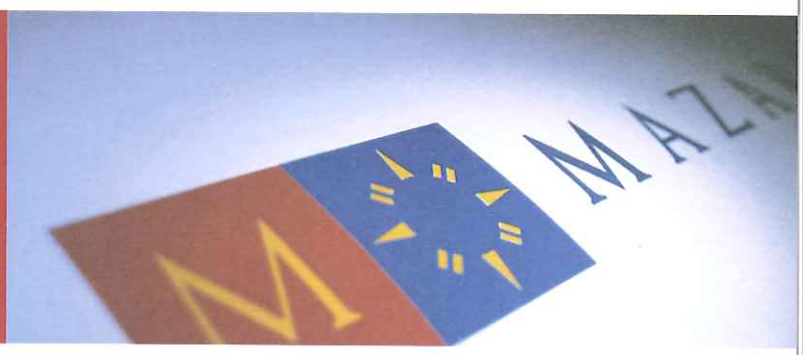
MAZARS



Natixis Bank JSC

Financial Statements

For the year ended 31 December 2014

Table of Contents

Independent auditor's report

Statement of financial position 1
Statement of comprehensive income 2
Statement of changes in equity 3
Statement of cash flows 4

Notes to the financial statements

1 Principal activities 5
2 Operating environment 5
3 Accounting basis 6
4 Significant accounting policies 9
5 Cash and cash equivalents 19
6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions 19
7 Due from banks 20
8 Loans to customers 21
9 Property, equipment and intangible assets 22
10 Due to banks 23
11 Customer accounts 23
12 Other assets and other liabilities 24
13 Subordinated loan 24
14 Share capital 24
15 Retained earnings 25
16 Interest income and expense 25
17 Fee and commission income and expense 26
18 Operating expenses 26
19 Income tax 27
20 Dividends 28
21 Financial risk management 28
22 Contingent liabilities and derivative financial instruments 41
23 Fair value of financial instruments 43
24 Offsetting of financial assets and financial liabilities 44
25 Transactions with related parties 46
26 Capital management 47
27 Effect of estimates and assumptions on recognized assets and liabilities 47

MAZARS

Translation from original in Russian

AUDIT OPINION

To the Shareholders of Joint Stock Company Natixis Bank

Audited entity

Name: Joint Stock Company Natixis Bank (Natixis Bank JSC).

Primary state registration number: 1037739058180.

Registration number in the CBR 3390 dated 17.01.2002.

Location: 127051, Moscow, Tsvetnoi boulevard, 2.

Auditor

Name: Joint Stock Company "Mazars" (JSC "Mazars").

Primary state registration number: 1027739734219.

Location: 5/19 Nizhniy Susalniy pereulok, Moscow, 105064.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - Noncommercial Partnership "Moscow Audit Chamber". The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 10303044761.

We have audited the annual financial statements of Natixis Bank JSC (the "Bank") which comprise of the statement of financial position as of December 31, 2014, statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of annual 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 these annual financial statements based on our audit. We conducted our audit in accordance with Russian Federal Standards on Auditing and 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank preparation and fair presentation of the annual 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 Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual 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 annual financial statements give a true and fair view of the financial position of the Bank as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The report on the audit results presented in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990.

The Bank's management is responsible for the Bank's compliance with the mandatory regulations established by the Bank of Russia, as well as for the conformity of the Bank's internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia.

We have tested the following within the scope of the Bank's annual audit of the annual financial statements for the year 2014 performed in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990:

- the Bank's compliance with the mandatory regulations established by the Bank of Russia as of January 1, 2015;
- the conformity of the Bank's internal control and risk management with the requirements imposed on analogous systems by the Bank of Russia.

The aforesaid audit has been limited to the procedures selected per auditor's professional judgement such as inquiries, analysis, review of documents, and comparison of the Bank's requirements, procedures and methodologies with the requirements set out by the Bank of Russia, as well as recalculations and correlation of quantitative data and other information.

Our audit disclosed the following:

- compliance with the mandatory regulations established by the Bank of Russia:
  - as of January 1, 2015 the indicators for mandatory standards stated by the Bank of Russia have remained within the limits established by the Bank of Russia

We have not conducted any procedures to evaluate the accounting data of the Bank, except for the procedures considered necessary for the purpose of expressing an opinion on whether the annual financial statements present fairly, in all material respects, its financial position as of December 31, 2014, the financial results of its activity and the cash flow for the year 2014 in accordance with International Financial Reporting Standards;

- conformity of the Bank's internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia:
  - as of December 31, 2014 the internal audit department of the Bank reports functionally and administratively to the Supervisory Board in accordance with the requirements and recommendations of the Bank of Russia; the risk management department has not reported neither functionally nor administratively to the divisions taking pertinent risks; internal audit and risk managers meet qualification requirements established by the Bank of Russia;
  - internal banking documents valid as of December 31, 2014 that set up techniques for identifying and managing key business risks including credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, and stress testings are all approved by competent governing authorities of the Bank in accordance with the requirements and recommendations of the Bank of Russia;
  - existence of the aggregate reporting system for the Bank's key risks such as credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, as well as for the Bank's own funds (capital) as of December 31, 2014;

- frequency and consistency of the 2014 reports prepared by the Bank's risk and internal audit department that cover the process of managing credit, operational, market, interest, legal, liquidity and reputation risks of the Bank have complied with internal documents of the Bank; these reports include the results on monitoring of the evaluation of the effectiveness of the Bank's applicable methodologies performed by the Bank's risk and internal audit management, as well as provide recommendations for their improvement;
- as of December 31, 2014 the Supervisory Board and its executive committee's responsibilities include monitoring of the Bank's compliance with established risk limits and sufficiency of its own funds (capital). In order to monitor the effectiveness of the applicable procedures of risk monitoring and consistency of their application during 2014 by the Bank, the Supervisory Board and its executive committee have been periodically discussing the reports prepared by the risk and internal control management, have also been considering proposed corrective measures with the purpose of controlling the effectiveness and the consistency of the adopted risk management procedures.

Procedures for testing the internal control and risk management systems of the Bank have been performed by us solely for the purpose of verifying the compliance of the Bank's internal control and risk management systems with the requirements imposed on analogous banking systems by the Bank of Russia.

JSC «Mazars»

Auditor

"Мазар" "Mazars S.A." ИНН 7716057427 МОСКВА ОГРН 1027739342419

Lytov S.I.

(auditor's qualification certificate № 03-000074 issued in accordance with order of SRO MOAP #166 dd November 30, 2011, OPH3 20903038266 for unlimited period of time).

May 07, 2015

Natixis Bank JSC
Statement of financial position as at 31 December 2014
(in thousands of Russian Rubles)

	Notes	2014	2013
Assets			
Cash and cash equivalents	5, 25	4 340 131	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation		216 552	143 569
Financial assets at fair value through profit or loss and spot transactions	6, 25	16 789 148	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	6	-	718 609
Due from banks	7, 25	4 068 528	3 906 970
Loans to customers	8	15 450 319	11 345 056
Property, equipment and intangible assets	9	59 482	3 411
Deferred income tax assets	19	43 435	-
Other assets	12, 25	14 994 228	184 827
Total assets		**55 961 823**	**19 952 826**
Liabilities			
Financial liabilities at fair value through profit or loss and spot transactions	6, 25	15 960 905	419 782
Due to banks	10, 25	24 716 866	13 349 389
Customer accounts	11	2 652 365	2 660 494
Other liabilities	12, 25	8 206 181	63 297
Subordinated loan	13, 25	1 829 519	1 204 252
Deferred income tax liability	19	150 588	8 736
Total liabilities		**53 516 424**	**17 705 950**
Equity			
Share capital	14	1 153 089	1 153 089
Share premium		50 367	50 367
Retained earnings	15	1 241 943	1 043 420
Total equity		**2 445 399**	**2 246 876**
Total liabilities and equity		**55 961 823**	**19 952 826**

E.A.Hodakova
Deputy Chairman of the Board

07 May 2015

«Натиксис Банк АО»
Natixis Bank JSC

I.A.Komarova
Chief Accountant

07 May 2015

The notes on pages 4-47 form an integral part of these financial statements.
Translation from the original in Russian language

Natixis Bank JSC
Statement of comprehensive income for the year ended 31 December 2014
(in thousands of Russian Rubles)

	Notes	2014	2013
Interest income	16, 25	686 108	835 665
Interest expense	16, 25	(355 540)	(427 585)
Net interest income before provision for impairment losses on interest-bearing assets		**330 568**	**408 080**
Recovery/charge of provision for impairment losses on interest bearing assets	8	-	-
Net interest income		**330 568**	**408 080**
Net gain on financial assets and liabilities at fair value through profit or loss		74 341	19 980
Net (loss)/ gain on foreign exchange operations		(59 666)	24 983
Net gain from revaluation of items in foreign currencies		503 236	130 290
Fee and commission income	17	88 545	67 750
Fee and commission expense	17, 25	(91 873)	(63 553)
Provision for impairment losses on other assets	12	(167)	(117)
Other income		21 049	3 024
Operating income		**866 033**	**590 437**
Operating expenses	18, 25	(378 894)	(291 563)
Profit before income tax		**487 139**	**298 874**
Income tax expense	19	(98 417)	(67 458)
Net profit for the period		**388 722**	**231 416**
Comprehensive income for the period		**388 722**	**231 416**

E.A.Hodakova
Deputy Chairman of the Board

07 May 2015

«Натиксис Банк АО» Natixis Bank JSC

I.A.Komarova
Chief Accountant

07 May 2015

The notes on pages 4-47 form an integral part of these financial statements.
Translation from the original in Russian language

Natixis Bank JSC
Statement of Changes in Equity for the Year Ended 31 December 2014
(in thousands of Russian Rubles)

	Share capital	Share premium	Retained earnings	Total equity
Balance at 31 December 2012	**1 153 089**	**50 367**	**1 249 893**	**2 453 349**
Comprehensive income	-	-	231 416	231 416
Dividends paid	-	-	(437 889)	(437 889)
Balance at 31 December 2013	**1 153 089**	**50 367**	**1 043 420**	**2 246 876**
Comprehensive income	-	-	388 722	388 722
Dividends paid	-	-	(190 199)	(190 199)
Balance at 31 December 2014	**1 153 089**	**50 367**	**1 241 943**	**2 445 399**

E.A.Hodakova
Deputy Chairman of the Board

07 May 2015

«Натиксис Банк АО»
Natixis Bank JSC

I.A.Komarova
Chief Accountant

07 May 2015

The notes on pages 4-47 form an integral part of these financial statements.
Translation from the original in Russian language

Natixis Bank JSC
Statement of Cash Flows for the Year Ended 31 December 2014
(in thousands of Russian Rubles)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		671 450	894 986
Interest paid		(346 175)	(424 407)
(Loss)/ gain on foreign exchange operations		(663 548)	50 613
(Loss)/ gain on financial assets at fair value through profit or loss		(29 726)	9 352
Commission received		88 545	67 750
Commission paid		(88 474)	(60 789)
Other operating income received		1 406	22 664
Other operating expenses paid		(328 791)	(276 852)
Income taxes refunded		-	37 564
Cash (outflow)/ inflow from operating activities before changes in operating assets and liabilities		**(695 313)**	**320 881**
Changes in operating assets and liabilities			
Net (increase)/decrease in minimum reserve deposits with the Central Bank of the Russian Federation		(72 983)	177 922
Net decrease in financial assets at fair value through profit or loss		2 028 562	598 710
Net decrease in due from banks		443 778	1 282 424
Net decrease in loans to customers		2 693 656	1 318 660
Net (increase)/decrease in other assets		(12 872 655)	7 178
Net increase/(decrease) in due to banks		3 338 504	(7 802 551)
Net (decrease)/increase in customer accounts		(1 254 942)	1 127 410
Net increase/(decrease) in other liabilities		8 112 330	(2 936)
Net cash from operating activities		**1 720 937**	**(2 972 302)**
Cash flows from investing activities			
Proceeds on disposal of property and equipment		261	397
Acquisition of property and equipment	9	(62 775)	(2 000)
Net cash used in investing activities		**(62 514)**	**(1 603)**
Cash flows from financing activities			
Repayment of subordinated loan		-	(625 556)
Subordinated loan received		-	1 055 145
Dividends paid		(190 199)	(437 889)
Net cash outflows from financing activities		**(190 199)**	**(8 300)**
Effect of exchange rate changes on cash and cash equivalents		**1 111 183**	**250 809**
Net increase/(decrease) in cash and cash equivalents		**2 579 407**	**(2 731 396)**
Cash and cash equivalents at beginning of year	5	1 760 724	4 492 120
Cash and cash equivalents at the end of the year	5	**4 340 131**	**1 760 724**

E.A.Hodakova
Deputy Chairman of the Board

07 May 2015

«Натиксис Банк АО»
Natixis Bank JSC

I.A.Komarova
Chief Accountant

07 May 2015

The notes on pages 4-47 form an integral part of these financial statements.
Translation from the original in Russian language

1 Principal activities

Natixis Bank JSC (the "Bank") is a commercial bank incorporated as a closed joint stock company in 2002. The Bank conducts its business under the banking license No. 3390 issued by the Central Bank of the Russian Federation. The Bank's primary business consists of commercial banking activities in the territory of the Russian Federation. The Bank holds a license for securities transactions and participates in the deposit insurance system.

