Joint-Stock Commercial Bank Almazergienbank Group Open Joint-Stock Company

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

31 December 2014

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Independent Auditor's Report

To the Shareholders and Supervisory Board of Joint Stock Commercial Bank Almazergienbank (Open Joint-Stock Company)

We have audited the accompanying consolidated financial statements of Joint Stock Commercial Bank "Almazergienbank" (Open Joint-Stock Company) and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO "PricewaterhouseCoopers Audit"

17 April 2015
Moscow, Russian Federation

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In thousands of Russian Roubles	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	3 201 539	6 004 425
Securities at fair value through profit or loss	8	385 110	492 432
Due from other banks	9	158 296	3 588
Loans and advances to customers	10	14 019 488	12 352 502
Investment securities available for sale	11	756 624	750 707
Investment properties	12	215 954	142 377
Premises, equipment and intangible assets	13	1 125 132	897 815
Other financial assets:	14	350 636	240 169
Other assets	15	172 829	105 773
Current income tax prepayment		21 220	14 236
Non-current assets held for sale	16	4 489	17 859
TOTAL ASSETS		**20 411 317**	**21 021 883**
LIABILITIES			
Due to other banks	17	256 526	192 091
Customer accounts	18	17 137 919	18 101 767
Debt securities in issue	19	7 200	5 710
Deferred income tax liability	30	14 093	34 035
Provisions for liabilities and charges	20	2 807	36 301
Other financial liabilities	21	93 456	32 012
Post-employment benefit obligations	22	34 550	51 933
Other liabilities	23	102 212	137 945
Subordinated debt	24	549 000	412 000
TOTAL LIABILITIES		**18 197 763**	**19 003 794**
EQUITY			
Share Capital and Share Premium	25	1 585 252	1 550 111
Retained earnings		421 197	268 593
Revaluation reserve for premises and equipment	13	324 005	324 005
Revaluation reserve for investment securities available for sale		(139 679)	(123 888)
Revaluation reserve for post-employment benefit obligations		22 779	(732)
TOTAL EQUITY		**2 213 554**	**2 018 089**
TOTAL LIABILITIES AND EQUITY		**20 411 317**	**21 021 883**

Approved for issue and signed on 17 April 2015.

L.V. Nikolaeva
Chairman of the Management Board

S.T. Vasiliev
Chief Accountant

Республика Саха (Якутия) г. Якутск Акционерный Коммерческий Банк "Алмазэргиэнбанк" Открытое акционерное общество ОГРН 1031403918138

In thousands of Russian Roubles	Note	2014	2013
Interest income	26	2 211 506	1 894 411
Interest expense	26	(993 029)	(916 326)
Net interest income		**1 218 477**	**978 085**
Provision for loan impairment	10	(365 580)	(195 799)
Net interest income after provision for loan impairment		**852 897**	**782 286**
Fee and commission income	27	417 805	346 012
Fee and commission expense	27	(64 021)	(46 870)
Losses on initial recognition of assets at rates below market		(37 784)	(6 717)
Losses less gains from trading in securities		(22 233)	(23 009)
Gains less losses from financial derivatives		1 239	11 449
Gains less losses from trading in foreign currencies		21 551	13 513
Gains less losses/(losses less gains) from trading in precious metals		9 372	(2 940)
Gains less losses/(losses less gains) from foreign exchange translation		206	(13 997)
Other operating income	28	134 772	33 411
Administrative and other operating expenses	29	(1 091 837)	(973 364)
Dividend income received		12 330	11 129
Profit before tax		**234 297**	**130 903**
Income tax expense	30	(50 789)	(60 668)
PROFIT FOR THE YEAR		**183 508**	**70 235**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit and loss:			
- Losses from revaluation of available for sale securities		(19 792)	(61 712)
- Deferred income tax recorded in other comprehensive income		4 001	12 300
Items that will not be reclassified subsequently to profit or loss:			
- Remeasurements of post-employment benefit obligations		29 389	5 754
- Deferred income tax recorded in other comprehensive income	30	(5 878)	(1 151)
Other comprehensive income/(loss) for the year		**7 720**	**(44 809)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**191 228**	**25 426**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for available-for-sale securities	Revaluation reserve for premises and equipment	Remeasure-ments of post-employment benefit obligations	Retained earnings	Total equity
Balance at 31 December 2012		**1 374 111**	**176 000**	**(74 476)**	**324 005**	**(5 335)**	**229 589**	**2 023 894**
Profit for the year		-	-	-	-	-	70 235	**70 235**
Other comprehensive income		-	-	(49 412)	-	4 603	-	**(44 809)**
Total comprehensive income for 2013		-	-	**(49 412)**	-	**4 603**	**70 235**	**25 426**
Dividends declared	31	-	-	-	-	-	(31 231)	**(31 231)**
Balance at 31 December 2013		**1 374 111**	**176 000**	**(123 888)**	**324 005**	**(732)**	**268 593**	**2 018 089**
Profit for the year		-	-	-	-	-	183 508	**183 508**
Other comprehensive income		-	-	(15 791)	-	23 511	-	**7 720**
Total comprehensive income for 2014		-	-	(15 791)	-	23 511	183 508	**191 228**
Share issue		35 141	-	-	-	-	-	**35 141**
Dividends declared	31	-	-	-	-	-	(30 904)	**(30 904)**
Balance at 31 December 2014		**1 409 252**	**176 000**	**(139 679)**	**324 005**	**22 779**	**421 197**	**2 213 554**

In thousands of Russian Roubles	**Note**	**2014**	**2013**
Cash flows from operating activities			
Interest income received		2 258 827	1 849 359
Interest paid		(1 095 828)	(851 525)
Fees and commissions received		424 430	346 969
Fees and commissions paid		(63 772)	(40 725)
Income received / (expenses paid) from operations with securities		5 939	(15 359)
Income received / (expenses paid) from financial derivatives		2 333	(9 101)
Income received from trading in foreign currencies		21 551	13 513
Income received from trading in precious metals		7 039	19 746
Other operating income received		42 516	17 019
Staff costs paid		(586 467)	(525 293)
Administrative and other operating expenses paid		(399 959)	(360 682)
Income tax paid		(101 297)	(54 847)
Cash flows from operating activities before changes in operating assets and liabilities		**515 312**	**389 074**
Net decrease/(increase) in:			
- mandatory cash balances with the Central Bank		(334 587)	(35 571)
- securities at fair value through profit or loss		84 087	112 860
- due from other banks		(110 304)	(249)
- loans and advances to customers		(2 210 754)	(1 915 546)
- other financial assets		(48 697)	
- other assets		(58 258)	(19 781)
- non-current assets held for sale		23 345	51 127
Net increase/(decrease) in:			
- due to other banks		64 435	163 557
- customer accounts		(1 095 243)	3 320 393
- debt securities in issue		1 490	(23 300)
- other liabilities		64 540	9 687
Net cash (used in)/from operating activities		**(3 104 634)**	**2 052 251**
Cash flows from investing activities			
Net cash used in transactions with investment securities available for sale		(43 254)	(175 501)
Acquisition of premises and equipment	13	(259 330)	(170 301)
Acquisition of investment properties	12	(33 786)	(27 923)
Proceeds from disposal of premises, equipment and investment properties		16 490	50 673
Dividend income received		11 368	11 129
Net cash used in investment activities		**(308 512)**	**(311 923)**
Cash flows from financing activities			
Subordinated loans received		357 000	-
Repayment of subordinated loans		(220 000)	-
Dividends paid	31	(30 904)	(31 231)
Net cash from/(used in) financing activities		**106 096**	**(31 231)**
Effect of exchange rate changes on cash and cash equivalents		**169 577**	**13 458**
Net decrease/increase in cash and cash equivalents		**(3 137 473)**	**1 722 555**
Cash and cash equivalents at the beginning of the year (not including mandatory cash balances with the CBRF)	7	5 804 101	4 081 546
Cash and cash equivalents at the end of the year (not including mandatory cash balances with the CBRF)	7	**2 666 628**	**5 804 101**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for AKB Almazergienbank (OJSC) (the "Bank") and its subsidiaries (the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint stock company limited by shares and was set up in accordance with Russian regulations. The ultimate controlling party of the Bank is the Russian Federation represented by the Ministry of Property Relations of the Republic of Sakha, which owns 75% of the Bank's shares (31 December 2013: 74% of the Bank's shares).

Principal activity. The Group's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits of Individuals Insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank also has additional offices in Yakutsk, Mirny, Vilyuisk, Nyurba, Pokrovsk, Aldan, Lensk, Neryungry, Nizhny Bestyakh, Suntar, Maya, Churapcha, Ytyk-Kyuel, Berdigestyakh of the Republic of Sakha (Yakutia). The Bank also has representative offices in Moscow and St Petersburg, an operational office in Khabarovsk and a representative office in Vladivostok. The Bank had 628 employees at 31 December 2014 (2013: 654 employees).

Registered address and place of business. The Bank's registered address is: 1, Prospect Lenina, Yakutsk 677000, Republic of Sakha (Yakutia), Russian Federation. The Bank's principal place of business is the Republic of Sakha (Yakutia).

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 34).

A fall in oil prices, continuing political tension in the region, as well as international sanctions against Russian companies and individuals have had a negative impact on the Russian economy in 2014. As a result, in 2014:

- the CBRF exchange rate varied within the range from RR 32.7292 to RR 56.2584 per USD and from RR 44.9699 to RR 68.3427 per EUR;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index varied within the range from 1 445 to 791 points;
- access to international financial markets to raise funding was limited for certain entities;
- capital outflows increased compared to prior years.

2 Operating Environment of the Group (Continued)

Financial markets continue to demonstrate lack of stability, frequent and material change in prices and increased spreads on trade transactions. After 31 December 2014:

- the CBRF exchange rate varied within the range from RR 49.6749 to RR 67.7851 per USD and from RR 52.9087 to RR 84.589 per EUR;
- In January 2015, Fitch Ratings downgraded Russia's credit rating to BBB- and Standard & Poor's cut it to BB+, which for the first time in ten years is below the investment grade. Russia's rating assigned by Moody's Investors Service и Fitch Ratings is still at the investment grade. However, all these rating agencies provided negative outlooks for the future, which means that Russia's credit rating may be further downgraded;
- the RTS stock exchange index varied within the range from 791 to 881 points;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates;
- the key refinancing interest rate of the CB RF decreased from 17.0% p.a. to 14% p.a.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions (Note 4).

The rates of social and economic development for 2014 were higher in the Republic of Sakha (Yakutia) ("RS (Ya)") than the average rates for Russia as a whole. Thus, in terms of growth rates dynamics the results were as follows: gross regional product – 103% (100.5% for Russia), manufacturing – 104.4% (101.7% for Russia), fixed capital investments – 102.8 (97.2% for Russia), retail turnover – 104.5% (101.9% for Russia) and real wages 101.9% (101.3% for Russia).

Diamond production remains the flagship of industrial production in Yakutia. In 2014, the volume of rough diamonds produced in the Republic was 34.5 million carat, which is 100.4% as compared to the plan. Gold mining industry, which is a historically developed industry in the Republic, demonstrated positive dynamics. According to preliminary results, in 2014 gold mining industry produced 23.5 tonnes of gold, this is almost 22% higher than the planned figure and 5.5% higher compared to 2013. The unfavourable global market conditions for coal mining industry that arose in 2013 were still observable in 2014, which did not allow some coal mining companies achieve their coal production targets. According to preliminary 2014 information, the Republic produced 12 713 thousand tonnes of coal, or 99.7% of their target. In 2014, the Republic produced 8.71 million tonnes of oil; thus, the increase was 15.4% as compared to the previous year.

For 2014, the total capital investment limit under the Investment Programme of RS (Ya) was RR 23.3 billion, which is RR 2.2 billion higher than for the previous year. In 2014, construction funding was RR 18.2 billion, or 78.3%.

3 Summary of Significant Accounting Policies

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

3 Summary of Significant Accounting Policies (Continued)

Going concern. Management prepared these consolidated financial statements on a going concern basis.

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. The subsidiary is the investee that the Group controls because the Group (i) has power to direct relevant activities of the investee that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investee, and (iii) has the ability to use its power over the investee to affect the amount of investor's returns.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

In 2014 the Group disposed of its subsidiary OOO Media Holding Stolitsa which was established in 2003 as a limited liability company. As at 31 December 2014, the Bank's ownership was 0% (2013: 100%) (refer to Note 28). The principal activity of OOO Media Holding Stolitsa was advertising and information activity.

