Russian Agricultural Bank

ANNUAL REPORT

2014

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Address by the Chairman of the Management Board

Dear clients and partners,

2014 has been a difficult year for the Russian Federation, as the country faced new geopolitical challenges.

The Russian economic slowdown, national currency devaluation, rate increase and the ensuing rise in debt burden affected all sectors, and added to a pronounced deterioration in the financial position of agribusiness enterprises. Due to the lack of access to long-term funding on international capital markets, the banking sector was the most exposed segment of the economy.

Russian Agricultural Bank is a bank of systemic importance and the key Government agent financially supporting Russian agribusiness. Amid 2014 macroeconomic challenges, including sanctions imposed by numerous countries, the Bank solved many diverse tasks, namely, sustaining lending growth rates and loan book asset quality and developing its service and product offerings, all while absorbing industry risks.

In 2014, the Bank ensured positive dynamics of its key business lines while maintaining sufficient capital adequacy levels. The Bank has fully met industry loan demand and kept the share of agribusiness and related sectors in its loan portfolio at 72.8%, as stipulated by the Bank's Development Strategy through 2020.

At the same time, the Bank consistently developed other business lines, actively diversifying its operations. In particular, significant progress has been made in lending to small- and mid-sized businesses – currently, the Bank firmly holds the second position among all Russian banks in financing this segment.

In 2014, we successfully completed the project to centralize operational functions at the branch level, which allowed for a significant resource shift to front office operations.

Maintaining the client-focused approach, Russian Agricultural Bank in the past year increased its loan portfolio RUB 171 billion, or 13.5%, up to RUB 1.445 trillion. Corporate loans grew 13.8% up to RUB 1.168 trillion, retail loans rose 11.9% amounting to RUB 277 billion. Today, the Bank services approximately 6.2 million retail and corporate clients. As of January 1, 2015, Bank customer accounts exceeded RUB 1.2 trillion, having grown 14.8% during the reporting period according to the Russian Accounting Standards.

In 2015, the Bank will continue its development as a universal commercial bank offering the full range of products and services for all economic sectors and business segments, with a special focus on retail business.

In addition to increasing lending process efficiency and decision-making speed, the Bank will proceed with implementing an expense optimization program, relating to branch network, business processes and administrative costs.

These measures will continue expanding the Bank's lending to agricultural producers, aimed at promoting higher efficiency of national agribusiness, faster import substitution and Russia's food independence.

Dmitry N. Patrushev
Chairman of the Management Board and CEO
Russian Agricultural Bank

Russian Agricultural Bank
Annual Report
2014

1. Key Financial Highlights

RUB million	FY2012	FY2013	FY2014
Summary of consolidated income statement			
Net interest income	56 413	65 353	59 973
Net fee and commission income	6 299	8 358	8 819
Profit / (Loss) before tax	820	539	(50 263)
Profit / (Loss) for the year	**144**	**729**	**(47 928)**
Summary of consolidated balance sheet			
Cash and cash equivalents	106 342	128 444	105 009
Mandatory cash balances with the Central Bank of the Russian Federation	9 153	8 735	9 373
Securities	111 887	137 610	153 574
Due from other banks	45 930	43 065	34 036
Loans and advances to customers	1 070 712	1 261 046	1 416 463
Premises and equipment	23 068	24 655	24 314
Other assets	61 558	67 209	173 048
Total assets	**1 428 650**	**1 670 764**	**1 915 817**
Due to other banks	136 343	149 680	285 776
Customer accounts	557 476	722 125	761 595
Promissory notes issued	23 234	31 174	18 680
Other borrowed funds	440 866	449 803	554 568
Derivative financial instruments	5 261	950	1 207
Other liabilities	12 299	15 196	11 731
Subordinated debts	55 274	74 053	84 261
Total liabilities	**1 230 753**	**1 442 981**	**1 717 818**
Total equity	**197 897**	**227 783**	**197 999**
Total liabilities and equity	**1 428 650**	**1 670 764**	**1 915 817**