The Bank is a subsidiary of Natixis, a legal entity incorporated under the laws of France (the "Parent Bank"), which holds a 100% stake in the Bank's share capital.

The Bank moved in 2014. The new address of the Bank, which is the same as the address of registration: Russia, Moscow, Tsvetnoi boulevard, 2.

The Bank has no branches or representative offices.

The change of the name "Natixis Bank" (ZAO) to the "Natixis Bank JSC" has been registered in the Unified State Register of Legal Entities on 13 January, 2015 to conform with changes in the legislation of the Russian Federation.

These financial statements were authorized for issue by the Bank's Management Board on 07 May, 2015.

2 Operating environment

Operating environment in the Russian Federation during the 2014 remained subject to several negative factors. In particular, recent events in Ukraine, economic sanctions and the growing political uncertainty significantly impacted the dynamics of the Russian economy, what reflected in a fall of the currency and stock markets in Russia.

The United States and the European Union imposed sanctions on several Russian officials, businessmen and organizations in March and April 2014. In April 2014, the international rating agency Standard & Poor's downgraded the Russia's foreign currency sovereign rating from «BBB» to «BBB-» with a negative outlook and confirmed it in October 2014. In March 2014, the rating agency Fitch also revised its outlook on Russia's default rating from «BBB» stable to «BBB» negative. And in January 2015 the agency Fitch downgraded the Russia's foreign currency sovereign rating from «BBB» to «BBB-» with a negative outlook. These events, especially in case of a further escalation of sanctions, may cause shortness of access of Russian business to international capital and export markets, capital flight, devaluation of the Ruble and other negative economic consequences.

The accelerated pace of consumption and the lack of income growth significantly reduced the public's ability for savings. Growth rates of retail deposits slowed during 2014. At the same time, a significant weakening of the Russian Rouble increased the attractiveness of foreign currency.

Also the great influence on negative situation in Russian economy had the decreasing of oil price from 108 USD/barrel (BRENT) as at 01 January 2014 to 58 USD/ barrel (BRENT) as at 01 January 2015. The oil price remains one of the main factor which determinate the stable of Russian economy and exchange rates.

During 2014, population significantly increased purchases of foreign currencies, with the volume exceeding the level last seen during the financial crisis in the fourth quarter 2008. The growth rate in retail lending continued to slow reflecting a relatively high debt burden of individuals and increased banks' prudence on issuing new loans due to the deteriorating credit quality of loan portfolios. Growth rate of overdue retail loans accelerated in 2014. The Russian Ruble weakening caused additional inflationary expectations, which manifested themselves in accelerated increase in consumer prices during 2014. The Bank of Russia raised its key interest rate by 2.5 percentage points to 8.0% in July 2014, to 9.5% in November 2014, to 17.0% in December 2014. In accordance with decision of Central Bank of Russia such measures can help to stop further devaluation of the Russian Rouble. The currency interventions led to a shortage of the Russian Rouble liquidity which was mostly covered by increased banking sector borrowings from the Bank of Russia.

By 2015 Central Bank of Russia had planned to complete the transition to target inflation. Major objective of monetary policy the Bank of Russia was to maintain stable low price growth. But due to unstable economic situation and devaluation of Russian Rouble inflation index has grown from 6.45% in 2013 to 11.34% in 2014.

Bank of Russia completed the transition to a floating exchange rate, removed from the November 10, 2014 exchange rate corridor that existed in various forms for nearly 20 years - since 1995.

The Bank's management is monitoring these developments in the current environment and taking actions where appropriate. Bank pays significant attention to analysis of risks of banking activity and disclosure in details risk policy in notes to financial statement.

3 Accounting basis

Basis of presentation. These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are non-consolidated financial statements of the Bank.

The Bank maintains its accounting records in accordance with the banking legislation of the Russian Federation ("RAS") and France. These financial statements have been prepared from the Russian statutory accounting records and adjusted to conform to IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate items in the statement of financial position and the statement of comprehensive income.

These financial statements have been prepared in the national currency of the Russian Federation, Russian Rubles, and presented in thousands of Russian rubles ("RUB thousand"). These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

Functional currency. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the "functional currency"). The functional currency of the financial statements is the Russian Ruble (RUB).

Adoption of new and revised standards.

The accounting policy is the same as the policy applied in the previous financial year except that the Bank adopted new, revised IAS that are obligatory for application in the annual periods beginning on or after January 1, 2014. Some new IFRSs became effective for the Bank during the period from 1 January till 31 December 2014. The following are the new and revised IFRS that are currently applicable to the Bank, as well as a description of their impact on the Bank's accounting policies.

New standards, interpretations and amendments effective from 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities;*
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities;*
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets;*
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting;*
- IFRIC 21 *Levies.*

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities. The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

There is no effect of these amendments on the consolidated financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets. The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

3 Accounting Basis (continued)

These amendements do not have any effect on the Bank's consolidated financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting. These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

There is no effect of these amendments on these financial statements as the Bank does not apply hedge accounting.

IFRIC 21 Levies. The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. There was no effect of the interpretation on these financial statements except for the change in Bank's policy.

The Bank did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective

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

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions;*
- IFRS 14 *Regulatory Deferral Accounts;*
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation;*
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements;*
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants;*
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations;*
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- IFRS 15 *Revenue from Contracts with Customers;*
- IFRS 9 *Financial Instruments.*

IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

3 Accounting Basis (continued)

Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Bank anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Classification and measurement of financial liabilities. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

Impairment. The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

3 Accounting Basis (continued)

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

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively. The management of the Bank does not anticipate that the application of these amendments will have a material impact on the Bank's consolidated financial statements.

Amendments to IAS 27 – Equity Method in Separate Financial Statements. The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Bank does not expect any impact of these amendments on the financial statements as the Bank currently does not have any investments in subsidiaries, joint ventures and associates.

The Bank will apply these Standards as they are enforced.

Key assumptions. The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the period ended. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Judgments made by the respective structural subdivision when applying the accounting policies, having a material effect on amounts recognized in the financial statements and being the most important for the financial statements are disclosed in Note 27.

4 Significant accounting policies

Key valuation techniques. The Bank uses the following methods for recognition and evaluation of financial instruments: at fair value, at amortized cost or at cost.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction. A financial instrument has a quoted market price in an active market if the quotes for such instruments are regularly determined and related information is available at the stock exchange through information and analytical systems or from other information sources, and if such quotes reflect real and regular market transactions carried out on an arm's length basis.

The fair value of financial instruments quoted at an active market is determined based on:

- Stock market quotations (quoted market prices), generally, for financial instruments traded through trade organizers;
- Demand prices for financial assets and supply prices for financial liabilities, and estimated fair value determined based on the data from information and analytic systems (e.g., Reuters and Bloomberg), market dealers and other sources.

With absence of current quoted market prices to determine the fair value the following information may be used:

- The latest quoted market price (demand/supply price) according to external independent sources, if no material changes occurred in the economic environment between the date of estimation and the reporting date;
- The actual price of the latest transaction performed by the Bank in the active market, if there were no significant changes in the economic environment between the transaction date and the reporting date.

In case of a material change in the economic environment, the latest quoted market price (price of the transaction) should be adjusted based on changes in the quoted market price (price of the transaction) for similar financial instruments. For debt securities, the latest quoted market price (price of the transaction) may be adjusted based on changes in maturity of such debt security.

4 Significant Accounting Policies (continued)

Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the Bank would receive in a forced transaction, involuntary liquidation or distress sale.

The model of discounted cash flows and the analysis of financial information on investees are used for determination of the fair value of financial instruments when the information on their quoted market prices is unavailable from external sources. If there is a method for valuation of a financial instrument widely applicable by market participants, which confirms the valuation results with the prices of actual market transactions, it can be used to determine the price of such financial instrument.

Such method may be selected for each particular case of fair value determination, and unless otherwise substantiated, valuation methods based on stock market prices and demand/supply quoted prices should be applied. Determination of the fair values of financial instruments when the information on their quoted market prices is unavailable from external sources depends on various factors, circumstances and requires application of professional judgment.

The Bank classifies the information used for determination of the fair value of a financial instrument based on the significance of the input data used for valuation, as follows:

- The current market prices for financial instruments identical with the financial instrument under evaluation (level 1);
- If the information on current quoted market prices is unavailable – the most recent market transaction price, if no significant changes in the operating environment occurred from the date of transaction, and current quoted market prices on comparable financial instruments, if the operating environment changed from the date of transaction, and the information based on observable market data (level 2);
- The prices calculated using valuation techniques with inputs not based on observable market data (level 3).

Amortized cost of a financial asset or a financial liability is the amount at which the financial instrument was measured at initial recognition, less cash received or paid (principal amount, interest income (expense) or other payments under agreement) adjusted for accumulated depreciation charged on the difference between the initially recognized amount and actually received (paid) amount on the financial instrument, and for financial asset impairment loss recognized. This difference is depreciated using effective interest rate. Accrued interest includes amortization of transaction costs deferred at initial recognition and any premiums or discounts to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expenses, including accrued coupon income and amortized discount and premium, are not presented separately but included in the carrying value of respective assets and liabilities.

With respect to variable financial assets and liabilities cash flows and effective interest rate are recalculated at the date of establishment of a new coupon (interest) rate. The effective interest rate is recalculated based on the current amortized cost and expected future payments. Current amortized cost of the financial instrument does not change, and the amortized cost is measured applying the newly established effective interest rate.

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

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, if applicable, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Bank estimates cash flows taking into account all contractual terms and conditions relating to the financial instrument (for example, the early repayment option), but not future credit losses.

Such calculation includes all fees and commission paid or received by parties to the contract and is an integral part of the effective interest rate, transaction costs and all other premiums and discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

4 Significant Accounting Policies (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of its acquisition and includes transaction costs.

Only investments in equity instruments, which have no quoted market prices and the fair value of which cannot be measured reliably, and derivative financial instruments related to such equity instruments and which are subject to extinguishment with such equity instruments are measured at cost. Transaction costs are additional costs directly related to the acquisition, issue or disposal of a financial instrument and include fees and commissions paid to agents, advisers, brokers, and dealers; levies paid to regulatory agencies and stock exchanges, and taxes and duties levied on the transfer of assets. Transaction costs do not include debt premium or discount, financing costs, internal administrative or holding costs.

Initial recognition of financial instruments. A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Gains and losses at initial recognition of a financial asset or a financial liability are only recognized if there is a difference between the transaction price and the fair value that may be substantiated through other current market transactions with the same instrument or a valuation method which is based on the available market data.

Subject to standard terms and conditions of settlements, the purchase and sale of financial assets is recognized at the transaction date, i.e. the date when the Bank must buy or sell the asset, or at the date of settlement, i.e. the date of delivery of the financial asset by the Bank or to the Bank. The selected method is applied by the Bank consistently to all purchases and sales of financial assets related to the same category of financial assets. For this purpose financial assets held for trading form a category separate from financial assets at fair value through profit or loss.

When accounting at the date of the deal, it is envisaged:

- The recognition of a financial asset receivable and the liability for its payment at the transaction date;
- The derecognition of an asset which is the subject of sale, recognition of any gain or loss on its disposal and recognition of receivables from the customer which is repayable at the transaction date.

When accounting for at the date of settlements, it is stipulated:

- The recognition of an asset at the date of transfer to the Bank;
- The derecognition of an asset and recognition of any gain or loss on its disposal at the date of delivery by the Bank.

When accounting at the date of settlements, the Bank recognizes any change in fair value of a financial asset receivable during the period between the transaction and the date of settlements, the same as it accounts for changes in value of an acquired asset, i.e. changes in value are not recognized in relation to the assets recorded at cost or amortized cost. Changes in value are included in profit or loss with respect to assets classified as financial assets at fair value through profit or loss and recognized in other comprehensive income of the statement of comprehensive income with respect to available-for-sale assets.

