

**MARITIME BANK**  
**(Open Joint-Stock Company)**

Financial Statements  
for the Year Ended 31 December 2014  
and Independent Auditor's Report

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## Independent Auditor's Report

To the Shareholders of MARITIME BANK (Open Joint-Stock Company)

We have audited the accompanying financial statements of MARITIME BANK (Open Joint-Stock Company), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MARITIME BANK (Open Joint-Stock Company) 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.

Denis A. Taradov  
Partner

29 April 2015

BDO Unicon AO



## Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2014

The following report, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguishing the respective responsibilities of management of MARITIME BANK (OJSC) (the Bank) and those of the independent auditor in relation to the financial statements of MARITIME BANK (OJSC).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2014, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

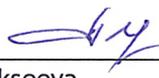
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records of the Bank in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- Detecting and preventing fraud and other irregularities.

On behalf of the Bank's management the financial statements for the year ended 31 December 2014 were authorized for issue on 29 April 2015 and signed on behalf of the Bank's management by:

  
R.L. Pinaev  
Chairman of the Management Board

  
E.A. Alekseeva  
Chief Accountant

MARITIME BANK (OJSC)

Moscow

29 April 2015



**MARITIME BANK (Open Joint-Stock Company)**  
**Statement of Financial Position as at 31 December 2014**

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2014	31 December 2013
<b>ASSETS</b>			
Cash and cash equivalents	5	4 296 236	2 088 371
Mandatory cash balances with the Bank of Russia		104 866	313 913
Financial assets at fair value through profit or loss	6	76 650	1 014 227
Due from other banks	7	206 301	788 463
Loans and advances to customers	8	11 184 013	10 131 977
Financial assets available for sale	9	362 378	-
Financial assets pledged under repo agreements	10	7 106 711	4 189 973
Investment property	12	67 548	-
Premises, equipment and intangible assets	13	580 525	591 191
Other financial assets		912	4 525
Other assets	14	30 457	35 018
Current tax assets		99 572	4 486
Deferred tax assets	27	149 521	34 316
<b>TOTAL ASSETS</b>		<b>24 265 690</b>	<b>19 196 460</b>
<b>LIABILITIES</b>			
Due to the Bank of Russia		6 480 668	3 301 012
Due to other banks	15	753 061	1 388 924
Customer accounts	16	11 890 259	9 615 877
Debt securities in issue	17	2 206 683	2 018 400
Subordinated debt	18	1 046 806	661 224
Other financial liabilities	19	41 359	12 519
Other liabilities	20	120 578	68 235
Current tax liabilities		-	1 218
<b>TOTAL LIABILITIES</b>		<b>22 539 414</b>	<b>17 067 409</b>
<b>EQUITY</b>			
Share capital	21	1 461 863	1 461 863
Share premium	21	100 000	100 000
Revaluation reserve for premises		39 354	24 672
Fair value reserve for financial assets available for sale		(427 959)	-
Retained earnings		553 018	542 516
<b>TOTAL EQUITY</b>		<b>1 726 276</b>	<b>2 129 051</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24 265 690</b>	<b>19 196 460</b>

R.L. Pinaev  
Chairman of the Management Board  
29 April 2015



E.A. Alekseeva  
Chief Accountant

**MARITIME BANK (Open Joint-Stock Company)**  
**Statement of Comprehensive Income for the year ended 31 December 2014**

<i>(in thousands of Russian Roubles)</i>	Note	2014	2013
Interest income	24	1 833 219	1 590 543
Interest expense	24	(1 283 352)	(961 080)
<b>Net interest income</b>		<b>549 867</b>	<b>629 463</b>
Provision for impairment of loans and advances to customers and due from other banks	7, 8	(558 887)	(235 906)
<b>Net interest income after provision for loan impairment</b>		<b>(9 020)</b>	<b>393 557</b>
Gains less losses from transactions in financial assets at fair value through profit or loss		(142 431)	(32 856)
Gains less losses from transactions in financial assets available for sale		11 897	974
Gains less losses from trading in foreign currencies		(163 847)	200 585
Foreign exchange translation gains less losses		404 466	(137 845)
Fee and commission income	25	166 459	185 009
Fee and commission expense	25	(27 492)	(27 985)
Provision for impairment of other assets and contingent liabilities	14, 32	(41 593)	(20 979)
Gains from claim assignment	8	366 012	3 000
Other operating income		17 811	46 548
<b>Operating income</b>		<b>582 262</b>	<b>610 008</b>
Administrative and other operating expenses	26	(563 881)	(574 440)
<b>Profit before taxation</b>		<b>18 381</b>	<b>35 568</b>
Income tax expense	27	(8 675)	(13 764)
<b>Profit for the year</b>		<b>9 706</b>	<b>21 804</b>

*The notes set out on pages 12 to 81 form an integral part of these financial statements.*

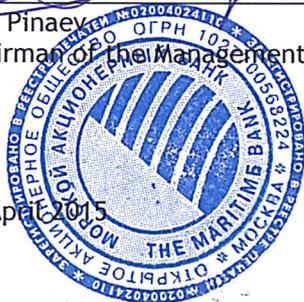
**MARITIME BANK (Open Joint-Stock Company)**  
**Statement of Comprehensive Income for the year ended 31 December 2014**

<i>(in thousands of Russian Roubles)</i>	Note	2014	2013
<b>Other comprehensive income</b>			
<b>Items that might not be reclassified subsequently to profit or loss</b>			
Revaluation of premises and equipment	13	19 348	17 343
Income tax relating to items that might not be subsequently reclassified	27	(3 870)	(3 469)
<b>Items that might be reclassified subsequently to profit or loss</b>			
Gains less losses from revaluation of financial assets available for sale		(532 733)	-
Gains less losses recycled to profit upon disposal or impairment of financial assets available for sale		(2 216)	1 715
Income tax relating to items that might be subsequently reclassified	27	106 990	(343)
<b>Other comprehensive income for the year</b>		<b>(412 481)</b>	<b>15 246</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(402 775)</b>	<b>37 050</b>

  
 R.L. Pinaev  
 Chairman of the Management Board

  
 E.A. Alekseeva  
 Chief Accountant

29 April 2015



**MARITIME BANK (Open Joint-Stock Company)**  
**Statement of Changes in Equity for the year ended 31 December 2014**

	Share capital	Share premium	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Retained earnings	Total
<i>(in thousands of Russian Roubles)</i>						
Balance as at 1 January 2013	1 261 863	-	11 146	(1 372)	576 739	1 848 376
Profit for the year	-	-	-	-	21 804	21 804
Other comprehensive income	-	-	13 874	1 372	-	15 246
Total comprehensive income for 2013	-	-	13 874	1 372	21 804	37 050
Transfer of depreciation of the revaluation reserve for premises to retained earnings	-	-	(348)	-	348	-
Share issue (Note 21)	200 000	100 000	-	-	-	300 000
Dividends declared	-	-	-	-	(56 375)	(56 375)
Balance as at 31 December 2013	1 461 863	100 000	24 672	-	542 516	2 129 051

**MARITIME BANK (Open Joint-Stock Company)**  
**Statement of Changes in Equity for the year ended 31 December 2014**

<i>(in thousands of Russian Roubles)</i>	Share capital	Share premium	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Retained earnings	Total
Profit for the year	-	-	-	-	9 706	9 706
Other comprehensive income	-	-	15 478	(427 959)	-	(412 481)
<b>Total comprehensive income for 2014</b>	-	-	15 478	(427 959)	9 706	(402 775)
Transfer of depreciation of the revaluation reserve for premises to retained earnings	-	-	(796)	-	796	-
<b>Balance as at 31 December 2014</b>	<b>1 461 863</b>	<b>100 000</b>	<b>39 354</b>	<b>(427 959)</b>	<b>553 018</b>	<b>1 726 276</b>

  
R.L. Pinaev  
Chairman of the Management Board

  
E.A. Alekseeva  
Chief Accountant

29 April 2015



**MARITIME BANK (Open-Joint Stock Company)**  
**Statement of Cash Flows for the year ended 31 December 2014**

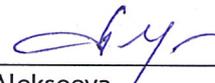
<i>(in thousands of Russian Roubles)</i>	Note	2014	2013
<b>Cash flows from operating activities</b>			
Interest received		1 847 013	1 665 467
Interest paid		(1 276 054)	(926 291)
Gains less losses from transactions in financial assets at fair value through profit or loss		(109 730)	(7 496)
Gains less losses from trading in foreign currencies		(163 847)	196 090
Fees and commissions received		166 459	184 831
Fees and commissions paid		(27 492)	(29 175)
Other operating income		17 811	25 548
Administrative and other operating expenses		(503 653)	(544 675)
Gains from sale of loans	8	366 012	3 000
Income tax paid		(117 064)	(64 374)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>199 455</b>	<b>502 925</b>
<b>Net (increase)/decrease in operating assets</b>			
Mandatory cash balances with the Bank of Russia		209 047	(143 143)
Financial assets at fair value through profit or loss		4 849 793	(3 698 178)
Due from other banks		601 855	(622 774)
Loans and advances to customers		(684 284)	385 792
Other financial assets		31 074	(502)
Other assets		74 166	(23 175)
<b>Net increase/(decrease) in operating liabilities</b>			
Due to the Bank of Russia		3 179 655	3 175 780
Due to other banks		(1 051 259)	(1 121 803)
Customer accounts		717 210	(385 365)
Debt securities in issue		86 078	1 504 090
Other financial liabilities		(1 253)	266
Other liabilities		(47 562)	(908)
<b>Net cash from operating activities</b>		<b>8 163 975</b>	<b>(426 995)</b>
<b>Cash flows from investing activities</b>			
Acquisition of financial assets available for sale		(10 674 151)	-
Proceeds from disposal and redemption of financial assets available for sale		4 451 269	256 268
Acquisition of premises and equipment	13	(2 381)	(28 894)
Proceeds from disposal of premises and equipment	13	-	1 187
Acquisition of investment property	12	(8 874)	-
<b>Net cash from investing activities</b>		<b>(6 234 137)</b>	<b>228 561</b>
<b>Cash flows from financing activities</b>			
Share issue	21	-	300 000
Repayment of subordinated debt	18	-	(60 000)
Dividends paid	28	-	(56 295)
<b>Net cash from financing activities</b>		<b>-</b>	<b>183 705</b>

The notes set out on pages 12 to 81 form an integral part of these financial statements.

**MARITIME BANK (Open-Joint Stock Company)**  
**Statement of Cash Flows for the year ended 31 December 2014**

<i>(in thousands of Russian Roubles)</i>	Note	2014	2013
Effect of exchange rate changes on cash and cash equivalents		278 027	29 387
<b>Net change in cash and cash equivalents</b>		<b>2 207 865</b>	<b>14 658</b>
Cash and cash equivalents at the beginning of the year	5	2 088 371	2 073 713
<b>Cash and cash equivalents at the end of the year</b>	<b>5</b>	<b>4 296 236</b>	<b>2 088 371</b>

  
 R.L. Pinaev  
 Chairman of the Management Board

  
 E.A. Alekseeva  
 Chief Accountant

29 April 2015



## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2014 for MARITIME BANK (Open Joint-Stock Company) (the "Bank").

The Bank was established on 17 February 1989 on a unit basis by the decision of founders and registered by the State Bank of the USSR on 29 March 1989. On 19 August 1992, the Bank was reorganised as an open joint-stock company.

As at 31 December 2014 the main shareholder of the Bank is LLC Agency of TEK Investments and Development which owns 99.88% of the Bank (2013: 99.88%). The ultimate beneficiary of the Bank is S.V. Generalov (100%) (2013: S.V. Generalov (100%)).

**Principal activity.** The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank operates subject to General Licence issued by the Central Bank of the Russian Federation ("the Bank of Russia") on 25 September 2003. In addition the Bank has licenses for transactions with securities (broker, dealer and depository activities) issued by the Federal Financial Markets Service and a license for operations with precious metals issued by the Bank of Russia.

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #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 RUB 1 400 thousand per individual in case of the withdrawal of a licence of a bank or a moratorium on payments imposed by the Bank of Russia. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the Central Bank of the Russian Federation at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

The Bank has four (2013: four) branches in Saint-Petersburg, Kaliningrad, Vladivostok and Novorossiysk and three (2013: three) operational offices in Murmansk, Volgograd and Nakhodka. As at 31 December 2014, the Bank had 286 employees (2013: 325 employees).

**Registered address and place of business.** Legal and actual address of the Bank: Varshavskoye shosse, 1, bld. 1-2, Moscow, Russian Federation, 117105.

The Bank's principal places of business are Moscow, Saint-Petersburg, Kaliningrad, Vladivostok, Novorossiysk, Volgograd, Nakhodka, Leningrad Region, Murmansk Region, Kaliningrad Region and Moscow Region.

## 2 Operating Environment of the Bank

### **General**

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency in most countries outside of Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Russia continues economic reforms and development of the legal, tax and administrative framework to comply with the market economy requirements. The economic reforms conducted by the Government are aimed at retooling the Russian economy, development of high-tech productions, enhancement of labour productivity and competitiveness of the Russian products on the world market.

Starting from March 2014 the US and EU imposed a set of sanctions against some Russian officials, businessmen and companies. These sanctions can lead to restricted access of Russian companies to the international capital markets and exports, and cause other potentially negative consequences. In the fourth quarter of 2014 the Russian currency markets demonstrated increased volatility, and the Russian Rouble depreciated significantly against major world currencies. The official US Dollar exchange rate set by the Central Bank of the Russian Federation increased from RUB 39.3836 at 1 October 2014 to RUB 56.2584 at 31 December 2014. The Bank's management is unable to make an accurate assessment of the impact of further deterioration of its operating environment on the Bank's future financial position and operations. Management of the Bank believes it is taking all the necessary measures to support the sustainability and further development of business operations of the Bank in these circumstances.

In April 2014 the international rating agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign credit rating from BBB to BBB-, and Fitch revised Russia's long-term credit rating to BBB, negative outlook.

In January 2015 Fitch downgraded Russia's long-term credit rating from BBB to BBB-, negative outlook.

In October 2014 Moody's downgraded Russia's long-term credit rating to Baa2 and in January 2015 - to Baa3.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

**Inflation**

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2014	11.4%
31 December 2013	6.5%
31 December 2012	6.6%
31 December 2011	6.1%
31 December 2010	8.8%

**Currency transactions**

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation. The table below shows the CBR exchange rates of RUR relative to USD and EUR:

Date	USD	EUR
31 December 2014	56.2584	68.3427
31 December 2013	32.7292	44.9699
31 December 2012	30.3727	40.2286
31 December 2011	32.1961	41.6714
31 December 2010	30.4769	40.3331

**3 Basis of Presentation**

**General principles.** These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

**Functional currency and presentation currency.** These financial statements are presented in Russian Roubles being the functional currency and the presentation currency of the Bank. All amounts in these financial statements have been rounded off to the nearest thousand roubles unless otherwise indicated.

**Estimates and assumptions.** The Bank makes estimates and assumptions that affect the amounts recognised in the 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 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 to customers.** The Bank 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 Bank 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.

*Valuation of owner-occupied premises.* Premises of the Bank are stated at fair value based on reports prepared by the valuation company ZAO BEFL specialising in property valuation. In the course of the valuation the appraisers used the cost, income and market approaches.

The cost approach assumes that the costs associated with the construction of the property (with account for depreciation) together with the fair value of the rights to the land plot where the property is located are an acceptable benchmark for determining the property's fair value. The peculiarity of the cost approach is differentiation between the reproduction cost and the replacement cost of the property.

The income approach assumes that value of real estate equals the present value of rights to future income. It reflects a possibility to derive income from operation of the real estate item under valuation.

The market approach is based on analysis of real estate purchase and sale offers. Therefore, if there is an active real estate market in a region this approach fairly reflects the fair value of property under valuation.

The cost approach to property valuation is applied mainly in cases of insufficient information on sale and purchase of similar property. Moreover, the cost approach is not applied to valuation of built-in premises as separation of the cost component attributable to the property under valuation from the fair value of the entire building may lead to significant errors.

Based on the above, the appraiser concluded that it was unreasonable to apply the cost approach.

In developed markets the best approximation of fair value is derived from market and income approach calculations as they reflect actual current asking prices, which are the basis for future trading between buyers and sellers in a deal.

The income approach is used if there is reliable information which allows to forecast future income that may be generated by the asset under valuation and expenses related to it. In the current conditions, the appraiser had no access to reliable information which allows forecasting future income that may be generated by the asset under valuation and expenses related to it. Calculations were based on the appraiser's judgement built on personal experience and forecasts of the Ministry of Economic Development of the Russian Federation. On this basis the decision was made not to use the results of the income approach for valuation purposes. Therefore, for the purposes of this valuation 100.0% weight was allocated to the market approach.

**Going concern.** These financial statements reflect the Bank management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Bank's control. The Bank's management cannot predict the impact of the above factors on the financial position of the Bank in future.