Capital Adequacy

RUB million / %	FY2012	FY2013	FY2014
Tier I Capital	195 907	226 653	208 868
Tier II Capital	55 334	71 658	66 771
Total Capital	251 241	298 311	275 639
Total RWA	1 555 580	1 661 047	2 121 189
Tier I Capital Ratio[1]	**12.6%**	**13.6%**	**9.9%**
Total Capital Ratio[1]	**16.1%**	**18.0%**	**13.0%**

1 Calculated based on Basel II requirements

Source: Audited Financial Statements (IFRS) as of December 31, 2012, December 31, 2013 and December 31, 2014.

Note: Forward-looking statements

This report contains certain forward-looking statements with respect to financial conditions, results of operations and businesses of Russian Agricultural Bank. These statements involve risk and uncertainty, because they relate to events and depend upon circumstances that will occur in the future. There are numerous factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The statements are based on current expected market and economic conditions, the existing regulatory environment and IFRS interpretations that are applicable to past, current and future periods. Nothing in this report should be construed as a profit forecast.

2. Bank Profile

In the past year, the Bank's loan portfolio increased RUB 171 billion, or 13.5%, and reached RUB 1.445 trillion

Russian Agricultural Bank was established in conformity with a Presidential Order dated March 15, 2000 to develop the national credit and finance system in agribusiness and rural areas. Today, Russian Agricultural Bank is a universal commercial bank providing all types of banking services and holding top positions in agribusiness financing.

Russian Agricultural Bank is 100% owned by the Russian Federation, represented by the Federal Property Management Agency (ordinary registered shares - 89.92%) and the Russian Ministry of Finance (preferred registered shares - 10.08%). The powers of the General Shareholders Meeting are exercised by the Federal Property Management Agency.

Russian Agricultural Bank is the only 100% State-owned bank with a unique mandate to act as the State agent to implement the Government’s financial policy in the domestic agribusiness sector. The Bank’s priority focus is on providing financial support to Russian agribusiness, fishery and forestry enterprises and developing rural territories, which the State recognizes as strategically important.

As the main lender to Russian agribusiness, Russian Agricultural Bank possesses unparalleled knowledge of this specific market. The Bank’s branch network, with 78 branches and more than 1,450 additional offices, covers all Russian agricultural regions. The Bank offers a wide range of financial products and services to agribusiness and the rural population, which makes up approximately 30% of Russia’s total population. The Bank continually enhances its product range to accomplish State policy goals and to meet the needs of its target customer segments.

2014

RUB trillion

1.445

Today, the Bank services about 6.2 million retail and corporate clients

million clients

6.2

Consistent with Russian government policy objectives set forth in the 2013-2020 State Program on Agribusiness Development, Russian Agricultural Bank plays a key role in rural development, ensuring the sustainable growth of Russian agribusiness and related sectors.

Market position

Russian Agricultural Bank consistently holds top positions in Russia[1]:

- No. 1 in lending to agriculture and agribusiness;
- No. 2 by branch network;
- No. 2 by lending to small- and medium-sized businesses;
- No. 4 by corporate loan portfolio (loans to non-financial institutions);
- No. 5 by retail loan portfolio;
- No. 4 by capital;
- No. 8 by assets.

The Bank's local presence provides a significant marketing advantage, as well as ensuring access to the regional client base. Nationwide, the Bank serves more than 6.2 million clients. Russian Agricultural Bank is an acknowledged leader in lending to agribusiness and related sub-sectors, with the following key market shares:

- Agriculture, fishery, forestry, hunting and related services – 40.5%;
- Food and beverage production, including tobacco – 17%;
- Production of agriculture and forestry machinery and equipment – 15.9%.