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

3 Summary of Significant Accounting Policies (Continued)

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

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

Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the CBRF and all interbank placements with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost. Refer to Note 7.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows. Refer to Note 7.

Securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from assessing assets or liabilities or recognising the relevant gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Refer to Note 8.

3 Summary of Significant Accounting Policies (Continued)

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

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. Refer to Note 9.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost. Refer to Note 10.

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

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Refer to Note 10.

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. Refer to Note 34.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Refer to Note 11.

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

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

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Precious metals. The Group has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at fair value with gains or losses recognised in profit or loss.

Premises and equipment. Premises and equipment are stated at revalued amounts, as stated below, less accumulated depreciation and accumulated impairment losses, where required.

Premises and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation reserve for premises and equipment in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve for premises and equipment in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings/(accumulated deficit) when the revaluation surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

3 Summary of Significant Accounting Policies (Continued)

If there is no market based evidence of fair value, fair value is estimated using an income approach. Management has updated the carrying value of land and buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired. Refer to Note 13.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses). Refer to Note 13.

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years. Refer to Note 13.

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

	Useful lives in years
Premises and buildings	20-50
Office equipment	2-15
Furniture	5-10
Motor vehicles	5-7

Refer to Note 13.

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

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. Refer to Note 34.

3 Summary of Significant Accounting Policies (Continued)

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale fixed assets are not depreciated. Reclassified non-current financial instruments are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost. Refer to Note 18.

Subordinated debt. Subordinated debt is carried at amortised cost. The debt ranks after all other creditors in case of liquidation. Refer to Note 24.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt. Refer to Note 19.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. Refer to Note 35.

3 Summary of Significant Accounting Policies (Continued)

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Refer to Note 34.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Refer to Note 20.

Pension obligations and other long-term employee benefits. In the normal course of business, the Group pays all necessary contributions to the Pension Fund of the Russian Federation for its employees. Mandatory contributions to the Pension Fund of the Russian Federation are expensed when incurred and recognised within other operating expenses of the consolidated statement of profit or loss and other comprehensive income as staff costs.

Post-employment benefits. The Group uses a defined benefit retirement scheme which provides for non-state pension benefits through NPF Almaznaya Osen. The benefits are financed in accordance with labour agreements. The Group has obligations to ensure that by the retirement date, an employee has at his/her personal pension account at NPF Almaznaya Osen accruals sufficient to pay life-long pension in the amount determined based on the service period and average monthly salary in the Group. Such scheme also includes ritual payments to pensioners in the amount of annual pension. The Group's obligations related to these benefits are funded through annual contributions to NPF Almaznaya Osen. When an employees retires, the obligations are settled and the Group bears no further risks related to non-state pension or ritual benefit.

The Retirement Agreement provides for transfer of the surrender amount to another pension fund in case of liquidation of the Group or termination of the Retirement Agreement. Therefore, consolidated amounts held at the joint pension account of the Group may not be classified as pension plan assets.

3 Summary of Significant Accounting Policies (Continued)

Amounts held at the joint pension account at NPF Almaznaya Osen are recognised in the consolidated statement of financial position within other assets.

The amount of defined benefits is calculated on an annual basis by an independent actuary. The amount of liability recognised in the consolidated statement of financial position due to the defined benefit retirement scheme represents discounted defined benefit obligation. The amount of pension plan expenses is determined based on actuarial estimates using the projected unit credit method. The current defined benefit obligation is determined by discounting estimated future cash outflow using interest rates for government bonds with maturity periods equal to the settlement periods of relevant obligations.

Actuarial gains and losses arising out of restatements based on experience and measurements in actuarial assumptions for post-employment benefits are recognised within other comprehensive income in the period in which they arise, within remeasurement of post-employment benefit obligations. The past-service costs are recognised immediately within operating expenses of the consolidated statement of profit or loss and other comprehensive income.

Other long-term benefits. The Group makes payments when employees reach their anniversaries before their employment terminates. The amount of these payments generally depends on one or several factors, such as their age, period of service in the company and minimum employment tariffs used in the Group.

Actuarial gains or losses arising out of restatements and adjustments in actuarial assumptions for this type of benefits are recognised within profit and losses of the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. In all other aspects, accounting policies regarding these obligations are similar to those regarding post-employment benefits.

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

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Refer to Note 25.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit. Refer to Note 31.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Refer to Note 26.

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

3 Summary of Significant Accounting Policies (Continued)

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2014 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 56.2584 (2013: USD 1 = RR 32.7292) and EUR 1 = RR 68.3427 (2013: EUR 1 = RR 44.9699). The principal rate of exchange used for translating income and expenses was USD 1 = RR 38.42 and EUR 1 = RR 50.82 (2013: USD 1 = RR 31.90, EUR 1 = RR 42.31).

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. In addition to payments to the statutory defined contribution scheme the Bank has an agreement on non-state pension security. Refer to Note 22.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 32.

Investment properties. Investment property is property held by the Group to earn rental income or for capital appreciation, or both, and is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

3 Summary of Significant Accounting Policies (Continued)

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

***Restatement of the consolidated financial statements for 2013*.** The Group's management revised the investment property accounting existing in the Group as at 31 December 2014. As a result of this revision investment property was recalculated at fair value. Until 31 December 2014, investment property was stated at cost less accumulated depreciation and provision for impairment, where required. In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, changes to the accounting policies should be applied retrospectively and comparative figures should be restated. The Group assessed whether it was necessary to present the statement of financial position at 1 January 2013 and concluded that the change was insignificant for the Group's consolidated financial statements.

The effect of the restatements on the consolidated statement of financial position of the Group as at 1 January 2013 is detailed below:

In thousands of Russian Roubles	**Note**	**1 January 2013 (as previously reported)**	**Restatement effect**	**1 January 2013 (restated)**
ASSETS				
Investment properties	A	95 513	79 601	175 114
Cost		*107 216*	*67 898*	*175 114*
Accumulated depreciation		*(11 703)*	*11 703*	-
LIABILITIES				
Deferred income tax liability	Б	17 683	15 920	33 603
EQUITY				
Retained earnings	Г	165 908	63 681	229 589

The effect of the restatements on the consolidated statement of financial position of the Group as at 31 December 2013 is detailed below:

In thousands of Russian Roubles	**Note**	**At 31 December 2013 (as previously reported)**	**Restatement effect**	**31 December 2013 (restated)**
ASSETS				
Investment properties	A	71 328	71 049	142 377
Cost		78 540	63 837	142 377
Accumulated depreciation		*(7 212)*	*7 212*	-
Premises, Equipment and Intangible Assets	C	*886 978*	*10 837*	*897 815*
Gross amount		1 114 427	8 552	1 122 979
Accumulated depreciation		(227 449)	2 285	(225 164)
LIABILITIES				
Deferred income tax liability	B	17 658	16 377	34 035
EQUITY				
Retained earnings	D	203 084	65 509	268 593

The effect of restatements on amounts in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2013 is detailed below:

In thousands of Russian Roubles	**Note**	**2013 (as previously reported)**	**Restatement effect**	**2013 (restated)**
Administrative and other operating expenses	D	(975 649)	2 285	(973 364)
Income tax expense	D	(60 211)	(457)	(60 668)

3 Summary of Significant Accounting Policies (Continued)

A. The effect of recognition of investment property based on the revalued amount.

B. Recognition of deferred tax liability.

C. The effect of recognition of investment property based on the revalued amount of premises, equipment and intangible assets on transfer of assets from investment property to premises, equipment and intangible assets.

D. The effect of recognition of investment property based on the revalued amount on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

The restatement of consolidated financial statements had an effect on the disclosures in Note 12 Investment property, Note 13 Premises, equipment and intangible assets and Note 29 Administrative and other operating expenses. The restatement of the consolidated financial statements did not produce any effect on other notes.

Amendments in the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment loss on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 98 645 thousand (2013: RR 71 921 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 17 966 thousand (2013: RR 17 658 thousand), respectively.

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

Valuation of own use premises. The Group's premises are stated at fair value determined based on the valuation report prepared by an independent firm of valuers, LLC UBA as at 31 December 2012. Real estate was valued based on the market value of similar properties at the valuation date subject to all restrictions and encumbrances using the most applicable valuation approaches. The Group's management believes that fair value of premises as at 31 December 2014 did not change significantly compared to their fair value as at 31 December 2012 and the carrying value of own premises approximates their fair value at the end of the reporting period. In determining fair value, the Group used information about market value of similar assets as at the reporting date.

Fair value of non-current assets held for sale. Non-current assets held for sale are assets received under settlement agreements and are recorded at their collateral value adjusted for further sales price.

Interest rates on mortgage loans. The Group monitors its exposure to credit risk on a regular basis and reviews limits at least once a year. The Group believes that current interest rates on mortgage loans comply with the market level as loans were issued within the Programme of Increasing Housing Affordability in the republic, the Providing the High-Quality Housing 2012-2016 state programme where cost of housing was partly subsidised from the state budget. The low interest rate on these loans is offset by the absence of risk of non-payment.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39, Financial Instruments: Recognition and Measurement, requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 38.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6 New Accounting Pronouncements (Continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

Furthermore, the IASB has issued pronouncements not yet adopted in Russia.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Cash on hand	1 290 509	1 388 392
Cash balances with the CBRF (other than mandatory reserve deposits)	655 847	3 849 302
Correspondent accounts and overnight placements with other banks	550 272	566 407
Mandatory cash balances with CBRF	534 911	200 324
Placements with other banks with original maturities of less than three months	170 000	
Total cash equivalents	**3 201 539**	**6 004 425**

7 Cash and Cash Equivalents (Continued)

The credit quality of cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2014:

In thousands of Russian Roubles	**Cash balances with the CBRF, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	1 190 758	-		1 190 758
- A+ rated	-	348		348
- BBB+ rated	-	47 078		47 078
- BBB rated	-	285 349		285 349
- BB+ rated	-	2 040		2 040
- BB- rated	-	11 177		11 177
- B+ rated	-	10		10
- B rated			170 000	170 000
- B- rated	-	4 106		4 106
- Unrated	-	200 164		200 164
Total cash equivalents, excluding cash on hand	**1 190 758**	**550 272**	**170 000**	**1 911 030**

The credit quality of cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2013:

In thousands of Russian Roubles	**Cash balances with the CBRF, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Total**
Neither past due nor impaired			
- Central Bank of the Russian Federation	4 049 626	-	**4 049 626**
- A+ rated	-	1 387	**1 387**
- A- rated	-	125	**125**
- BBB+ rated	-	6 674	**6 674**
- BBB rated	-	372 301	**372 301**
- BB rated	-	35 409	**35 409**
- B- rated	-	21 561	**21 561**
- Unrated	-	128 950	**128 950**
Total cash equivalents, excluding cash on hand	**4 049 626**	**566 407**	**4 616 033**

Unrated balances include cash balances with non-banking credit institution – a professional securities market participant with special AA- level rating from Thomas Murray (specialising on assigning ratings to backbone financial institutions) (at 31 December 2013: AA-) of RR 129 909 thousand (at 31 December 2013: RR 31 thousand).

Mandatory reserves are RR 534 911 thousand at 31 December 2014 (at 31 December 2013: RR 200 324 thousand).

The ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

Interest rate analysis of cash and cash equivalents is disclosed in Note 32. Information on related party balances is disclosed in Note 38.

8 Securities at Fair Value through Profit or Loss

In thousands of Russian Roubles	31 December 2014	31 December 2013
Corporate bonds	350 794	454 365
Municipal bonds	34 316	38 067
Total securities at fair value through profit or loss	**385 110**	**492 432**

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of these investments based on their fair values.

Corporate bonds are bonds, issued by large Russian companies maturing from October 2015 to September 2023 (2013: from April 2014 to July 2023) with coupon income from 7.60% to 10.40% (2012: from 7.40% to 12.25%) p.a.

Municipal bonds are represented by bonds issued by the Moscow government maturing in June 2017, with coupon income of 7%.