When accounting for at the date of settlements before settlements all transactions are classified as operations with derivative financial instruments.

Impairment of financial assets. For objective recognition of risks accepted the Bank makes allowances for loans to customers and due from banks.

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

The key indicators of impairment of a financial asset (a ‘loss event’) are as follows:

- a regular payment has been overdue and the delay happened not due to a payment system failure;
- The borrower or the issuer has significant financial problems, which may be confirmed by the borrower’s/issuer’s financial statements received by the Bank;
- The borrower or the issuer considers possible bankruptcy;
- There are unfavorable changes in the borrower’s/issuer’s solvency caused by changes in the national and regional economy, which have impact on the borrower or issuer;

4 Significant Accounting Policies (continued)

- The cost of collateral decreased considerably due to unfavorable market conditions;
- The lender, for economic or legal reasons, granted the borrower special terms of a loan that the lender would not otherwise consider;
- Assets are given out to the borrower to repay a debt on a previously provided asset;
- The lack of an active market for this financial asset due to financial difficulties of the issuer (not because the asset is no longer traded in the market);
- There is the information available on breaches by the issuer/borrower of contractual terms and conditions relating to similar financial assets.

Impairment losses on financial assets at amortized cost are recognized included profit and loss as incurred as a result of one or more events (a "loss event") occurred after the initial recognition of the financial asset.

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

If the Bank has no impartial evidence of impairment for an individually evaluated asset, regardless its materiality, this asset is included in a group of financial assets with similar parameters of credit risk and assessed for impairment in aggregate with those assets.

For the purposes of an aggregate assessment, financial assets are grouped by similar characteristics of credit risk. These characteristics relate to the assessment of future cash flows for groups of such assets and are evidence of the debtors' ability to repay all due amounts related to the assessed assets in accordance with contractual terms and conditions.

Impairment loss on a financial asset either decreases directly carrying value of the asset or is recognized by means of making a provision for possible losses on impairment of the asset in the amount necessary to decrease the carrying value of the asset to the current value of estimated future cash flows (which does not include a future loss on the loan which, presently, have not yet been incurred) discounted using the initial effective interest rate on this asset. The calculation of the discounted value of estimated future cash flows from a secured financial asset includes cash flows which may be generated as a result of realization of the collateral less selling costs, regardless of the probability of such sale.

If in the subsequent period the impairment loss on financial asset decreases, and the decrease may be related objectively to an event occurring after the impairment was recognized, and the previously recognized impairment loss is reversed in profit or loss through adjusting the allowance.

After adjustment of a loan as a result of impairment to recoverable amount, the interest income is recorded based on the interest rate which was used for discounting future cash flows in order to assess the impairment loss.

Financial assets that cannot be repaid and in relation to which the company has completed all the required procedures for partial or complete compensation and determined the total amount of loss, are written off against the allowance for impairment losses included in the statement of financial position.

If in case of a revision of the terms relating to impaired financial assets the revised terms materially differ from the previous ones, the new asset is recorded at fair value.

Derecognition of financial instruments. The Bank only derecognizes a financial asses if one of the following conditions is met:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank transfers the financial asset and this transfer complies with derecognition criteria;

A financial asset is only considered as transferred to the Bank if one of the following conditions is met:

- The Bank transfers the contractual rights to receive the cash flows related to the financial asset;
- The Bank retains its contractual rights to receive cash flows related to the financial asset, but assumes a contractual obligation to pay cash to one or more recipients, and subject to the following requirements:
- The Bank has no obligation on payments to ultimate customers, unless the Bank has received the equivalent amounts from the original customer (short-term advance payments made by the Bank with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition);
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to ultimate customers for the obligation to pay them cash flows;

4 Significant Accounting Policies (continued)

- The Bank has an obligation to remit any cash flows it collects on behalf of ultimate customers without a material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments shall be passed to the eventual recipients.

When an entity transfers a financial asset the Bank shall evaluate the extent to which it retains the risks and rewards related to ownership of the financial asset. If the Bank:

- Transfers substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall be derecognized. The rights and obligations arisen or retained upon transferring a financial asset are recognized separately as assets and liabilities;
- Retains substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall continue to be recognized;
- Neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Bank shall determine whether it retains the control over the financial asset. If the control is not retained, the Bank derecognizes the transferred financial asset. The rights and obligations arisen or retained upon transferring a financial asset are recognized separately as assets and liabilities. If the Bank retains the control over a financial asset, the Bank continues to recognize the transferred asset to the degree it continues to participate in this asset.

If financial assets are re-registered with material changes in conditions, such assets are derecognized and further recognized in the statement of financial position as newly acquired.

If financial assets are re-registered without material changes in conditions, such assets are recognized at the carrying value of the transferred financial asset.

A financial liability is derecognized in case of repayment, cancellation or expiry of this liability. If one existing financial liability is replaced with another liability to the same lender at materially different conditions or in case of making material changes in the terms of the existing liability, the original liability is derecognized and the new liability is recognized charging the difference in their carrying values to profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with commercial banks, accounts with the Central Bank of the Russian Federation and overnight deposits. All short-term interbank placements, beyond overnight deposits, are included in advances to banks.

Minimum reserve deposits with the Central Bank of the Russian Federation. Minimum reserve deposits with the Central Bank of the Russian Federation are recorded at amortized cost and represent non-interest bearing reserves with the CBR which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets and liabilities at fair value through profit or loss ("FVTPL"). This category includes financial assets at fair value through profit or loss held for trading and other financial assets designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as held for trading if it is acquired for the purpose of selling it in the near term or is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking. Derivative financial instruments having a positive fair value (i.e. potentially profitable terms) are also designated as financial assets at fair value through profit or loss held for trading unless they are derivative financial instruments designated as effective hedging instruments.

Other financial assets classified as at fair value through profit or loss comprise financial assets included in this category at initial recognition. The Bank includes financial assets in this category only if one of the following requirements is met:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise where such assets and liabilities were measured, or relevant gain or loss was recognized, using various methods;
- A group of financial assets is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy. Information about these financial assets managed on a fair value basis is submitted to the CEO.
- A financial asset includes an embedded derivative financial instrument which shall be recognized separately.

4 Significant Accounting Policies (continued)

Initially and subsequently financial assets measured at fair value through profit or loss are valued at fair value which is calculated either based on quoted market prices or applying various valuation techniques. The valuation techniques are presented in section "Key valuation techniques".

Realized and non-realized income and expenses on operations with financial assets at fair value through profit or loss are recognized in the statement of comprehensive income in the period when they were received or incurred, included in income less expenses on the operations with financial assets at fair value through profit or loss. Interest income from financial assets at fair value through profit or loss is measured using the effective interest rate method and recognized in the statement of comprehensive income as interest income on financial assets at fair value through profit or loss. Received dividends are included in other operating income in the statement of comprehensive income. The Bank classifies financial assets at fair value through profit or loss in an appropriate category at the date of acquisition. Derivative financial assets classified into this category and other financial assets classified as measured at fair value through profit or loss at initial recognition are not reclassified.

Securities repurchase and reverse repurchase agreements. Transactions on sale and repurchase of securities ("repos") which actually ensure for the counterparty income of the lender are considered as borrowing operations secured by securities. Securities transferred under repo agreements are included in financial assets at fair value through profit or loss. If terms of the transaction allow the recipient of financial assets to sell or re-pledge them, such financial assets are recorded separately in the statement of financial position as financial assets transferred without derecognition in accordance with categories from which they were transferred. Respective liabilities on the borrowings are recorded within the line "Due to banks". The difference between the sale price of the security and its repurchase price is recognized as an interest expense and accrued throughout the term of the repo using the effective interest rate method.

Transactions on purchase and resale of securities ("reverse repos") which actually ensure for the Bank income of the lender are considered as lending operations secured by securities. Securities purchased under reverse repo agreements are not recognized in the statement of financial position. Respective receivables on loans issued are included in due from banks or loans to customers.

The difference between the purchase price of the security and its resale price is recognized as interest income and accrued throughout the term of the repo agreement using the effective interest rate method. Securities provided by the Bank as loans to counterparties continue to be recognized as securities in the original line in the statement of financial position. If terms of the deal allow the recipient of the financial assets to sell or re-pledge them, such financial assets are reclassified in a separate item of statement of financial position.

Securities received as a loan are not recognized in financial statements. If such securities are sold to third parties, the financial result of purchase and sale of these securities is recorded in the statement of comprehensive income in income less expenses on operations with financial assets at fair value through profit or loss. A liability for return of these securities is recorded as held for trading at the fair value and included in financial liabilities at fair value through profit or loss.

Due from banks. Due from banks include non-derivative financial assets with fixed or defined payments not quoted in an active market issued by the Bank to counterparty banks (including the Central Bank of the Russian Federation), except for:

- Overnight deposits;
- Financial assets the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.
- Due from other banks are recognized from the date of the issuance (placement). Due from other banks are initially recognized at fair value. Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of the reclassification. Profit or loss already stated in the statement of comprehensive income as at the date of the reclassification of financial assets from "at fair value through profit or loss" are not recovered.

Further, loans issued and deposits placed are carried at amortized cost net of any allowance for impairment losses. Amortized cost is based on fair value of loan issued or deposit placed calculated using prevalent interest rates for similar loans and deposits as at the date of loan issuance or deposit placement.

4 Significant Accounting Policies (continued)

The difference between the fair value and the nominal amount of loan (deposit) arising at the origination of loans (placement of deposits) at interest rates above or below the prevailing rates is recognized in the statement of comprehensive income at the date of loan issuance (deposit placement) in income (expenses) from assets placed at the rates above (below) market rates. Subsequently, the carrying value of these loans (deposits) is adjusted by depreciation amount of this income/(expense), and the interest income is recognized in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is presented in section "Impairment of financial assets".

Loans to customers. Loans to customers include non-derivative financial assets with fixed or defined payments that are not quoted in an active market, other than:

- Financial assets that the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank after initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale after initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.

Loans to customers are initially recognized at fair value plus transaction costs (i.e. fair value of the recovery paid or received). Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of the reclassification. Profit or loss already stated in the statement of comprehensive income as at the date of the reclassification of financial assets from "at fair value through profit or loss" are not recovered.

Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method.

Loans to customers are recognized from the date of the issuance to borrowers. Loans issued at interest rates different from the market interest rates are measured as at the date of issuance at fair value which consists of future interest payments and principal debt amount discounted applying market interest rates for similar loans. The difference between the fair value and the nominal value of a loan is recognized in the statement of comprehensive income as income from the assets placed at interest rates above the market rates, or as an expense on the assets placed at interest rates below the market rates. Subsequently, the carrying value of these loans is adjusted for depreciation of income/(expense), and the respective income is recognized in the statement of comprehensive income using the effective interest rate method. The procedure for assessment of impairment of financial assets is presented in section "Impairment of financial assets".

Property and equipment and intangible assets. Property, equipment and intangible assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and amortization (for intangible assets). Property, equipment and intangible assets acquired before 1 January 2003 are carried at historical cost restated to the equivalent purchasing power of the Russian Ruble as at 31 December 2002, less accumulated depreciation.

At each reporting date the Bank assesses whether there is any indication of impairment of property and equipment and intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as an impairment loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of property, equipment and intangible assets are determined by reference to the carrying amount and included in the statement of comprehensive income. Repairs and maintenance costs are charged to the statement of comprehensive income as incurred.

Depreciation and amortization. Depreciation and amortization of property, equipment and intangible assets are applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

- Motor vehicles – 14% per annum;
- Furniture – 5-33% per annum;
- Office and computer equipment – 14-48% per annum;
- Inseparable improvements of the leased property - 8-18% per year; and
- Intangible assets – 10-33% per annum.

4 Significant Accounting Policies (continued)

Operating leases. Where the Bank is the lessee, and the risks and rewards of the ownership of leased property are not transferred by the lessor to the Bank, the total lease payments are charged by the lessee to the statement of comprehensive income on a straight-line basis over the period of the lease.

Borrowings. Borrowings include customer accounts and due to other banks**.** Borrowings are initially recorded at the fair value of the funds received, net of any transaction costs incurred. Subsequently, borrowings are stated at amortized cost, and any difference between the proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings at interest rates different from the market rates are measured as at the date of the receipt at fair value which includes future interest payments and the principal debt amount discounted using market interest rates for similar loans. The difference between the fair value and the nominal amount of borrowings is recognized in the statement of comprehensive income as income from borrowings issued at interest rates below the market rates, or as expense from borrowings issued at the rates above the market rates. Subsequently, the carrying value of these borrowings is adjusted for depreciation of initial income/(expense) from borrowings, and the respective expenses are recognized as interest expenses in the statement of comprehensive income using the effective interest rate method.