1 Source: Expert RA rankings, RBC rankings, Company information.

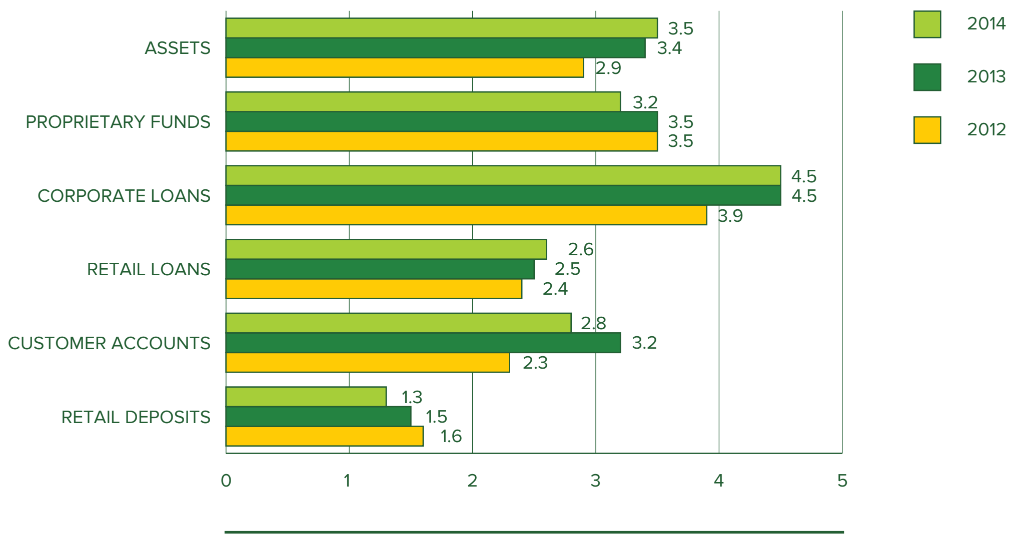
Russian Agricultural Bank is among the top Russian banks[2].

RUB 218.8 bln Share Capital FY2014 IFRS	**RUB 1,670.8 bln** Total Assets FY2014 IFRS	**RUB 1,261.0 bln** Loan Portfolio FY2014 IFRS	**35,945** Head Count FY2014 IFRS

No.2 Largest branch network in the Russian Federation	**No.4** Largest bank by capital	**No.8** Largest bank by assets	**No.159** Among the Top 1000 banks globally

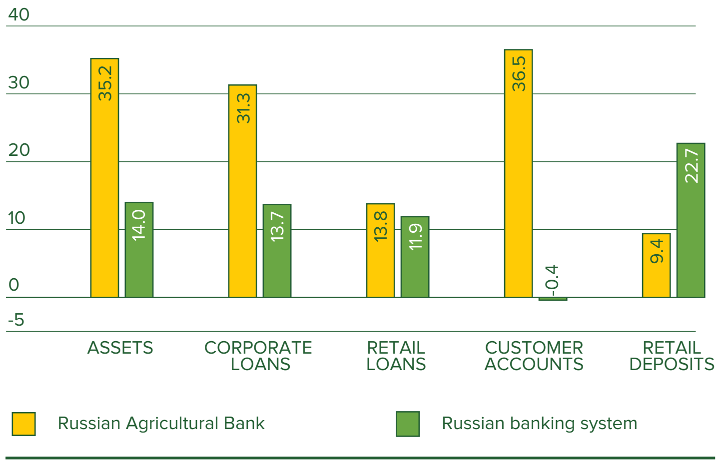
Effect of currency conversion was one of the most notable factors in banking sector balance growth in 2014. Thus, the decrease in Russian Agricultural Bank's market share in some business directions is explained by predominantly ruble-denominated loans and client accounts on the Bank's balance.

RUSSIAN AGRICULTURAL BANK'S SHARE IN THE RUSSIAN BANKING SECTOR[3], %



2 Source: Company information, RBC Rating, Expert RA, The Banker.
3 Source: the Bank of Russia, Company information

KEY FINANCIAL INDICATOR GROWTH IN 2014, BANK VERSUS SECTOR[4], %



Note: *Financial data in this section is prepared under RAS as of January 1, 2015.*

Mission and Strategy

Russian Agricultural Bank's mission is to implement the Russian Government's financial policy in agribusiness by:

- Ensuring the availability of affordable banking products and services to Russia's agribusiness, including: fishery and forestry enterprises and the population of small towns and rural areas;
- Contributing to the development and operation of Russia's credit and financial system;
- Fostering the development of Russia's agribusiness, including: fishery and forestry industries, and rural areas.
- Bringing financial services to rural areas where no other credit institutions are present.