These financial statements were prepared on a going concern assumption.

For prompt management of the liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Bank of Russia and in the interbank lending market. Diversification of liquidity sources enables the Bank to minimise its dependence on any particular source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional funding allow the Bank to continue its operations as a going concern in the long term.

**Changes in accounting policies.** The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which are or in the future could be relevant to the Bank's operations:

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for annual periods beginning on or after 1 January 2014 and applied retrospectively subject to exemptions regarding adoption of the standard). Under the exception to the consolidation requirements, investment entities should measure their subsidiaries at fair value through profit or loss.
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the application of the offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous, and applied retrospectively.
- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.
- IFRIC 21 - Levies (effective for annual periods beginning on or after 1 January 2014, applied retrospectively). IFRIC 21 clarifies that:
  - an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs;
  - for a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013 and effective for annual periods beginning on or after 1 January 2014, early application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use. Disclosures are now required only when impairment has been recorded or reversed in respect of that asset (or CGU). Other disclosure requirements for assets of CGU were clarified and expanded where the recoverable amount has been determined based on fair value less costs of disposal.

The above changes did not have a material effect on the Bank's financial statements.

***IFRSs and IFRIC interpretations not yet effective***

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014). IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.
- Amendments to IFRS 11 - Joint Arrangements: Accounting for Acquisitions of Interests (prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of adoption 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 those assets are in a subsidiary.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS.
- IFRS 14 - Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016). IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.
- IFRS 9 - Financial Instruments (effective for annual periods beginning on or after 1 January 2018, with early application permitted; retrospective application is allowed, but comparative information is not compulsory). It was issued in July 2014 and replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 - Financial Instruments reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before 1 February 2015.

Annual improvements 2010-2012 Cycle. These improvements include:

- Amendment to IFRS 2 - Share-based Payment (effective for annual periods beginning on or after 1 July 2014, applied prospectively). It clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - a performance condition must contain a service condition;
  - a performance target must be met while the counterparty is rendering service;
  - a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
  - a performance condition may be a market or non-market condition;
  - if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- Amendment to IFRS 3 - Business Combinations (effective for annual periods beginning on or after 1 July 2014, applied prospectively). The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

- Amendments to IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 July 2014, applied retrospectively). The amendments clarify that:
  - an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are economically ‘similar’;
  - the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets (effective for annual periods beginning on or after 1 July 2014, applied retrospectively). The amendments clarify in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount.
- Amendment to IAS 24 - Related Party Disclosures (effective for annual periods beginning on or after 1 July 2014, applied retrospectively). The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle. They include:

- Amendments to IFRS 1 - First Time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2014). The Basis for Conclusions is amended to clarify that an entity has an option to use either the IFRSs that are mandatory at the reporting date, or an IFRS that is not yet mandatory, if it permits early application, provided the same standard is applied in all periods presented in the first IFRS financial statements.
- Amendment to IFRS 13 - Fair Value Measurement (effective for annual periods beginning on or after 1 July 2014, applied prospectively) clarifies that the portfolio exception in IFRS 13, which allows an entity to assess the fair value of a group of financial assets and liabilities on a net basis, can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).
- Amendment to IAS 40 - Investment Property (effective for annual periods beginning on or after 1 July 2014, applied prospectively). The amendment clarifies that IFRS 3, and not IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property (i.e. premises and equipment).

Annual Improvements to IFRSs, 2012-2014, effective for annual periods beginning on or after 1 January 2016. The amendments relate to the following standards:

- Amendment to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. The amendment to IFRS 5 clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal and should not be recorded as a change of this plan.
- Amendment to IFRS 7 - Financial Instruments – Disclosures. The amendment contains additional guidance helping management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement in accordance with IFRS 7.
- Amendment to IAS 19 - Employee Benefits. The amendment clarifies that with respect to post-employment benefit obligations decisions on the choice of the discount rate, existence of the deep market of high-quality corporate bonds or what government bonds should be used as a benchmark are based on the currency in which the liabilities are denominated and not in the currency in which these liabilities occur.

The Bank is currently assessing the adoption of these IFRS and Amendments, the impact of their application on the Bank and the timing of their adoption.

#### **4 Summary of Significant Accounting Policies**

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below (Note 34).

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Bank must have access to the principal or most advantageous market.

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

The Bank's securities portfolio comprises securities traded on the organized market - MICEX SE CJSC. Transactions on MICEX SE CJSC are conducted on a regular basis and information on the current quotations of the active market is publicly available. Active market quotations are the best evidence for determining the current fair value of financial instruments.

The Bank engages external valuers to measure material assets, such as property. A decision to engage external valuers is taken annually by the Bank's Management Board, which is governed by such selection criteria as market knowledge, reputation, independence and professional compliance.

At each reporting date the Department for Processing and Registration of Financial Instruments Transactions analyses movements in the values of assets and liabilities which are required to be re-measured or re-assessed in accordance with the Bank's accounting policies. For this analysis, the Department for Processing and Registration of Financial Instruments Transactions verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above (Note 33).

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 at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments (Notes 6, 9 and 10).

*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 statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are 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.** 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 Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation technique to determine the fair value of currency swaps and currency forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps and currency forwards.

**Derecognition of financial assets.** The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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.

**Reclassification of financial assets.** The Bank shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or financial assets held to maturity depending on the purposes for which these financial assets are held, if the Bank has intention and the ability to hold these financial assets for the foreseeable future or until maturity.

Financial assets available for sale may be reclassified into loans and receivables if the Bank has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or financial assets held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as financial assets available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in the statement of comprehensive income as other comprehensive income.

The Bank shall not classify any financial assets as held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity financial assets before maturity (more than insignificant in relation to the total amount of held-to-maturity financial assets) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity financial assets do not meet any of the conditions of the classification, any remaining held-to-maturity financial assets shall be reclassified as financial assets available for 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 cash on hand, balances with the Central Bank of Russia, balances on correspondent accounts in other banks and settlements with currency and stock exchanges. Funds restricted on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost (Note 5).

**Mandatory cash balances with the Bank of Russia.** Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

**Financial assets at fair value through profit or loss.** Financial assets at fair value through profit or loss include trading securities.

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the statement of comprehensive income as interest income. Dividends are included in statement of comprehensive income within other operating income when the Bank'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 of financial assets at fair value through profit or loss 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 Bank 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 (Note 7).

**Loans and advances to customers.** Loans and advances to customers are recorded when the Bank 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 (Note 8).

**Impairment of due from other banks and loans and advances to customers.** 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 Bank 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 Bank considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any (Notes 7 and 8).

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 borrower’s financial information that the Bank 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.

In 2013 the Bank revised its estimates of expected loan losses relying on its accumulated experience in credit risk assessment and management. For making provisions for loans, issued on non-standard terms, the Bank uses a credit risk approach based on internal ratings.

The system of credit ratings provides a differentiated assessment of probability of default/non-execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative factors of credit risk, materiality of their impact on the ability of the counterparty to serve and repay their obligations.

The Bank’s internal regulations provide for a multi-factor approach, the factor list being standardized depending on the counterparty category: risk factors related to counterparty’s creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control, transparency, position of the client in the industry and the region, strength of support from local administration and parent companies (in case of a holding) are subject to mandatory monitoring and control. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty/transaction with their subsequent classification ratings.

Assets that are individually assessed for impairment and for which an impairment loss is recognised shall not be included in a collective assessment of impairment.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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.

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.

Reposessed collateral represents financial and non-financial assets acquired by the Bank 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 Bank'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.

**Impairment of financial assets available for sale.** The Bank assesses at each closing date whether there is objective evidence that an investment or a group of financial assets available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence of impairment would include significant financial difficulty of the issuer supported by financial information at the Bank's disposal. To assess whether there is any indication of impairment the Bank shall analyse the issuer's activities taking into account the influence of economic factors, including consequences of changes in the technical, market, economic or legal environment in which the issuer operates. The Bank also assesses other factors such as volatility of price per share. 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.

**Impairment of investments held to maturity.** The Bank assesses whether objective evidence of impairment exists individually for financial assets held to maturity. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in the next year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as income in profit or loss.

**Credit related commitments.** The Bank 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 Bank 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 (Note 32).

**Financial assets available for sale.** This classification includes financial assets which the Bank 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 (Note 9 and 10).

Financial assets 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 Bank'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 financial assets 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.

**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. Securities sold under sale and repurchase agreements are recorded in the statement of financial position in financial assets pledged under repo agreements. The corresponding liability is presented within amounts due to the Bank of Russia, 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 Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

**Promissory notes purchased.** Promissory notes purchased are included 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 (Notes 7 and 8).

**Investments held to maturity.** This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank's management determines the appropriate classification of financial assets at the time of purchase.

The Bank assesses its intention and ability to hold its held-to-maturity financial assets to maturity not only when those financial assets are initially recognised, but also at each closing date.

Initially, financial assets held to maturity are recorded at fair value (that includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on financial assets held to maturity are recognised in profit or loss when such assets are impaired, as well as through the amortisation process.

If the Bank sells a significant portion of its portfolio of financial assets held to maturity before their maturity, the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest earned on financial assets held to maturity is recognised in the statement of comprehensive income.

#### **Investment property**

Investment property is property held by the Bank to earn rentals or for capital appreciation or both, rather than for: (a) use in the Bank's ordinary course of business or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is initially recognised at cost and subsequently remeasured at fair value based on its market value. The market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have

professional experience in valuation of property of similar location and category. Changes in the fair value of investment property are recorded in profit or loss in the statement of comprehensive income and presented separately. Initial direct costs incurred by lessors under an operating lease contract shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

If the investment property is used by the Bank for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

**Premises and equipment.** Except for premises, these are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required (Note 13).

Premises of the Bank recorded at the fair value are held at revalued amount subject to revaluation to market value on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued.

The revaluation reserve for premises included in other comprehensive is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank.

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.

Premises have been revalued to market value as at 31 December 2014. Revaluation is based on the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The basis used for the appraisal was fair value.

Management has updated the carrying value of the premises 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.

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

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.

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 recorded 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 the carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

	Useful life, years
Premises	32 years
Premises' engineering systems, including power supply	5 years
Office equipment	4 years
Computer equipment	2.5 years
Other equipment	5 years

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The residual value of an asset is the estimated amount that the Bank 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 residual value of an asset is nil if the Bank expects to

use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date (Note 13).

**Intangible assets.** Intangible assets of the Bank include trade mark (service mark). It is amortised on a straight line basis over expected useful life of 10 years (Note 13).

**Impairment of non-financial assets.** Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. Costs to sell are the costs associated with disposal of an asset tested for impairment, less finance costs. Value in use of an asset reviewed for impairment is the present value of the future cash flows expected to be derived from the use of an asset and its subsequent disposal. If there is not any evidence of impairment of an asset reviewed for impairment, its recoverable amount is not determined. The Bank assesses indications of possible impairment using internal and external data sources.

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

**Financial liabilities carried at amortised cost.** Financial liabilities carried at amortised cost include due to other banks, customer accounts and debt securities in issue.

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks (Note 15).

**Customer accounts.** Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers (Note 16).

**Debt securities in issue.** Debt securities in issue include bonds and promissory notes issued by the Bank (Note 17).

**Subordinated debt.** Subordinated debt received is reflected when funds are advanced to the Bank.

**Derivative financial instruments.** Derivative financial instruments, including currency swaps, and currency and interest rate options are carried at their fair value (Note 6 and 19).

All derivative financial 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 gains or losses (gains less losses from trading in foreign currencies). The Bank does not apply hedge accounting.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. 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 outside profit or loss, either 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 (Note 27).

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 in a transaction if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities 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 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 Bank'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.

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

**Share capital.** Ordinary shares and discretionary dividends are classified as equity (Note 21). The share capital contributed before 1 January 2003 is restated for the effects of inflation. The share capital contributed after the above date is stated at cost.

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

**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 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 (Note 28).

**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 (Note 24).

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 issuing loans and maintaining a loan account). The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to 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.

Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of shares and other securities, which are earned on execution of the underlying transaction are recorded on its completion. Other management advisory and services are recognised based on the applicable service contracts, usually on a time-proportion basis. The same principle is applied for deposit services that are continually provided over an extended period of time.

**Foreign currency translation.** The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates, i.e. the currency of the Russian Federation - the Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Russian roubles at year-end official exchange rates of the Bank of Russia are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value revaluation gain or loss.

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the 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 Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme (Note 26).

**Segment reporting.** An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank shall report separately in its financial statements information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
  - the combined reported profit of all operating segments that did not report a loss in the reporting period; and
  - the combined reported loss of all operating segments that reported a loss in the reporting period;
- its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

As the information is available from management reporting and can differ from the IFRS financial statements, reconciliations shall be made and reasons disclosed:

- the total of the reportable segments' revenues to the Bank's revenue.
- the total of the reportable segments' measures of profit or loss to the Bank's profit or loss before tax expense (tax income) and discontinued operations. However, if the Bank allocates to reportable segments items such as tax expense (tax income), the Bank may reconcile the total of the segments' measures of profit or loss to the Bank's profit or loss after those items.
- the total of the reportable segments' assets to the Bank's assets.
- the total of the reportable segments' liabilities to the Bank's liabilities.
- the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the Bank.

## 5 Cash and Cash Equivalents

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Correspondent accounts with other banks	2 636 052	859 973
Cash balances with the Bank of Russia, other than mandatory reserve deposits	872 682	1 008 099
Settlements with currency and stock exchanges	456 181	28 089
Cash on hand	331 321	192 210
<b>Total cash and cash equivalents</b>	<b>4 296 236</b>	<b>2 088 371</b>

As at 31 December 2014 the Bank had cash balances above 10% of the Bank capital with two counterparty commercial banks except balances with the Bank of Russia (2013: one counterparty commercial bank except balances with the Bank of Russia). The aggregate amount of these balances was RUB 2 800 614 thousand or 65.2% of the total amount of cash and cash equivalents (2013: RUB 472 811 thousand 22.6% of the total amount of cash and cash equivalents).

The Bank does not have renegotiated balances representing the carrying amount of cash and cash equivalents that would otherwise be past due, whose terms have been renegotiated.

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The Bank analyses cash quality based on Moody's ratings. If an issuer does not have this type of rating the Bank uses ratings of Fitch Ratings or Standard and Poor's, reconciling them to the rating categories through an adjustment table.

Below is the credit quality analysis of cash equivalents as at 31 December 2014:

<i>(in thousands of Russian Roubles)</i>	Cash balances with the Bank of Russia, other than mandatory reserve deposits	Correspondent accounts with other banks	Settlements with currency and stock exchanges	Total
<i>Neither past due nor impaired</i>				
- the Bank of Russia	872 682	-		872 682
- A2 rated	-	92 174		92 174
- A3 rated	-	2 458 591		2 458 591
- Baa1 rated	-	52 268		52 268
- Baa2 rated	-		448 859	448 859
- Unrated	-	33 019	7 322	40 341
<b>Total cash equivalents</b>	<b>872 682</b>	<b>2 636 052</b>	<b>456 181</b>	<b>3 964 915</b>

Below is the credit quality analysis of cash equivalents as at 31 December 2013:

<i>(in thousands of Russian Roubles)</i>	Cash balances with the Bank of Russia, other than mandatory reserve deposits	Correspondent accounts with other banks	Settlements with currency and stock exchanges	Total
<i>Neither past due nor impaired</i>				
- the Bank of Russia	1 008 099	-	-	1 008 099
- A2 rated	-	634 239	-	634 239
- A3 rated	-	107 831	-	107 831
- Baa1 rated	-	593	-	593
- Baa2 rated	-	1 406	15 964	17 370
- Ba3 rated	-	2 084	-	2 084
- Baa3 rated	-	61 581	-	61 581
- B3 rated	-	3 995	-	3 995
- Unrated	-	48 244	12 125	60 369
<b>Total cash equivalents</b>	<b>1 008 099</b>	<b>859 973</b>	<b>28 089</b>	<b>1 896 161</b>

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 30.

Refer to Note 33 for the estimated fair value of each class of cash and cash equivalents.

**6 Financial Assets at Fair Value through Profit or Loss**

<i>(in thousands of Russian Roubles)</i>	31 December 2014	31 December 2013
Government debt securities		
- Russian Federation bonds (OFZ)	-	678 154
- Russian Federation Eurobonds	-	51 095
Corporate debt securities		
- Corporate bonds	47 495	277 682
- Corporate Eurobonds	-	2 346
Corporate equity securities		
- Corporate shares	-	4 950
Derivative financial instruments	29 155	-
<b>Total financial assets at fair value through profit or loss</b>	<b>76 650</b>	<b>1 014 227</b>

Russian Federation bonds (OFZ) are represented by Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2013, these bonds in the Bank's portfolio have maturity dates from June 2015 to January 2028, depending on the type of bond issue and coupon rates ranging from 6.88% to 8.15% p.a., depending on the type of bond issue.