Credit commitments. The Bank assumes credit commitments including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments in case a client fails to fulfill its obligations to third parties, and exposed to the same credit risk as loans.

Commitments to issue loans with interest rates lower than market rates and financial guarantees are initially recognized at fair value which is generally confirmed by the amount of fee and commission received. This amount is amortized on a straight-line basis over the term of the commitment, with the exception to a commitment to issue a loan if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realize this loan within a short period after the issuance; such commission income related to a commitment on origination of a loan is accounted for as deferred income and included in the carrying value of the loan at initial recognition. As at the end of each reporting period liabilities are measured at the largest of the two values: amortized cost of the initial recognition and the best estimation of the expenses on settlement of the liability as at the end of the reporting period.

An allowance is made on loan commitments, if there is a probability of incurring a loss.

Share capital. Share capital is recognized at cost adjusted for inflation.

Share premium. Share premium represents the excess of contributions received in share capital over the nominal value of shares issued.

Dividends. Dividends declared after the reporting period are recognized in the events after the reporting period. If dividends are declared by the holder of equity instruments after the reporting period, such dividends are not recognized as liabilities as at the reporting date. Dividends are reported as earnings distribution in the financial statements upon approval by the general meeting of shareholders.

Subordinated loan. Subordinated loan is initially recognized at fair value. Subsequently, subordinated loan is stated at amortized cost using the effective interest rate method.

Income and expense recognition. Interest income and expense are recognized in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest rate method.

Fees and commissions related to the effective interest rate include fees and commissions received or paid in connection with formation or acquisition of a financial asset or issuance of a financial liability (for example, fees and commissions for creditworthiness assessment, evaluation and accounting of guarantees or collateral, for settlement of instrument provision conditions and for processing of transaction documents). Fees for the commitment to loan extension at market rates received by the Banks are an integral part of the effective interest rate if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realize this loan within a short period after the extension. The Bank does not classify loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

4 Significant Accounting Policies (continued)

All other commission income and other income and other expenses are generally recognized on an accrual basis over the period of service provision depending on the completeness extent of a particular transaction determined as the share of an actually rendered service in the total scope of services to be provided.

Income tax. Tax expenses are presented in the financial statements in accordance with the RF legislation currently in force. Income tax expense in the statement of comprehensive income for the year comprises current income tax and changes in deferred income tax.

Current income tax is calculated on the basis of amounts expected to be paid to tax authorities or refunded by tax authorities in respect of the taxable profit or losses for the current and prior periods using income tax rates in effect as at the end of the reporting period. Taxable profit or losses are based on estimates if financial statements are approved before the submission of respective tax returns. Other tax expense, other than income tax, is included in operating expenses.

Deferred income tax is assessed using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at income tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on income tax rates that have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognized deferred tax assets are reviewed at the end of each reporting period and recognized to the extent it is likely that future taxable profit will allow the deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes are levied by the same taxation authority. Net deferred income tax assets represent income taxes which can be utilized against future income and are recognized in the statement of financial position. A deferred tax asset arising from the carry forward of tax losses is recognized only to the extent it is probable to utilize the appropriate tax benefit.

Foreign currency revaluation. Items included in the Bank's financial statements are measured using the currency of primary economic environment where the Bank operates ("functional currency"). The financial statements are presented in the currency of the Russian Federation which is the Bank's functional currency and the currency of presentation.

Transactions denominated in foreign currency are recorded at the official exchange rate established by the Central Bank of the Russian Federation at the date of transaction.

The date of transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS.

A foreign exchange difference arising on settlements of transactions denominated in foreign currencies at exchange rates different from the official CBR rate are included in the statement of comprehensive income within income less expenses on foreign exchange operations.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rate at the date of initial recognition.

As at 31 December 2014, the official exchange rate used for revaluating foreign currency account balances was as follows:

– RUB 56.2584 to USD 1 (31 December 2013: RUB 32.7292 to USD 1);
– RUB 68.3427 to EUR 1 (31 December 2013: RUB 44.9699 to EUR 1).

At present, the currency of the Russian Federation is not a freely convertible currency in most countries outside the Russian Federation.

Derivative financial instruments. Derivative financial instruments are financial instruments which meet all of the following criteria:

– Their value changes in response to the change in an underlying variable, provided that in case of a non-financial variable this variable does not specifically relate to a party to the agreement;
– No initial investment or small initial investment is required for their acquisition;
– They are settled at a future date.

4 Significant Accounting Policies (continued)

Derivative financial instruments, including forward foreign exchange contracts and cross currency and interest rate swaps, are initially recognized in the statement of financial position at fair value and are subsequently remeasured to fair value.

Fair value is estimated using quoted market prices, discounted cash flow models, or spot rates at the year-end, depending on the type of transaction. Derivative financial instruments with positive fair values are offset against derivative financial instruments with negative fair values only when there is a legally enforceable right to offset.

Derivative financial instruments are recognized in the statement of financial position in the line "Financial assets at fair value through profit or loss" if their fair value is positive, or in the line "Financial liabilities at fair value through profit or loss", if their fair value is negative.

Changes in the fair values of derivatives are recognized in the statement of comprehensive income as income less expenses on foreign exchange operations and income less expenses on operations with financial assets at fair value through profit or loss depending on the type of transaction.

A derivative financial instrument is derecognized upon discharge of assets and liabilities under a derivative financial instrument according to a contract, as well as upon expiration of the contract maturity period. The date of derivative derecognition is the date of the discharge of assets and liabilities under a derivative according to a contract.

The Bank does not enter into transactions designated as hedge transactions under IAS 39.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle assets and liabilities net or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income except when required or permitted by accounting standards or a related interpretation and such cases are disclosed in the Bank's accounting policy.

Accounting for the effects of inflation. In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies", and therefore, the Bank ceased applying IAS 29 to current periods and only recognised the cumulative impact of inflation indexing on non-monetary elements of the financial statements to 31 December 2002. Consequently, monetary items and results of operations as of and for the years ended 31 December 2003 and all subsequent years are reported at actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

Accrued liabilities. An accrued liability is a non-financial liability of uncertain timing or amount.

Accrued liabilities are recognized if the Bank has contingent liabilities (legal or constructive) that occurred before the end of the reporting period. Meanwhile there is a high probability that outflow of economic resources will be required for the settlement of these liabilities, and the amount of liabilities can be measured reliably.

Employees' benefits and related expenses. All benefits the Bank provides to employees in exchange for their service, or termination of employment, are considered as employees' benefits.

Costs associated with payroll, including compensation and incentive payments are accrued in the period in which the associated services are rendered by the employees of the Bank, and the costs associated with the payment of accrued leave, temporary disability benefits and child care - when due. The Bank pays annual bonuses to the employees for the year. Such payments are recognized in the period for which they are paid. Payments to the state funds, which arise or occur at the time of actual obligations to employees in accordance with the legislation of the Russian Federation, are recorded in the accounting period in which the Bank accrues expenses. The Bank takes obligations related to unused vacation, employees of the Bank. Such liabilities are recognised in the statement of financial position under "Other liabilities" with simultaneous accounting in the statement of comprehensive income for the vacation related to current accounting period, or in retained earnings for the vacation related to previous reporting periods.

The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which provides for calculating current contributions by the employer as a percentage of current total payments to staff. Such expense is charged in the period when the related salaries are earned. The Bank has no post-retirement benefits or other significant compensated benefits requiring accrual. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees.

4 Significant Accounting Policies (continued)

Transactions with related parties. The Bank enters into related party transactions. Parties are considered to be related, inter alia, if one party has the ability to control the other party, is under common control with the other party, is under joint control of the other party and a third party, or may exercise significant influence over the other party in making financial or operational decisions. In considering a related party relationship, the Bank pays attention to the economic substance of such relationship and not merely the legal form.

5 Cash and cash equivalents

	2014	2013
Cash on hand	-	3 698
Balances with the Central Bank of the Russian Federation (other than minimum reserve deposit)	804 003	422 196
Correspondent accounts and overnight deposits with the banks of:		
- the Russian Federation	91	328
- other countries	3 536 037	1 334 502
Total cash and cash equivalents	**4 340 131**	**1 760 724**

Due to the move to the new office the bank closed the cash desk and ceased to engage in operations with cash. Geographical, currency and interest rate analyses of cash and cash equivalents, and analysis of counterparties by assigned ratings are disclosed in Note 21.

As at 31 December 2014 included in cash and cash equivalents was the interest accrued on correspondent accounts in the amount of RUB 126 thousand (2013: RUB 197 thousand).

6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions

	Note	2014	2013
Financial assets at fair value through profit or loss and spot transactions			
Corporate bonds		-	2 055 533
Derivative financial instruments and spot transactions	22, 25	16 789 148	552 736
Total financial assets at fair value through profit or loss and spot transactions		**16 789 148**	**2 608 269**
Financial liabilities at fair value through profit or loss and spot transactions			
Derivative financial instruments and spot transactions	22, 25	15 960 905	419 782
Total financial liabilities at fair value through profit or loss and spot transactions		**15 960 905**	**419 782**

Corporate bonds. Corporate bonds were debt securities of Russian banks and companies denominated in Russian Rubles freely tradable in the Russian Federation in organized security markets.

The following table presents the terms of corporate bonds as at 31 December 2013:

	Maturity date		Coupon rate, % per annum		Yield to maturity/offer, % per annum	
	Min.	Max.	Min.	Max.	Min.	Max.
Corporate bonds	July 2014	October 2023	7.40%	13.50%	6.10%	9.92%

6 Financial assets and financial liabilities at fair value through profit or loss and spot transactions (continued)

As at 31 December 2013, in order to mitigate the credit risk, the Bank received guarantees from the Parent Bank for certain corporate bonds in the amount of RUB 130 917 thousand.

As at 31 December 2013 financial assets at fair value through profit or loss included corporate bonds provided as security under sale and repurchase agreements with a fair value of RUB 718 609 thousand. Refer to Note 10.

Information on derivative financial instruments and spot transactions is presented in Note 22.

Geographical and currency analyses and analysis of financial assets at fair value through profit or loss by assigned ratings are disclosed in Note 21.

7 Due from banks

	2014	2013
Due from banks	4 068 528	3 132 327
Reverse sale and repurchase agreements (REPO)	-	774 643
Total due from banks	**4 068 528**	**3 906 970**

All due from banks are current and unimpaired.

As at 31 December 2014 and 2013, due from banks included accrued interest income of RUB 30 776 thousand and RUB 16 662 thousand, respectively.

As at 31 December 2014 the Bank had deposits totaling RUB 2 896 287 placed with the Parent Bank, representing 71% of the total due from banks (2013: none).

In addition, as at 31 December 2014 and 2013 the Bank had placed loans with 1 and 6 banks totaling RUB 1 172 241 thousand and RUB 3 518 471 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2013 the carrying value of reverse sale and repurchase agreements and fair value of assets pledged as collateral for these agreements were as following:

	2013	
	Carrying value of loan	Fair value of collateral
Corporate bonds of Russian companies	774 643	887 327
Total reverse sale and repurchase agreements	**774 643**	**887 327**

As at 31 December 2014, the Bank had obtained guarantees from the Parent Bank for certain due from banks, totaling RUB 450 067 thousand (2013: RUB 752 772 thousand) (Note 25) in order to mitigate the credit risk.

Geographical, currency, maturity and interest rate analyses of due from banks, and analysis of counterparties by assigned ratings are presented in Note 21.

8 Loans to customers

	2014	2013
Loans to customers	15 450 319	11 345 056
Less: provision for impairment	-	-
Total loans to customers	**15 450 319**	**11 345 056**

The structure of the Bank's loan portfolio by industry:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Energy	7 545 714	49	5 169 628	46
Chemical industry	4 236 021	27	1 311 373	12
Metallurgy	2 264 161	15	1 620 998	14
Food manufacturing	787 635	5	409 472	4
Trade	606 612	4	947 362	8
Financial sector	10 176	-	493 522	4
Manufacturing	-	-	1 392 701	12
Total loans to customers	**15 450 319**	**100**	**11 345 056**	**100**

The table below summarizes carrying values of loans to customers by type of collateral obtained by the Bank:

	2014	2013
Loans collateralized by guarantees of		
-the Parent Bank	10 013 996	5 596 455
-third parties	13 691	303 390
Loans collateralized by pledge of:		
-securities	27 478	826 450
-contractual receivables	2 010 632	625 530
-assets	780 815	67 463
- inventories	787 635	1 007 649
Unsecured loans	1 816 072	2 918 119
Total loans to customers	**15 450 319**	**11 345 056**

As at 31 December 2014 and 2013, the Bank had granted loans to 8 and 13 borrowers (groups of borrowers) totaling RUB 15 440 142 thousand and RUB 11 145 500 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2014 and 2013, loans to customers included accrued interest income of RUB 42 409 thousand and RUB 16 987 thousand, respectively.