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

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

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- BBB rated	-	10 658	10 658
- BBB- rated	34 316	264 781	299 097
- BB+ rated	-	18 949	18 949
- BB- rated	-	33 048	33 048
- B+ rated	-	2 227	2 227
- B rated	-	21 131	21 131
Total securities at fair value through profit or loss	**34 316**	**350 794**	**385 110**

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

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- BBB rated	38 067	145 482	183 549
- BBB- rated	-	180 360	180 360
- BB+ rated	-	33 718	33 718
- BB- rated	-	33 883	33 883
- B+ rated	-	32 678	32 678
- B rated	-	23 035	23 035
- B- rated	-	5 209	5 209
Total securities at fair value through profit or loss	**38 067**	**454 365**	**492 432**

8 Securities at Fair Value through Profit or Loss (Continued)

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale. The debt securities are not collateralised.

At 31 December 2014 and 31 December 2013, all securities at fair value through profit or loss are included into securities accepted as collateral for Loans from the CBRF which serves as the source for the Group's liquidity maintenance (the Group has signed a framework agreement with CBRF and is entitled to borrow cash from the latter collateralised by these securities).

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 32.

9 Due from Other Banks

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Placements with other banks with original maturities of more than three months	164 019	3 588
Less: provision for impairment	(5 723)	-
Total due from other banks	**158 296**	**3 588**

As at 31 December 2014, all deposits with other banks are not overdue. Total impaired but not overdue amount due from other banks was RR 50 000 thousand. This deposit of RR 50 000 thousand is collateralised by the real estate with fair value of RR 52 320 thousand at 31 December 2014.

Placements with other banks amounting to RR 114 019 thousand with original maturities of more than three months are represented by insurance deposit in a foreign bank as a collateral for transactions via Visa and MasterCard systems.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Provision for impairment at 1 January	**-**	**-**
Provision for impairment during the year	5 723	-
Provision for impairment at 31 December	**5 723**	**-**

The analysis by credit quality of amounts due from other banks outstanding at 31 December 2014 and 31 December 2013 is as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
- BBB rated	-	1 297
- BB+ rated	114 019	-
- Unrated	50 000	2 291
Total due from other banks	**164 019**	**3 588**

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

Regarding unrated due from other banks, the Group analyses financial position of counterparties with the internal policy of the Group.

Interest rate analysis of due from other banks is disclosed in Note 32.

10 Loans and Advances to Customers

In thousands of Russian Roubles	31 December 2014	31 December 2013
Corporate loans	8 940 851	7 747 777
Loans to individuals:		
- Consumer loans	3 774 528	3 066 307
- Mortgage loans	2 290 556	2 016 494
- Car loans	-	555
Reverse sale and repurchase agreements	-	240 576
Less: Provision for loan impairment	(986 447)	(719 207)
Total loans and advances to customers	**14 019 488**	**12 352 502**

Loans and advances to customers include interest on impaired loans at 31 December 2014 of RR 22 247 thousand (31 December 2013: RR 9 154 thousand).

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals	Total
Provision for loan impairment at 1 January 2014	**487 181**	**232 026**	**719 207**
Provision for impairment during the year	219 043	146 537	365 580
Amounts written off during the year as uncollectible	(20 255)	(68 085)	(88 340)
Sale of impaired loans	(10 000)	-	(10 000)
Provision for loan impairment at 31 December 2014	**675 969**	**310 478**	**986 447**

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals	Total
Provision for loan impairment at 1 January 2013	**364 181**	**171 431**	**535 612**
Provision for impairment during the year	134 665	61 134	195 799
Amounts written off during the year as uncollectible	(11 665)	(539)	(12 204)
Provision for loan impairment at 31 December 2013	**487 181**	**232 026**	**719 207**

During 2014, the Group sold loans and advances to customers under cession agreements in the amount of RR 12 525 thousand (2013: RR 8 311 thousand). At the date of sale a provision for impairment created for these loans totalled RR 10 000 thousand (2013: RR 61 thousand). The cash proceeds from the transaction were RR 12 525 thousand (2013: RR 8 059 thousand). Net gain from disposal of loans received in 2014 and recognised in the consolidated statement of profit or loss and other comprehensive income amounted to RR 10 000 thousand (2013: RR 191 thousand). Refer to Note 28. The loans were sold through transfer of contractual rights to cash flows to an individual (2013: legal entity).

10 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	31 December 2014 Amount	31 December 2014 %	31 December 2013 Amount	31 December 2013 %
Individuals				
Consumer loans	3 774 528	25%	3 066 307	23%
Mortgage loans	2 290 556	15%	2 016 494	15%
Car loans	-	0%	555	0%
Legal entities:				
Trade	2 862 105	19%	2 298 918	17%
Construction, agriculture and forestry	1 760 226	12%	1 657 921	13%
Financial, legal, intermediary services and real estate	1 458 954	10%	1 245 552	10%
Manufacturing	1 161 661	8%	536 234	4%
Transport and communication	976 011	7%	991 993	8%
Mining	332 077	2%	445 739	3%
Power, gas and water production and distribution	46 087	0%	738 431	6%
Other industries	343 730	2%	73 565	1%
Total loans and advances to customers before provision for loan impairment	**15 005 935**	**100%**	**13 071 709**	**100%**

At 31 December 2014, the Bank had 19 borrowers (2013: 16 borrowers) with aggregated loan amounts above RR 100 million. The total aggregate amount of these loans was RR 4 560 million (2013: RR 3 596 million), or 30% of the gross loan portfolio (2013: 28%).

Information about collateral at 31 December 2014 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Total
Unsecured loans	3 432 094	3 589 530	-	**7 021 624**
Including guaranteed loans	2 326 217	155 604	-	**2 481 821**
Loans collateralised by:				
- cash deposits	28 794	-	-	**28 794**
- state guarantees	201 980	-	-	**201 980**
- real estate	2 892 434	165 696	2 290 556	**5 348 686**
- motor vehicles	808 737	19 302	-	**828 039**
- inventory	1 156 352	-	-	**1 156 352**
- other assets	420 460	-	-	**420 460**
Total loans and advances to customers	**8 940 851**	**3 774 528**	**2 290 556**	**15 005 935**

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Car loans**	**Reverse sale and repurchase agreements**	**Total**
Unsecured loans	2 080 034	2 894 971	-	-	240 576	**5 215 581**
Including guaranteed loans	1 057 513	141 907	-	-	-	**1 199 420**
Loans collateralised by:					-	
- cash deposits	17 919	-	-	-	-	**17 919**
- state guarantees	571 724	-	-	-		**571 724**
- real estate	3 203 125	156 436	2 016 494	-		**5 376 055**
- motor vehicles	847 101	14 900	-	555	-	**862 556**
- inventory	737 540	-	-	-	-	**737 540**
- other assets	290 334	-	-	-	-	**290 334**
Total loans and advances to customers	**7 747 777**	**3 066 307**	**2 016 494**	**555**	**240 576**	**13 071 709**

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2014 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Total
Neither past due nor impaired				
- 1st quality category	1 173 223	12 364	56 511	**1 242 098**
- 2nd quality category	5 600 992	3 137 565	2 036 260	**10 774 817**
- 3rd quality category	1 042 447	49 530	39 726	**1 131 703**
Total neither past due nor impaired	**7 816 662**	**3 199 459**	**2 132 497**	**13 148 618**
Past due but not impaired				
- less than 30 days overdue	33 340	254 856	101 985	**390 181**
- 31 to 90 days overdue	30 998	-	-	**30 998**
- 91 to 180 days overdue	68 567	-	-	**68 567**
- 181 to 365 days overdue	234 729	-	-	**234 729**
- over 365 days overdue	32 518	-	-	**32 518**
Total past due but not impaired	**400 152**	**254 856**	**101 985**	**756 993**
Balances individually determined to be impaired (gross)				
- not past due	382 426	-	-	**382 426**
- less than 30 days overdue	8 087	-	-	**8 087**
- 31 to 90 days overdue	52 346	53 724	25 100	**131 170**
- 91 to 180 days overdue	9 281	51 080	11 306	**71 667**
- 181 to 365 days overdue	96 996	58 768	13 020	**168 784**
- over 365 days overdue	174 901	156 641	6 648	**338 190**
Total individually impaired loans and advances to customers (gross)	**724 037**	**320 213**	**56 074**	**1 100 324**
Less: Provision for loan impairment	**(675 969)**	**(288 578)**	**(21 900)**	**(986 447)**
Total loans and advances to customers	**8 264 882**	**3 485 950**	**2 268 656**	**14 019 488**

10 Loans and Advances to Customers (Continued)

The analysis of loans and advances to customers by credit quality at 31 December 2013 is as follows:

In thousands of Russian Roubles	Corporate loans	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired						
- 1st quality category	1 434 070	4 738	40 127	-	240 576	**1 719 511**
- 2nd quality category	4 662 134	2 560 459	1 852 193	-	-	**9 074 786**
- 3rd quality category	591 917	34 378	46 432	-	-	**672 727**
Total neither past due nor impaired	**6 688 121**	**2 599 575**	**1 938 752**	**-**	**240 576**	**11 467 024**
Past due but not impaired						
- less than 30 days overdue	7 641	209 890	55 103	-	-	**272 634**
- 31 to 90 days overdue	11 799	-	-	-	-	**11 799**
- 91 to 180 days overdue	11 979	-	-	-	-	**11 979**
- 181 to 365 days overdue	16 718	-	-	-	-	**16 718**
- over 365 days overdue	50 660	-	-	-	-	**50 660**
Total past due but not impaired	**98 797**	**209 890**	**55 103**	**-**	**-**	**363 790**
Balances individually determined to be impaired (gross)						
- not past due	707 271	-	-	-	-	**707 271**
- 31 to 90 days overdue	2 297	35 716	11 364	-	-	**49 377**
- 91 to 180 days overdue	19 821	34 123	7 300	-	-	**61 244**
- 181 to 365 days overdue	51 136	49 015	1 292	-	-	**101 443**
- over 365 days overdue	180 334	137 988	2 683	555	-	**321 560**
Total individually impaired loans and advances to customers (gross)	**960 859**	**256 842**	**22 639**	**555**	**-**	**1 240 895**
Less: Provision for loan impairment	**(487 181)**	**(225 330)**	**(6 141)**	**(555)**	**-**	**(719 207)**
Total loans and advances to customers	**7 260 596**	**2 840 977**	**2 010 353**	**-**	**240 576**	**12 352 502**

10 Loans and Advances to Customers (Continued)

The Group uses the following classification of neither past due nor impaired loans and advances to customers by credit quality:

- Category 1 loans have good debt servicing quality and financial position of a borrower;
- Category 2 loans have average (good) debt servicing quality and good (average) financial position of a borrower;
- Category 3 loans have average debt servicing quality and financial position of a borrower.

The Group applied the loan portfolio provisioning methodology prescribed by IAS 39 “Financial Instruments: Recognition and Measurement” and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group’s policy is to classify each loan as “neither past due nor impaired” until specific objective evidence of impairment of the loan is identified.

The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans primarily include loans with technical overdue. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	4 110 446	9 461 883	4 154 436	1 216 976
Loans to individuals	1 133 136	2 825 160	4 621 470	65 022
Mortgage loans	997 010	2 422 812	1 271 646	43 704
Consumer loans	136 126	402 348	3 349 824	21 318

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	4 695 916	10 036 633	2 564 680	750 149
Loans to individuals	2 136 378	3 293 135	2 714 952	19 157
Mortgage loans	2 005 892	2 914 531	4 461	3 146
Consumer loans	130 486	377 656	2 710 491	16 011
Car loans	-	948	-	-
Reverse sale and repurchase agreements	-	-	240 576	238 249

The fair value of residential real estate collateral at the end of the reporting period was estimated by indexing the values determined by the Group’s internal credit department staff at the time of loan inception.

10 Loans and Advances to Customers (Continued)

The fair value of real estate and other assets was determined by the Group's credit department by considering the condition and location of the assets accepted as collateral.

Refer to Note 36 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 32.

11 Investment Securities Available for Sale

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Corporate bonds	342 213	311 278
Russian government bonds	53 666	72 792
Total debt securities	**395 879**	**384 070**
Corporate shares	360 745	366 637
Total investment securities available for sale	**756 624**	**750 707**

Russian government bonds are represented by federal loan bonds issued by the Russian Ministry of Finance maturing in February 2036 (2013: February 2036), with coupon income of 6.9% (2013: 6.9%).