Russian Federation Eurobonds are represented by USD-denominated securities issued by the Ministry of Finance of the Russian Federation and freely traded in the international market. As at 31 December 2013, Russian Federation Eurobonds in the Bank's portfolio have maturity date in April 2015 and the coupon rate of 3.625% p.a.

As at 31 December 2014, corporate bonds are represented by Rouble-denominated securities issued by Russian commercial banks. These bonds in the Bank's portfolio have maturity dates from October 2016 to July 2018 (2013: from July 2014 to July 2023), depending on the type of bond issue, and the coupon rate ranging from 12.25% to 13.5% p.a. (2013: from 4.2% to 13.0% p.a.), depending on the type of bond issue.

Corporate Eurobonds are represented by USD-denominated interest-bearing securities issued by major Russian commercial banks and companies and freely traded in the international market. As at 31 December 2013, corporate Eurobonds in the Bank's portfolio have maturity date in March 2015 and the coupon rate of 6.465% p.a.

Corporate shares are represented by the shares of a Russian commercial bank.

As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators.

As at 31 December 2014, financial assets at fair value through profit or loss comprised RUB-denominated bonds of Sudostroitelny Bank (limited liability company) in the amount of RUB 28 342 thousand, including accumulated coupon yield of RUB 807 thousand. 100% bond impairment was recognized due to withdrawal of the Bank's license in February 2015.

The Bank conducts the credit quality analysis of debt securities at fair value through profit or loss based on Moody's ratings. If the issuer has no such rating, the Bank uses ratings of Fitch Ratings or Standard and Poors, reconciling them to the rating categories through an adjustment table.

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

Credit quality analysis of financial assets at fair value through profit or loss as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate debt securities
<i>Neither past due nor impaired (at fair value)</i>	
- B3 rated	47 495
<b>Total financial assets at fair value through profit or loss</b>	<b>47 495</b>

The credit quality analysis of financial assets at fair value through profit or loss as at 31 December 2013 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities	Corporate debt securities	Total
<i>Neither past due nor impaired (at fair value)</i>			
- Baa1 rated	729 249	-	729 249
- Baa3 rated	-	2 346	2 346
- Ba3 rated	-	16 225	16 225
- B2 rated	-	5 509	5 509
- B3 rated	-	254 930	254 930
- Unrated	-	1 018	1 018
<b>Total financial assets at fair value through profit or loss</b>	<b>729 249</b>	<b>280 028</b>	<b>1 009 277</b>

Geographical, currency, maturity and interest rate analyses of financial assets at fair value through profit or loss are disclosed in Note 30.

The Bank holds a license of the Russian Federation Federal Commission for Securities Market to carry out operations with securities.

**Derivative financial instruments.** Derivative financial instruments are normally traded on the OTC market by professional market participants on standard contractual terms and conditions.

Contractual amounts of certain financial instruments provide a basis for comparison with instruments recognised in the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable and, therefore, their aggregate fair values can fluctuate significantly from time to time.

The table below contains information on outstanding transactions involving derivative financial instruments. The amounts for these transactions are shown on a gross basis before offsetting the position by each counterparty.

	Notional principal amount	2014		Notional principal amount	2013	
		Fair value			Fair value	
		Asset	Liability		Asset	Liability
Currency transactions «FORWARD»						
- USD sales	1 310 064	22 598	(6 477)	-	-	-
- USD purchases	105 988	6 529	-	-	-	-
- EUR purchases	1 240 088	28	(23 616)	22 531	-	(46)
<b>Total</b>	<b>2 656 140</b>	<b>29 155</b>	<b>(30 093)</b>	<b>22 531</b>	<b>-</b>	<b>(46)</b>

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

**7 Due from Other Banks**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Loans and deposits with other banks	206 301	778 676
Discounted promissory notes of credit institutions	-	10 305
Less: provision for impairment of amounts due from other banks	-	(518)
<b>Total due from other banks</b>	<b>206 301</b>	<b>788 463</b>

Amounts due from other banks are not collateralised.

The Bank analyses the credit quality of due from other banks based on Moody's ratings. If an issuer does not have this type of rating, the Bank uses ratings of Fitch Ratings or Standard and Poor's, reconciling them to the rating categories through an adjustment table.

Credit quality analysis of due from other banks as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	<b>Loans and deposits with other banks</b>
<i>Neither past due nor impaired</i>	
- Ba1 rated	6 301
- B2 rated	200 000
<b>Total neither past due nor impaired due from other banks</b>	<b>206 301</b>

**MARITIME BANK (Open Joint-Stock Company)**  
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Credit quality analysis of due from other banks as at 31 December 2013 is as follows:

<i>(in thousands of Russian Roubles)</i>	Loans and deposits with other banks	Discounted promissory notes of credit institutions	Total
<i>Neither past due nor impaired</i>			
- B3 rated	135 010	-	135 010
- Ba3 rated	100 000	-	100 000
- B1 rated	100 000	-	100 000
- Baa1 rated	360 000	-	360 000
- Baa3 rated	3 666	-	3 666
- B2 rated	50 000	-	50 000
- Caa1 rated	30 000	-	30 000
- unrated	-	9 787	9 787
<b>Total neither past due nor impaired due from other banks</b>	<b>778 676</b>	<b>9 787</b>	<b>788 463</b>
<i>Individually impaired</i>			
- over 365 days overdue	-	518	518
<b>Total individually impaired</b>	<b>-</b>	<b>518</b>	<b>518</b>
Less: provision for impairment of due from other banks	-	(518)	(518)
<b>Total due from other banks</b>	<b>778 676</b>	<b>9 787</b>	<b>788 463</b>

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their overdue status. As a result, the Bank presents above an ageing analysis of discounted promissory notes of credit institutions that are individually determined to be impaired.

The Bank does not have renegotiated balances representing the carrying amount of due from other banks that would otherwise be past due, whose terms have been renegotiated.

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

<i>(in thousands of Russian Roubles)</i>	2014		2013	
	Loans and deposits with other banks	Discounted promissory notes of credit institutions	Loans and deposits with other banks	Discounted promissory notes of credit institutions
Provision for impairment of due from other banks as at 1 January	-	518	28	2 150
Recovery of provision for impairment of due from other banks during the year	-	(518)	(28)	(1 632)
<b>Provision for impairment of due from other banks as at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518</b>

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

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As at 31 December 2014, the Bank had balances with one counterparty commercial bank (2013: one counterparty commercial bank) with total balances above 10.0% of the Bank capital. The total amount of these balances was RUB 200 000 thousand or 96.9% of the total due from other banks (2013: RUB 360 000 or 45.7% of the total due from other banks).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30. Refer to Note 33 for the estimated fair value of each class of due from other banks.

**8 Loans and Advances to Customers**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Corporate loans	11 670 819	10 759 102
Loans to individuals	546 493	337 770
Loans to state and municipal organisations	164 966	138 861
Less: provision for impairment of loans and advances to customers	(1 198 265)	(1 103 756)
<b>Total loans and advances to customers</b>	<b>11 184 013</b>	<b>10 131 977</b>

Corporate loans comprise loans to legal entities. Loans are granted for current needs (working capital financing, acquisition of movable property and real estate, portfolio investments, expansion and consolidation of business, etc.). Loans are provided for periods of up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and export-import transactions. The repayment source is cash flow from operating or financial activities of the borrower.

Loans to individuals are issued for housing acquisition, construction and reconstruction of real estate, and also include car loans, consumer loans and overdrafts.

Loans to state and municipal organisations comprise corporate loans to federal state unitary enterprises (FGUP).

As at 31 December 2014, loans and advances to customers of RUB 158 687 thousand (2013: RUB 114 539 thousand) are secured with the Bank's own promissory notes with the collateral value of RUB 91 716 thousand (2013: RUB 58 038 thousand) (Note 17).

As at 31 December 2014, loans to customers in the amount of RUB 585 086 thousand (2013: RUB 609 921 thousand) were transferred by the Bank as a security for loans received from OJSC MSP-Bank (Note 15).

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

**Loan portfolio quality.** Analysis by credit quality of loans outstanding as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Loans to state and municipal organisations	Total
<i>Neither past due nor impaired</i>				
- Large borrowers	995 611	350 000	-	1 345 611
- Loans to medium size entities	1 014 146	-	-	1 014 146
- Small borrowers	1 414 283	68 815	-	1 483 098
<b>Total neither past due nor impaired loans and advances to customers</b>	<b>3 424 040</b>	<b>418 815</b>	<b>-</b>	<b>3 842 855</b>
<i>Past due but not impaired</i>				
- 31 to 90 days overdue	9 997	-	-	9 997
- over 91 days overdue	30 325	-	-	30 325
<b>Total past due but not impaired loans and advances to customers</b>	<b>40 322</b>	<b>-</b>	<b>-</b>	<b>40 322</b>
<i>Individually impaired</i>				
- without delays in payment	7 580 254	127 388	29 966	7 737 608
- over 91 days overdue	626 203	290	135 000	761 493
<b>Total individually impaired loans and advances to customers</b>	<b>8 206 457</b>	<b>127 678</b>	<b>164 966</b>	<b>8 499 101</b>
<b>Total loans and advances to customers (before impairment provision)</b>	<b>11 670 819</b>	<b>546 493</b>	<b>164 966</b>	<b>12 382 278</b>
<b>Less: provision for impairment of loans and advances to customers</b>	<b>(1 043 446)</b>	<b>(18 899)</b>	<b>(135 920)</b>	<b>(1 198 265)</b>
<b>Total loans and advances to customers</b>	<b>10 627 373</b>	<b>527 594</b>	<b>29 046</b>	<b>11 184 013</b>

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

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

<i>(in thousands of Russian Roubles)</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>	<b>Loans to state and municipal organisations</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- Large borrowers	920 103	-	-	920 103
- Loans to medium size entities	1 327 851	-	-	1 327 851
- Small borrowers	1 424 301	123 646	-	1 547 947
<b>Total neither past due nor impaired loans and advances to customers</b>	<b>3 672 255</b>	<b>123 646</b>	<b>-</b>	<b>3 795 901</b>
<i>Past due but not impaired</i>				
- less than 30 days overdue	17 564	-	-	17 564
- 31 to 90 days overdue	6 124	-	-	6 124
- over 91 days overdue	32 223	-	-	32 223
<b>Total past due but not impaired loans and advances to customers</b>	<b>55 911</b>	<b>-</b>	<b>-</b>	<b>55 911</b>
<i>Individually impaired</i>				
- without delays in payment	6 114 026	202 545	-	6 316 571
- over 91 days overdue	916 910	11 579	138 861	1 067 350
<b>Total individually impaired loans and advances to customers</b>	<b>7 030 936</b>	<b>214 124</b>	<b>138 861</b>	<b>7 383 921</b>
<b>Total loans and advances to customers (before impairment provision)</b>	<b>10 759 102</b>	<b>337 770</b>	<b>138 861</b>	<b>11 235 733</b>
<b>Less: provision for impairment of loans and advances to customers</b>	<b>(934 560)</b>	<b>(30 335)</b>	<b>(138 861)</b>	<b>(1 103 756)</b>
<b>Total loans and advances to customers</b>	<b>9 824 542</b>	<b>307 435</b>	<b>-</b>	<b>10 131 977</b>

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The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and booked portfolio provisions for incurred impairment losses. The Bank'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 Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

Neither past due nor impaired loans include three classes: loans to large borrowers, loans to medium size entities and loans to small entities. Loans to borrowers with outstanding loan amount above RUB 170 000 thousand as at 31 December 2014 (2013: RUB 170 000 thousand) are recognised as loans to large borrowers. Loans to borrowers or a group of related borrowers with outstanding loan amount from RUB 70 000 to RUB 170 000 thousand (2013: from RUB 70 000 to RUB 170 000 thousand) are recognised as loans to medium size entities. Loans to borrowers or a group of related borrowers with outstanding loan amount below RUB 70 000 thousand (2013: below RUB 70 000 thousand) are recognised as loans to small business.

**Provision for impairment of loans and advances to customers.** Movements in the provision for impairment of loans and advances to customers during 2014 and 2013 are as follows:

<i>(in thousands of Russian Roubles)</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>	<b>Loans to state and municipal organisations</b>	<b>Total</b>
<b>Provision for impairment of loans and advances to customers as at 1 January 2013</b>	<b>838 510</b>	<b>18 331</b>	<b>166 101</b>	<b>1 022 942</b>
Provision for impairment of loans and advances to customers during 2013	243 955	20 851	(27 240)	237 566
Disposal of provision of loans and advances to customers	(94 284)	(8 847)	-	(103 131)
Loans and advances to customers written off during 2013 as uncollectible	(53 621)	-	-	(53 621)
<b>Provision for impairment of loans and advances to customers as at 31 December 2013</b>	<b>934 560</b>	<b>30 335</b>	<b>138 861</b>	<b>1 103 756</b>
Provision for impairment of loans and advances to customers during 2014	568 512	(6 166)	(2 941)	559 405
Disposal of provision of loans and advances to customers	(410 930)	-	-	(410 930)
Loans and advances to customers written off during 2014 as uncollectible	(48 696)	(5 270)	-	(53 966)
<b>Provision for impairment of loans and advances to customers as at 31 December 2014</b>	<b>1 043 446</b>	<b>18 899</b>	<b>135 920</b>	<b>1 198 265</b>

Provisions for disposed loans in the amount of RUB 410 930 thousand (2013: RUB 103 131 thousand) relate to loans for which there was an assignment of claim. The statement of comprehensive income reflects gains from disposals of loans of RUB 366 012 thousand (2013: RUB 3 000 thousand).

**Loan security.** As a rule the Bank requires collateral and/or guarantees for loans to corporate entities and federal state unitary enterprises. Acceptable collateral includes real estate, securities (within the Bank's risk limits for such securities), promissory notes of the Bank, transport and production equipment, inventory, certain contract rights and certain personal property. Guarantees can be provided by controlling shareholders (or other controlling persons), government entities, banks and other solvent legal entities (all within risk limits for such guarantees). A guarantor is evaluated on the same basis as the borrower itself. The Bank assesses the collateral value based on an internal expert valuation performed by the Bank's specialists, an independent appraiser's valuation or on the basis of discounted carrying amount of the collateral. In accordance with the Bank's policy, the value of collateral for loans to legal entities should cover the principal and interest on loan accrued for a period of at least three months. Borrowers must insure the collateral or make an additional payment to the Bank reflecting the increase in credit risk.

The Bank provided uncollateralised loans or partially collateralised loans to major borrowers or borrowers associated with the lowest level of risk. These loans were provided to the clients with stable financial position and good credit history with the Bank for the last three years.

The Bank usually requires collateral and/or guarantees for loans to individuals. Acceptable collateral includes real estate, personal property, government and the Bank's securities, motor vehicles and other liquid assets. The Bank accepts guarantees from its clients, both individuals and legal entities. According to the Bank's policy, the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of at least a year. The Bank determines the value of collateral based on internal or independent valuation or its discounted carrying amount. Individual guarantors are evaluated on the same basis as the borrower itself.

Collateral held by the Bank for past due loans, assessed for impairment on a collective basis, is similar to collateral received for other loans (see description above). According to the Bank's assessment the fair value of collateral received for past due loans, assessed for impairment on a collective basis, to individuals exceeds the carrying amount of such loans.

Fair value of collateral for past due individually impaired loans as at 31 December 2014 and 31 December 2013 was estimated by the Bank's Credit Department using its internal methodology.

Actual net realisable value of collateral may differ from the value disclosed in the financial statements due to potential difficulties during the foreclosure which cannot be predicted.