To synchronize the Bank's development with the 2013-2020 State Program on Agribusiness Development, the Bank adopted a Development Strategy through 2020. In accordance with the Strategy, the Bank will further strengthen its positions in agribusiness and related sectors, and provide financial support to the fishery and forestry industries, and populations and businesses of rural areas and small- and medium-sized towns.

The Development Strategy through 2020, which was adopted in 2012, facilitates achieving Russian Agricultural Bank's mission. The Strategy envisages further expansion of the Bank's business with a particular focus on:

4 Source: Bank of Russia, Russian Agricultural Bank information

- Maintaining leading positions in lending and other financial services to agribusiness, fishery and forestry sectors, and in facilitating rural development;
- Implementing federal and regional programs that are focused on:
  - Ensuring national food security;
  - Achieving Russia's status as the world's leading food producer and exporter;
  - Maintaining social stability and development in rural areas, upgrading financial literacy and the living standards of Russia's rural population.
- Ensuring sustainable development and increasing Bank efficiency:
  - Transforming the Bank's operating model and IT systems to reduce operating expenses;
  - Developing interest and commission products across all segments, offering a wide range of customized products;
  - Expanding the regional network via the development of low-cost and highly efficient sales channels;
  - Growing the customer base by offering a wide range of affordable, high quality banking products and services to both corporate and retail customers.

The Bank's long-term development baseline consists of considering the Strategy through 2020, the Russian Federation Food Security Doctrine and the 2013-2020 State Program, which envisage integrated agribusiness sector development, including:

- Increasing agricultural producers' profitability as a condition for transitioning to the innovative agribusiness development model;
- Developing all types of small businesses in rural areas, including supporting entry-level farmers;
- Encouraging sustainable development in rural areas;
- Developing cooperation and integration in agribusiness.

Russian Agricultural Bank on a regular basis assesses implementation of the Development Strategy through 2020 based on the Bank's financial and non-financial parameters, taking into account global and local economic development, and agribusiness and banking sector results.

In 2014, the Bank's results were mainly in line with the above-mentioned Strategy. The decrease in economic development and geopolitical risks negatively influenced agribusiness loan growth and implementation of the 2013-2020 State Program on Agribusiness Development.

In the current situation, the Bank has set the following strategic objectives as 2015 priorities:

- Compulsory fulfillment of all obligations to all client groups;
- Sustainable development facilitation and fulfillment of all shareholder objectives;
- Maintenance of loan portfolio quality;
- Controlling expenses and increasing profitability.

Strategy implementation will provide for the Bank's further efficient development taking into consideration the interests of both - the Government and the Bank's clients; strengthening the Bank's position as the key element in State agribusiness program implementation; and expansion of the Bank's product range.

The Strategy is oriented towards the Bank's further fruitful performance as the core financial instrument for supporting domestic food security and leading Russia towards becoming a major food exporter.

In compliance with an Order of the President of the Russian Federation and a Resolution of the Supervisory Board, Russian Agricultural Bank has adopted the 2014-2020 Long-term Development Program. The Program is synchronized with the 2013-2020 State Program on Agribusiness Development taking into consideration the following:

- Results of monitoring the Bank's Strategy implementation in 2013 and H1 2014;
- Revision of the Bank's operating conditions in the challenging macroeconomic situation;
- Received capital and expected capital contributions;
- Recommendations of the Russian Ministry of Economics;
- Other inputs.

The 2014-2020 Long-term Development Program has been approved by the Russian Government.