Corporate bonds are bonds issued by OAO IFK RFA-Invest maturing in February 2016 (2013: from April 2014 to February 2016) with coupon income of 12% (2013: from 8.0% to 12.0%) p.a.

Corporate shares are quoted and unquoted shares of large Russian companies. Unquoted shares are represented by the shares issued by large companies from the Republic of Sakha (Yakutia) related to regional infrastructure.

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

In thousands of Russian Roubles	**Russian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- BBB+ rated	-	-	-
- BBB rated	53 666	-	53 666
- CCC+ rated	-	342 213	342 213
- Unrated	-	-	-
Total neither past due nor impaired debt securities	**53 666**	**342 213**	**395 879**

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

In thousands of Russian Roubles	**Russian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- BBB+ rated	72 792	-	72 792
- Unrated	-	311 278	311 278
Total neither past due nor impaired debt securities	**72 792**	**311 278**	**384 070**

11 Investment Securities Available for Sale (Continued)

The credit ratings are based on Standard & Poor's ratings where available or Moody's or Fitch ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

Investment securities available for sale include equity securities with a carrying value of RR 87 885 thousand (2013: RR 59 799 thousand) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted cash flows of the investee's net asset value. Refer to Note 36. For other publicly traded investments, fair value is estimated by reference to the weighted average price calculated by trading organisers based on trading results.

The debt securities are not collateralised.

Interest rate analysis of investment securities available for sale is disclosed in Note 32.

12 Investment Properties

In thousands of Russian Roubles	Note	2014	2013
Carrying value of investment properties as at 1 January		**142 377**	**175 114**
Additions		88 601	27 922
Disposals		(15 024)	(35 774)
Transfer to non-current assets held for sale		-	(7 773)
Transfer to premises, equipment and intangible assets	13	-	(17 112)
Carrying value of investment properties as at 31 December		**215 954**	**142 377**

13 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Land plots	Premises	Motor vehicles	Office equip-ment	Furni-ture	Con-struc-tion in pro-gress	Intan-gible assets	Total premises and equipment and intangible assets
Carrying amount at 31 December 2012		**30 477**	**607 492**	**29 349**	**7 518**	**87 263**	**1 254**	**15 199**	**778 552**
Cost at 31 December 2012		**30 477**	**607 492**	**46 911**	**46 655**	**187 094**	**1 254**	**28 499**	**948 382**
Accumulated depreciation		**-**	**-**	**(17 562)**	**(39 137)**	**(99 831)**	**-**	**(13 300)**	**(169 830)**
Additions		-	3 685	14 218	3 887	23 176	117 697	7 638	170 301
Disposals		(652)	-	(8 685)	(741)	(2 738)	-	-	(12 816)
Transfers from investment properties	12	-	17 112	-	-	-	-	-	17 112
Depreciation charge	29	-	(24 003)	(7 709)	(3 474)	(22 898)	-	(5 539)	(63 623)
Depreciation charged on disposed items		-	-	5 779	741	1 769	-	-	8 289
Carrying amount at 31 December 2013		**29 825**	**604 286**	**32 952**	**7 931**	**86 572**	**118 951**	**17 298**	**897 815**
Cost at 31 December 2013		**29 825**	**628 289**	**52 444**	**49 801**	**207 532**	**118 951**	**36 137**	**1 122 979**
Accumulated depreciation		**-**	**(24 003)**	**(19 492)**	**(41 870)**	**(120 960)**	**-**	**(18 839)**	**(225 164)**

13 Premises, Equipment and Intangible Assets (Continued)

In thousands of Russian Roubles	Note	Land plots	Premi-ses	Motor vehicles	Office equip-ment	Furni-ture	Construc-tion in progress	Intan-gible assets	Total premises and equip-ment and intangible assets
Carrying amount at 31 December 2013		**29 825**	**604 286**	**32 952**	**7 931**	**86 572**	**118 951**	**17 298**	**897 815**
Cost at 31 December 2013		**29 825**	**628 289**	**52 444**	**49 801**	**207 532**	**118 951**	**36 137**	**1 122 979**
Accumulated depreciation		**-**	**(24 003)**	**(19 492)**	**(41 870)**	**(120 960)**	**-**	**(18 839)**	**(225 164)**
Additions		-	191 768	6 196	1 739	43 736	23 506	32 181	299 126
Disposals		-	-	(432)	(2 948)	(509)	-	(141)	(4 030)
Depreciation charge	29	-	(24 893)	(9 689)	(1 876)	(25 557)	-	(6 990)	(69 005)
Depreciation charged on disposed items		-	-	342	429	455	-	-	1 226
Carrying amount at 31 December 2014		**29 825**	**771 161**	**29 369**	**5 275**	**104 697**	**142 457**	**42 348**	**1 125 132**
Cost at 31 December 2014		**29 825**	**820 057**	**58 208**	**48 592**	**250 759**	**142 457**	**68 177**	**1 418 075**
Accumulated depreciation		**-**	**(48 896)**	**(28 839)**	**(43 317)**	**(146 062)**	**-**	**(25 829)**	**(292 943)**

13 Premises, Equipment and Intangible Assets (Continued)

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

As at 31 December 2014, office equipment and furniture include fully depreciated items with the original cost of RR 102 697 thousand (2013: RR 95 034 thousand) that are still in use by the Group and, therefore, are carried in the Group's consolidated statement of financial position at zero net book value.

Premises have been revalued at fair value at 31 December 2012. The valuation was carried out by an independent firm of valuers, LLC UBA, which holds a recognised and relevant professional qualification and which has recent experience in valuation of assets of similar location and category. Real estate was valued based on the market value of similar properties at the valuation date subject to all restrictions and encumbrances using the most applicable valuation approaches.

At 31 December 2014, the carrying amount of premises and land plots would have been RR 412 634 thousand (2013: RR 227 247 thousand) had the assets been carried at cost less depreciation.

14 Other Financial Assets

In thousands of Russian Roubles	**Note**	**31 December 2014**	**31 December 2013**
Trade receivables		263 761	172 260
Credit and debit cards receivables		80 308	44 121
Settlements on securities transactions		4 801	138
Derivative financial instruments	35	3 591	2 352
Settlements on conversion operations		3 094	12 077
Securities transferred to trust management		1 190	-
Other		15 470	12 293
Less provision for impairment		(21 579)	(3 072)
Total other financial assets		**350 636**	**240 169**

Trade receivables mainly include claims to Ammosov North Eastern Federal University (Federal State Autonomous Educational Institution of Higher Professional Education) related to the sale of the building at 1 Prospekt Lenina, Yakutsk (payments are to be made until 2018 under the schedule) and settlements with OOO ISK Sirstroy under shared construction participation agreements for projects located at the address: 41/1 Oiunsky, Yakutsk.

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. The Group has financial assets in the amount of RR 331 266 thousand (2013: RR 214 920 thousand) which are classified as neither past due nor impaired. Financial assets in the amount of RR 19 370 thousand (2013: RR 25 249 thousand) are impaired.

14 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In thousands of Russian Roubles	Trade receivables	Total
Provision for impairment at 1 January 2014	**3 072**	**3 072**
Provision for impairment during the year	27 628	27 628
Write-offs against provision	(9 121)	-
Provision for impairment at 31 December 2014	**21 579**	**21 579**

Movements in the provision for impairment of other financial assets during 2013 are as follows:

In thousands of Russian Roubles	Trade receivables	Total
Provision for impairment at 1 January 2013	**8 148**	**8 148**
Recovery of provision for impairment during the year	(5 076)	(5 076)
Provision for impairment at 31 December 2013	**3 072**	**3 072**

15 Other Assets

In thousands of Russian Roubles	31 December 2014	31 December 2013
Precious metals	73 596	50 446
Assets at the joint account at NPF	45 814	39 216
Prepayments for services	37 988	10 958
Settlements with personnel	2 086	622
Prepaid other taxes and duties	1 385	866
Other	21 112	15 277
Less: provision for impairment	(9 152)	(11 612)
Total other assets	**172 829**	**105 773**

Movements in the provision for impairment of other assets during 2014 are as follows:

In thousands of Russian Roubles	Other	Total
Provision for impairment at 1 January 2014	**11 612**	**11 612**
Recovery of provision for impairment during the year	(2 460)	(2 460)
Provision for impairment at 31 December 2014	**9 152**	**9 152**

Movements in the provision for impairment of other assets during 2013 are as follows:

In thousands of Russian Roubles	Other	Total
Provision for impairment at 1 January 2013	**9 301**	**9 301**
Provision for impairment during the year	2 311	2 311
Provision for impairment at 31 December 2013	**11 612**	**11 612**

Information on related party balances is disclosed in Note 38.

16 Non-current Assets held for Sale

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Russian Roubles	31 December 2014	31 December 2013
Non-current assets held for sale:		
Land plots	-	12 999
Motor vehicles	2 653	4 840
Other	1 836	20
Total non-current assets held for sale	**4 489**	**17 859**

Non-current assets held for sale were received under a settlement agreement for a subsequent sale in accordance with the established procedure and were recognised as assets held for sale. The assets acquired are recorded at the lower of the fair value and carrying amount of the collateral as at the reporting date. No depreciation is charged on assets held for sale. Each subsequent decrease in the value of the assets acquired as a result of their revaluation at fair value less costs to sell is accounted for as impairment loss and included into the consolidated statement of profit or loss and other comprehensive income. Each subsequent increase in fair value less costs to sell is recognised in the consolidated statement of profit or loss and other comprehensive income up to the previously recorded impairment loss.

In 2013, the Group sold river vessels with the carrying amount of RR 49 773 thousand for the consideration of RR 50 673 thousand to the Ministry of Transport and Roads of Republic of Sakha (Yakutia) and vessels with the carrying amount of RR 10 900 thousand for the consideration of RR 7 630 thousand to an individual.

17 Due to Other Banks

In thousands of Russian Roubles	31 December 2014	31 December 2013
Placements of other banks	247 025	192 021
Correspondent accounts and overnight placements of other banks	9 501	70
Total due to other banks	**256 526**	**192 091**

All placements with other banks are neither overdue, nor impaired.

Refer to Note 36 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 32.

18 Customer Accounts

In thousands of Russian Roubles	31 December 2014	31 December 2013
State and public organisations		
- Current/settlement accounts	768 943	905 735
- Term deposits	57 409	112 496
Other legal entities		
- Current/settlement accounts	2 686 795	2 878 232
- Term deposits	2 077 867	1 255 300
Individuals		
- Current/demand accounts	2 239 495	3 031 451
- Term deposits	9 307 410	9 918 553
Total customer accounts	**17 137 919**	**18 101 767**

18 Customer Accounts (Continued)

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2014		31 December 2013	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	11 546 905	67%	12 950 004	72%
Construction	1 617 884	10%	1 654 521	9%
Investment and financing activities	1 582 484	9%	956 663	5%
State and public organisations	826 352	5%	1 018 231	6%
Services	620 915	4%	291 370	2%
Trade	409 820	2%	592 277	3%
Manufacturing	263 275	2%	146 387	1%
Insurance	160 639	1%	80 581	0%
Agriculture	47 895	0%	70 065	0%
Energy	26 952	0%	179 068	1%
Other	34 798	0%	162 600	1%
Total customer accounts	**17 137 919**	**100%**	**18 101 767**	**100%**

At 31 December 2014, the Bank had 9 customers (2013: 8 customers) with balances above RR 100 000 thousand. The aggregate balance of these customers was RR 2 964 459 thousand (2013: RR 2 453 642 thousand), or 17.30% (2013: 14%) of total customer accounts.

The Group's management assesses the risk of outflow of cash of the Bank's major clients as low as legal entities with balances above RR 100 million are the Group's long-term customers. The Group on an ongoing basis carries out customer retention activities for these clients and attracts new organisations to use its cash and settlement services.

Collateral deposits as at 31 December 2014 made RR 140 042 thousand (2013: RR 361 950 thousand).

Refer to Note 36 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 32. Information on related party balances is disclosed in Note 38.

19 Debt Securities in Issue

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Promissory notes	7 200	5 710
Total debt securities issued	**7 200**	**5 710**

At 31 December 2014, promissory notes mainly include promissory notes for RR 5 000 and 2 000 thousand with a maturity date not earlier than 31 December 2015 and 22 May 2015, respectively (2013: not earlier than 31 March 2014), and an interest rate of 0% p.a. (2013: 0% p.a.).