Information about collateral for loans and advances to customers as at 31 December 2014 is as follows:

	Corporate loans	Loans to individuals	Loans to government and municipal organisations	Total
<i>(in thousands of Russian Roubles)</i>				
<b>Unsecured loans and advances to customers</b>	<b>966 562</b>	<b>53 183</b>	<b>29 046</b>	<b>1 048 791</b>
<b>Loans and advances to customers collateralised by:</b>				
- non-residential real estate (including vessels)	3 032 866	300 124	-	3 332 990
- vehicles	2 293 428	3 822	-	2 297 250
- goods in turnover	2 226 973	-	-	2 226 973
- surety of legal entities and individuals	879 826	55 296	-	935 122
- equipment	796 774	-	-	796 774
- residential real estate	174 186	76 949	-	251 135
- promissory notes of the Bank	53 496	38 220	-	91 716
- securities	203 262	-	-	203 262
<b>Total loans and advances to customers</b>	<b>10 627 373</b>	<b>527 594</b>	<b>29 046</b>	<b>11 184 013</b>

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Information about collateral for loans and advances to customers as at 31 December 2013 is as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Total
<b>Unsecured loans and advances to customers</b>	<b>1 843 054</b>	<b>69 268</b>	<b>1 912 322</b>
<b>Loans and advances to customers collateralised by:</b>	<b>7 981 488</b>	<b>238 167</b>	<b>8 219 655</b>
- non-residential real estate (including vessels)	2 891 615	6 519	2 898 134
- surety of legal entities and individuals	2 164 484	52 772	2 217 256
- goods in turnover	1 518 841	-	1 518 841
- vehicles	972 436	19 194	991 630
- equipment	396 386	-	396 386
- residential real estate	12 962	122 787	135 749
- promissory notes of the Bank	24 743	36 895	61 638
- securities	21	-	21
<b>Total loans and advances to customers</b>	<b>9 824 542</b>	<b>307 435</b>	<b>10 131 977</b>

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.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. 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 as at 31 December 2014:

<i>(in thousands of Russian Roubles)</i>	Over-collateralised loans and advances to customers		Under-collateralised loans and advances to customers	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	5 952 104	11 750 971	5 718 715	2 035 380
Loans to individuals	438 948	1 179 238	107 545	968
Loans to government and municipal organizations	-	-	164 966	-
<b>Total</b>	<b>6 391 052</b>	<b>12 930 209</b>	<b>5 991 226</b>	<b>2 036 348</b>

The effect of collateral as at 31 December 2013:

<i>(in thousands of Russian Roubles)</i>	Over-collateralised loans and advances to customers		Under-collateralised loans and advances to customers	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	4 370 742	7 910 632	6 388 360	2 079 992
Loans to individuals	116 482	211 880	221 288	72 898
Loans to government and municipal organisations	-	-	138 861	-
<b>Total</b>	<b>4 487 224</b>	<b>8 122 512</b>	<b>6 748 509</b>	<b>2 152 890</b>

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The fair value of collateral represented by residential and non-residential real estate at the end of the reporting period approximated its market value. The fair value of other collateral was determined by the Bank's Credit Department based on its internal methodology and considering location of the assets accepted as collateral.

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

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade	3 261 940	26.3	2 878 872	25.6
Cargo transport service	2 862 149	23.1	2 755 088	24.5
Manufacturing	1 327 414	10.7	1 151 646	10.2
Lease of non-residential property	896 112	7.2	995 398	8.9
Infrastructure construction	816 511	6.6	894 063	8.0
Construction	729 336	5.9	668 036	5.9
Shipbuilding	732 667	5.9	536 823	4.8
Transport and communication	392 851	3.2	477 566	4.3
Individuals	546 493	4.4	337 770	3.0
Financial lease	23 299	0.2	62 176	0.6
Other	793 506	6.5	478 295	4.2
<b>Total loans and advances to customers (before impairment provision)</b>	<b>12 382 278</b>	<b>100.0</b>	<b>11 235 733</b>	<b>100.0</b>

As at 31 December 2014 the Bank had 20 borrowers (2013: 12 borrowers) with the total amount of loans outstanding above 10% of the Bank capital. The gross amount of these loans was RUB 5 393 642 thousand or 43.6% of the total amount of loans and advances to customers before provision for impairment of loans and advances to customers (2013: RUB 3 528 863 thousand or 31.4% of the total amount of loans and advances to customers before provision for impairment of loans and advances to customers).

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 35.

## **9 Financial Assets Available for Sale**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>
Government debt securities	
- Russian Federation bonds (OFZ)	160 055
- Russian Federation Eurobonds	1 413
Corporate equity securities	
- Corporate shares	200 910
<b>Total financial assets available for sale</b>	<b>362 378</b>

Russian Federation bonds are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2014, the Russian Federation bonds in the Bank's portfolio have maturity date in June 2017 and the coupon rate of 7.4% p.a.

Eurobonds of the Russian Federation represent USD-denominated government securities issued by the Ministry of Finance of the Russian Federation, trading freely on the international market. As at 31 December 2014, Eurobonds in the Bank's portfolio have maturity date in March 2030 and the coupon rate of 7.5% p.a.

As at 31 December 2014, corporate bonds are represented by Rouble-denominated securities issued by Russian commercial banks. These bonds in the Bank's portfolio have maturity dates from April 2015 to October 2016 and the coupon rates from 9.0% to 12.3% p.a., depending on the issue.

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Debt securities available for sale are not collateralized.

For traded investments, the fair value is determined by reference to the current market value at the close of business on 31 December 2014.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status or the existence of the facts of overdue payments under earlier issues of securities. During 2013, the Bank derecognised one of impaired corporate bonds and restructured debt for another corporate bond through an exchange for a non-resident's bond classified as financial assets held to maturity with 100% provision of RUB 11 630 thousand.

The Bank analyses financial assets available for sale based on Moody's ratings. If an issuer does not have this type of rating the Bank uses ratings of Fitch Ratings or Standard and Poor's, reconciling them to the rating categories through an adjustment table.

Credit quality analysis of debt securities available for sale as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities	Corporate debt securities	Total
<i>Neither past due nor impaired (at fair value)</i>			
- Baa2 rated	161 468	-	161 468
- B2 rated	-	288	288
- B3 rated	-	200 622	200 622
<b>Total debt securities available for sale</b>	<b>161 468</b>	<b>200 910</b>	<b>362 378</b>

Refer to Note 33 for the fair value of financial assets available for sale.

Geographical, currency, interest rate and maturity analyses of financial assets available for sale are disclosed in Note 30.

**10 Financial Assets Pledged under Repo Agreements**

<i>(in thousands of Russian Roubles)</i>	31 December 2014	31 December 2013
<b>Financial assets at fair value through profit or loss</b>		
Government debt securities		
- Russian Federation Eurobonds	217 858	700 003
- Russian Federation bonds (OFZ)	-	196 859
Corporate debt securities		
- Corporate Eurobonds	171 928	593 073
- Corporate bonds	110 257	2 700 038
<b>Total financial assets at fair value through profit or loss</b>	<b>500 043</b>	<b>4 189 973</b>
<b>Financial assets available for sale</b>		
Government debt securities		
- Russian Federation Eurobonds	2 828 863	-
- Russian Federation bonds (OFZ)	1 262 478	-
Corporate debt securities		
- Corporate bonds	1 981 613	-
- Corporate Eurobonds	533 714	-
<b>Total financial assets available for sale</b>	<b>6 606 668</b>	<b>-</b>
<b>Total financial assets pledged under repo agreements</b>	<b>7 106 711</b>	<b>4 189 973</b>

Financial assets at fair value through profit or loss pledged under repo agreements as at 31 December 2014 and 31 December 2013 comprise the following securities.

Russian Federation Eurobonds are represented by USD-denominated securities issued by the Ministry of Finance of the Russian Federation and freely traded in the international market. As at 31 December 2014, Russian Federation Eurobonds in the Bank's portfolio have maturity date in April 2017 (2013: from April 2015 to April 2017 depending on the type of bond issue) and the coupon rate of 3.25% p.a. (2013: from 3.25% to 3.625% p.a. depending on the type of bond issue).

Russian Federation bonds (OFZ) are represented by Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2014, these bonds in the Bank's portfolio have maturity dates from June 2015 to January 2016 depending on the type of bond issue and coupon rates ranging from 6.88% to 7.35% p.a. depending on the type of bond issue.

Corporate Eurobonds are represented by USD-denominated interest-bearing securities issued by large Russian commercial banks and companies and freely traded in the international market. As at 31 December 2014, corporate Eurobonds in the Bank's portfolio have maturity date in March 2015 (2013: from June 2014 to November 2015 depending on the type of bond issue) and the coupon rate of 6.465% p.a. (2013: from 5.092% to 9.0% p.a. depending on the type of bond issue).

As at 31 December 2014, corporate bonds are represented by Rouble-denominated securities issued by Russian commercial banks. These bonds in the Bank's portfolio have maturity dates from April 2015 to July 2018 (2013: from February 2014 to March 2022) depending on the type of bond issue and the coupon rate ranging from 9.2% to 12.5% p.a. (2013: from 7.7% to 12.3% p.a.), depending on the type of bond issue.

Financial assets available for sale pledged under repo agreements as at 31 December 2014 comprise the following (2013: none).

Russian Federation Eurobonds are represented by USD-denominated securities issued by the Ministry of Finance of the Russian Federation and freely traded in the international market. As at 31 December 2014, Russian Federation Eurobonds in the Bank's portfolio have maturity date from April 2015 to March 2030 and coupon rates ranging from 3.25% to 7.5% p.a., depending on the type of issue.

Russian Federation bonds (OFZ) are represented by Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2014, these bonds in the Bank's portfolio have maturity dates from August 2016 to February 2027 and coupon rates ranging from 6.9% to 8.15% p.a., depending on the type of issue.

As at 31 December 2014, corporate bonds are represented by Rouble-denominated securities issued by Russian commercial banks. These bonds in the Bank's portfolio have maturity dates from February 2015 to September 2027 and coupon rates ranging from 7.7% to 12.5% p.a., depending on the type of issue.

Corporate Eurobonds are represented by USD-denominated interest-bearing securities issued by large Russian commercial banks and companies and freely traded in the international market. As at 31 December 2014, corporate Eurobonds in the Bank's portfolio have maturity dates from September 2015 to November 2017 and coupon rates ranging from 5.45% to 6.5% p.a., depending on the type of issue.

Financial assets pledged under repo agreements are carried at fair value that is also reflected by write-offs due to credit risk. As trading securities are carried at their fair values based on observable market data, the Bank does not analyze or monitor impairment indicators.

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Credit quality analysis of financial assets pledged under repo agreements as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities	Corporate debt securities	Total
<i>Neither past due nor impaired (at fair value)</i>			
- Baa2 rated	4 309 199	377 884	4 687 083
- Baa3 rated	-	566 462	566 462
- Ba1 rated	-	342 598	342 598
- Ba3 rated	-	612 143	612 143
- B1 rated	-	5 024	5 024
- B2 rated	-	630 916	630 916
- B3 rated	-	262 485	262 485
<b>Total financial assets pledged under repo agreements</b>	<b>4 309 199</b>	<b>2 797 512</b>	<b>7 106 711</b>

Credit quality analysis of financial assets pledged under repo agreements as at 31 December 2013 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities	Corporate debt securities	Total
<i>Neither past due nor impaired (at fair value)</i>			
- Baa1 rated	896 862	278 151	1 175 013
- Baa2 rated	-	556 429	556 429
- Baa3 rated	-	314 922	314 922
- Ba1 rated	-	55 445	55 445
- Ba2 rated	-	22 330	22 330
- Ba3 rated	-	613 892	613 892
- B1 rated	-	218 541	218 541
- B2 rated	-	771 652	771 652
- B3 rated	-	461 749	461 749
<b>Total financial assets pledged under repo agreements</b>	<b>896 862</b>	<b>3 293 111</b>	<b>4 189 973</b>

Information on the fair value of each of the categories of financial assets pledged under repo arrangements is presented in Note 33.

Interest rate analysis of financial assets pledged under repo agreements is disclosed in Note 30.

The Bank holds a license of the Russian Federation Federal Commission for Securities Market to carry out operations with securities.

**11 Investments Held to Maturity**

<i>(in thousands Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Corporate debt securities		
- Corporate Eurobonds	11 630	11 630
Less: provision for impairment of investments held to maturity	(11 630)	(11 630)
<b>Total investments held to maturity</b>	<b>-</b>	<b>-</b>

As at 31 December 2014 and 31 December 2013, corporate Eurobonds are represented by Rouble-denominated securities issued by a Russian company. These bonds in the Bank's portfolio have maturity date in June 2019 (2013: June 2019) and the coupon rate of 2.0% p.a. (2013: 4.2% p.a.).

**12 Investment property**

Movements in the fair value of investment property are presented below:

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>
Cost as at 1 January	-
Received as compensation for release from obligations	67 548
<b>Cost as at 31 December</b>	<b>67 548</b>

The fair value analysis of the Bank's investment property as at 31 December 2014 and 31 December 2013 has shown that its fair value does not materially differ from the carrying amount.

Investment property is represented by land of 20 000 sq. m. located in Krasnodar Krai, Novorossiysk. The land was transferred into the Bank's ownership from its bankrupt borrower CJSC Stroyindustria on 1 July 2014. Due to the previously failed trades, the Bank had taken a decision to retain the ownership of the land. As there were no first-priority and second-priority creditors, the Bank was obligated to transfer cash in the amount of 20% of the value of the collateral received (RUB 13 510 thousand) to a special bank account of CJSC Stroyindustria, as required by Article 138, Law No. 127-F3 "On Bankruptcy". Compensation of the outstanding amount of the claim in bankruptcy from the receiver amounted to RUB 4 636 thousand.

The rent revenue as at 2014 amounted to RUB 739 thousand.

There were no direct operating expenses relating to investment property generating rental income during 2014.

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**13 Premises, Equipment and Intangible Assets**

<i>(in thousands of Russian Roubles)</i>	Note	Premises	Technical premises including power supply	Office and computer equipment	Construction in progress	Total Intangible premises and equipment	Total assets	Total
Cost or valuation as at 31 December 2012		520 980	29 905	53 292	173	604 350	41	604 391
Accumulated depreciation and amortisation		-	(530)	(26 440)	-	(26 970)	(36)	(27 006)
<b>Carrying amount as at 31 December 2012</b>		<b>520 980</b>	<b>29 375</b>	<b>26 852</b>	<b>173</b>	<b>577 380</b>	<b>5</b>	<b>577 385</b>
Additions		6 511	5 374	15 102	1 907	28 894	-	28 894
Revaluation	23	17 343	-	-	-	17 343	-	17 343
Transfers between categories		-	-	173	(173)	-	-	-
Disposals		-	-	(2 822)	-	(2 822)	-	(2 822)
Depreciation and amortisation	26	(16 369)	(4 475)	(11 202)	-	(32 046)	(4)	(32 050)
Disposals - accumulated depreciation and amortisation		-	-	2 441	-	2 441	-	2 441
<b>Carrying amount as at 31 December 2013</b>		<b>528 465</b>	<b>30 274</b>	<b>30 544</b>	<b>1 907</b>	<b>591 190</b>	<b>1</b>	<b>591 191</b>
Cost or valuation as at 31 December 2013		528 465	35 279	65 745	1 907	631 396	41	631 437
Accumulated depreciation and amortisation		-	(5 005)	(35 201)	-	(40 206)	(40)	(40 246)
<b>Carrying amount as at 31 December 2013</b>		<b>528 465</b>	<b>30 274</b>	<b>30 544</b>	<b>1 907</b>	<b>591 190</b>	<b>1</b>	<b>591 191</b>
Additions		-	212	2 169	-	2 381	-	2 381
Revaluation	23	19 348	-	-	-	19 348	-	19 348
Transfers between categories		-	827	1 080	(1 907)	-	-	-
Disposals		-	-	(85)	-	(85)	-	(85)
Depreciation and amortisation	26	(17 065)	(5 251)	(10 062)	-	(32 378)	(1)	(32 379)
Disposals - accumulated depreciation and amortisation		-	-	69	-	69	-	69
<b>Carrying amount as at 31 December 2014</b>		<b>530 748</b>	<b>26 062</b>	<b>23 715</b>	<b>-</b>	<b>580 525</b>	<b>-</b>	<b>580 525</b>
Cost or valuation as at 31 December 2014		530 748	36 318	68 909	-	635 975	41	636 016
Accumulated depreciation and amortisation		-	(10 256)	(45 194)	-	(55 450)	(41)	(55 491)
<b>Carrying amount as at 31 December 2014</b>		<b>530 748</b>	<b>26 062</b>	<b>23 715</b>	<b>-</b>	<b>580 525</b>	<b>-</b>	<b>580 525</b>

Construction in progress is investments in acquisition of equipment. Upon putting into operation, these assets are transferred to the corresponding category of premises and equipment.

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Premises were revalued to market value as at 31 December 2014 and 31 December 2013. Revaluation is based on the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The basis used for the appraisal was fair value. Fair value was estimated using appropriate valuation techniques and market prices. Revaluation surplus on premises for 2014 was RUB 19 348 thousand (2013: RUB 17 343 thousand). Tax effect recorded directly in other comprehensive income is disclosed in Note 27.

Had the premises been appraised using the cost model, the net book value would have included:

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Cost	515 984	515 984
Accumulated depreciation and impairment	(33 018)	(16 373)
<b>Net book value</b>	<b>482 966</b>	<b>499 611</b>

**14 Other Assets**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Prepayment for goods and services	15 674	19 657
Cash on hand deficit	12 537	-
Security deposit paid with the stock exchange	6 000	8 618
Receivables on accrued fines and penalties	4 469	30 552
Precious metals in coins	2 799	45
Outstanding tax settlements (other than on income tax)	1 587	1 591
Fee due for issuance of a bank guarantee	1 110	693
Outstanding credit card settlements	956	-
Other	4 944	4 414
Less: provision for impairment of other assets	(19 619)	(30 552)
<b>Total other assets</b>	<b>30 457</b>	<b>35 018</b>

The Bank believes that receivables on state duties, fines, penalties and commission are doubtful for collection and, consequently, booked the corresponding provision of RUB 4 469 thousand (2013: RUB 20 979 thousand).