As at 31 December 2014 and 2013, the Bank had no impaired loans to customers.

As at 31 December 2014 and 2013, the Bank's maximum exposure to credit risk on loans to customers was RUB 15 450 319 thousand and RUB 11 345 056 thousand, respectively.

As at 31 December 2014 and 2013, most of the loans were granted to companies operating in the Russian Federation, which creates a significant risk concentration in one geographic region.

Geographical, currency, maturity and interest rate analyses of loans to customers and an analysis of borrowers by assigned ratings are presented in Note 21.

9 Property, equipment and intangible assets

	Note	Motor vehicles	Furniture	Office and computer equipment	Inseparable improvements of the leased property	Intangible assets	Total
Net book value at 31 December 2012		**82**	**2 044**	**2 447**	**-**	**-**	**4 573**
Historical cost/indexed historical cost							
Balance, beginning of the year		1 160	8 977	21 395	-	10 152	41 684
Additions		-	-	2 000	-	-	2 000
Disposals		(1 160)	(866)	(4 318)	-	-	(6 344)
Balance, end of the year		**-**	**8 111**	**19 077**		**10 152**	**37 340**
Accumulated depreciation and amortization							
Balance, beginning of the year		1 078	6 933	18 948	-	10 152	37 111
Charge for the year	18	82	1 183	1 878	-	-	3 143
Disposals		(1 160)	(866)	(4 299)	-	-	(6 325)
Balance, end of the year		**-**	**7 250**	**16 527**	**-**	**10 152**	**33 929**
Net book value at 31 December 2013		**-**	**861**	**2 550**	**-**	**-**	**3 411**
Historical cost/indexed historical cost							
Balance, beginning of the year		-	8 111	19 077	-	10 152	37 340
Additions		-	7 012	5 627	50 136	-	62 775
Disposals		-	(5 929)	(4 196)	-	-	(10 125)
Balance, end of the year		**-**	**9 194**	**20 508**	**50 136**	**10 152**	**89 990**
Accumulated depreciation and amortization							
Balance, beginning of the year		-	7 250	16 527	-	10 152	33 929
Charge for the year	18	-	902	1 874	3 242	-	6 018
Disposals		-	(5 722)	(3 717)	-	-	(9 439)
Balance, end of the year		**-**	**2 430**	**14 684**	**3 242**	**10 152**	**30 508**
Net book value at 31 December 2014		**-**	**6 764**	**5 824**	**46 894**	**-**	**59 482**

Intangible assets comprise software and information systems.

As at 31 December 2014 and 2013, the carrying amount of fully depreciated property and equipment and fully amortized intangible assets used by the Bank was RUB 24 419 thousand and RUB 27 850 thousand, respectively.

10 Due to banks

	2014	2013
Current term loans and deposits from banks	24 716 866	12 742 231
Due to the CBR under repurchase agreements	-	607 158
Total due to banks	**24 716 866**	**13 349 389**

As at 31 December 2013, due to banks totaling RUB 607 158 thousand related to the CBR and had been received under repurchase agreements with the effective interest rate of 5.60% maturing on 9 January 2014.

Securities sold under the repurchase agreements comprise corporate bonds with fair value at 31 December 2013 totaling RUB 718 609 thousand. In the statement of financial position the said securities were stated as financial instruments at fair value through profit or loss (Note 6).

As at 31 December 2014 and 2013, due to banks included accrued interest expense of RUB 6 629 thousand and RUB 3 195 thousand, respectively.

As at 31 December 2014 and 2013, due to banks included RUB 23 916 866 thousand and RUB 8 640 820 thousand, respectively, received from the Parent Bank (Note 25), representing 97% and 65%, respectively, of the total due to banks.

Geographical, currency, maturity and interest rate analyses of due to banks are presented in Note 21.

11 Customer accounts

	2014	2013
Legal entities		
- Term deposits	2 189 832	2 145 830
- Current/settlement accounts	462 533	514 664
Total customer accounts	**2 652 365**	**2 660 494**

The following table presents customer accounts broken down by industry:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Energy	2 007 503	76	1 967 176	74
Financial sector	440 096	17	313 779	12
Transport	16 084	1	297 078	11
Other	188 682	6	82 461	3
Total customer accounts	**2 652 365**	**100**	**2 660 494**	**100**

Geographical, currency, maturity and interest rate analyses of customer accounts are presented in Note 21.

12 Other assets and other liabilities

	2014	2013
Other financial assets		
Funds on stock exchanges	14 937 138	134 262
Prepayments and other debtors	45 570	39 057
Less: provision for impairment	(357)	(369)
Other non-financial assets		
Prepaid income tax	11 877	11 877
Total other assets	**14 994 228**	**184 827**
Other financial liabilities		
Funds of stock exchange	8 108 293	-
Bonuses payable	66 848	35 875
Payables for rendered services	17 537	21 721
Other non-financial liabilities:		
Tax liabilities, other than income tax	11 040	3 521
Other liabilities	2 463	2 180
Total other liabilities	**8 206 181**	**63 297**

Movements in the provision for impairment of other assets are presented below:

	2014	2013
Provision for impairment of other assets at 1 January	**369**	**252**
Provision for impairment	167	117
Assets written-off against to charged provision	(179)	-
Provision for impairment of other assets at 31 December	**357**	**369**

The funds on/ funds of the stock exchange are compensatory placements associated with derivatives trading.

13 Subordinated loan

In April 2013, the Bank raised a subordinated loan from the Parent Bank in the amount of EUR 26.5 million, maturing not later than April 2023. The interest rate on the subordinated loan equals EURIBOR (for EUR deposits maturing within three months) +4 pct. pts. As at 31 December 2014 this rate was 4.083% (2013: 4.224%).

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

14 Share capital

Share capital authorized, issued and fully paid comprises:

	2014			2013		
	Number of shares	Par value	Inflation-adjusted amount	Number of shares	Par value	Inflation-adjusted amount
Ordinary shares	111 618	1 116 180	1 153 089	111 618	1 116 180	1 153 089
Total share capital	**111 618**	**1 116 180**	**1 153 089**	**111 618**	**1 116 180**	**1 153 089**

14 Share Capital (continued)

All ordinary shares have a par value of RUB 10 thousand per share. Each share carries one vote.

15 Retained earnings

In accordance with the Russian legislation, the Bank distributes its profit as dividends or transfers it to reserves on the basis of financial statements prepared in accordance with RAS. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's Charter which stipulates creation of a reserve for such purposes in the amount of at least 15% of the Bank's share capital recorded in the Bank's RAS books. Annual contributions to the reserve amount to 5% of the Bank's net profit in accordance with RAS, until the minimum reserve amount is reached. As at 31 December 2014 and 2013, the Bank's reserve fund in accordance with RAS totaled RUB 95 401 thousand and RUB 85 390 thousand, respectively.

16 Interest income and expense

	2014	2013
Interest income		
Interest income on assets recorded at amortized cost	656 046	654 666
Interest income on assets at fair value through profit or loss	30 062	180 999
Total interest income	**686 108**	**835 665**
Interest income on assets recorded at amortized cost comprises		
Interest on loans to customers	436 066	459 934
Interest on due from banks	219 980	194 732
Total interest income on assets recorded at amortized cost	**656 046**	**654 666**
Interest expense		
Interest expense on financial liabilities recorded at amortized cost	355 540	427 585
Total interest expense	**355 540**	**427 585**
Interest expense on liabilities recorded at amortized cost comprises		
Interest on due to banks	174 696	261 510
Interest on customer accounts	123 428	125 154
Interest on subordinated loan	57 416	40 921
Total interest expense on liabilities recorded at amortized cost	**355 540**	**427 585**
Net interest income before provision for impairment of interest-bearing assets	**330 568**	**408 080**

17 Fee and commission income and expense

	2014	2013
Fee and commission income		
Opened letters of credit	43 776	30 090
Guarantees issued	18 964	1 340
Lending operations	11 549	22 687
Currency control	10 128	9 260
Payment transactions	4 128	4 373
Total fee and commission income	**88 545**	**67 750**
Fee and commission expense		
Guarantees received	81 536	56 503
Payment transactions	4 136	2 307
Other	6 201	4 743
Total fee and commission expense	**91 873**	**63 553**
Net fee and commission (expense)/ income	**(3 328)**	**4 197**

18 Operating expenses

	Note	2014	2013
Staff costs		226 707	178 344
Unified social tax		36 354	21 754
Leases		29 940	17 773
Professional services		20 949	24 499
Repairs and maintenance of property and equipment		22 729	10 346
Other taxes, other than income tax		15 084	11 225
Communications		8 523	10 218
Depreciation and amortization	9	6 018	3 143
Business development and business trip expenses		5 032	6 771
Insurance		4 471	4 942
Security		104	194
Other		2 983	2 354
Total operating expenses		**378 894**	**291 563**

19 Income tax

Income tax expense comprises:

	2014	2013
Current income tax expense	-	72 198
Changes in deferred taxation due to emergence of current tax loss	(43 435)	-
Changes in deferred taxation due to origination and reversal of temporary differences	141 852	(4 740)
Income tax expense for the year	**98 417**	**67 458**

Current income tax rate applicable to the Bank's profit for 2014 and 2013 is 20%. Reconciliation between theoretical and actual income tax expense is provided below.

	2014	2013
Profit before tax	**487 139**	**298 874**
Theoretical income tax expense at the statutory rate of 20% (2013: 20%)	97 428	59 775
Adjustments for non-taxable income and non-deductible expenses:		
-Non-deductible expenses	989	7 683
Income tax expense for the year	**98 417**	**67 458**

Differences between IFRS and Russian tax legislation give rise to certain temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and for income tax purposes.

	2013	Movement	2014
Tax effect of deductible temporary differences			
Effect of calculation of amortized cost of loans to customers	7 705	(2 958)	4 747
Total deferred tax asset	**7 705**	**(2 958)**	**4 747**
Tax effect of taxable temporary differences			
Property, equipment and intangible assets	(88)	(4 476)	(4 564)
Effect of accrued/deferred income/expenses and gains and losses from term transactions	(16 353)	(90 983)	(107 336)
Total deferred tax liability	**(16 441)**	**(95 459)**	**(111 900)**
Total deferred tax asset for the current tax loss, net	**-**	**43 435**	**43 435**
Total deferred tax liability, net	**(8 736)**	**(141 852)**	**(150 588)**

20 Dividends

In 2014, the Bank declared and paid dividends for 2013 in the amount of RUB 190 199 thousand. All dividends were declared and paid in Russian Rubles.

In accordance with the Russian Federation law, only retained earnings that are accumulated in the Bank's statutory financial statements may be distributed between the Bank's shareholders. The Bank's retained earnings for 2014 amounted to RUB 273 691 thousand (2013: RUB 200 209 thousand). However, the amount of RUB 13 685 thousand must be contributed to the Bank's reserve fund in order to comply with the legislation of Russian Federation.

21 Financial risk management

Management of risk is fundamental to the Bank's business. The main risks inherent in the Bank's operations include financial risks (credit, market, geographical, currency, liquidity and interest rate risks), operational and legal risks.

The Bank's risk management activities include identifying, measuring and controlling the above risks and making management decisions to avoid or minimize such risks.

Credit risk

The Bank is exposed to credit risk which is the risk that a party to a financial instrument will fail to discharge a contractual obligation and cause the other party to incur a financial loss.

The Bank controls the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers.

The Bank has a Credit Committee which makes decisions on credit risk-bearing operations.

The Bank's credit structural subdivisions monitor the credit risk level by analyzing market information, financial performance and counterparties' activities and inform the Credit Committee about the monitoring results.

Credit risk is also managed through setting and consolidating requirements to the borrowers on collateral for credit liabilities, collateral valuation and insurance, and the procedure of repossession of collateral.

The Department of Loan Administration and Documentary Operations controls observance of lending authorities and limits on an ongoing basis.

Subsequent control over customer lending is exercised by the Internal Control Service during internal audits conducted according to the audit plan approved by the Bank's Supervisory Board.

Maximum exposure to credit risk

The Bank's maximum exposure to credit risk depends greatly on individual exposures of borrowers and risks inherent in the state of market economy.