20 Provisions for Liabilities and Charges

Provision for uncertain tax positions and related penalties and interest

In 2014, the Bank released provisions for losses on tax positions of RR 33 494 thousand due to expiry of the statute of limitation; no new provisions were created by the Bank.

In 2013, the Bank did not create new provisions for losses on tax positions.

In 2012, the Bank created provisions for losses on tax positions, with the statute of limitation equal to three years, in the amount of RR 2 807 thousand for the sale of shares in OAO Yakutia Railways at the price more than 20% below the market price with subsequent understatement of income tax of RR 2 807 thousand, respectively. The Bank assessed the risk of collection of these tax positions by tax authorities as high.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Russian Roubles	**Note**	**31 December 2014**	**31 December 2013**
Debit or credit card payables		71 694	19 410
Other payables		14 023	7 768
Dividends payable	36	424	286
Derivative financial instruments	35	-	-
Other accrued liabilities		7 315	4 548
Total other financial liabilities		**93 456**	**32 012**

Refer to Note 36 for disclosure of the fair value of each class of other financial liabilities.

22 Post-employment Benefit Obligations

The Group operates a defined benefit retirement scheme which provides for non-state pension benefits through NPF Almaznaya Osen. The financing terms are stated in labour agreements with employees. The Group has pension obligations whereby at the retirement date an employee has accruals at his/her personal retirement account at NPF Almaznaya Osen sufficient to pay life-long pension in the amount determined based on service period and average monthly salary of an employee in the Group. Such scheme also includes ritual payments to heirs of pensioners in the amount of annual pension.

22 Post-employment Benefit Obligations (Continued)

Movements in pension obligations of the Group for the years ended 31 December 2014 and 31 December 2013 are as follows:

In thousands of Russian Roubles	Post-employment benefits	Other long-term benefits	Total
Present value of obligations at 1 January 2014	**49 211**	**2 722**	**51 933**
Current service cost	6 949	176	**7 125**
Interest expense	4 215	225	**4 440**
Actuarial (gains) – changes in financial assumptions	(21 530)	(332)	**(21 862)**
Actuarial (gains) – changes in demographic assumptions	(2 684)	(73)	**(2 757)**
Actuarial (gains)/losses – restatements based on experience	(5 175)	2 060	**(3 115)**
Benefits paid	(25)	(1 189)	**(1 214)**
Present value of obligations at 31 December 2014	**30 961**	**3 589**	**34 550**

In thousands of Russian Roubles	Post-employment benefits	Other long-term benefits	Total
Present value of obligations at 1 January 2013	**44 562**	**2 317**	**46 879**
Current service cost	6 969	129	**7 098**
Interest expense	3 483	173	**3 656**
Actuarial (gains) – changes in financial assumptions	(5 723)	(37)	**(5 760)**
Actuarial (gains)/losses – restatements based on experience	(31)	723	**692**
Benefits paid	(49)	(583)	**(632)**
Present value of obligations at 31 December 2013	**49 211**	**2 722**	**51 933**

22 Post-employment Benefit Obligations (continued)

Expenses on pension obligations of the Group for 2014 and 2013 are as follows:

In thousands of Russian Roubles	Post-employment benefits	Other long-term benefits	Total
Current service cost	6 949	176	**7 125**
Net interest expense	4 215	225	**4 440**
Effects of remeasurements (for other long-term benefits):			
Actuarial (gains) – changes in financial assumptions	-	(332)	**(332)**
Actuarial (gains) – changes in demographic assumptions	-	(73)	**(73)**
Actuarial losses – restatements based on experience	-	2 060	**2 060**
Total expense charged to profit and loss for 2014	**11 164**	**2 056**	**13 220**
Effects of remeasurements (for post-employment benefits):			
Actuarial (gains) – changes in financial assumptions	(21 530)	-	**(21 530)**
Actuarial (gains) – changes in demographic assumptions	(2 684)	-	**(2 684)**
Actuarial (gains) – restatements based on experience	(5 175)	-	**(5 175)**
Total expense charged to other comprehensive income for 2014 (before income tax)	**(29 389)**	**-**	**(29 389)**

In thousands of Russian Roubles	Post-employment benefits	Other long-term benefits	Total
Current service cost	6 969	129	**7 098**
Interest expense	3 483	173	**3 656**
Effects of remeasurements (for other long-term benefits):			
Actuarial (gains) – changes in financial assumptions	-	(37)	**(37)**
Actuarial losses – restatements based on experience	-	723	**723**
Total expense charged to profit and loss for 2013	**10 452**	**988**	**11 440**
Effects of remeasurements (for post-employment benefits):			
Actuarial (gains) – changes in financial assumptions	(5 723)	-	**(5 723)**
Actuarial (gains) – restatements based on experience	(31)	-	**(31)**
Total expense charged to other comprehensive income for 2013 (before income tax)	**(5 754)**	**-**	**(5 754)**

22 Post-employment Benefit Obligations (continued)

The main actuarial assumptions of the Group are as follows:

In thousands of Russian Roubles	**2014**	**2013**
Discount rate	12.35%	8.00%
Salary growth rate	6.80%	6.40%
Ritual benefit growth rate	3.57%	4.17%
Guaranteed rate of return of NPF Almaznaya Osen	6.00%	6.00%
Average rate of contributions to social insurance funds	26.04%	26.29%
Expected retirement age:		
men	59	59
women	55	55
Life expectancy of 65-year-old pensioners:		
men	11.5	11.5
women	15.3	15.3

The sensitivity analysis for each material actuarial assumption at 31 December 2014 is as follows:

Actuarial assumption	**Change in assumption**	**Effect on obligation, RR thousand**
Discount rate	+0.5%	(1 655)
	-0.5%	1 811
Future acceleration of benefit growth rate	+0.5%	1 892
	-0.5%	(1 737)
Change in dismissal rate	+20%	(893)
	-20%	948
Life expectancy of male pensioners	+1 year	151
	-1 year	(146)
Life expectancy of female pensioners	+1 year	149
	-1 year	(148)
Retirement age	+1 year	(1 116)
	-1 year	1 386

In 2015, the Group expects to make accruals in the amount of RR 6 376 thousand under the defined benefit pension plans.

The weighted average term of the Group's pension plan obligations is 13.2 years (2013: 16.1).

The most significant risk exposures for the Group due to the plan are as follows:

Changes in government bond yields. Lower government bond yields will lead to a rise in current obligations under employee benefit plans of the Group.

Inflation risk and risk of employee salary growth. Most employee benefit plans are linked to salary or basic salary of employees. Furthermore, higher inflation rate directly affects growth of salary or basic salary of the Group's employees. Higher inflation rate will lead to a rise in current obligations under employee benefit plans of the Group.

Risk of lower mortality rates among plan participants. Although obligations are settled when an employee retires and afterwards the Group bears no further risks associated with non-state pension or ritual benefit payments, lower post-employment mortality may lead to an increase in tariffs at NPF Almaznaya Osen which will result in a rise in current obligations and expenses of the Group.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	31 December 2014	31 December 2013
Taxes payable other than on income	40 512	79 684
Charge of provision for unused vacation	49 099	40 214
Insurance contributions to the Pension Fund of the Russian Federation and FFOMI	-	11 823
Deferred income on financial guarantees	12 601	6 224
Total other liabilities	**102 212**	**137 945**

24 Subordinated Debt

	Balance at 31 December 2014	Balance at 31 December 2013	Contractual interest rate at 31 December 2014	Contractual interest rate at 31 December 2013	Borrowing date	Maturity date
OAO Republic Investment Company	180 000	180 000	8.50%	8.50%	18.06.2008	18.06.2016
OAO Republic Investment Company	100 000	-	8.50%	-	04.04.2014	05.04.2019
OAO Republic Investment Company	100 000	-	8.50%	-	08.04.2014	09.04.2019
Non-profit organisation Trust Fund for Future Generations of the Sakha (Yakutia) Republic	50,000	-	8.25%	-	30.04.2014	30.04.2019
Non-profit organisation Trust Fund for Future Generations of the Sakha (Yakutia) Republic	-	100 000	-	8.25%	29.09.2010	29.09.2015
OAO LK Tuymaada Leasing	30 000	-	8.00%	-	24.11.2014	25.11.2019
OAO Regional Insurance Company Sterkh	30 000	-	9.50%	-	31.12.2014	31.12.2020
OAO Regional Insurance Company Sterkh	-	7 000	-	12.00%	17.12.2009	18.12.2014
OAO Regional Insurance Company Sterkh	-	7 000	-	12.00%	17.12.2009	18.12.2014
OAO Regional Insurance Company Sterkh	-	6 000	-	12.00%	17.12.2009	18.12.2014
OOO Neryungrinskaya Poultry Plant	27 000	-	8.25%		20.10.2014	21.10.2019
Bargaryy National Revival Fund	12 000	12 000	8.00%	8.00%	22.08.2013	22.08.2020
OOO SDK-Stroy	10 000	-	8.00%	-	22.05.2014	31.05.2019
OOO Euro-Stroy	5 000	-	8.00%	-	22.05.2014	31.05.2019
OOO Diamond Trading House	5 000	-	7.20%		24.09.2014	24.09.2019
OOO Nirungan	-	100 000	-	8.00%	09.07.2012	05.07.2019
Total subordinated debt	**549 000**	**412 000**				

The debt ranks after all other creditors in case of liquidation.

Interest rate analysis of subordinated debt is disclosed in Note 32.

25 Share Capital

In thousands of Russian Roubles except for number of shares	**Number of outstanding shares in thousands**	**Change in purchasing power**	**Ordinary shares**	**Share premium**	**Total**
At 31 December 2012	1 122 943	251 168	1 122 943	176 000	1 550 111
New shares issued					
At 31 December 2013	1 122 943	251 168	1 122 943	176 000	1 550 111
New shares issued	35 141	-	35 141	-	35 141
At 31 December 2014	1 158 084	251 168	1 158 084	176 000	1 585 252

The total authorised number of ordinary shares is 1 158 084 thousand shares (2013: 1 122 943 thousand shares) with a par value of RR 1 per share (2013: RR 1 per share). All issued ordinary shares are fully paid. In 2014, the Group received two real estate items on account of increase in share capital.

Each ordinary share carries one vote.

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

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. At 31 December 2014, the Bank's reserves under Russian Accounting Rules amount to RR 377 996 thousand (2013: RR 254 816 thousand).

26 Interest Income and Expense

In thousands of Russian Roubles	**2014**	**2013**
Interest income		
Loans and advances to customers	2 044 078	1 724 420
Securities at fair value through profit or loss and available for sale	83 730	73 859
Due from other banks	83 698	96 132
Total interest income	**2 211 506**	**1 894 411**
Interest expense		
Term deposits of individuals	767 792	756 676
Term deposits of legal entities	142 960	104 891
Subordinated debt	40 729	33 392
Current/settlement accounts of legal entities	25 721	10 039
Due to banks	15 039	8 208
Promissory notes issued	-	3 027
Other	788	93
Total interest expense	**993 029**	**916 326**
Net interest income	**1 218 477**	**978 085**

Interest income includes RR 127 733 thousand (2013: RR 85 753 thousand) of interest income, recognised on impaired loans to customers.

27 Fee and Commission Income and Expense

In thousands of Russian Roubles	2014	2013
Fee and commission income		
- Settlement transactions	307 014	257 664
- Opening and maintenance of bank accounts	39 239	28 275
- Guarantees issued	22 662	13 437
- Cash collection	12 914	11 023
- Foreign exchange transactions	8 144	6 353
- Other	27 831	29 260
Total fee and commission income	**417 804**	**346 012**
Fee and commission expense		
- Settlement transactions	55 790	39 865
- Cash transactions	6 449	5 552
- Other	1 782	1 453
Total fee and commission expense	**64 021**	**46 870**
Net Fee and Commission Income	**353 783**	**299 142**

28 Other Operating Income

In thousands of Russian Roubles	2014	2013
Financial result from disposal of subsidiary	45 127	-
Release of provisions for tax risks	33 494	-
Rental income from investment properties	18 393	12 703
Gain from sale of loans	12 525	-
Income from consulting services in respect of insurance of the borrowers	7 209	-
Gains on disposal of premises, equipment and investment properties	5 800	11 007
Income from sale of flats under cession agreements	1 949	-
Gain on subsidiary' operations	1 116	4 141
Proceeds for recovery of incurred loss	507	1 059
Other	8 652	4 501
Total other operating income	**134 772**	**33 411**

In June 2014, the Bank sold 66.67% of its share in subsidiary OOO Media Holding Stolitsa in June and 33.33% in August. The company was sold to other state-controlled companies. The subsidiary's net assets were RR (15 127) thousand as of the disposal date. The total amount of consideration was paid by transferring investment property items to the Group; their fair value was RR 30 000 at the disposal date.