Movements in the provision for impairment of other assets during 2014 and 2013 are as follows:

<i>(in thousands of Russian Roubles)</i>	<b>2014</b>	<b>2013</b>
<b>Provision for impairment of other assets as at 1 January</b>	<b>30 552</b>	<b>10 350</b>
Movements in the provision for impairment of other assets during the year	1 668	20 979
Other assets written off during the year as uncollectible	(12 601)	(777)
<b>Provision for impairment of other assets as at 31 December</b>	<b>19 619</b>	<b>30 552</b>

**15 Due to Other Banks**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Loans from other banks	720 029	968 523
Repo agreements with other banks	-	218 349
Correspondent accounts of other banks	33 032	202 052
<b>Total due to other banks</b>	<b>753 061</b>	<b>1 388 924</b>

As at 31 December 2013, financial assets at fair value through profit or loss pledged under repo agreements with the fair value of RUB 257 797 thousand were provided by the Bank as collateral under repo agreements concluded with other banks (Note 10).

As at 31 December 2014, due to other banks comprise loans received from OJSC MSP Bank within the framework of the SME support program in the total amount of RUB 551 605 thousand (2013: RUB 756 446 thousand). Funds borrowed from OJSC MSP Bank were pledged by the rights of claim under loan agreements, whereunder loans were issued from funds borrowed from OJSC MSP Bank (Note 8).

As at 31 December 2014, the Bank had loans from one counterparty commercial bank (2013: one counterparty commercial bank) with total balances above 10.0% of the Bank capital. The total aggregate amount of these loans was RUB 551 605 thousand (2013: RUB 756 446 thousand) or 73.2% of the total amount of due from other banks (2013: 54.5%).

The information on the fair value of each of due to other banks' categories is presented in Note 33.

Geographical, currency, maturity and interest rate analyses of due from other banks and due to the Bank of Russia are disclosed in Note 30.

**16 Customer Accounts**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>State and public organisations</b>		
- Current/settlement accounts	135 436	689 187
- Term deposits	17 628	75 060
<b>Other legal entities</b>		
- Current/settlement accounts	1 374 023	2 056 759
- Term deposits	5 891 760	2 976 327
<b>Individuals</b>		
- Current/demand accounts	257 015	135 555
- Term deposits	4 214 397	3 682 989
<b>Total customer accounts</b>	<b>11 890 259</b>	<b>9 615 877</b>

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Economic sector concentrations within customer accounts are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Individuals	4 471 412	37.6	3 818 544	39.7
Manufacturing	3 785 926	31.8	446 584	4.6
Services	2 111 419	17.8	4 087 279	42.5
Fishing	832 835	7.0	67 029	0.7
Trade	424 252	3.6	509 588	5.3
Real estate	145 582	1.2	568 777	5.9
Finance	114 994	1.0	103 347	1.1
Other	3 839	-	14 729	0.2
<b>Total customer accounts</b>	<b>11 890 259</b>	<b>100.0</b>	<b>9 615 877</b>	<b>100.0</b>

As at 31 December 2014, the Bank had cash balances of 7 customers (2013: 7 customers) above 10% of the Bank's capital. The aggregate amount of these balances was RUB 6 983 814 thousand or 58.7% of total customer accounts (2013: RUB 3 603 799 thousand or 37.5% of total customer accounts).

Refer to Note 33 for the disclosure of the fair value of each class of customer accounts.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 30.

#### 17 Debt Securities in Issue

<i>(in thousands of Russian Roubles)</i>	31 December 2014	31 December 2013
Bonds	1 556 235	1 559 312
Promissory notes	650 448	459 088
<b>Total debt securities in issue</b>	<b>2 206 683</b>	<b>2 018 400</b>

On 6 March 2013 the Bank launched a bond placement. The total bond issue amounted to RUB 1 500 000 thousand with maturity date on 9 March 2016 and a coupon rate of 11.5% p.a. The total number of placed bonds is 1 500 000 with the nominal value of RUB 1 (one) thousand each.

As at 31 December 2014, the bond amount outstanding was RUB 1 556 235 thousand (2013: RUB 1 559 312 thousand), including the amount of accumulated coupon income of RUB 56 235 thousand (2013: RUB 61 363 thousand).

The bonds provide for periodic coupon payments semiannually.

Promissory notes are discount promissory notes issued by the Bank. They are denominated in Russian Roubles and USD (2013: Russian Roubles and USD) and have maturity dates from "on demand" to November 2025 (2013: from "on demand" to November 2025). Discount rates on promissory notes issued by the Bank vary from 0.5% to 17.0% p.a. (2013: from 0.5% to 10.0% p.a.).

As at 31 December 2014, loans and advances to customers in the amount of RUB 158 687 thousand (2013: RUB 114 539 thousand) are secured with the Bank's own promissory notes with the collateral value of RUB 91 716 thousand (2013: RUB 58 038 thousand) (Note 8).

As at 31 December 2014, bank guarantees in the amount of RUB 349 780 thousand (2013: RUB 306 150 thousand) are secured with the Bank's own promissory notes with the collateral value of RUB 298 242 thousand (2013: 140 741 thousand) (Note 32).

Refer to Note 33 for the disclosure of the fair value of each class of debt securities in issue.

Geographical, currency, maturity and interest rate analyses of promissory notes issued are disclosed in Note 30.

**18 Subordinated Debt**

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Subordinated debt	1 046 806	661 224
<b>Total subordinated debt</b>	<b>1 046 806</b>	<b>661 224</b>

On 22 June 2012 the Bank attracted a subordinated loan from MB MARITIME INVESTMENT GROUP LIMITED (British Virgin Islands) of USD 4 000 thousand. As at 31 December 2014, this debt is carried at amortised cost of RUB 225 034 thousand (2013: RUB 130 916 thousand). Under a supplementary agreement to this agreement of 26 December 2014 the maturity on this debt is set on 1 January 2025 and interest on this subordinated debt is paid on a quarterly basis at 6.4% p.a. Effective interest rate for this loan equals 6.4% p.a.

On 7 June 2012 the Bank attracted a subordinated loan from MB MARITIME INVESTMENT GROUP LIMITED of USD 3 400 thousand. As at 31 December 2014, this debt is carried at amortised cost of RUB 191 279 thousand (2013: RUB 111 278 thousand). Under a supplementary agreement to this agreement of 26 December 2014 the maturity on this debt is set on 1 January 2025 and interest is paid on this subordinated debt on a quarterly basis at 6.4% p.a. Effective interest rate for this loan equals 6.4% p.a.

On 21 August 2009 the Bank attracted a subordinated loan from East-West United Bank S.A. (Luxemburg) of USD 5 000 thousand. On 17 December 2014 under a claim assignment agreement this loan was transferred to MB MARITIME INVESTMENT GROUP LIMITED. As at 31 December 2014, this debt is carried at amortised cost of RUB 281 292 thousand (2013: RUB 163 640 thousand). The loan matures on 1 February 2019 and interest is paid on this subordinated debt on a quarterly basis at 12.0% p.a. Effective interest rate for this loan equals 12.0% p.a.

On 26 August 2008 the Bank attracted two subordinated loans from East-West United Bank S.A. of USD 2 000 thousand and EUR 2 000 thousand. On 17 December 2014 under a claim assignment agreement this loan was transferred to MB MARITIME INVESTMENT GROUP LIMITED. As at 31 December 2014 this debt is carried at amortised cost of RUB 112 517 thousand (2013: RUB 65 455 thousand) and RUB 136 685 thousand (2013: RUB 89 935 thousand), respectively. These loans mature on 1 July 2018 and interest is to be paid on these subordinated debts on a quarterly basis at 12.0% p.a. Effective interest rate for these loans equals 12.0% p.a.

On 13 November 2007 the Bank attracted a subordinated loan from LLC RTK (the Russian Federation) amounting to RUB 70 000 thousand. On 30 April 2009 under a claim assignment agreement this loan was transferred to private limited liability company Cuprite Enterprises Limited. On 30 June 2011 under a claim assignment agreement this loan was transferred to MB MARITIME INVESTMENT GROUP LIMITED. As at 31 December 2014, this debt is carried at amortised cost of RUB 70 000 thousand (2013: RUB 70 000 thousand). Under a supplementary agreement to this agreement, since 1 November 2011 the maturity of this debt is set at 30 October 2021 and interest on this subordinated debt is to be paid on a monthly basis at 12.5% p.a. (2013: 12.5% p.a.). Effective interest rate for these loans equals 12.5% p.a.

On 29 June 2005 the Bank attracted a subordinated loan from OJSC Sovbunker (the Russian Federation) amounting to RUB 30 000 thousand. On 2 June 2008, under a claim assignment agreement this loan was assigned to LLC RTK and on 30 April 2009 it was transferred to private limited liability company Cuprite Enterprises Limited (Cyprus). On 30 June 2011, under a claim assignment agreement this loan was transferred to MB MARITIME INVESTMENT GROUP LIMITED. As at 31 December 2014 this debt is carried at amortised cost of RUB 30 000 thousand (2013: RUB 30 000 thousand). Under a supplementary agreement to this agreement, since 1 November 2011 the maturity of this debt is set at 1 June 2021 and interest on this subordinated debt is to be paid on a monthly basis at 12.5% p.a. (2013: 12.5% p.a.). Effective interest rate for this debt equals 12.5% p.a.

On 9 July 2007 the Bank attracted a subordinated debt from LLC Transgarant Vostok (the Russian Federation) amounting to RUB 60 000 thousand. On 15 May 2012, under a claim assignment agreement this loan was transferred to MB MARITIME INVESTMENT GROUP LIMITED. On 9 July 2013 this debt was repaid. The interest on this subordinated debt was paid on a monthly basis based on the refinancing rate of the Bank of Russia.

For fair value of subordinated debt refer to Note 30.

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Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 30.

The information on subordinated debt transactions with related parties is disclosed in Note 36.

**19 Other Financial Liabilities**

Other financial liabilities comprise the following:

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2014	31 December 2013
Derivative financial instruments	6	30 093	46
Deferred fees on bank guarantees		11 266	12 473
<b>Total other financial liabilities</b>		<b>41 359</b>	<b>12 519</b>

Refer to Note 6 for the disclosure of outstanding transactions with the use of derivative financial instruments.

Refer to Note 33 for the disclosure of the fair value of each class of other financial liabilities.

Geographical, currency, maturity and interest rate analyses of other financial liabilities are disclosed in Note 30.

**20 Other Liabilities**

Other liabilities comprise the following:

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2014	31 December 2013
Accrued employee benefit costs		40 985	43 229
Provision for credit related commitments	32	24 414	-
Amounts payable		15 840	10 585
Provision for non-credit related commitments	32	15 511	-
Liabilities under claim assignment agreements		11 252	-
Taxes payable other than income tax		8 918	10 518
Dividends payable	28	450	450
Other		3 208	3 453
<b>Total other liabilities</b>		<b>120 578</b>	<b>68 235</b>

The provision for non-credit related commitments represents a probable amount of the Bank's future loss as may arise from legal proceedings, where the Bank is a sued party.

**21 Share Capital and Share Premium**

<i>(in thousands of Russian Roubles (except for number of shares))</i>	31 December 2014			31 December 2013		
	Number of outstanding shares	Nominal value	Inflation adjusted amount	Number of outstanding shares	Nominal value	Inflation adjusted amount
Ordinary shares	10 098 003	1 009 800	1 461 863	10 098 003	1 009 800	1 461 863
<b>Total share capital</b>	<b>-</b>	<b>1 009 800</b>	<b>1 461 863</b>	<b>-</b>	<b>1 009 800</b>	<b>1 461 863</b>

The total authorised number of ordinary shares is 10 098 thousand shares (2013: 10 098 thousand shares) with a par value of RUB 100 per share (2013: RUB 100 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In 2013 the Bank carried out a share issue (the report on the share issue results is registered on 11 September 2013). As a result, the Bank's share capital increased by RUB 200 000 thousand and the share premium rose by RUB 100 000 thousand.

Share premium is the amount by which the contributions to the capital exceed the nominal value of shares issued. As at 31 December 2014, share premium amounted to RUB 100 000 thousand (2013: RUB 100 000).

## 22 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's retained earnings and funds recognised in the financial statements under Russian Accounting Rules as at 31 December 2014 are RUB 782 250 thousand (2013: RUB 716 811 thousand) (unaudited).

Retained earnings reflected in the Bank's statutory records includes a reserve fund in the amount of RUB 565 818 thousand (2013: RUB 467 128 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general banking risks, including future losses and other unforeseen risks or contingent liabilities.

## 23 Other Comprehensive Income Recognized in Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

	Note	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Total
<b>Year ended 31 December 2013</b>				
Disposal of financial assets available for sale		-	1 715	1 715
Revaluation of premises and equipment	13	17 343	-	17 343
Income tax recorded directly in other comprehensive income	27	(3 469)	(343)	(3 812)
<b>Total other comprehensive income</b>		<b>13 874</b>	<b>1 372</b>	<b>15 246</b>
<b>Year ended 31 December 2014</b>				
Revaluation of financial assets available for sale		-	(534 949)	(534 949)
Revaluation of premises and equipment	13	19 348	-	19 348
Income tax recorded directly in other comprehensive income	27	(3 870)	106 990	103 120
<b>Total other comprehensive income/(expense)</b>		<b>15 478</b>	<b>(427 959)</b>	<b>(412 481)</b>

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**24 Interest Income and Expense**

<i>(in thousands of Russian Roubles)</i>	<b>2014</b>	<b>2013</b>
<b>Interest income</b>		
Loans and advances to customers	1 387 037	1 346 136
Financial assets available for sale	293 921	1 139
Financial assets at fair value through profit or loss	142 536	223 272
Loans and deposits with other banks	9 404	16 417
Correspondent accounts with other banks	321	3 579
<b>Total interest income</b>	<b>1 833 219</b>	<b>1 590 543</b>
<b>Interest expense</b>		
Due to the Bank of Russia	421 207	63 723
Term deposits of individuals	323 992	236 529
Bonds issued	151 239	157 034
Term placements of other banks	128 650	136 118
Term deposits of legal entities	103 073	213 519
Subordinated debt	76 521	70 053
Promissory notes issued	47 570	43 807
Current and settlement accounts	26 996	33 020
Correspondent accounts of other banks	4 104	7 277
<b>Total interest expense</b>	<b>1 283 352</b>	<b>961 080</b>
<b>Net interest income</b>	<b>549 867</b>	<b>629 463</b>
Interest income on impaired financial assets is RUB 62 196 thousand (2013: RUB 243 946 thousand) and is recorded within loans and advances to customers (Note 8).		
<b>25 Fee and Commission Income and Expense</b>		
<i>(in thousands of Russian Roubles)</i>	<b>2014</b>	<b>2013</b>
<b>Fee and commission income</b>		
Guarantees issued	87 300	93 108
Settlement transactions	37 842	36 871
Currency control	25 412	37 717
Cash transactions	13 184	10 348
Other	2 721	6 965
<b>Total fee and commission income</b>	<b>166 459</b>	<b>185 009</b>
<b>Fee and commission expense</b>		
Cost of attracting new customers for the Bank under agency agreements	9 552	9 152
Plastic cards	7 583	6 731
Settlement transactions	6 298	6 087
Services of depository	2 251	1 443
Transactions with securities	-	2 355
Other	1 808	2 217
<b>Total fee and commission expense</b>	<b>27 492</b>	<b>27 985</b>
<b>Net fee and commission income</b>	<b>138 967</b>	<b>157 024</b>

**26 Administrative and Other Operating Expenses**

<i>(in thousands of Russian Roubles)</i>	<b>Note</b>	<b>2014</b>	<b>2013</b>
Staff costs		372 707	380 642
Depreciation of premises and equipment and amortisation of intangible assets	13	32 379	32 050
Professional services		30 706	17 528
Operating lease expense		25 309	23 591
Other costs of premises and equipment		21 235	33 415
Taxes other than income tax		17 588	26 032
Mandatory insurance of deposits		15 840	11 310
Software maintenance expenses		11 180	6 898
Communication, telecommunication and information system services		9 614	9 657
Insurance		8 964	4 641
Security services		7 554	8 567
Advertising and marketing services		2 989	5 932
Membership fees		2 051	1 917
Business trips		927	3 082
Fines, penalties, forfeitures		522	118
Charity expenses		495	200
Other		3 821	8 860
<b>Total administrative and other operating expenses</b>		<b>563 881</b>	<b>574 440</b>

Included in staff costs are social contributions of RUB 64 437 thousand (2013: RUB 66 073 thousand), of which RUB 52 908 thousand (2013: RUB 51 975 thousand) are statutory pension contributions.