The following table presents the Bank's maximum exposure to credit risk with respect to financial assets and credit-related commitments. For financial assets, the maximum exposure to credit risk corresponds to the current value of an asset before taking account of any offsets or received collateral. For credit-related commitments, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if they were to be called upon by counterparties as at 31 December 2014:

	Maximum exposure to credit risk	**Collateral**	**Net exposure to credit risk after collateral**
Cash and cash equivalents	4 340 131	-	4 340 131
Minimum reserve deposits with the Central Bank of the Russian Federation	216 552	-	216 552
Due from banks	4 068 528	(450 067)	3 618 461
Loans to customers	15 450 319	(13 634 247)	1 816 072
Financial assets at fair value through profit or loss and spot transactions	16 789 148	(14 541 338)	2 247 810
Other financial assets	14 982 351	-	14 982 351
Credit-related commitments	2 489 353	(1 893 095)	596 258

21 Financial risk management (continued)

Provided below is the analysis of the Bank's maximum exposure to credit risk of its assets and credit-related commitments as at 31 December 2013:

	Maximum exposure to credit risk	Collateral	Net exposure to credit risk after collateral
Cash and cash equivalents, less cash on hand	1 757 026	-	1 757 026
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	143 569
Due from banks	3 906 970	(752 772)	3 154 198
Loans to customers	11 345 056	(8 426 937)	2 918 119
Financial assets at fair value through profit or loss and spot transactions	2 608 269	(163 646)	2 444 623
Other financial assets	179 950	-	179 950
Credit-related commitments	2 169 185	(589 126)	1 580 059

Financial assets are graded based on the current rating assigned by leading international rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The table below presents a grouping of the Bank's current financial assets and credit-related commitments which are neither past due nor impaired as at 31 December 2014:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	-	3 536 037	804 003	91	-	4 340 131
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	216 552	-	-	216 552
Due from banks	-	2 896 287	-	1 172 241	-	4 068 528
Loans to customers	-	-	-	273 987	15 176 332	15 450 319
Financial assets at fair value through profit or loss and spot transactions	-	2 158 395	-	14 630 753	-	16 789 148
Other financial assets	-	-	-	14 937 138	45 213	14 982 351
Credit-related commitments	-	-	-	2 489 353	-	2 489 353

An analysis of unimpaired financial assets and credit-related commitments by assigned ratings as at 31 December 2013 is provided below:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	269 683	1 064 819	422 196	328	-	1 757 026
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	143 569	-	-	143 569
Due from banks	-	-	907 157	2 672 518	327 295	3 906 970
Loans to customers	-	-	1 886 223	1 789 447	7 669 386	11 345 056
Financial assets at fair value through profit or loss and spot transactions	-	76 711	963 924	1 137 116	430 518	2 608 269
Other financial assets	-	-	129 682	-	43 268	172 950
Credit-related commitments	-	-	-	1 287 386	881 799	2 169 185

The Bank enters into numerous transactions where the counterparties are not rated by internationally recognized rating agencies. The Bank has developed internal models which allow it to determine the ratings of counterparties which are comparable to ratings of the international rating agencies.

A methodology has been developed by the Bank to assess financial position of corporate borrowers. This methodology allows calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark.

21 Financial risk management (continued)

The method allows assigning of ratings on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activities and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan. The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The Bank applies internal methodologies to specific corporate loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the separate statement of financial position. Therefore, more detailed information is not presented.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table provides an analysis of neither past due nor impaired loans to corporate customers that are classified in two categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have unexceptionable credit history with the Bank and other creditors; which proved to be profitable and well performing businesses with no signs of decline of their financial stability;
- The "Moderately performing" category with moderate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Bank and other creditors with minor exceptions in the past; which proved to be well performing businesses in the past but are characterized by average financial performance at the moment.

	2014	**2013**
Top performing loans	14 569 721	6 531 172
Moderately performing loans	606 611	1 138 214
Total	**15 176 332**	**7 669 386**

The banking industry is generally exposed to credit risk through loans to customers and inter bank deposits. With regard to loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on an ongoing basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are observed.

21 Financial Risk Management (continued)

Geographic risk. Geographical analysis of the Bank's assets and liabilities as at 31 December 2014 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	804 094	2 114 753	1 421 284	4 340 131
Minimum reserve deposits with the Central Bank of the Russian Federation	216 552	-	-	216 552
Financial assets at fair value through profit or loss and spot transactions	14 630 753	2 158 395	-	16 789 148
Due from banks	1 172 241	2 896 287	-	4 068 528
Loans to customers	9 169 101	-	6 281 218	15 450 319
Other financial assets	14 981 874	-	477	14 982 351
Total financial assets	**40 974 615**	**7 169 435**	**7 702 979**	**55 847 029**
Property, equipment and intangible assets	59 482	-	-	59 482
Deferred income tax assets	43 435	-	-	43 435
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**114 794**	**-**	**-**	**114 794**
Total assets	**41 089 409**	**7 169 435**	**7 702 979**	**55 961 823**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	502 695	15 458 210	-	15 960 905
Due to banks	800 000	23 916 866	-	24 716 866
Customer accounts	2 625 869	10 769	15 727	2 652 365
Subordinated loan	-	1 829 519	-	1 829 519
Other financial liabilities	8 175 141	17 537	-	8 192 678
Total financial liabilities	**12 103 705**	**41 232 901**	**15 727**	**53 352 333**
Deferred income tax liabilities	150 588	-	-	150 588
Other non-financial liabilities	13 503	-	-	13 503
Total non-financial liabilities	**164 091**	**-**	**-**	**164 091**
Total liabilities	**12 267 796**	**41 232 901**	**15 727**	**53 516 424**
Net balance sheet position	**28 821 613**	**(34 063 466)**	**7 687 252**	**2 445 399**
Off-balance sheet credit-related commitments	**2 489 353**	**-**	**-**	**2 489 353**

21 Financial risk management (continued)

Geographical analysis of the Bank's assets and liabilities as at 31 December 2013 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	426 222	1 064 819	269 683	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	-	143 569
Financial assets at fair value through profit or loss and spot transactions	1 812 949	76 711	-	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	718 609
Due from banks	3 906 970	-	-	3 906 970
Loans to customers	9 575 808	-	1 769 248	11 345 056
Other financial assets	153 881	5 938	13 131	172 950
Total financial assets	**16 738 008**	**1 147 468**	**2 052 062**	**19 937 538**
Property, equipment and intangible assets	3 411	-	-	3 411
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**15 288**	**-**	**-**	**15 288**
Total assets	**16 753 296**	**1 147 468**	**2 052 062**	**19 952 826**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	18 947	400 835	-	419 782
Due to banks	4 708 569	8 640 820	-	13 349 389
Customer accounts	2 643 258	5 776	11 460	2 660 494
Subordinated loan	-	1 204 252	-	1 204 252
Other financial liabilities	35 875	21 721	-	57 596
Total financial liabilities	**7 406 649**	**10 273 404**	**11 460**	**17 691 513**
Deferred income tax liabilities	8 736	-	-	8 736
Other non-financial liabilities	5 701	-	-	5 701
Total non-financial liabilities	**14 437**	**-**	**-**	**14 437**
Total liabilities	**7 421 086**	**10 273 404**	**11 460**	**17 705 950**
Net balance sheet position	**9 332 210**	**(9 125 936)**	**2 040 602**	**2 246 876**
Off-balance sheet credit-related commitments	**2 169 185**	**-**	**-**	**2 169 185**

Assets, liabilities and credit-related commitments are generally classified by the country where the counterparty is located. Cash and property and equipment are classified based on their physical location.

21 Financial risk management (continued)

Market risk

Market risk is a risk that the value of financial instrument will change due to market price changes regardless of whether these changes have been caused by factors specific to a particular investment or issuer, or by factors affecting all outstanding securities. The Bank is exposed to market risks due to the effect of general and specific market fluctuations on its products.

The Bank is exposed to market risk related to open positions on currency operations, money market transactions and debt instruments. The Bank's Assets and Liabilities Management Committee manages market risk by setting open position limits for specific financial instruments, stop-loss limits, and structural limits. The Bank also uses the "Value-at-Risk" method to control market risk exposure. The Value-at-Risk method is used for making quantitative risk assessment for each type of the Treasury Department transactions. Value-at-risk is defined as the maximum potential loss during a specific period of time (one day) estimated based on expected changes in the market prices at a set probability level (99%). This statistical method allows comparison of market risks across various portfolios and establishing the limit of value-at-risk for various types of transactions. The Market Risk Control Department controls compliance with the limits on a daily basis and informs the Bank's management and business units of their use.

Stock market risk

Stock market risk is the risk of potential losses due to unfavorable changes in the securities market, including changes in the market value of securities, changes in price ratios for various securities or stock indices, and changes in the amounts of dividends.

The Bank manages the stock market risk by means of a system of volume limits to the Bank's transactions in the stock market. The Bank is extremely conservative in its operations with securities and only trades in securities of the leading issuers.

Currency risk

The Bank is exposed to the effects of fluctuations in different exchange rates on its financial position and cash flows.

The Bank's Assets and Liabilities Management Committee sets limits to assumed risk categorized by currency both at the end of each day and within a day, and controls compliance with such limits on a daily basis. An analysis of the Bank's currency risk as at 31 December 2014 is presented in the table below. The Bank's assets and liabilities are disclosed at carrying value, categorized by currency. Currency derivatives are usually used to minimize the Bank's risk in case of exchange rate fluctuations.

21 Financial risk management (continued)

As at 31 December 2014, the Bank's foreign currency position was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	804 094	1 421 310	2 114 727	4 340 131
Minimum reserve deposits with the Central Bank of the Russian Federation	216 552	-	-	216 552
Financial assets at fair value through profit or loss and spot transactions	16 789 148	-	-	16 789 148
Due from banks	2 372 241	1 696 287	-	4 068 528
Loans to customers	616 788	14 833 531	-	15 450 319
Other financial assets	4 351 478	1 977 894	8 652 979	14 982 351
Total financial assets	**25 150 301**	**19 929 022**	**10 767 706**	**55 847 029**
Property, equipment and intangible assets	59 482	-	-	59 482
Deferred income tax assets	43 435	-	-	43 435
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**114 794**	**-**	**-**	**114 794**
Total assets	**25 265 095**	**19 929 022**	**10 767 706**	**55 961 823**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	15 960 905	-	-	15 960 905
Due to banks	800 000	16 740 872	7 175 994	24 716 866
Customer accounts	566 620	2 021 824	63 921	2 652 365
Subordinated loan	-	-	1 829 519	1 829 519
Other financial liabilities	8 175 141	17 537	-	8 192 678
Total financial liabilities	**25 502 666**	**18 780 233**	**9 069 434**	**53 352 333**
Deferred income tax liabilities	150 588	-	-	150 588
Other non-financial liabilities	13 503	-	-	13 503
Total non-financial liabilities	**164 091**	**-**	**-**	**164 091**
Total liabilities	**25 666 757**	**18 780 233**	**9 069 434**	**53 516 424**
Net balance sheet position	**(401 662)**	**1 148 789**	**1 698 272**	**2 445 399**
Net spot, forward and swap position	**3 669 948**	**(1 142 963)**	**(1 708 566)**	**818 419**
Total open position	**3 268 286**	**5 826**	**(10 294)**	**3 263 818**
Credit-related commitments	**-**	**2 489 353**	**-**	**2 489 353**

21 Financial risk management (continued)

As at 31 December 2013, the Bank's foreign currency foreign currency position was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	425 580	1 058 539	276 605	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	143 569	-	-	143 569
Financial assets at fair value through profit or loss and spot transactions	1 889 660	-	-	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	718 609
Due from banks	3 191 176	490 943	224 851	3 906 970
Loans to customers	947 362	9 004 993	1 392 701	11 345 056
Other financial assets	58 773	114 177	-	172 950
Total financial assets	**7 374 729**	**10 668 652**	**1 894 157**	**19 937 538**
Property, equipment and intangible assets	3 411	-	-	3 411
Other non-financial assets	11 877	-	-	11 877
Total non-financial assets	**15 288**	**-**	**-**	**15 288**
Total assets	**7 390 017**	**10 668 652**	**1 894 157**	**19 952 826**
Liabilities				
Financial liabilities at fair value through profit or loss and spot transactions	419 782	-	-	419 782
Due to banks	3 857 607	8 816 915	674 867	13 349 389
Customer accounts	372 289	2 266 434	21 771	2 660 494
Subordinated loan	-	-	1 204 252	1 204 252
Other financial liabilities	35 875	4 715	17 006	57 596
Total financial liabilities	**4 685 553**	**11 088 064**	**1 917 896**	**17 691 513**
Deferred income tax liabilities	8 736	-	-	8 736
Other non-financial liabilities	4 582	1 113	6	5 701
Total non-financial liabilities	**13 318**	**1 113**	**6**	**14 437**
Total liabilities	**4 698 871**	**11 089 177**	**1 917 902**	**17 705 950**
Net balance sheet position	**2 691 146**	**(420 525)**	**(23 745)**	**2 246 876**
Net spot, forward and swap position	**(291 373)**	**429 014**	**-**	**137 641**
Total open position	**2 399 773**	**8 489**	**(23 745)**	**2 384 517**
Credit-related commitments	**858 885**	**1 310 300**	**-**	**2 169 185**

21 Financial risk management (continued)

The Bank extended loans denominated in foreign currencies. Depending on the borrower's cash inflows, the growth of foreign currency exchange rates against the Russian Ruble may adversely affect the borrower's repayment ability, which, in its turn, increases the likelihood of future loan losses.