The Bank received non-residential real estate items for the total selling value as the settlement of debt under the sale of the subsidiary. At the date of the sale, the fair value of the obtained property was RR 35 242 thousand.

29 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2014	2013
Staff costs		592 826	542 690
Depreciation of premises, equipment and amortisation of intangible assets	13	69 005	64 331
Insurance expenses		51 338	44 136
Taxes other than on income		42 297	38 592
Material costs		41 038	36 538
Security expenses		40 110	37 456
Utilities		32 787	27 137
Provision for impairment of other assets		25 168	-
Charity expenses		22 409	27 053
Communication, telecommunication and information system services		21 729	14 402
Operating lease expense for premises and equipment		21 630	14 897
Advertising and marketing services		9 892	8 479
Current service cost under pension plan		8 780	7 098
Other costs of premises and equipment		7 327	17 552
Interest expense on pension plan		4 440	4 342
Professional services		2 500	2,995
Other		98 561	85 666
Total administrative and other operating expenses		**1 091 837**	**973 364**

Included in staff costs are social security contributions, including RR 84 010 thousand (2013: RR 76 409 thousand) of pension contributions to state pension fund.

30 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2014	2013
Current tax	72 608	49 087
Deferred tax	(21 819)	11 581
Income tax expense for the year	**50 789**	**60 668**

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

The income tax rate applicable to the Bank's 2014 income is 20% (2013: 20%).

In thousands of Russian Roubles	2014	2013
Profit before tax	**234 297**	**130 903**
Theoretical tax charge at statutory rate (2014: 20%; 2013: 20%)	46 859	26 181
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	15 065	16 781
- Income on government securities taxed at different rates	(461)	(403)
- Unrecognised deferred tax assets related to prior periods		7 260
- Recognised deferred tax liabilities, unrecognised in prior periods	-	10 759
- Income which is exempt from taxation	(9 724)	(211)
- Other	406	2 500
- Dividend income	(1 356)	(2 199)
Income tax expense for the year	**50 789**	**60 668**

30 Income Tax (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in the 2014 temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Russian Roubles	**1 January 2014**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to other comprehensive income**	**31 December 2014**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(116 924)	(2 510)	-	(119 434)
Fair valuation of securities	36 337	(1 256)	4 001	39 082
Loans and advances to customers	23 100	28 084	-	51 184
Other assets	3 779	(7 269)	-	(3 490)
Other commitments	19 673	3 625	(5 878)	17 420
Due from other banks	-	1 145	-	1 145
Net deferred tax liability	**(34 035)**	**21 819**	**(1 877)**	**(14 093)**

The tax effect of the movements in the 2013 temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Russian Roubles	**1 January 2013**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to other comprehensive income**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	(107 411)	(9 513)	-	(116 924)
Fair valuation of securities	28 045	(4 008)	12 300	36 337
Loans and advances to customers	(776)	23 876	-	23 100
Other assets	19 585	(15 806)	-	3 779
Other commitments	26 954	(6 130)	(1 151)	19 673
Net deferred tax liability	**(33 603)**	**(11 581)**	**11 149**	**(34 035)**

31 Dividends

On 27 June 2014, the Bank declared dividends for 2013 of RR 30 904 thousand (approximately RR 0.0267 per share). Dividends were paid out in July and August 2014. All dividends are declared and paid in Russian Roubles.

On 13 June 2013, the Bank declared dividends for 2012 of RR 31 231 thousand (approximately RR 0.0278 per share). Dividends were paid out in June 2013. All dividends are declared and paid in Russian Roubles.

32 Financial Risk Management

The Group follows its risk management strategy aimed at maintaining optimal relationship between profitability and assumed risks.

The Group's risk management system allows considering risks at the stage of making management decisions and in the course of banking activities. The system is based on timely identification and classification of possible risks, the analysis, measurement and assessment of risk positions and on applying specific banking risk management methods. Risk assessment and management procedures are integrated into current operations.

In terms of possible losses, the Group determines the following most significant financial risks: credit risk, liquidity risk, market risk and operational risk.

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties giving rise to financial assets.

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34. The credit risk is mitigated by collateral and other credit enhancements.

In accordance with Regulations on Assessment and Management of Aggregate Credit Risk of 23.07.2008 and 25.05.2011, the Management Board sets up quarterly limits of credit risk per borrower or a group of related borrowers.

The Group manages its credit risk through the system of limits and authorities aimed at limiting the risk level and streamlining the decision-making process. The system of limits and authorities assigns the highest possible level of the credit risk per borrower and the aggregate amount of loan products issued to the Group's collegial body or an executive.

The Group's Credit and Deposit Committee is responsible for credit risk management operations.

The Group has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Group might incur as a result of exposure to credit risk, including:

- Mandatory and regular assessment of the borrower's financial position and the feasibility of financed projects;
- Assessment of liquidity and adequacy of the offered collateral, its valuation and insurance, if necessary, by insurance companies approved by the Group;
- Ongoing monitoring of how borrowers meet their obligations to the Group and whether the collateral is actually available;
- Assessment of quality and the level of risk for loans issued;
- Creation of provisions for possible loan losses and possible losses on other transactions;
- Procedure for transferring impaired loans to the Collection Function of the Group's Security Department and their further processing;
- Procedure for defining and monitoring authorities of the Group's branches in other regions and relevant governing bodies of the Group responsible for loan issue subject to their size.

32 Financial Risk Management (Continued)

Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review. The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The Group's Supervisory Council considers and approves limits over 25% of the Bank's equity;
- The Group's Management Board considers and approves limits over fifty million roubles;
- The Group's Credit and Deposit Committee considers and approves credit limits under fifty million roubles;
- The Small Credit Committee considers and approves credit limits under ten million roubles.

The Group's credit risk management is based on the system of actions by the Group's management and staff involved in the lending process, in order to mitigate any negative impact of risks on the Group's profit and capital. The system of actions includes a comprehensive analysis of any credit risks, their identification, assessment and selection of the risk strategy (decision on accepting the risk, rejection of actions related to risk or risk mitigation), development of controls over risk level.

During the reporting period, the Group took actions on increasing its loan portfolio along with following the requirement to ensure an adequate balance between maintaining and further improving the portfolio quality, the Group's profitability and credit risks. Because of the conservative approach used in management, the share of bad debt in the structure of the Group's loan portfolio has decreased.

The procedure of the Group's credit transactions is set up in the Regulations on Provision of Loans to Legal Entities and Individual Entrepreneurs, the Regulations on Provision of Loans to Individuals, the Regulations on the Procedure of Attraction/Placement of Cash in the Interbank Market, the Regulations on the Procedure of Provision of Short-Term Overdraft Loans. Credit risk associated with each loan is assessed in accordance with requirements set up in the Bank's Regulations on Procedure of Setting up and Application of Provision for Loans and Equivalent Debt.

The Group's aggregate credit risk is managed under requirements of the Regulations on Assessment and Management of Aggregate Credit Risk of AKB Almazergienbank (OAO) in order to maintain a certain level of indices demonstrating efficiency of the Group's credit operations. The Department of Banking Risks monitors the structure of the loan portfolio and assesses the Group's aggregate credit risk.

The credit risk associated with a specific borrower is controlled over the period from the execution of the loan agreement up to repayment.

The Group's Security Department is involved in determination of credit risk by collection and review of information on the potential borrower, inspection and evaluation of the collateral fair value, scheduled checks of its availability.

In order to exclude any conflict of interest, the Group's divisions carrying out credit operations are divided into back office and front office ensuring ongoing control over the borrowers' business through collection, monitoring and analysis of their financial statements. In the head office, the back office performs evaluation of credit risks of additional offices' borrowers.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

32 Financial Risk Management (Continued)

The size and structure of the securities portfolio are reviewed to consider yield and manage current liquidity. To manage market risk, the Group has set the following limits:

- limits for counterparties (issuers);
- limits on the size of portfolio of securities at fair value through profit or loss set up based on the market situation, data on yield in various market segments, internal resources of the Group and diversification considerations;
- liability limits (head of a division; dealer (specialist));
- stop-loss limits (loss limits) and take profit limits (profit fixing limits).

Currency risk. The Group manages its currency risk in compliance with the Currency Risk Management Strategy. The Strategy also provides a set of actions to be taken when there are dramatic changes in the foreign exchange market conditions. To assess and monitor the currency risk, the Group calculates its open currency positions. To assess a risk related to maintaining open foreign currency positions, the Group applies the CBRF techniques.

In its foreign currency activities, the Group tries to limit the accepted currency risk by maintaining open positions at their lowest possible level. Special attention is paid to the quality of foreign currency denominated assets and the quality of loan portfolio.

The Group's conservative currency risk management policy includes external and internal limits for currency positions as well as daily monitoring of how they are being applied.

The effect of the currency risk on equity was assessed using a technique described in Regulation of the Bank of Russia No. 387-P of 28 September 2012 “On Procedure for Calculating Market Risk by Credit Organisations”.

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group’s exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2014			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
Russian Roubles	18 268 139	(18 890 015)	-	(621 876)
US Dollars	463 813	(427 166)	-	36 647
Euro	118 839	(119 233)	-	(394)
Other	17 311	(104 211)	3 591	(83 309)
Total	**18 868 102**	**(19 540 625)**	**3 591**	**(668 932)**

	31 December 2013			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net position**
Russian Roubles	19 199 260	(18 963 459)	-	235 801
US Dollars	191 751	(252 259)	-	(60 508)
Euro	78 459	(93 148)	-	(14 689)
Other	5 364	(60 305)	2 352	(52 589)
Total	**19 474 834**	**(19 369 171)**	**2 352**	**108 015**

The analysis of derivative financial instruments is disclosed in Note 35.

32 Financial Risk Management (Continued)

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 35. The net total represents the fair value of the currency derivatives.

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

In thousands of Russian Roubles	At 31 December 2014 Impact on profit or loss	At 31 December 2013 Impact on profit or loss
US Dollar strengthening by 20% (2013: strengthening by [20]%)	7 329	(12 102)
US Dollar weakening by 20% (2013: weakening by [20]%)	(7 329)	12 102
Euro strengthening by 20% (2013: strengthening by [20]%)	(79)	(2 938)
Euro weakening by 20% (2013: weakening by [20]%)	79	2 938
Other currencies strengthening by 20% (2013: strengthening by [20]%)	(16 662)	(10 988)
Other currencies weakening by 20% (2013: weakening by [20]%)	16 662	10 988
Total	-	-

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a regular basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2014					
Total financial assets	5 274 477	2 157 321	3 242 066	8 643 691	**19 317 555**
Total financial liabilities	(7 432 231)	(3 337 948)	(4 411 497)	(4 804 811)	**(19 986 487)**
Net interest sensitivity gap at 31 December 2014	**(2 157 754)**	**(1 180 627)**	**(1 169 431)**	**3 838 880**	**(668 932)**
31 December 2013					
Total financial assets	7 643 696	2 189 930	3 013 013	7 347 744	**20 194 383**
Total financial liabilities	(8 057 920)	(3 092 232)	(3 929 249)	(4 640 330)	**(19 719 731)**
Net interest sensitivity gap at 31 December 2013	**(414 224)**	**(902 302)**	**(916 236)**	**2 707 414**	**474 652**

32 Financial Risk Management (Continued)

At 31 December 2014, if interest rates at that date had been by 100 basis points lower (2013: 100 basis points lower), with all other variables held constant, profit would have been by RR 23 075 thousand higher (2013: RR 9 174 thousand higher), mainly as a result of lower interest expense on liabilities with variable rates. Other components of equity would have been RR 7 566 thousand (2013: RR 7 507 thousand) lower, mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

Following the Regulations on Assessment and Management of Interest Rate Risk, the Group regularly carries out stress testing of its interest rate risk. The interest rate risk calculated using duration method causing a decrease in economic (net) value by more than 20% of equity is treated as critical. The value of interest rate risk was normal in the reporting period. The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	31 December 2014				31 December 2013			
In % p.a.	RR	US Dollars	Euro	Other	RR	US Dollars	Euro	Other
Assets								
Cash and cash equivalents	16.00%	-	-	-	-	-	-	-
Other debt securities at fair value through profit or loss	8.11%	-	-	-	8.43%	-	-	-
Due from other banks	25.00%	9.75%	-	-	3.46%	-	-	-
Loans and advances to customers	14.52%	10.50%	-	-	14.06%	10.24%	-	-
Debt investment securities available for sale	6.19%	-	-	-	7.34%	-	-	-
Liabilities								
Due to other banks	8.24%	-	-		7.92%	-	-	-
Customer accounts								
- current and settlement accounts	1.37%	0.00%	-	-	0.37%	0.15%	-	-
- term deposits	9.35%	1.51%	1.62%	1.48%	8.37%	4.74%	4.73%	1.73%
Debt securities in issue	4.00%	-	-	-	-	-	-	-
Subordinated debt	8.46%	-	-	-	8.47%	-	-	-

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

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to the amortised cost of the loans and advances to customers (2013, 2012: no material impact).