**27 Income Taxes**

Income tax expense comprises the following components:

<i>(in thousands of Russian Roubles)</i>	<b>2014</b>	<b>2013</b>
Current income tax expense	20 760	52 661
Deferred taxation movement relating to origination and reversal of temporary differences	(115 205)	(35 085)
Less: deferred taxation recognized directly in other comprehensive income	103 120	(3 812)
<b>Income tax expense for the year</b>	<b>8 675</b>	<b>13 764</b>

The income tax rate applicable to the majority of the Bank's 2014 profit is 20.0% (2013: 20.0%). A reconciliation between the expected and the actual taxation charge is provided below:

<i>(in thousands of Russian Roubles)</i>	<b>2014</b>	<b>2013</b>
<b>Profit before taxation</b>	<b>18 381</b>	<b>35 568</b>
Theoretical tax charge at statutory rate (2014: 20.0%; 2013: 20.0%)	3 676	7 114
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	11 919	8 215
- Income on government securities taxed at different rates	(6 920)	(1 565)
<b>Income tax expense for the year</b>	<b>8 675</b>	<b>13 764</b>

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Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20.0% (2013: 20.0%).

	31 December 2013	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2014
<i>(in thousands of Russian Roubles)</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Due from other banks	103	(103)	-	-
Financial assets at fair value through profit or loss	4 218	(23 188)	-	(18 970)
Loans and advances to customers	17 170	24 679		41 849
Financial assets available for sale	-	-	106 990	106 990
Translation of financial assets available for sale at the applicable foreign exchange rate	-	(237 027)	-	(237 027)
Provision for financial assets available for sale in tax records	-	(58 223)	-	(58 223)
Premises and equipment	(21 526)	1 519	(3 870)	(23 877)
Debt securities issued	(269)	15 414	-	15 145
Other liabilities	9 881	8 056	-	17 937
Other assets	7 044	16 288	-	23 332
Compensations awarded by court	9 943	734	-	10 677
Claims in bankruptcy	5 409	(1 306)	-	4 103
Statutory tax loss	-	263 367	-	263 367
Other	2 343	1 875	-	4 218
<b>Net deferred tax assets</b>	<b>34 316</b>	<b>12 085</b>	<b>103 120</b>	<b>149 521</b>

	31 December 2012	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2013
<i>(in thousands of Russian Roubles)</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Due from other banks	6	97	-	103
Financial assets at fair value through profit or loss	1 079	3 139	-	4 218
Loans and advances to customers	(3 241)	20 411	-	17 170
Investment securities available for sale	45	298	(343)	-
Premises and equipment	(16 359)	(1 698)	(3 469)	(21 526)
Subordinated debt	(122)	119	-	(3)
Debt securities in issue	(272)	3	-	(269)
Other liabilities	10 929	(1 048)	-	9 881
Other	7 166	17 576	-	24 742
<b>Net deferred tax assets/ (liabilities)</b>	<b>(769)</b>	<b>38 897</b>	<b>(3 812)</b>	<b>34 316</b>

As at 31 December 2014, a tax loss of RUB 1 316 836 (2013: none) is reflected in the Bank's statutory tax records prepared in accordance with the Russian legislation. Under the current Russian tax legislation, organisations can utilise the tax loss carryforwards against the profits of future reporting periods during 10 years.

A tax benefit in the amount of RUB 263 367 thousand (2013: none) associated with the above tax loss of RUB 1 316 836 thousand was recognised within the Bank's deferred tax assets as at 31 December 2014, as it is probable that the sufficient taxable profit will be available against which the unused tax loss can be utilised.

## 28 Dividends

<i>(in thousands of Russian Roubles)</i>	2014	2013
<b>Dividends payable as at 1 January</b>	<b>450</b>	<b>370</b>
Dividends declared during the year	-	56 375
Dividends paid during the year	-	(56 295)
<hr/>		
<b>Dividends payable as at 31 December</b>	<b>450</b>	<b>450</b>

## 29 Segment Analysis

The Bank has identified the following operating segments in its activities:

*Main banking operations.* This segment includes operations of the Bank's head office and branches. This segment provides a full range of services for acceptance of deposits and issuance of loans to corporate clients, individuals, small- and medium-size businesses, and private entrepreneurs, as well as other banking services such as rendering of settlement and cash services, money transfers, currency exchange services, servicing of debit and credit cards of individuals.

*Treasury operations.* This segment includes operations of the Bank's head office, such as stock exchange and money market operations, trading and brokerage services on the securities and foreign exchange markets, including 'repo' deals, transactions with derivatives, liquidity management operations, raising and origination of loans, centralized risk management activities through borrowings, issues of debt securities, investing in liquid assets such as short-term placements.

Segment assets and liabilities comprise operating assets and liabilities of the Bank, being the majority of the Bank's assets and liabilities but exclude such items as taxation, other borrowings and some other items as stated below.

The operating segments' financial statements and results of operation are prepared on the basis of the Bank's accounting policy in compliance with the International Financial Reporting Standards.

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Segment information on main reportable segments of the Bank as at 31 December 2014 is disclosed in the table below:

<i>(in thousands of Russian Roubles)</i>	<b>Banking operations</b>	<b>Treasury operations</b>	<b>Non- allocated</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	3 840 055	456 181	-	4 296 236
Mandatory cash balances with the Bank of Russia	-	-	104 866	104 866
Financial assets at fair value through profit or loss	-	76 650	-	76 650
Due from other banks	-	206 301	-	206 301
Loans and advances to customers	11 184 013	-	-	11 184 013
Financial assets available for sale	-	362 378	-	362 378
Financial assets pledged under repo agreements	-	7 106 711	-	7 106 711
Premises, equipment and intangible assets	-	-	648 073	648 073
Other financial assets	-	842	70	912
Other assets	384	6 000	24 073	30 457
Current tax assets	-	-	99 572	99 572
Deferred tax asset	-	-	149 521	149 521
<b>Total assets</b>	<b>15 024 452</b>	<b>8 215 063</b>	<b>1 026 175</b>	<b>24 265 690</b>
<b>LIABILITIES</b>				
Due to the Bank of Russia	-	6 480 668	-	6 480 668
Due to other banks	32 951	720 110	-	753 061
Customer accounts	11 888 261	1 998	-	11 890 259
Debt securities in issue	-	2 206 683	-	2 206 683
Subordinated debt	-	1 046 806	-	1 046 806
Other financial liabilities	-	41 359	-	41 359
Other liabilities	505	11 931	108 142	120 578
<b>Total liabilities</b>	<b>11 921 717</b>	<b>10 509 555</b>	<b>108 142</b>	<b>22 539 414</b>

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Segment information on main reportable segments of the Bank as at 31 December 2013 is disclosed in the table below:

<i>(in thousands of Russian Roubles)</i>	<b>Banking operations</b>	<b>Treasury operations</b>	<b>Non- allocated</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	2 060 282	28 089	-	2 088 371
Mandatory cash balances with the Bank of Russia	-	-	313 913	313 913
Financial assets at fair value through profit or loss	-	1 014 227	-	1 014 227
Due from other banks	-	788 463	-	788 463
Loans and advances to customers	10 131 977	-	-	10 131 977
Financial assets pledged under repo agreements	-	4 189 973	-	4 189 973
Premises, equipment and intangible assets	-	-	591 191	591 191
Other financial assets	-	4 435	90	4 525
Other assets	314	8 618	26 086	35 018
Current tax assets	-	-	4 486	4 486
Deferred tax asset	-	-	34 316	34 316
<b>Total assets</b>	<b>12 192 573</b>	<b>6 033 805</b>	<b>970 082</b>	<b>19 196 460</b>
<b>LIABILITIES</b>				
Due to the Bank of Russia	-	3 301 012	-	3 301 012
Due to other banks	202 052	1 186 872	-	1 388 924
Customer accounts	9 615 534	343	-	9 615 877
Debt securities in issue	-	2 018 400	-	2 018 400
Subordinated debt	-	661 224	-	661 224
Other financial liabilities	12 473	46	-	12 519
Other liabilities	1 288	1 755	65 192	68 235
Current tax liabilities	-	-	1 218	1 218
<b>Total liabilities</b>	<b>9 831 347</b>	<b>7 169 652</b>	<b>66 410</b>	<b>17 067 409</b>

**MARITIME BANK (Open Joint-Stock Company)**  
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The table below shows a breakdown of statement of comprehensive income of the Bank by operating segments for the year ended 31 December 2014:

<i>(in thousands of Russian Roubles)</i>	<b>Banking operations</b>	<b>Treasury operations</b>	<b>Non- allocated</b>	<b>Total</b>
Net interest income/(expenses)	1 093 412	(543 545)	-	549 867
Provision for impairment of interest-bearing assets	(559 405)	518	-	(558 887)
Gains less losses from transactions with financial assets and liabilities	366 012	(130 534)	-	235 478
Gains less losses from trading in foreign currencies	-	(163 847)	-	(163 847)
Foreign exchange translation gains less losses	-		404 466	404 466
Fee and commission income	103 648	62 811	-	166 459
Fee and commission expenses	(22 184)	(5 308)	-	(27 492)
Provision for impairment of other assets and contingent liabilities	-	-	(41 593)	(41 593)
Other operating income	8 845	-	8 966	17 811
Operating expenses	(510 923)	(9 614)	(43 344)	(563 881)
Income tax expense	-	-	(8 675)	(8 675)
<b>NET PROFIT/(LOSS)</b>	<b>479 405</b>	<b>(789 519)</b>	<b>319 820</b>	<b>9 706</b>
Other comprehensive income/(expense)	-	-	(412 481)	(412 481)
<b>COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>479 405</b>	<b>(789 519)</b>	<b>(92 661)</b>	<b>(402 775)</b>

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The table below shows a breakdown of statement of comprehensive income of the Bank by operating segments for the year ended 31 December 2013:

<i>(in thousands of Russian Roubles)</i>	<b>Banking operations</b>	<b>Treasury operations</b>	<b>Non- allocated</b>	<b>Total</b>
Net interest income/(expenses)	824 375	(194 912)	-	629 463
Provision for impairment of interest-bearing assets	(237 566)	1 660	-	(235 906)
Gains less losses from transactions in financial assets and liabilities	3 000	(31 882)	-	(28 882)
Gains less losses from trading in foreign currencies	-	200 585	-	200 585
Foreign exchange translation gains less losses	-	-	(137 845)	(137 845)
Fee and commission income	182 174	2 835	-	185 009
Fee and commission expenses	(23 469)	(4 516)	-	(27 985)
Provision for impairment of other assets	-	-	(20 979)	(20 979)
Other operating income	42 257	136	4 155	46 548
Operating expenses	(572 460)	(810)	(1 170)	(574 440)
Income tax expense	-	-	(13 764)	(13 764)
<b>NET PROFIT/(LOSS)</b>	<b>218 311</b>	<b>(26 904)</b>	<b>(169 603)</b>	<b>21 804</b>
Other components of comprehensive income	-	1 715	13 531	15 246
<b>COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>218 311</b>	<b>(25 189)</b>	<b>(156 072)</b>	<b>37 050</b>

### 30 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), 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. Assessment of assumed risk is also a basis for optimal allocation of risk-weighted capital, pricing of transactions and performance measurement. 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.

The Bank's Management Board sets the Bank's general risk policy as well as specific policies for managing each type of major risk. Proposals on setting limits for consideration of the Management Board are prepared by a risk-controlling department. The risk-controlling department operates separately from business departments involved in operations creating exposure.

**Credit risk.** The Bank 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 Bank's lending and other transactions with counterparties giving rise to financial assets. The Bank's maximum exposure to credit risk is usually reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32.

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

Loan applications originated by the relevant client relationship managers are passed on to the Credit Department for approval of credit limit and subsequently are submitted for consideration to the Credit Committee. The Credit Committee holds meetings on a weekly basis. The Credit Committee in the Head Office in Moscow also reviews loan applications from all branches. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Bank usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Bank accepts guarantees from controlling shareholders (or other controlling persons) of small businesses, government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to limit credit risk, several types of collateral may be used simultaneously.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual compliance with limits with regard to accepted risk is monitored on a permanent basis.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors. Management monitors and follows up past due balances.

The Credit Department of the Bank analyses loans by their maturities and carries out subsequent control of overdue balances. Management of the Department considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 8.

*Exposure Limits.* To manage its credit risk, the Bank places its counterparties into risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Bank has developed credit risk limit calculation and monitoring procedures for the following categories of borrowers: corporate customers, resident banks and non-resident banks. Exposure limits are also set for single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and modern equipment quality. Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Bank. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client.

*Risk Concentration.* In order to reduce and diversify its credit risk, the Bank monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees made to related parties of the Bank. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Bank's Central Head Office level.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies for credit related commitments as it does for balance sheet financial instruments, including approvals of transaction, risk mitigating limits and monitoring procedures.

**Market risk.** The Bank takes on exposure to market risks arising from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee set limits on the level of exposure. The Treasury Department and the Market Risk Function monitor them 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. The main goal of market risk management is to optimise risk/return ratio, minimise loss given unfavourable developments and to reduce the deviation of actual financial result from the expected result.

The Bank categorises market risk into:

- interest rate risk;
- equity risk;
- currency risk

The Bank manages its market risks through controlling open positions in bonds, stock, currencies and derivatives. For this purpose the Bank sets open position, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The Bank develops a market risk management methodology and sets limits for specific operations.

**Currency risk.** The Bank takes on exposure to the effects of fluctuations in the prevailing levels of exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. The Treasury Department and the Risk Management and Planning Department monitor them on a daily basis.

The Bank issued loans in foreign currency. Depending on cash flows received by the borrower, changes in foreign exchange rates may affect the borrowers' repayment ability and incurrence of loan losses.

The Treasury Department of the Bank's Head Office undertakes daily aggregation of the open currency position of the Bank and takes measures for maintaining of the Bank's open currency position on a minimum level. The Bank uses swaps, forwards and USD futures contracts tradable on the MICEX as the main instruments for hedging currency risks.

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 Bank's exposure to foreign currency exchange rate risk as at 31 December 2014 and 31 December 2013.

<i>(in thousands of Russian Roubles)</i>	As at 31 December 2014				As at 31 December 2013			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
RUB	14 303 820	(13 572 921)	326 237	1 057 136	RUB 14 332 034	(13 056 150)	(22 531)	1 253 353
USD	7 324 346	(6 012 019)	(1 543 675)	(231 348)	USD 3 126 332	(3 254 651)		(128 319)
EUR	1 506 061	(2 733 537)	1 216 500	(10 976)	EUR 598 377	(635 992)	22 485	(15 130)
Other	98 974	(100 359)	-	(1 385)	Other 160 793	(51 163)		109 630
<b>Total</b>	<b>23 233 201</b>	<b>(22 418 836)</b>	<b>(938)</b>	<b>813 427</b>	<b>Total 18 217 536</b>	<b>(16 997 956)</b>	<b>(46)</b>	<b>1 219 534</b>

Financial derivative instruments presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. 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.

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

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The following table presents movements of financial result and comprehensive income due to possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant. Reasonably possible changes were estimated based on the analysis of historical data on daily exchange rate fluctuations for December 2014.

<i>(in thousands of Russian Roubles)</i>	As at 31 December 2014	
	Impact on profit before taxation	Impact on comprehensive income
US Dollar strengthening by 4%	(9 254)	(7 403)
US Dollar weakening by 4%	9 254	7 403
Euro strengthening by 4%	(439)	(351)
Euro weakening by 4%	439	351

The following table presents movements of financial result and comprehensive income due to possible changes in exchange rates applied at 31 December 2013, with all other variables held constant. Reasonably possible changes were estimated based on the analysis of historical data on maximum exchange rate fluctuations for December 2013.

<i>(in thousands of Russian Roubles)</i>	As at 31 December 2013	
	Impact on profit before taxation	Impact on comprehensive income
US Dollar strengthening by 2%	(439)	(351)
US Dollar weakening by 2%	439	351
Euro strengthening by 2%	(303)	(242)
Euro weakening by 2%	303	242

The Bank issued loans and advances to customers in foreign currency. Movements in foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss. To reduce the currency risk the Bank has taken a decision on possible conversion of currency loans of individuals into Russian Roubles at their request.

**Interest rate risk.** The Bank 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 daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Interest-free	Total
<b>31 December 2014</b>						
Total financial assets	8 319 436	1 236 704	6 174 786	3 276 506	4 225 769	23 233 201
Total financial liabilities	9 262 619	4 928 775	3 049 671	3 473 341	1 704 430	22 418 836
<b>Net interest rate gap as at 31 December 2014</b>						
	(943 183)	(3 692 071)	3 125 115	(196 835)	2 521 339	814 365
<b>Cumulative net interest rate gap as at 31 December 2014</b>						
	(943 183)	(4 635 254)	(1 510 139)	(1 706 974)	814 365	
<b>31 December 2013</b>						
Total financial assets	7 029 548	1 763 359	3 654 475	4 468 702	1 301 452	18 217 536
Total financial liabilities	4 540 192	1 563 586	4 407 191	3 550 266	2 936 721	16 997 956
<b>Net interest rate gap as at 31 December 2013</b>						
	2 489 356	199 773	(752 716)	918 436	(1 635 269)	1 219 580
<b>Cumulative net interest rate gap as at 31 December 2013</b>						
	2 489 356	2 689 129	1 936 413	2 854 849	1 219 580	

The assets and liabilities of the Bank are mostly presented by the instruments with the fixed interest rate. The table below shows analysis of the Bank's exposure to interest rate risk as at the reporting date in case of interest rate fluctuations.