The table below presents changes in the financial performance and equity resulting from potential changes in the exchange rates prevailing on the reporting date, provided that all other variables remain unchanged as at 31 December 2014:

	2014
	Effect on net profit and equity
Appreciation of USD by 50%	2 330
Depreciation of USD by 50%	(2 330)
Appreciation of EUR by 50%	(4 118)
Depreciation of EUR by 50%	4 118

Changes in the financial performance and equity resulting from potential changes in the exchange rates prevailing on the reporting date, provided that all other variables remain unchanged as at 31 December 2013:

	2013
	Effect on net profit and equity
Appreciation of USD by 20%	1 358
Depreciation of USD by 20%	(1 358)
Appreciation of EUR by 20%	(3 799)
Depreciation of EUR by 20%	3 799

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk Liquidity risk arises when maturities of assets and liabilities do not match. The Bank is exposed to the risk as it has to use the cash resources on a daily basis in order to execute clients' transactions, redeem deposits, issue loans, redeem guarantees and derivatives that involve movement of cash resources. The Bank does not accumulate funds to provide for a necessity to meet all the above liabilities simultaneously, as the accumulated operational experience allows for forecasting the level of cash required to meet such liabilities with a reasonable degree of certainty.

The Bank uses the opportunity of raising additional funds and other resources from the sole founder Natixis (France). Liquidity risk is therefore not material for the Bank.

The Assets and Liabilities Management Committee develops and implements the liquidity management policy and ensures that liquidity is managed efficiently.

The Treasury Department and its Transaction Documentation Division control the daily liquidity position and perform regular stress-tests to assess liquidity at different scenarios covering standard and less favorable market conditions.

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

- Instant liquidity ratio (N2. As at 31 December 2014 this ratio was 40.99% (2013: 366.77%).
- Current liquidity ratio (N3). As at 31 December 2014 this ratio was 103.18% (2013: 78.37%).
- Long-term liquidity ratio (N4). As at 31 December 2014 this ratio was 39.79% (2013: 47.15%).

The table below shows the distribution of liabilities as at 31 December 2014 by remaining contractual maturities. The amounts in the table represent contractual undiscounted cash flows of all financial liabilities. These undiscounted cash flows differ from the amounts recognized in the statement of financial position as the balance sheet amounts are based on discounted cash flows. Derivative financial instruments which are estimated on a net basis are recognized in the net amount payable. Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the reporting date. Currency payments are recalculated using the spot exchange rate as at the reporting date.

21 Financial risk management (continued)

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

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	15 180 223	3 445 991	1 911 118	4 304 020	-	24 841 352
Customer accounts	2 653 232	-	-	-	-	2 653 232
Subordinated loan	18 436	18 487	56 486	281 200	2 073 590	2 448 199
Other financial liabilities	8 108 293	68 104	-	16 281	-	8 192 678
Deliverable forward contracts	30 666 389	36 400 091	5 708 172	27 741 054	-	100 515 706
Credit-related commitments	2 489 353	-	-	-	-	2 489 353

The table below presents maturity analysis of the Bank's financial liabilities as at 31 December 2013:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	7 491 542	799 962	906 852	4 236 491	-	13 434 847
Customer accounts	2 661 436	-	-	-	-	2 661 436
Subordinated loan	140	12 584	38 452	204 284	1 408 570	1 664 030
Deliverable forward contracts	12 169 058	4 415 597	2 000 265	20 297 401	-	38 882 321
Credit-related commitments	2 169 185	-	-	-	-	2 169 185

Interest rate risk The Bank is exposed to the effects of fluctuations in the market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses.

The Bank is exposed to interest rate risk mainly as a result of lending at fixed interest rates in the amounts and for the periods which differ from those of borrowings at fixed interest rates. In practice, interest rates are usually set for a short period of time. In addition, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement in accordance with the current market environment.

To manage the interest rate, the Bank's Assets and Liabilities Management Committee performs periodic assessments of the impact the market environment has on the Bank's financial performance. The Bank's policy with regard to interest rates is subject to the analysis and approval by the Bank's Assets and Liabilities Management Committee.

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's liquidity risk as at 31 December 2014. The Bank's financial assets and liabilities are recorded at carrying amounts by dates of revision of interest rates under contracts or by maturities, depending on which is earlier.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/non-interest	Total
Assets							
Cash and cash equivalents	3 536 037	-	-	-	-	804 094	4 340 131
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	216 552	216 552
Financial assets at fair value through profit or loss and spot transactions	-	-	-	-	-	16 789 148	16 789 148
Due from banks	2 372 241	1 696 287	-	-	-	-	4 068 528
Loans to customers	9 064 576	6 375 566	-	-	-	10 177	15 450 319
Other financial assets	-	-	-	-	-	14 982 351	14 982 351
Total financial assets	**14 972 854**	**8 071 853**	**-**	**-**	**-**	**32 802 322**	**55 847 029**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	15 960 905	15 960 905
Due to banks	18 337 667	6 379 199	-	-	-	-	24 716 866
Customer accounts	2 652 365	-	-	-	-	-	2 652 365
Subordinated loan	1 829 519	-	-	-	-	-	1 829 519
Other financial liabilities	-	-	-	-	-	8 192 678	8 192 678
Total financial liabilities	**22 819 551**	**6 379 199**	**-**	**-**	**-**	**24 153 583**	**53 352 333**
Liquidity gap	**(7 846 697)**	**1 692 654**	**-**	**-**	**-**	**8 648 739**	**2 494 696**
Cumulative liquidity gap	**(7 846 697)**	**(6 154 043)**	**(6 154 043)**	**(6 154 043)**	**(6 154 043)**	**2 494 696**	**-**

21 Financial risk management (continued)

The table below provides a general analysis of the Bank's interest rate risk as at 31 December 2013.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/non-interest	Total
Assets							
Cash and cash equivalents	1 334 502	-	-	-	-	426 222	1 760 724
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	143 569	143 569
Financial assets at fair value through profit or loss and spot transactions	1 336 924	-	-	-	-	552 736	1 889 660
Financial assets at fair value through profit or loss, transferred without derecognition	718 609	-	-	-	-	-	718 609
Due from banks	2 999 813	907 157	-	-	-	-	3 906 970
Loans to customers	5 259 421	6 085 635	-	-	-	-	11 345 056
Other financial assets	-	-	-	-	-	172 950	172 950
Total financial assets	**11 649 269**	**6 992 792**	**-**	**-**	**-**	**1 295 477**	**19 937 538**
Liabilities							
Financial liabilities at fair value through profit or loss and spot transactions	-	-	-	-	-	419 782	419 782
Due to banks	8 668 181	4 681 208	-	-	-	-	13 349 389
Customer accounts	2 660 494	-	-	-	-	-	2 660 494
Subordinated loan	-	1 204 252	-	-	-	-	1 204 252
Other financial liabilities	-	-	-	-	-	57 596	57 596
Total financial liabilities	**11 328 675**	**5 885 460**	**-**	**-**	**-**	**477 378**	**17 691 513**
Liquidity gap	**320 594**	**1 107 332**	**-**	**-**	**-**	**818 099**	**2 246 025**
Cumulative liquidity gap	**320 594**	**1 427 926**	**1 427 926**	**1 427 926**	**1 427 926**	**2 246 025**	**-**

21 Financial risk management (continued)

The table below presents changes in net profit and equity as a result of potential changes in the effective interest rates applied on the reporting date provided that all other variables remain unchanged:

	31 December 2014		31 December 2013	
	Interest rate increase by 200 basis points	**Interest rate decrease by 200 basis points**	**Interest rate increase by 200 basis points**	**Interest rate decrease by 200 basis points**
Cash and cash equivalents	56 577	(56 577)	21 352	(21 352)
Financial assets at fair value through profit or loss	-	-	41 732	(41 732)
Due from banks	65 096	(65 096)	62 244	(62 244)
Loans to customers	247 042	(247 042)	181 249	(181 249)
Customer accounts	(35 037)	35 037	(34 325)	34 325
Due to banks	(395 470)	395 470	(213 539)	213 539
Subordinated loan	(29 272)	29 272	(19 067)	19 067
Total impact on net profit and equity	**(91 064)**	**91 064**	**39 646**	**(39 646)**

The table below provides an analysis of the effective average interest rates by main currencies for principal monetary financial instruments. The analysis was prepared based on the effective interest rates at period end used for interest income and expense accruals for appropriate categories of assets/liabilities.

	2014			2013		
	USD	**RUB**	**EUR**	**USD**	**RUB**	**EUR**
Assets						
Cash and cash equivalents	0.1%	-	0.1%	0.1%	-	0.4%
Financial assets at fair value through profit or loss	-	-	-	-	9.1%	-
Due from banks	0.6%	14.2%	-	0.4%	6.6%	0.3%
Loans to customers	3.5%	25.0%	-	3.8%	8.7%	1.6%
Liabilities						
Due to banks	0.6%	16.3%	0.1%	0.7%	6.1%	0.2%
Customer accounts						
- Current/settlement accounts	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Term deposits	0.1%	11.8%	-	0.2%	6.0%	-
Subordinated loan	-	-	4.1%	-	-	4.3%

Operational Risk Operational risk is the risk of loss arising from the absence or inadequate efficiency of internal controls, human error, or software failures. The Bank has an Operational Risk Management Committee. The Bank's authorized personnel monitors, analyzes and forecasts operational risk events on a daily basis and develops and implements measures to minimize operational risk exposure.

Legal risk Legal risk may arise from both external and internal factors. External factors include, inter alia, imperfection of the legal system and violations by the Bank's clients and counterparties of the law and contractual terms and conditions. Internal factors include failure by the Bank to comply with the legislation of the Russian Federation, non-compliance of the Bank's internal documents with the RF legislation, and inadequate consideration by the Bank of legal aspects when developing and implementing new technologies and terms of conducting banking operations and other transactions.

The Bank pays increased attention to legal risk management:

- All provisions of the Bank's internal documents and requirements of the RF legislation are strictly observed when conducting banking operations and transactions;
- Changes in the RF legislation are monitored on an ongoing basis and prompt measures are taken to prevent the Bank from violating the effective legislation, including through amending the Bank's internal regulations;
- Legal risk is assessed for the Bank's main lines of business.

The Bank's Legal Department and Internal Control Service control compliance of documentation for the banking operations and other transactions with the RF legislation.

22 Contingent liabilities and derivative financial instruments

Litigation At the moment of preparing the financial statements, the Bank had no litigations. Also, the Bank's management is not aware of any customer's intention to file a lawsuit. Accordingly, the Bank's management did not create any provision for losses on potential legal proceedings in the financial statements.

Tax legislation The current tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and frequent changes that are made quickly and can be applied retrospectively. In this connection, the interpretation of such legislation as the Bank's management with respect to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Consequently, the tax authorities may challenge transactions and the operations of the Bank, which were not challenged in the past. As a result, the relevant authorities may charge additional taxes, penalties and interest.

As of 31 December 2014 the Management believes that its interpretation of the relevant legislation is appropriate and that the Bank's position on tax issues, as well as currency and customs positions will be sustained.

The Bank approved and enforced the methodology of the compliance with the transfer pricing legislation since 2012, which was used in carrying out "controlled" transactions during 2014. The deviation of the actual price of individual "controlled" transactions by the market price calculated in accordance with the Russian law on transfer pricing may lead to additional tax liabilities being charged to the Bank, the amount of which, relating to 2014, should not have a significant effect on the data in these financial statements.

Operating Environment. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in RF and the Russian economy in general.

