial liabilities						
Amounts due to the CBR	1,002,404	1,002,404	–	–	–	–
Amounts due to credit institutions	19,080,781	19,025,595	55,186	–	–	–
Amounts due to customers	9,603,470	9,111,580	491,890	3,960	3,960	–
Other Liabilities	977,282	977,282	–	53,056	53,056	–
Total financial liabilities	**30,663,937**	**30,116,861**	**547,076**	**57,016**	**57,016**	**–**
Total unrecognized change in fair value	**5,650,392**	**4,407,690**	**(1,242,702)**	**5,466,873**	**5,466,873**	**–**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

22. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

22.1. Transactions with the members of the Supervisory Board and the Management Board

The total compensations to the members of the Supervisory Board and the Management Board included in personnel expenses in 2014 and 2013 amounted to RUB 43,708 thousand and RUB 10,402 thousand, respectively.

22.2. Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions.

(thousands of Russian Rubles)

22. Related party disclosures (continued)

22.2. Transactions with related parties (continued)

The Bank entered into transactions with related parties as part of its normal business. There is no increased risk of arrears or other unfavorable events resulting from such transactions.

The Bank's related parties are as follows:

As a result of a share sale and purchase transaction, BARN B.V., a limited liability company (the Kingdom of the Netherlands) became the Bank's sole shareholder as of 30 August 2013. Ownership interest: 100.00% (prior to 30 August 2013 – CJSC UniCredit Bank).

The direct owners of the Bank are:

- UniCredit Bank Austria AG – 40%;
- Renault S.A., France – 30%;
- Nissan Motor Co., Ltd., Japan – 30%.

	31 December 2014	*31 December 2013*
Shareholders	BARN B.V.	
Transactions with other related parties	AO UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. Renault Finance S.A. RNGM S.A. OOO Nissan Manufacturing RUS OOO RN Finance RUS Representative office of RCI Banque S.A. CJSC Renault Russia SOGESMA S.A.R.L.	AO UniCredit Bank OOO RN Finance RUS Representative office of RCI Banque S.A. RNGM S.A.

The outstanding balances of, and gains and losses resulting from, transactions with related parties are presented below:

	31 December 2014		*31 December 2013*	
	Shareholder	***Other related parties***	***Shareholder***	***Other related parties***
Assets				
Cash and cash equivalents	–	1,968,015	–	1,022,194
Loans to customers	–	117,140	–	–
Financial assets at fair value through profit or loss	–	1,230,707	–	–
Other assets	–	12,413	–	5,000
Total assets	**–**	**3,328,275**	**–**	**1,027,194**
Liabilities				
Amounts due to credit institutions	–	18,061,218	–	–
Financial liabilities at fair value through profit or loss	–	169,653	–	–
Amounts due to customers	410,090	8,724,198	–	–
Other liabilities	–	38,946	–	16
Total liabilities	**410,090**	**26,994,015**	**–**	**16**
Commitments and guarantees received	–	13,905	–	–

	31 December 2014		*31 December 2013*	
Interest income	–	651,413	54,583	35,425
Interest expense	(919)	(577,698)	(31,890)	–
Fee and commission income	–	53,066		–
Fee and commission expense	–	(16,663)		16
Net gains and losses from financial instruments	–	1,077,660		–
Other operating income	–	4,604	353	7,000
Other operating expenses	–	(31,444)	(22,081)	–

In 2014, no assets were purchased from the shareholder.

(thousands of Russian Rubles)

23. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using the ratios established by the CBR.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

24. CBR capital adequacy ratio

Under the requirements set by the CBR, banks have to maintain a capital adequacy ratio of at least 10% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

As of 31 December 2014 and 2013, the Bank's capital adequacy ratio calculated on this basis was 22.73% and 367.5%, respectively.

	31 December 2014	*31 December 2013*
Share capital (ordinary shares)	3,269,000	1,269,800
Share premium	5,580,800	5,580,000
Loss of the current year	(641,405)	(759,428)
Loss of prior years	(373,139)	(593,258)
Intangible assets	(2,843)	(420)
Negative additional paid-in capital (accounts receivable overdue more than 30 days)	(8)	–
Equity (capital)	**7,832,405**	**5,496,694**

In 2014 and 2013, the Bank's operations complied with all externally imposed capital requirements.

25. Events after the reporting date

The following non-adjusting events occurred between the reporting date and the date of the financial statements:

- At the end of January 2015, the CBR lowered the key interest rate by 2 percentage points to 15%.
- In 16 March 2015 the CBR lowered the key interest rate by 1 percentage points to 14%.
- In January 2015, the downward trend of the Russian ruble continued and at the end of January the ruble exchange rates against major foreign currencies were as follows: RUB 68.93 per USD 1 and RUB 78.11 per EUR 1.
- In February 2015, the Russian currency regained some of its strength and at the end of the month its exchange rates against major foreign currencies were as follows: RUB 61.27 per USD 1 and RUB 68.69 per EUR 1.

No other non-adjusting events relating to the Bank's activities occurred between the reporting date and the date of the 2014 financial statements.

Chairman of the Management Board
Bruno Robert Louis Kintzinger

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067 РОССИЯ Г.М

Chief Accountant
Darya Lvova