To mitigate its interest rate risk, the Group applies gap analysis, brings assets and liabilities into balance in terms of repricing/maturity dates and regularly reviews its effective interest rates against the refinancing rate of the Bank of Russia and rates in the financial market.

Other price risks. The Group has exposure to equity price risk. Transactions with equity instruments are monitored and authorised by the Group's Treasury. At 31 December 2014, if equity prices at that date had been 20% (2013: 20%) lower, with all other variables held constant, other components of equity would have been RR 72 149 thousand (2013: RR 73 327 thousand) lower, mainly as a result of a decrease of fair value of corporate shares designated as available for sale.

32 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and derivative financial instruments.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements.

The key divisions carrying out control over the Group's liquidity position are: the Treasury, the Division of Economic Analysis and Planning, the Department of Financial Reporting, the Division of Accounting, Taxation and Reporting, and the Division of Banking Risks.

The principal task of the Treasury in liquidity management is instant liquidity ratio maintenance and related control. In order to control the liquidity position, the Treasury:

- on a daily basis, accumulates information on the forthcoming cash flow from the Group's divisions, directly or indirectly impacting its liquidity position;
- carries out operational management and control over instant liquidity, monitoring the Group's payment position in real time mode; communicates any information of excessive (insufficient) liquidity to the Division of Economic Analysis and Planning;
- analyses and forecasts the current cash inflow and outflow, including cash of additional offices;
- on a daily basis, provides to the Division of Economic Analysis and Planning any information on scheduled repayments and placements of deposits with the CBRF, amounts on correspondent accounts with other banks, amounts and maturities of interbank loans;
- sets limits on the maximum balances of cash on hand in the Head Office and additional offices and controls compliance with the set limits;
- is responsible for maintenance of the required balances on the Group's correspondent accounts and for timely performance of clients' payments.

The Group calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand and should be at least 15%. The ratio was 55.94% at 31 December 2014 (2013: 96.04%).
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days and should be at least 50%. The ratio was 78.49% at 31 December 2014 (2013: 96.62%).
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year and should be at least 120%. The ratio was 80.95% at 31 December 2014 (2013: 76.45%).

The Treasury receives information about the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The table below shows liabilities at 31 December 2014 by their remaining contractual maturity.

32 Financial Risk Management (Continued)

The table shows contractual undiscounted cash flows, total liabilities for loans received and financial guarantees. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivative instruments are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows liabilities at 31 December 2014 by their remaining contractual maturity.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	-	-	-	138 524	223 678	**362 202**
Customer accounts – current accounts	5 695 233	-	-	-	-	**5 695 233**
Customer accounts – term deposits	1 158 073	3 139 908	4 086 099	3 414 375	24 238	**11 822 693**
Promissory notes issued	-	2 000	5 200	-	-	**7 200**
Other financial liabilities	93 386	70	-	-	-	**93 456**
Subordinated debt	-	-	-	649 434	64 536	**713 970**
Financial guarantees	23 991	195 970	320 198	944 042	12 323	**1 496 524**
Gross settled derivatives	448 511	-	-	-	-	**448 511**
Total potential future payments for financial obligations	**7 419 194**	**3 337 948**	**4 411 497**	**5 146 375**	**324 775**	**20 639 789**

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	-	-	-	56 415	223 635	**280 050**
Customer accounts – current accounts	6 815 418	-	-	-	-	**6 815 418**
Customer accounts – term deposits	991 730	2 986 289	4 071 077	4 056 302	149	**12 105 547**
Promissory notes issued	-	3 710	-	2 000	-	**5710**
Other financial liabilities	31 808	204	-	-	-	**32 012**
Subordinated debt	-	-	22 315	332 124	162 479	**516 918**
Financial guarantees	-	166 491	110 586	348 514	-	**625 591**
Gross settled derivatives	222 267	-	-	128 293	-	**350 560**
Total potential future payments for financial obligations	**8 061 223**	**3 156 694**	**4 203 978**	**4 923 648**	**386 263**	**20 731 806**

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

32 Financial Risk Management (Continued)

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

The maturity analysis of financial instruments at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	3 201 539					**3 201 539**
Other securities at fair value through profit or loss	385 110					**385 110**
Due from other banks	-	-	158 296	-	-	**158 296**
Loans and advances to customers	352 829	2 130 367	2 961 921	6 920 608	1 653 763	**14 019 488**
Investment securities available for sale	756 624					**756 624**
Net settled derivatives	449 453					**449 453**
Other financial assets	128 922	26 954	121 849	69 320	-	**347 045**
Total	**5 274 477**	**2 157 321**	**3 242 066**	**6 989 928**	**1 653 763**	**19 317 555**
Liabilities						
Due to other banks	(9 501)	-	-	(97 025)	(150 000)	**(256 526)**
Customer accounts – deposits of individuals	(423 140)	(2 868 458)	(3 553 099)	(2 454 058)	(8 655)	**(9 307 410)**
Customer accounts – current accounts of individuals	(2 239 495)	-	-	-	-	**(2 239 495)**
Customer accounts – deposits of legal entities	(741 118)	(271 450)	(533 000)	(577 385)	(12 323)	**(2 135 276)**
Customer accounts – current accounts of legal entities	(3 455 738)	-	-	-	-	**(3 455 738)**
Debt securities in issue	-	(2 000)	(5 200)	-	-	**(7 200)**
Subordinated debt	-	-	-	(507 000)	(42 000)	**(549 000)**
Net settled derivatives	(445 862)	-	-	-	-	**(445 862)**
Financial guarantees	(23 991)	(195 970)	(320 198)	(944 042)	(12 323)	**(1 496 524)**
Other financial liabilities	(93 386)	(70)	-	-	-	**(93 456)**
Total potential future payments for financial obligations	**(7 432 231)**	**(3 337 948)**	**(4 411 497)**	**(4 579 510)**	**(225 301)**	**(19 986 487)**
Liquidity gap arising from financial instruments	**(2 157 754)**	**(1 180 627)**	**(1 169 431)**	**2 410 418**	**1 428 462**	**(668 932)**

32 Financial Risk Management (Continued)

Decree No. 323 of 12 February 2015 issued by the Head of the Republic of Sakha (Yakutia) adopted the Plan of priority actions to ensure sustainable economic development and social stability of the Republic of Sakha (Yakutia) for 2015 that provides for the Bank's additional capitalisation of RR 900 million. In addition, in 2015 the Bank intends to receive RR 250 million as subordinated loans from quasi-sovereign entities.

The maturity analysis of financial instruments at 31 December 2013 is as follows:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	6 004 425	-	-	-	-	**6 004 425**
Other securities at fair value through profit or loss	492 432	-	-	-	-	**492 432**
Due from other banks	2 291	479	-	818	-	**3 588**
Loans and advances to customers	90 228	2 171 812	2 975 435	5 512 670	1 602 357	**12 352 502**
Investment securities available for sale	750 707	-	-	-	-	**750 707**
Net settled derivatives	223 584	-	-	129 328	-	**352 912**
Other financial assets	80 029	17 639	37 578	102 571	-	**237 817**
Total	**7 643 696**	**2 189 930**	**3 013 013**	**5 745 387**	**1 602 357**	**20 194 383**
Liabilities						
Due to other banks	(70)	-	-	(42 021)	(150 000)	**(192 091)**
Customer accounts – deposits of individuals	(976 818)	(2 721 726)	(3 753 499)	(2 466 362)	(148)	**(9 918 553)**
Customer accounts – current accounts of individuals	(3 031 451)	-	-	-	-	**(3 031 451)**
Customer accounts – deposits of legal entities	(11 539)	(200 101)	(45 164)	(1 110 992)	-	**(1 367 796)**
Customer accounts – current accounts of legal entities	(3 783 967)	-	-	-	-	**(3 783 967)**
Debt securities in issue	-	(3 710)	-	(2 000)	-	**(5 710)**
Subordinated debt	-	-	(20 000)	(280 000)	(112 000)	**(412 000)**
Net settled derivatives	(222 267)	-	-	(128 293)	-	**(350 560)**
Financial guarantees	-	(166 491)	(110 586)	(348 514)	-	**(625 591)**
Other financial liabilities	(31 808)	(204)	-	-	-	**(32 012)**
Total potential future payments for financial obligations	**(8 057 920)**	**(3 092 232)**	**(3 929 249)**	**(4 378 182)**	**(262 148)**	**(19 719 731)**
Liquidity gap arising from financial instruments	**(414 224)**	**(902 302)**	**(916 236)**	**1 367 205**	**1 340 209**	**474 652**

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

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

The entire portfolio of securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

32 Financial Risk Management (Continued)

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

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

For the purposes of liquidity management the Group may use the following tools:

- A framework agreement with the CBRF for issuing loans on collateral (lockout) of securities;
- Daylight and overnight loans based on the addendum to the framework agreement; the set limit on loans on the principal account with the State Clearing Centre of the National Bank of the Republic of Sakha (Yakutia) of the Bank of Russia of RR 250 million.

33 Management of Capital

The Group's objectives when managing capital are (i) to comply with capital requirements set by the Central Bank of the Russian Federation, and (ii) to safeguard the Group's ability to continue as a going concern. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. For the purpose of control over compliance with capital adequacy requirements, on an annual basis the Group's management forecasts the level of capital with the breakdown by months for the calendar year. Subject to this forecast, the Group sets up a plan for the calendar year based on the capital adequacy ratio, and on a quarterly basis, sets up limits on placement of cash based on expected repayments. Realisation of the forecast is monitored on a monthly basis, as a result of which the report on implementation of the plan is prepared and communicated to the Bank's Management Board.

Under the current capital requirements set by the Central Bank of Russian Federation, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level (under Instruction of the Central Bank of Russia No. 139-I of 03.12.2012, the prescribed minimum level was 11% until 1 July 2012 and 10% afterwards). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Chairman of the Bank's Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Group has complied with externally imposed statutory capital requirements throughout 2014 and 2013.

For calculating ratios the Bank uses 1 March 2014 as the rating date for credit institutions and their issued financial instruments and 1 December 2014 – for other entities and their issued financial instruments; the dates were determined by the decision of the Board of directors of the Bank of Russia dated 19 January 2015 (Press release "On dates of solvency ratings for the purpose of applying regulations of the Bank of Russia" dated 19 January 2015). Reclassification of securities as required by the Bank of Russia's Instruction No. 3498-U of 18 December 2014 was not applied as it was deemed impractical.

34 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

34 Contingencies and Commitments (Continued)

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

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

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

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

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks. Refer to Note 20 for more details. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

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

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Not later than one year	17 934	750
Due between 1 and 5 years	17 049	10 761
Total operating lease commitments	**34 983**	**11 511**

34 Contingencies and Commitments (Continued)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	758 381	837 854
Guarantees issued	1 496 524	625 591
Undrawn limits on issuance of guarantees	7 297	-
Total credit related commitments	**2 262 202**	**1 463 445**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 2 254 905 thousand at 31 December 2014 (2013: RR 1 463 445 thousand).