Risk management is aimed at minimising net gap established by analysis of assets and liabilities sensitive to interest rate changes. Depending on the amount of net gap, the Bank's Treasury Department takes decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of movements in market interest rate.

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The Bank monitors interest rates of its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Bank:

% p.a.	2014				2013			
	RUB	USD	EUR	Other	RUB	USD	EUR	Other
<b>Assets</b>								
Correspondent accounts with other banks	0.15%	0.84%	1.25%	2.0%	-	0.24%	0.99%	2.0%
Balances on correspondent accounts with the Bank of Russia (other than mandatory reserve deposits)	-	-	-	-	-	-	-	-
Mandatory cash balances with the Bank of Russia	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	12.34%	-	-	-	8.75%	3.77%	-	-
Due from other banks	15.0%	-	-	-	3.6%	-	-	-
Loans and advances to customers	14.85%	9.71%	20.17%	-	12.7%	11.3%	10.8%	11.0%
Financial assets available for sale	9.8%	7.5%	-	-	-	-	-	-
Financial assets pledged under repo agreements	9.88%	4.76%	-	-	9.70%	5.0%	-	-
<b>Liabilities</b>								
Due to the Bank of Russia	17.79%	0.75%	-	-	5.6%	-	-	-
Due to other banks	9.45%	4.5%	2.5%	-	6.7%	4.6%	-	-
Customer accounts								
- current/settlement accounts of legal entities	1.0%	-	-	-	1.0%	-	-	-
- current/settlement accounts of individuals	0.1%	0.1%	0.1%	-	0.1%	0.1%	0.1%	-
- term deposits of legal entities	15.99%	3.96%	5.5%	-	8.3%	7.1%	4.0%	3.5%
- term deposits of individuals	17.4%	5.03%	4.81%	4.8%	10.7%	6.4%	7.0%	7.0%
Bonds issued	11.5%	-	-	-	12.75%	-	-	-
Promissory notes issued	10.25%	9.51%	-	-	7.88%	6.03%	-	-
Subordinated debt	12.5%	9.1%	12.0%	-	13.0%	9.0%	12.0%	-

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

**Other price risk.** The Bank has limited exposure to equity price risk. The Assets and Liability Management Committee monitors and authorises equity transactions. In 2014 the Bank did not perform equity transactions, in 2013 - an insignificant number of equity transactions. As at 31 December 2013, if equity prices at that date had been 5% lower with all other variables held constant, profit before taxation would have been by RUB 248 thousand lower.

The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgage loans, which give the borrower the right to early repay the loans. The Bank’s current year profit (loss) and equity at the current reporting date are not 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 to customers (2013: were not significantly impacted by changes in prepayment rates because such loans were carried at amortised cost and the prepayment right was at, or close to, the amortised cost of the loans to customers).

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The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2014 is set out below:

<i>(in thousands of Russian Roubles)</i>	Russia	OECD countries	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	1 745 479	2 550 757	-	4 296 236
Financial assets at fair value through profit or loss	76 650	-	-	76 650
Due from other banks	206 301	-	-	206 301
Loans and advances to customers	11 181 583	-	2 430	11 184 013
Financial assets available for sale	362 378	-	-	362 378
Financial assets pledged under repo agreements	7 106 711	-	-	7 106 711
Other financial assets	912	-	-	912
<b>Total financial assets</b>	<b>20 680 014</b>	<b>2 550 757</b>	<b>2 430</b>	<b>23 233 201</b>
<b>Liabilities</b>				
Due to the Bank of Russia	6 480 668	-	-	6 480 668
Due to other banks	753 061	-	-	753 061
Customer accounts	11 082 267	1 364	806 628	11 890 259
Debt securities in issue	1 972 954	-	233 729	2 206 683
Subordinated debt	-	-	1 046 806	1 046 806
Other financial liabilities	41 359	-	-	41 359
<b>Total financial liabilities</b>	<b>20 330 309</b>	<b>1 364</b>	<b>2 087 163</b>	<b>22 418 836</b>
<b>Net balance sheet position</b>	<b>349 705</b>	<b>2 549 393</b>	<b>(2 084 733)</b>	<b>814 365</b>
<b>Credit related commitments</b>	<b>3 596 824</b>	<b>-</b>	<b>-</b>	<b>3 596 824</b>

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

<i>(in thousands of Russian Roubles)</i>	Russia	OECD countries	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	1 346 301	742 070	-	2 088 371
Financial assets at fair value through profit or loss	1 014 227	-	-	1 014 227
Due from other banks	788 463	-	-	788 463
Loans and advances to customers	10 131 977	-	-	10 131 977
Financial assets pledged under repo agreements	4 189 973	-	-	4 189 973
Other financial assets	4 525	-	-	4 525
<b>Total financial assets</b>	<b>17 475 466</b>	<b>742 070</b>	<b>-</b>	<b>18 217 536</b>
<b>Liabilities</b>				
Due to the Bank of Russia	3 301 012	-	-	3 301 012
Due to other banks	1 388 323	-	601	1 388 924
Customer accounts	8 384 987	26	1 230 864	9 615 877
Debt securities in issue	1 846 589	-	171 811	2 018 400
Subordinated debt	-	319 029	342 195	661 224
Other financial liabilities	12 519	-	-	12 519
<b>Total financial liabilities</b>	<b>14 933 430</b>	<b>319 055</b>	<b>1 745 471</b>	<b>16 997 956</b>
<b>Net balance sheet position</b>	<b>2 542 036</b>	<b>423 015</b>	<b>(1 745 471)</b>	<b>1 219 580</b>
<b>Credit related commitments</b>	<b>4 721 789</b>	<b>-</b>	<b>-</b>	<b>4 721 789</b>

**Liquidity risk.** Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs, as based on the accumulated experience, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and securities. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank's liquidity management requires analysis of the level of liquid assets necessary to settle liabilities when due; access to various funding sources; availability of plans in case of funding problems and control over compliance of the balance sheet liquidity ratios with the statutory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios are:

- Instant liquidity ratio (H2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 83.3% at 31 December 2014 (2013: 85.8%);
- Current liquidity ratio (H3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 102.7% at 31 December 2014 (2013: 97.5%);

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- Long-term liquidity ratio (H4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 56.9% at 31 December 2014 (2013: 76.6%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Securities Department provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the statement of financial position because the carrying amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

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

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows as at 31 December 2014 is as follows:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
<b>Liabilities</b>						
Due to the Bank of Russia	6 521 027	-	-	-	-	6 521 027
Due to other banks	204 810	13 413	73 712	549 551	-	841 486
Customer accounts - legal entities	3 778 748	2 855 620	861 802	11 267	-	7 507 437
Customer accounts - individuals	476 663	2 115 820	2 076 143	130 965	-	4 799 591
Debt securities in issue	40 851	286 594	297 470	1 924 636	-	2 549 551
Subordinated debt	1 062	50 199	51 542	866 271	671 218	1 640 292
Other financial liabilities	41 359	-	-	-	-	41 359
Financial guarantees	237 670	835 525	718 146	565 878	-	2 357 219
Gross loan commitments	670 518	-	-	-	-	670 518
Financial guarantee commitments	569 087	-	-	-	-	569 087
<b>Total potential future payments under financial obligations</b>	<b>12 541 795</b>	<b>6 157 171</b>	<b>4 078 815</b>	<b>4 048 568</b>	<b>671 218</b>	<b>27 497 567</b>

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The maturity analysis of financial liabilities based on the contractual undiscounted cash flows as at 31 December 2013 is as follows:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
<b>Liabilities</b>						
Due to the Bank of Russia	3 366 718	-	-	-	-	3 366 718
Due to other banks	525 227	22 422	28 642	1 029 141	-	1 605 432
Customer accounts - legal entities	3 419 005	779 865	1 720 483	5 898	-	5 925 251
Customer accounts - individuals	270 426	796 621	2 601 622	414 142	-	4 082 811
Debt securities in issue	47 314	150 850	310 737	1 904 109	53 857	2 466 867
Subordinated debt	1 062	31 990	33 234	795 687	133 894	995 867
Other financial liabilities	3 176	8 611	-	732	-	12 519
Gross loan commitments	1 200 204	-	-	-	-	1 200 204
Financial guarantees	67 000	1 639 595	666 220	569 461	53 840	2 996 116
Financial guarantee commitments	525 469	-	-	-	-	525 469
<b>Total potential future payments under financial obligations</b>	<b>9 425 601</b>	<b>3 429 954</b>	<b>5 360 938</b>	<b>4 719 170</b>	<b>241 591</b>	<b>23 177 254</b>

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 the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected and contractual maturities summarised as follows as at 31 December 2014:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Assets</b>					
Cash and cash equivalents	4 296 236	-	-	-	4 296 236
Financial assets at fair value through profit or loss	76 650	-	-	-	76 650
Due from other banks	206 301	-	-	-	206 301
Loans and advances to customers	496 018	1 236 704	6 174 786	3 276 505	11 184 013
Financial assets available for sale	362 378	-	-	-	362 378
Financial assets pledged under repo agreements	7 106 711	-	-	-	7 106 711
Other financial assets	912	-	-	-	912
<b>Total financial assets</b>	<b>12 545 206</b>	<b>1 236 704</b>	<b>6 174 786</b>	<b>3 276 505</b>	<b>23 233 201</b>
<b>Liabilities</b>					
Due to the Bank of Russia	6 480 668	-	-	-	6 480 668
Due to other banks	201 456	-	57 258	494 347	753 061
Customer accounts	4 202 801	4 734 725	2 820 224	132 509	11 890 259
Debt securities in issue	40 763	194 050	172 189	1 799 681	2 206 683
Subordinated debt	-	-	-	1 046 806	1 046 806
Other financial liabilities	41 359	-	-	-	41 359
<b>Total financial liabilities</b>	<b>10 967 047</b>	<b>4 928 775</b>	<b>3 049 671</b>	<b>3 473 343</b>	<b>22 418 836</b>
<b>Liquidity gap arising from financial instruments</b>	<b>1 578 159</b>	<b>(3 692 071)</b>	<b>3 125 115</b>	<b>(196 838)</b>	<b>814 365</b>
<b>Cumulative liquidity gap as at 31 December 2014</b>	<b>1 578 159</b>	<b>(2 113 912)</b>	<b>1 011 203</b>	<b>814 365</b>	

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Remaining expected and contractual maturities as at 31 December 2013 are summarised as follows:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Assets</b>					
Cash and cash equivalents	2 088 371	-	-	-	2 088 371
Financial assets at fair value through profit or loss	1 014 227	-	-	-	1 014 227
Due from other banks	778 676	9 787	-	-	788 463
Loans and advances to customers	255 228	1 753 572	3 654 475	4 468 702	10 131 977
Financial assets pledged under repo agreements	4 189 973	-	-	-	4 189 973
Other financial assets	4 525	-	-	-	4 525
<b>Total financial assets</b>	<b>8 331 000</b>	<b>1 763 359</b>	<b>3 654 475</b>	<b>4 468 702</b>	<b>18 217 536</b>
<b>Liabilities</b>					
Due to the Bank of Russia	3 301 012	-	-	-	3 301 012
Due to other banks	520 419	-	-	868 505	1 388 924
Customer accounts	3 595 727	1 448 133	4 196 804	375 213	9 615 877
Debt securities in issue	47 236	115 453	210 387	1 645 324	2 018 400
Subordinated debt	-	-	-	661 224	661 224
Other financial liabilities	3 176	8 611	-	732	12 519
<b>Total financial liabilities</b>	<b>7 467 570</b>	<b>1 572 197</b>	<b>4 407 191</b>	<b>3 550 998</b>	<b>16 997 956</b>
<b>Liquidity gap arising from financial instruments</b>	<b>863 430</b>	<b>191 162</b>	<b>-752 716</b>	<b>917 704</b>	<b>1 219 580</b>
<b>Cumulative liquidity gap as at 31 December 2013</b>	<b>863 430</b>	<b>1 054 592</b>	<b>301 876</b>	<b>1 219 580</b>	

The portfolio of available-for-sale financial assets as at 31 December 2014 is classified by contractual maturity except for the instruments included in the Lombard List of the Bank of Russia and Eurobonds of issuers whose liabilities are included in the Lombard List of the Bank of Russia. The securities included in the above list are recognised not only as highly marketable liquidity instruments but also as the instruments providing immediate access to the monetary funds of the Bank of Russia via lombard credit transactions or REPO transactions. Financial assets available for sale included in the Lombard List of the Bank of Russia and the above Eurobonds as at 31 December 2014 are recorded within “ On demand and less than one month” in these financial statements.

The Bank classifies customer accounts based on their contractual maturity. Expected maturities for the customer accounts usually exceed the contractual maturities. The portfolio of financial assets available for sale also includes liquid securities, which could be converted into cash in a short time period.

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

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

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

### **31 Management of Capital**

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Bank of Russia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio equal to 10% in accordance with prudential supervision requirements of the Bank of Russia. The amount of capital that the Bank managed as at 31 December 2014 totalled RUB 2 729 883 thousand (2013: RUB 2 435 015 thousand). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant in order to present them to the Bank of Russia.

Under the current capital requirements set by the Bank of Russia banks have to maintain the ratio of regulatory capital to risk weighted assets H1 ("statutory capital ratio") above the prescribed minimum level.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards (Basel III) and comprises:

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Core capital	1 805 334	1 824 310
Additional capital	924 549	610 705
<b>Total regulatory capital</b>	<b>2 729 883</b>	<b>2 435 015</b>

The subordinated debt amount used in calculation of the regulatory capital differs from the subordinated debt amount disclosed in Note 18 due to different approaches to the loan assessment at the end of the reporting year in accordance with the Russian legislation and IFRS.

The level of capital adequacy ratio as at 31 December 2014 and 31 December 2013 is presented in the table below:

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Capital adequacy ratio (H1)	12.5%	11.7%
Acceptable ratio (H1)	Not less than 10.0%	Not less than 10.0%

Also, in accordance with existing requirements to capital set by the Bank of Russia the Bank cannot exceed the maximum exposure per one borrower or a group of related borrowers (H6), which is set as a percentage of the Bank's capital. The level of capital adequacy ratio as at 31 December 2014 and 31 December 2013 is presented in the table below:

<i>(in thousands of Russian Roubles)</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
Maximum risk per one borrower or a group of related borrowers (H6)	18.3%	19.4%
Acceptable ratio (H6)	Not less than 25.0%	Not less than 25.0%

## 32 Contingencies and Commitments

**Legal proceedings.** In the normal course of business, claims against the Bank are received. As at 31 December 2014, the Bank is a defendant in lawsuits with the amount of claims against it totalling RUB 15 511 thousand. The Bank set up a provision in the amount of RUB 15 511 thousand to cover probable losses (Note 20).

**Tax legislation.** Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant 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 of review. Under certain circumstances reviews may cover longer periods.

Amendments to the Tax Code related to transfer pricing became effective from 1 January 2012. The new transfer pricing rules 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 (OECD). The new legislation provides the possibility for tax authorities to 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 arm's length. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

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

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. 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 relevant 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 Bank.

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

	2014	2013
Less than 1 year	26 136	16 677
From 1 to 5 years	143 290	46 324
Later than 5 years	3 950	3 798
<b>Total operating lease commitments</b>	<b>173 376</b>	<b>66 799</b>

In 2014 and 2013 the Bank did not sublease the premises rented by the Bank to any third party.

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**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. 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 Bank 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, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank 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:

<i>(in thousands of Russian Roubles)</i>	31 December 2014	31 December 2013
Guarantees issued	2 381 633	2 996 116
Undrawn credit lines	670 518	1 200 204
Unused limits on bank guarantee issue	569 087	525 469
Less: provision for credit related commitments	(24 414)	-
<b>Total credit related commitments</b>	<b>3 596 824</b>	<b>4 721 789</b>

Changes in the provision for credit related commitments are presented below:

	Note	2014
<b>Provision for credit related commitments at 1 January</b>		-
<b>Provision for credit related commitments during the period</b>		<b>24 414</b>
<b>Provision for credit related commitments at 31 December</b>	<b>20</b>	<b>24 414</b>

In 2013 the Bank did not form provisions for credit related commitments.

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.

As at 31 December 2014, the banking guarantees of RUB 349 780 thousand (2013: RUB 306 150 thousand) are secured by the Bank's own promissory notes with the collateral value of RUB 298 242 thousand (2013: RUB 140 741 thousand) (Note 17).