Financial markets are unstable and are characterized by frequent and significant price fluctuations and increased trading spreads. After 31 December 2014:

- The exchange rate of the Bank of Russia ranged from 49.6749 to 69.6640 Rubles for one US Dollar, and from 52.9087 to 78.7900 Rubles for one Euro;
- In January 2015, Fitch Rating Agency has downgraded the sovereign credit rating of Russia to the level of BBB-, and the agency Standard & Poor's for the first time in a decade downgraded Russia to the level of BB +, which is below investment grade. In February 2015, Moody's downgraded the rating of Russia from the level of Ba1 to the level of Baa3. The outlook on all agencies is negative, which means that further deterioration of the situation is likely to occur;
- Credit activity of the banks declined, as banks re-evaluate the business model of their borrowers, as well as their ability to carry out further work taking into account the increase in interest rates on loans and exchange rates; and
- The key rate is the Bank of Russia has decreased from 17.0% to 14.0% per annum.

These events may have a significant impact on the results of operations and financial position in the future, and it is now hard to imagine what exactly kind of impact it will be. Future economic and legal situation and its impact on the results of operations of the Bank may differ from the current expectations of the Management.

In addition, factors such as rising unemployment in Russia, reduced corporate liquidity and profitability, as well as the increase in the incidence of bankruptcies of legal entities may affect the borrowers' ability to repay bank debt to the Bank.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

22 Contingent liabilities and derivative financial instruments (continued)

Operating lease commitments. The following future minimum lease payments under operating leases of premises, non-cancellable, in cases where the Bank acts as lessee:

	2014	2013
Less than 1 year	50 841	-
1 to 5 years	301 613	-
Over 5 years	124 134	-
Total operating lease commitments	**476 588**	**-**

Credit-related commitments Commitments to extend credit may arise for the Bank at any moment. These commitments take the form of approved loans and overdraft facilities. The Bank also opens letters of credit to ensure that its customers fulfill their obligations to third parties. Said agreements set out the limits of the Bank's commitments.

	2014	2013
Overdraft limit	-	790 884
Letters of credit	2 489 353	1 287 386
Guarantees issued	-	90 915
Total credit commitments	**2 489 353**	**2 169 185**

Contractual amounts of off-balance sheet commitments are shown in the table by types of transactions. The amounts disclosed in the table with regard to credit commitments suggest that the specified liabilities will be fully realized. The amounts shown in the table with regard to letters of credit represent the maximum amount of the Bank's loss for financial accounting purposes which may be recognized in financial statements if the Bank's counterparties fail to fulfill their contractual obligations.

Many of these commitments may expire without being fully or partially fulfilled. Therefore, the above commitments do not always represent an expected cash outflow.

As at 31 December 2014, the Bank had received guarantees of RUB 1 893 095 thousand from the Parent Bank (2013: RUB 589 126 thousand) in order to mitigate the risk associated with credit-related commitments (Note 25).

The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving deals, using limits which mitigate the risk, and monitoring.

The Bank's management did not create any provisions for credit-related commitments.

Derivative financial instruments: forward deals and cross currency and interest rate swaps The table below presents an analysis of contractual or agreed amounts and fair values of forward deals and cross currency and interest rate swaps. The table shows the Bank's position before each counterparty position was offset by categories of financial instruments, including contracts with value date after 31 December 2014. These transactions were entered into in the period from February 2011 to December 2014 and have maturities from January 2015 to January 2019.

22 Contingent liabilities and derivative financial instruments (continued)

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currencies						
- purchase of foreign currency	-	-	-	39 037 818	-	14 619 461
- sale of foreign currency	43 101 888	(13 982 334)	520 202	1 485 951	(502 695)	11 292
Cross currency and interest rate swaps						
- purchase of foreign currency	1 750 835	-	1 637 422	-	-	-
- sale of foreign currency	1 580 100	(1 475 876)	-	-	-	-
Total	**46 432 823**	**(15 458 210)**	**2 157 624**	**40 523 769**	**(502 695)**	**14 630 753**

In connection with forward deals the Bank recorded net gain of RUB 1 357 553 thousand in the “Net (loss)/gain on foreign exchange operations” line, and gain of RUB 91 406 thousand in the "Net gain on financial assets and liabilities at fair value through profit or loss" line.

The position as at 31 December 2013 is shown in the table below:

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currencies						
- purchase of foreign currency	16 115 778	(12 811)	278 471	158 910	-	5 266
- sale of foreign currency	9 971 075	(174 253)	505	5 523 675	(6 136)	1 319
Cross currency and interest rate swaps						
- purchase of foreign currency	1 398 335	-	64 462	1 000 000	-	196 235
- sale of foreign currency	2 886 900	(226 582)	6 478	-	-	-
Total	**30 372 088**	**(413 646)**	**349 916**	**6 682 585**	**(6 136)**	**202 820**

In connection with forward deals the Bank recorded net gain of RUB 92 361 thousand in the “Net (loss)/gain on foreign exchange operations” line, and expenses of RUB 40 593 thousand in the "Net gain on financial assets and liabilities at fair value through profit or loss" line.

23 Fair value of financial instruments

The Bank estimated the fair value of financial instruments using available market information (if any) and proper valuation techniques taking into account unobservable inputs. However, professional judgment is required for interpreting market data in order to estimate the fair value. The economy of the Russian Federation still displays certain features characteristic of emerging markets, while the economic environment continues to restrict the volume of activities in the financial markets. Market quotations may be outdated or reflect the value of selling at low prices and, therefore, not represent fair values of financial instruments. When determining the fair value of financial instruments, the Bank uses all available market information.

Financial instruments at fair value

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are included in the statement of financial position at fair value. Fair value is estimated based on quoted market prices.

Cash and cash equivalents are stated at amortized cost which approximates their current fair value.

23 Fair value of financial instruments (continued)

Due from banks and loans to customers

The Bank believes that the fair value of due from banks and loans to customers as at 31 December 2014 and 2013 differs from their carrying amount only insignificantly. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

Financial liabilities at amortized cost

The Bank believes that the fair value of due to banks, customer accounts and the subordinated loan as at 31 December 2014 and 2013 differs from their carrying amount only insignificantly. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at 31 December 2014:

	Quoted prices in an active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	-	16 789 148	-
Financial liabilities at fair value through profit or loss	-	15 960 905	-

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at 31 December 2013:

	Quoted prices in an active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	2 055 533	552 736	-
Financial liabilities at fair value through profit or loss	-	419 782	-

24 Offsetting of financial assets and financial liabilities

As of 31 December 2014 there are no financial instruments that should be offset.

As of 31 December 2013 financial instruments that should be offset falling under general agreement conditions, or other relevant agreement, include funds granted to banks under reverse sale and repurchase agreements (“reverse REPO”) in the amount of RUB 774 643 thousand secured by the reverse REPO agreements with the fair value of pledged assets RUB 887 327 thousand. Obligation to transfer securities is not recognised in the statement of financial position as at 31 December 2013.

Also as of 31 December 2013 financial instruments that should be offset include funds received from other banks under sale and repurchase agreements in the amount of RUB 607 158 thousand, secured by the REPO agreements with the fair value of pledged assets RUB 718 609 thousand, recognised as financial assets through profit or loss.

24 Offsetting of financial assets and liabilities (continued)

As at 31 December 2013 financial instruments that should be offset falling under general agreement conditions, or other relevant agreement include:

	Gross amounts before offset recognised in the statement of financial position	Offset amounts recognised in the statement of financial position	Net amount after offset recognised in the statement of financial position	Amounts as stated in general agreement or other relevant agreement to be offset recognised in the statement of financial position		Net risk amount
				Financial instruments	Monetary collateral received	
Assets						
Due from banks						
- Reverse sale and repurchase agreements (REPO)	774 643	-	774 643	774 643	-	-
Total	**774 643**	**-**	**774 643**	**774 643**	**-**	**-**
Liabilities						
Due to banks						
- Due to the CBR under repurchase agreements	607 158	-	607 158	607 158	-	-
Total	**607 158**	**-**	**607 158**	**607 158**	**-**	**-**

25 Transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering related party relationships, attention is directed to the economic substance of such relationships and not merely their legal form.

In the normal course of business, the Bank carries out transactions with the Parent Bank and management. These transactions included settlements, issue of loans, raising of deposits, issue of guarantees and foreign currency operations. These transactions were priced predominantly at the market rates. The balances at the year end and income and expense items, as well as other related party transactions for the years ended 31 December 2014 and 2013 are as follows:

	31 December 2014		31 December 2013	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Correspondent accounts of banks and overnight deposits	2 114 753	4 340 131	1 064 819	1 760 724
Due from banks	2 896 287	4 068 528	-	3 906 970
Due to banks - Term deposits of banks	23 916 866	24 716 866	8 640 820	12 742 231
Assets on forward contracts and swaps	2 158 395	16 789 148	349 916	552 736
Liabilities on forward contracts and swaps	15 458 210	15 960 905	413 646	419 782
Other assets	5 225	14 994 228	5 863	184 827
Other liabilities	17 537	8 206 181	21 721	63 297
Subordinated loan	1 829 519	1 829 519	1 204 252	1 204 252

As at 31 December 2014 and 2013, the Bank had received guarantees from the Parent Bank totaling RUB 22 483 670 thousand and RUB 8 006 653 thousand, respectively, in relation to its loan operations.

Included in the statement of comprehensive income for the years ended 31 December 2014 and 2013 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Interest income	34 348	686 108	26 663	835 665
Interest expense	129 288	355 540	123 964	427 585
Operating expenses	-	378 894	3 882	291 563
Commissions on guarantees paid	81 536	81 536	56 503	56 503

In 2014, the amount of remuneration to the members of the Bank's Management Board, including UST charges and one-time payments, was RUB 59 939 thousand (2013: RUB 49 403 thousand).

26 Capital management

The Bank manages its capital to: (i) comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) ensure that the Bank continues as a going concern.

As at 31 December 2014 the amount of capital the Bank managed was RUB 4 312 125 thousand (2013: RUB 3 492 337 thousand). Control over compliance with the rate of capital requirement is performed by the Bank on a daily basis. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by means of monthly reports containing the relevant calculations checked and signed by the Deputy Chairman of the Management Board and the Deputy Chief Accountant of the Bank. Other objectives of capital management are assessed annually.

In accordance with effective requirements to capital established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital not lower than10%.

The regulatory capital and its main elements on the basis of the Bank's reports prepared under Russian legislation are presented in the following table:

	2014	2013
Capital	2 173 987	2 163 976
Additional capital	2 138 138	1 328 361
Amounts excluded from capital and additional capital	-	-
Total regulatory capital	**4 312 125**	**3 492 337**

During 2014 and 2013 the Bank's capital adequacy ratio was in line with regulations.

The Bank's overall capital risk management policy has remained unchanged from 2013.

27 Effect of estimates and assumptions on recognized assets and liabilities

The Bank makes estimates and assumptions influencing the recognized amounts of assets and liabilities for the next financial year. Estimates and judgments are assumed and based on historical experience and other factors, including expectations of future events, occurrence of which is possible under certain circumstances.

Depreciation and amortization. The Bank charges depreciation based on the estimated useful life of fixed assets. This estimate is based on the knowledge of the assets of the Bank and guidelines for their use by the Management. The estimation of the useful life is reviewed on an annual basis.

Impairment losses on loans and accounts receivable. The Bank analyzes the state of the loan portfolio in terms of impairment on continuing basis. Determining the necessity of recognizing an impairment loss in the statement of comprehensive income, the Bank uses judgments concerning the existence of data evidencing decrease of estimated future cash flows of the loan portfolio before the decrease can be determined for an individual loan in this portfolio. Such an evidence may include data about changes in the creditworthiness of the Bank's borrower, national or local economic conditions influencing decrease of the values of the Bank's assets. The Bank uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment for similar assets in the portfolio when planning future cash flows. The methodology and assumptions used for estimation of amounts and terms of cash flows are regularly analyzed for reduction of differences between loss estimates and the actual impairment loss.

Fair values of derivative financial instruments. Fair values of derivative financial instruments not quoted in active markets are determined with usage of valuation techniques. Valuation techniques are periodically tested by qualified staff and checked for reflection of fair values of derivative financial instruments with usage of comparable market prices. For the purposes of practical application of the model only actual data were used but such risks as credit risk (own and the counterparty's), changeability in dynamics and correlation, require the Bank's valuation. Changes in assumptions concerning these factors may influence the recognized fair values of derivative financial instruments.

Initial recognition of transactions with related parties. In the course of business the Bank carries out transactions with related parties. Pursuant to IAS 39, financial instruments are initially stated at fair value. If there is no active market for such transactions to determine whether transactions were carried out at market or non-market interest rates, professional judgments are used. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern principle. These financial statements have been prepared on the basis of the going concern principle. Using this judgment, the Bank considered the existing intentions, the profitability of the transactions, the available financial resources and the effect of the current economic situation on the Bank's activities.