35 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under contracts on delivery of precious metals entered into by the Bank. The table covers the contracts with settlement dates after the end of the respective reporting period. The terms of the transactions make from one to thirteen months after the reporting date.

	31 December 2014	**31 December 2013**
In thousands of Russian Roubles	**Contingent asset/(liability) under the contract**	**Contingent asset/(liability) under the contract**
Contracts on delivery of precious metals: fair values at the end of the reporting period		
- Receivable in gold under the contract on delivery of precious metals payable on settlement (+)	449 453	352 912
- RR payable on settlement (-)	(445 862)	(350 560)
Net fair value of contracts on delivery of precious metals	**3 591**	**2 352**

Derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in precious metals rates related to such derivatives. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

35 Derivative Financial Instruments (Continued)

At 31 December 2014, the Group had receivables under its contracts on delivery of precious metals with fair value of RR 449 453 thousand (2013: RR 352 912 thousand), and obligations on payment for delivery of precious metals with fair value of RR 445 862 thousand (2013: RR 350 560 thousand).

The Group expects to settle these forward contracts net in cash and, therefore, recognised them in the consolidated statement of financial position as an asset at net fair value of RR 3 591 thousand (2013: RR 2 352 thousand) and a liability at net fair value of RR 0 thousand (2013: RR 0 thousand). Refer to Notes 14 and 21.

36 Fair Value of Financial Instruments

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

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of Russian Roubles	31 December 2014				31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Other securities at fair value through profit or loss								
- Municipal bonds	34 316	-	-	**34 316**	38 067	-	-	**38 067**
- Corporate bonds	-	350 794	-	**350 794**	454 365	-	-	**454 365**
Investment securities available for sale								
- Russian government bonds	53 666	-	-	**53 666**	72 792	-	-	**72 792**
- Corporate bonds	-	342 213	-	**342 213**	100 718	210 560	-	**311 278**
- Corporate shares	-	288 393	72 352	**360 745**	306 837	59 799	-	**366 636**
Other financial assets								
Other derivative financial instruments	-	3 591	-	**3 591**	-	2 352	-	**2 352**
NON-FINANCIAL ASSETS								
- Premises and land plots	-	-	800 986	**800 986**	-	-	634 111	**634 111**
- Investment properties	-	-	215 954	**215 954**	-	-	142 377	**142 377**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**87 982**	**984 991**	**1 089 292**	**2 162 265**	**972 779**	**272 711**	**776 488**	**2 021 978**

36 Fair Value of Financial Instruments (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 3 measurements at 31 December 2014:

In thousands of Russian Roubles	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Investment securities available for sale				
- Corporate shares	72 352	Market comparable companies	EBITDA multiple and Net asset multiple	
NON-FINANCIAL ASSETS				
- Premises	800 986	Market comparable objects	Price per square metre, with location adjustments applied	RR 29.5 thousand to 67 thousand per sq. m,
- Investment properties	215 954	Market comparable objects	Price per square metre, with location adjustments applied	RR 29.5 thousand to 67 thousand per sq. m,
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**1 089 292**			

Increase in corporate shares is attributed to the Group's acquisition of shares of regional insurance company at fair value in the amount of 6 300.

The description of valuation technique and description of inputs used in the fair value measurement for level 3 measurements at 31 December 2013:

In thousands of Russian Roubles	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)
ASSETS AT FAIR VALUE				
NON-FINANCIAL ASSETS				
- Premises and land plots	634 111	Market comparable objects	Price per square metre, with location adjustments applied	RR 36.5 thousand to 55 thousand per sq. m
- Investment properties	142 377	Market comparable objects	Price per square metre, with location adjustments applied	RR 36.5 thousand to 55 thousand per sq. m
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**776 488**			

36 Fair Value of Financial Instruments (Continued)

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

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

	31 December 2014				31 December 2013			
In thousands of Russian Roubles	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3	Carrying amount
ASSETS								
Cash and cash equivalents								
- Cash on hand	1 290 509	-	-	**1 290 509**	1 388 392	-	-	**1 388 392**
- Cash balances with CBRF	655 847	-	-	**655 847**	3 849 302	-	-	**3 849 302**
- Mandatory cash balances with the CBRF	-	534 911	-	**534 911**	-	200 324	-	**200 324**
- Correspondent accounts and overnight placements	550 272	-	-	**550 272**	566 407	-	-	**566 407**
- Placements with other banks with original maturities of less than three months	-	170 000	-	**170 000**	**-**	-	-	**-**
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	158 296	-	**158 296**	-	3 588	-	**3 588**
Loans and advances to customers								
- Corporate loans	-	-	7 554 167	**8 264 882**	-	-	7 636 201	**7 501 172**
- Loans to individuals – consumer loans	-	-	3 108 157	**3 485 950**	-	-	2 829 070	**2 840 976**
Loans to individuals – mortgage loans	-	-	1 804 650	**2 268 656**	-	-	1 730 782	**2 010 354**
Other financial assets								
Trade receivables	-	-	242 182	**242 182**	-	-	169 188	**169 188**
Credit and debit cards receivables	-	80 308	-	**80 308**	-	44 121	-	**44 121**
Settlements on conversion operations	-	3 094	-	**3 094**	-	3 270	8 807	**12 077**
Other	-	-	21 461	**21 461**	-	-	12 431	**12 431**
TOTAL	**2 496 628**	**946 609**	**12 730 617**	**17 726 368**	**5 804 101**	**251 303**	**12 386 479**	**18 598 332**

36 Fair Value of Financial Instruments (Continued)

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

	31 December 2014				31 December 2013			
In thousands of Russian Roubles	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3	Carrying amount
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	9 501	-	**9 501**	-	70	-	**70**
- Short-term placements of other banks	-	249 816	-	**247 025**	-	184 582	-	**192 021**
Customer accounts								
- Current/settlement accounts of legal entities	-	3 455 738	-	**3 455 738**	-	3 783 967	-	**3 783 967**
- Term deposits of legal entities	-	2 040 252	-	**2 135 276**	-	1 346 587	-	**1 367 796**
- Current/demand accounts of individuals	-	2 239 495	-	**2 239 495**	-	3 031 451	-	**3 031 451**
- Term deposits of individuals	-	8 958 793	-	**9 307 410**	-	9 775 498	-	**9 918 553**
Debt securities in issue								
- Promissory notes	-	7 200	-	**7 200**	-	5 710	-	**5 710**
Other financial liabilities								
- Other payables	**-**	-	14 023	**14 023**	-	-	7 768	**7 768**
- Dividends payable	**-**	-	424	**424**	-	-	286	**286**
- Debit or credit card payables	**-**	71 694	-	**71 694**	-	19 410	-	**19 410**
- Other accrued liabilities	**-**	-	7 315	**7 315**	-	-	4 548	**4 548**
Subordinated debt								
- Subordinated debt	**-**	530 804	-	**549 000**	-	398 423	-	**412 000**
TOTAL	-	**17 563 293**	**21 762**	**18 044 101**	**-**	**18 545 698**	**12 602**	**18 743 580**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

37 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement" the Group classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity, and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories at 31 December 2014:

In thousands of Russian Roubles	**Loans and receivables**	**Assets available for sale**	**Assets designated at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	**3 201 539**	-	-	**3 201 539**
Other securities at fair value through profit or loss	-	-	**385 110**	**385 110**
Due from other banks	**158 296**	-	-	**158 296**
- Short-term placements with other banks with original maturities of more than three months	158 296	-	-	**158 296**
Loans and advances to customers	**14 019 488**	-	-	**14 019 488**
- Corporate loans	8 264 882	-	-	**8 264 882**
- Loans to individuals – consumer loans	3 485 950	-	-	**3 485 950**
- Mortgage loans	2 268 656	-	-	**2 268 656**
Investment securities available for sale	-	**756 624**	-	**756 624**
Other financial assets	**347 045**	**-**	**3 591**	**350 636**
TOTAL FINANCIAL ASSETS	**17 726 368**	**756 624**	**388 701**	**18 871 693**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2013:

In thousands of Russian Roubles	**Loans and receivables**	**Assets available for sale**	**Assets designated at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	**6 004 425**	**-**	**-**	**6 004 425**
Other securities at fair value through profit or loss	-	-	**492 432**	**492 432**
Due from other banks	**3 588**	-	-	**3 588**
- Short-term placements with other banks with original maturities of more than three months	3 588	-	-	**3 588**
Loans and advances to customers	**12 352 502**	**-**	**-**	**12 352 502**
- Corporate loans	7 501 172	-	-	**7 501 172**
- Loans to individuals – consumer loans	2 840 976	-	-	**2 840 976**
- Mortgage loans	2 010 354	-	-	**2 010 354**
Investment securities available for sale	**-**	**750 707**	**-**	**750 707**
Other financial assets	**237 817**	**-**	**2 352**	**240 169**
TOTAL FINANCIAL ASSETS	**18 598 332**	**750 707**	**494 784**	**19 843 823**

Financial liabilities at 31 December 2014 and 31 December 2013 are stated in the consolidated statement of financial position at their amortised cost.

38 Related Party Transactions

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

Other related parties are companies under common control with the Bank. Other major shareholders include Alrosa Group which exercises significant influence over the Group's operations. All related party transactions are carried out in the normal course of business of the Group.

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

In thousands of Russian Roubles	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 6–25%)	-	18 829	79 551
Impairment provisions for loans and advances to customers at 31 December	-	(104)	(2 745)
Customer accounts	-	29 270	772 405
Other assets	43 474	-	52 354

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

In thousands of Russian Roubles	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	-	1 405	9 579
Interest expense	-	884	77 345
Dividends	831	174	6 124

Aggregate amounts lent to and repaid by related parties during 2014 were:

In thousands of Russian Roubles	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	-	11 964	-
Amounts repaid by related parties during the year	-	5 243	-

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

In thousands of Russian Roubles	**Other significant shareholders (Nizhne-Lenskoye)**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 6–18%)	-	13 239	79 996
Impairment provisions for loans and advances to customers at 31 December	-	(284)	(1 968)
Customer accounts	207 771	77 630	736 038
Other assets	35 626	-	26 979

38 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Interest income	18 315	1 193	6 583
Interest expense	-	5 583	22 151
Dividends	6 466	-	-

Aggregate amounts lent to and repaid by related parties during 2013 were:

In thousands of Russian Roubles	Other significant shareholders (Nizhne-Lenskoye)	Key management personnel	Other related parties
Amounts lent to related parties during the year	-	682	80 682
Amounts repaid by related parties during the year	280 000	-	-

The Government of the Republic has control over the Group. The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the government and parties that are related to the entity because the Government of the Republic has control over such party.

At 1 January 2015, balances on issued corporate loans are RR 1 473 562 thousand (2013: RR 1 229 517 thousand) and balances on term deposits are RR 2 105 025 thousand (2013: RR 1 272 134 thousand).

The Group's key management personnel consisting of 16 individuals includes members of the Management Board and members of the Supervisory Council. Their families and close relatives are included within other related parties. Key management compensation is presented below:

	2014		2013	
In thousands of Russian Roubles	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:	32 457	-	36 687	3 775
- Salaries	25 026	-	28 043	3 775
- Short-term bonuses	6 651	-	7 598	-
- Benefits in-kind	780	-	1 046	-
Post-employment benefits:	1 082	3 310	286	3 796
- Post-employment benefit obligations	-	3 310	-	3 796
- Termination indemnity benefits	1 082	-	286	-
Other long-term employee benefits:	211	-	-	-
- Jubilee benefits	211	-	-	-
Total	**33 750**	**3 310**	**36 973**	**7 571**

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

NPF Almaznaya Osen is a company under common control with OAO Alrosa. Information on transactions with NPF Almaznaya Osen is disclosed in Note 22 *Post-employment Benefit Obligations*.

39 Events After the End of the Reporting Period

In January 2015, a subsidiary company OOO AEB Capital was registered based on the resolution of the Supervisory Council of AKB Almazergienbank (OAO) of 19 December 2014, and initial share in the amount of RR 52 264 thousand was contributed to its share capital. OOO AEB Capital is an investment company.

Decree No. 323 of 12 February 2015 issued by the Head of the Republic of Sakha (Yakutia) adopted the Plan of priority actions to ensure sustainable economic development and social stability of the Republic of Sakha (Yakutia) for 2015 that provides for the Bank's additional capitalisation of RR 900 million.