**Assets pledged and restricted**

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

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2014		31 December 2013	
		Asset pledged	Related liability	Asset pledged	Related liability
Financial assets at fair value through profit or loss	10, 15	500 043	453 647	4 189 973	3 519 361
Rights of claim to loans issued and advances to customers	8, 15	585 086	551 605	609 921	756 446
Financial assets available for sale	10	6 606 668	6 027 021	-	-
<b>Total</b>		<b>7 691 797</b>	<b>7 032 273</b>	<b>4 799 894</b>	<b>4 275 807</b>

As at 31 December 2014, financial assets at fair value through profit or loss of RUB 500 043 thousand and financial assets available for sale of RUB 6 606 668 thousand are pledged under direct REPO transactions with the CBR, rights of claim to loans issued and advances to customers of RUB 585 086 thousand are pledged under agreements for borrowings from other banks.

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As at 31 December 2013, financial assets at fair value through profit or loss of RUB 4 189 973 thousand are pledged under direct REPO transactions with the CBR, rights of claim to loans issued and advances to customers of RUB 609 921 thousand are pledged under agreements for borrowings from other banks.

Restricted assets of the Bank include mandatory cash balances with the Bank of Russia of RUB 104 866 thousand (2013: RUB 313 913 thousand) and represent mandatory reserve deposits with the Bank of Russia which are not available to finance the Bank's day to day operations.

### 33 Fair Value of Financial Instruments

#### (a) Fair value of financial instruments carried at amortised cost.

In accordance with the IFRS fair value hierarchy, all of the Bank's financial instruments carried at amortised cost as at 31 December 2014 and 31 December 2013 belong to Level 3.

Fair values of financial instruments carried at amortised cost are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>FINANCIAL ASSETS</b>				
Due from other banks	206 301	206 301	788 463	788 463
Loans and advances to customers	11 184 013	11 184 013	10 131 977	10 131 977
Other financial assets	912	912	4 525	4 525
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>	<b>11 391 226</b>	<b>11 391 226</b>	<b>10 924 965</b>	<b>10 924 965</b>

<i>(in thousands of Russian Roubles)</i>	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>FINANCIAL LIABILITIES</b>				
Due to the Bank of Russia	6 480 668	6 480 668	3 301 012	3 301 012
Due to other banks	753 061	753 061	1 388 924	1 388 924
Customer accounts	11 890 259	11 890 259	9 615 877	9 615 877
Debt securities in issue	2 206 683	2 206 683	2 018 400	2 018 400
Subordinated debt	1 046 806	1 046 806	661 224	661 224
Other financial liabilities	11 266	11 266	12 519	12 519
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>	<b>22 388 743</b>	<b>22 388 743</b>	<b>16 997 956</b>	<b>16 997 956</b>

Below are methods and assumptions used in determining the fair value of financial instruments which are not carried in the financial statements at fair value.

**Due from other banks.** The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2014 and 31 December 2013 do not materially differ from respective carrying amounts. This is primarily due to the short-term nature of investments and the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates (as at 31 December 2014, interest rates vary from 15.5% to 22.3% p.a. (2013: from 3.3% to 9.5%), depending on the currency and maturity).

**Loans to customers.** Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that the fair values of loans to customers as at 31 December 2014 and 31 December 2013 do not materially differ from respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances

is accrued at rates approximating market interest rates (as at 31 December 2014, interest rates vary from 9.0% to 23.1% (2013: from 7.5% to 25.0%), depending on the currency and maturity.).

**Due to CBR and other banks.** The fair value of due to CBR and other banks maturing in less than one month approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 1 month is the present value of the estimated future cash flows discounted at the respective year-end market rates. According to the Bank, fair values of due to other banks as at 31 December 2014 and 31 December 2013 do not materially differ from their respective carrying amounts. This is primarily due to their short-term nature and the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates (as at 31 December 2014, interest rates vary from 15.5% to 22.3% (2013: from 3.3% to 9.5%), depending on the currency and maturity).

**Customer accounts.** The estimated fair value of liabilities with no stated maturity are amounts repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for debts with similar maturity. The Bank believes that the fair values of customer accounts as at 31 December 2014 and 31 December 2013 do not materially differ from respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates. (as at 31 December 2014, interest rates vary from 2.8% to 19.8% (2013: from 1.4% to 11.2%), depending on the currency and maturity).

**Debt securities in issue.** The fair value of fixed interest bearing financial liabilities carried at amortised cost is determined by comparing the market interest rates at initial recognition of these instruments with current market rates on similar financial instruments. The estimated fair value of fixed interest bearing debt securities in issue is based on discounted cash flows using money market interest rates for debt instruments with similar credit risk and maturity (as at 31 December 2014, the interest rates vary from 2.8% to 19.8% (2013: from 1.4% to 11.2%), depending on the currency and maturity).

**Other borrowed funds.** The fair value of subordinated deposits is based on discounted cash flows using effective interest rates as these instruments do not have market quotations and are attracted on special terms (as at 31 December 2014, interest rates vary from 6.4% to 12.5% (2013: from 6.4% to 12.5%)).

**(b) Analysis by fair value hierarchy of financial assets carried at fair value.**

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.

In accordance with the IFRS fair value hierarchy all Bank's financial assets as at 31 December 2014 and 31 December 2013 belong to Level 1, since quoted prices in an active market are used for their measurement.

**(c) The methods and assumptions applied in determining fair values**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank uses different valuation techniques. The fair value of floating rate derivative instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

**(d) Fair value of non-financial assets**

In accordance with the IFRS fair value hierarchy, all of the Bank's non-financial instruments carried at fair value as at 31 December 2014 and 31 December 2013 belong to Level 3.

The fair value of investment property and the category "premises" of the Bank's premises and equipment was determined using the method described in the accounting policies. The valuation was performed by an independent appraiser who applied different adjustment factors to market prices of items comparable to investment property, land and premises of the Bank under valuation in order to derive the market value of the items being valued. The adjustment factors comprise factors for the quality of the property, its location and environment, transport accessibility and other individual physical characteristics, approximating the used analogues to property under valuation. Data on the value of investment property

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and premises and equipment in the category “land and premises” are approved by the Bank’s financial director who considers the relevance of inputs used for valuation purpose and the results obtained, using various valuation methods and techniques. The approved valuation results are reported by the financial director to the Bank’s management.

As at 31 December 2014, if the adjustment factor increases by 10 %, the cost of investment property will increase by RUB 6 755 thousand (2013: no investment property) and the cost of premises and equipment (buildings) will increase by RUB 53 075 thousand (2013: RUB 52 847 thousand). If the adjustment factor decreases by 10%, the cost of investment property will decrease by RUB 6 755 thousand (2013: no investment property) and the cost of premises and equipment (land and premises) will decrease by RUB 53 075 thousand (2013: RUB 52 847 thousand). These adjustments may cause a 2.8% change in capital, which will not have a significant impact on capital adequacy.

Below is reconciliation of opening and closing balances of assets carried at fair value which are classified in Level 3 of the fair value hierarchy:

<i>(in thousands of Russian Roubles)</i>	31 December 2013	Depreciation (Note 26)	Additions	Disposals	Revaluation (Note 23)	31 December 2014
Investment property	-	-	67 548	-	-	67 548
Premises and equipment (premises and land)	528 465	(17 065)	-	-	19 348	530 748

In 2014 and 2013 there were no transfers of financial instruments between the levels of the fair value hierarchy.

#### 34 Presentation of Financial Instruments by Measurement Category

Under IAS 39, Financial Instruments: Recognition and Measurement, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets available for sale; and (c) financial assets at fair value through profit and loss account. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2014:

<i>(in thousands of Russian Roubles)</i>	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets available for sale	Total
<b>FINANCIAL ASSETS</b>				
<b><i>Cash and cash equivalents</i></b>		<b>4 296 236</b>	<b>-</b>	<b>4 296 236</b>
- Cash balances with the Bank of Russia, other than mandatory reserve deposits		2 636 052	-	2 636 052
- Correspondent accounts with other banks		872 682	-	872 682
- Cash on hand		331 321	-	331 321
- Settlements with currency and stock exchanges		456 181	-	456 181
<b><i>Financial assets at fair value through profit or loss</i></b>	<b>-</b>	<b>76 650</b>	<b>-</b>	<b>76 650</b>
- Corporate bonds	-	47 495	-	47 495
- Derivative financial instruments	-	29 155	-	29 155
<b><i>Due from other banks</i></b>	<b>206 301</b>	<b>--</b>	<b>-</b>	<b>206 301</b>
- Loans and deposits with other banks	206 301	-	-	206 301
<b><i>Loans and advances to customers</i></b>	<b>11 184 013</b>	<b>-</b>	<b>-</b>	<b>11 184 013</b>
- Corporate loans	11 670 819	-	-	11 670 819
- Loans to individuals	546 493	-	-	546 493
- State and municipal organizations	164 966	-	-	164 966
- Less: provision for impairment	(1 198 265)	-	-	(1 198 265)
<b><i>Financial assets available for sale</i></b>	<b>-</b>	<b>-</b>	<b>362 378</b>	<b>362 378</b>
- Russian Federation bonds (OFZ)	-	-	160 055	160 055
- Russian Federation Eurobonds	-	-	1 413	1 413
- Corporate bonds	-	-	200 910	200 910
<b><i>Financial assets pledged under repo agreements</i></b>	<b>-</b>	<b>500 043</b>	<b>6 606 668</b>	<b>7 106 711</b>

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	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets available for sale	Total
<i>(in thousands of Russian Roubles)</i>				
- Russian Federation Eurobonds	-	217 858	2 828 863	3 046 721
- Russian Federation bonds (OFZ)	-	-	1 262 478	1 262 478
- Corporate bonds	-	110 257	1 981 613	2 091 870
- Corporate Eurobonds	-	171 928	533 714	705 642
<b>Other financial assets</b>	<b>912</b>			<b>912</b>
<b>Total financial assets</b>	<b>11 391 226</b>	<b>4 872 929</b>	<b>6 969 046</b>	<b>23 233 201</b>
<b>Non-financial assets</b>				<b>1 032 489</b>
<b>Total assets</b>				<b>24 265 690</b>

As at 31 December 2014 and 31 December 2013, all of the Bank's financial liabilities except for derivatives were carried at amortised cost. Derivative financial instruments belong to the fair value through profit or loss measurement category.

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

<i>(in thousands of Russian Roubles)</i>	Loans and receivables	Financial assets at fair value through profit or loss	Total
<b>FINANCIAL ASSETS</b>			
<b>Cash and cash equivalents</b>		<b>2 088 371</b>	<b>2 088 371</b>
- Cash balances with the Bank of Russia, other than mandatory reserve deposits		1 008 099	1 008 099
- Correspondent accounts with other banks		859 973	859 973
- Cash on hand		192 210	192 210
- Settlements with currency and stock exchanges		28 089	28 089
<b>Financial assets at fair value through profit or loss</b>	-	<b>1 014 227</b>	<b>1 014 227</b>
- Russian Federation Eurobonds	-	51 095	51 095
- Russian Federation bonds (OFZ)	-	678 154	678 154
- Corporate bonds	-	277 682	277 682
- Corporate Eurobonds	-	2 346	2 346
- Corporate shares	-	4 950	4 950
<b>Due from other banks</b>	<b>788 463</b>	-	<b>788 463</b>
- Loans and deposits with other banks	778 676	-	778 676
- Discounted promissory notes	10 305	-	10 305
- Less: provision for impairment (518)	(518)	-	(518)
<b>Loans and advances to customers</b>	<b>10 131 977</b>	-	<b>10 131 977</b>
- Corporate loans	10 759 102	-	10 759 102
- Loans to individuals	138 861	-	138 861
- State and municipal organizations	337 770	-	337 770
- Less: provision for impairment (1 103 756)	(1 103 756)	-	(1 103 756)
<b>Financial assets pledged under repo agreements</b>	-	<b>4 189 973</b>	<b>4 189 973</b>
- Russian Federation Eurobonds	-	700 003	700 003
- Russian Federation bonds (OFZ)	-	196 859	196 859
- Corporate bonds	-	2 700 038	2 700 038
- Corporate Eurobonds	-	593 073	593 073
<b>Other financial assets</b>	<b>4 525</b>	-	<b>4 525</b>
<b>Total financial assets</b>	<b>10 924 965</b>	<b>7 292 571</b>	<b>18 217 536</b>
<b>Non-financial assets</b>			<b>978 924</b>
<b>Total assets</b>			<b>19 196 460</b>

**35 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.

Transactions with related parties are entered into in the normal course of business with the Bank's significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

Other related parties of the Bank include individuals who can exercise influence over the Bank in making decisions on executing transactions with risk, including the principal terms of the transaction.

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

	Note	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>					
Gross amount of loans and advances to customers (contractual interest rate: 11.25% - 15.0%)		-	-	2 697	6 286
Customer accounts (contractual interest rate: 0.1% - 12.05%)		793 041	6 059	603 217	98 390
Subordinated debt (6.4%-12.5%)	18	1 046 806	-	-	-

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

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Interest income	-	-	319	882
Interest expense	472	471	12 427	41 670
Gains less losses from trading in foreign currencies	4	4	266	127
Foreign exchange translation gains less losses	(175 851)	-	(130 279)	(212 951)
Fee and commission income	-	9	156	952
Other operating income	-	61	296 098	554 910
Administrative and other operating expenses	-	-	425 951	764 551

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

As at 31 December 2014, other rights and obligations arising from transactions with related parties were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Other contingent obligations	-	-	4 469	5 379

Aggregate amounts lent to and repaid by related parties during 2014 and changes in customer accounts of related parties are as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Loans to related parties during the year	-		2 710	4 732
Amounts repaid by related parties during the year	-	(30)	(1 026)	(4 732)
Changes in customer accounts of related parties during the year	787 255	(283)	450 404	(306 188)

As at 31 December 2013, the outstanding balances arising from transactions with related parties were as follows:

	Note	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>					
Gross amount of loans and advances to customers (contractual interest rate: 11.25% - 15.0%)		-	30	1 013	6 286
Customer accounts (contractual interest rate: 0.1% - 12.05%)		5 786	6 342	152 813	404 578
Subordinated debt (6.4%-13.0%)	18	342 194	-	-	-

**MARITIME BANK (Open Joint-Stock Company)**  
**Notes to the Financial Statements for the year ended 31 December 2014**

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

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Interest income	-	17	114	4 433
Interest expense	35 117	-	14 790	5 631
Gains less losses from trading in foreign currencies	134	186	125	(612)
Foreign exchange translation gains less losses	(62)	129	(9 788)	(8 726)
Fee and commission income	122	270	143	623
Other operating income	-	2 549	21	7
Administrative and other operating expenses	-	-	823	174

As at 31 December 2013, other rights and obligations arising from transactions with related parties were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Other contingent obligations	-	970	4 788	1 409

Aggregate amounts lent to and repaid by related parties during 2013 and changes in customer accounts of related parties are as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Amounts lent to related parties during the year	-	3 550	8 486	8 977
Amounts repaid by related parties during the year	-	(3 520)	(8 727)	(8 388)
Changes in customer accounts of related parties during the year	(142 245)	5 136	77 388	341 772

**MARITIME BANK (Open Joint-Stock Company)**  
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Remuneration of key management personnel is presented below:

<i>(in thousands of Russian Roubles)</i>	2014		2013	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	38 902	1 640	39 491	5 896
- Short-term bonuses	1 487	-	1 063	-
- Benefits in-kind	51	-	5	-
- Payments based on the decision of the shareholders' meeting	372	-	1 929	-
- Payments as agreed by the parties	2 920	-	-	-
<b>Total</b>	<b>43 732</b>	<b>1 640</b>	<b>42 488</b>	<b>5 896</b>

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

In 2014 contributions to the Pension Fund of the Russian Federation in respect of related parties for the compensation of the Bank's key management personnel amounted to RUB 5 428 thousand (2013: RUB 5 318 thousand).

### **36 Events After the End of the Reporting Period**

On 25 February 2015 R.L. Pinaev became Chairman of the Bank's Management Board.

On 4 March 2015 the 4<sup>th</sup> coupon on the Bank's series 01 bond was paid. The coupon rate was approved previously at 11.50% p.a. which is equivalent to RUB 57.34 per bond. The total payment amounted to RUB 86 010 thousand. Payments of the coupon income were made by the agreed deadline and in the full amount.

On 11 March 2015, in accordance with the terms and provisions of the issuance documents, the Bank launched an offering of its series 01 bonds in the amount of RUB 1 121 115 thousand. Under this offering the Bank received 1 229 630 applications from the holders for redemption of the series 01 bonds. 1 121 115 bonds were actually called for redemption (placement of transaction orders in a trading system). The Bank placed the bonds in the amount of 289 838 on the secondary market on the day they were redeemed. Therefore, the outstanding bonds amount to 668 723 (or 44.58% of the bond issue).