The Bank's long-term development priorities are based on the main targets and objectives of the Strategy, the Long-term Development Program, the Russian Food Security Doctrine and the 2013-2020 State Program, which envisages integrated development of all agribusiness sectors and subsectors, including:

- Increasing the profitability of agricultural producers as a condition of transitioning to the innovative agribusiness development model;
- Developing all types of small businesses in rural areas, including start-up farmers;
- Ensuring the sustainable development of agribusiness areas;
- Fostering cooperation and integration in agribusiness.

It should be noted that State Program implementation and import substitution objectives can be impeded by the deterioration in the economic environment and geopolitical risks. The main negative factor is limited access to financial resources from the international capital market - both for the purpose of refinancing existing borrowings and raising new funds for agribusiness financing. With the underlying problems and risks related to 2015 agribusiness lending, Russian Agricultural Bank has set the following priorities:

- Additional funding of investment projects under way;
- Maintaining loan portfolio quality;
- Seasonal field work financing.

In 2015, together with client accounts, the Bank plans to attract funds offered by the Government and to enhance lending to other economic sectors. This will allow the Bank to maintain loan portfolio growth, increase loan quality, diversify sources for raising clients' accounts and increase profitability.

At the same time, the Bank plans to maintain its leading position in agribusiness, and the fishery and forestry industries, strengthening its position as the main instrument for implementing federal and regional State programs within the sector.

Key Historical Events

2000

- Established in 2000 by a Presidential Decree to implement State policy in agribusiness and stimulate rural development.

2001

- Two State capital increases of RUB 430 million and RUB 2 billion;
- Compensation distribution within the Federal Program "Reconstruction of the Chechen economy."

2002

- Launch of lending program for personal household plot owners;
- Obtaining a license to attract retail deposits;
- State capital increase of RUB 994 million.

2003

- Capital reached RUB 4.9 billion;
- The Bank as a State Agent embarked on a financial rehabilitation program for agribusiness enterprises.

2004

- Moody's Interfax Rating Agency assigned RusAg national scale ratings;
- First ruble-denominated bond issue.

2005

- Moody's Investors Service and Fitch Ratings assigned RusAg investment grade ratings;
- First Eurobond issue of USD 350 million;
- Capital increase of RUB 6.1 million.

2006

- Ranked No. 729 by The Banker;
- Ranked No. 2 by branch network;

- State Agent for the National Agribusiness Development Project;
- Capital reached RUB 20.9 billion;
- More than a 40% share in agribusiness;
- Joined Top 10 largest banks by total assets.

2007
- Ranked No. 472 by The Banker;
- More than a 50% share in agribusiness;
- Named 2007's Best Financial Borrower in Central and Eastern Europe by Euromoney magazine;
- No. 6 by net assets and shareholder equity;
- Authorized capital reached RUB 27.7 billion.

2008
- Ranked No. 372 by The Banker;
- Ranked No. 4 by capital and assets;
- Key Bank in the 2008-2012 State Program on Agribusiness Development;
- Named Best Local Trade Bank in Russia by Trade Finance magazine;
- Capital increase of RUB 2 billion and RUB 31.5 billion.

2009
- Ranked No. 276 by The Banker;
- Named the leader in regional branch network development by the Association of Russian Banks;
- Capital increase of RUB 45 billion;
- RusAg bonds included in the MICEX Stock Exchange's "A" quotation list;
- Placed No. 3 among Russia's 100 most reliable banks in March 2009 by Forbes magazine.

2010
- Ranked No. 196 by The Banker;
- RUB 825 million capital increase;
- RUB 1 billion capital increase;
- Named No. 2 among Russia's 100 most reliable banks in May 2010 by Finance magazine;
- Ranked No. 4 among Russia's largest banks in terms of assets and capital;
- Won the annual National Banking Premium in the category "Leader in lending to the real sector of the economy."

2011
- Ranked No. 212 by The Banker;
- RUB 40 billion capital increase;
- Stood No. 3 among Russia's most reliable banks according to a Forbes banking ranking;
- Ranked No. 4 among Russia's largest banks in terms of assets and capital;

- Ranked No. 1 in terms of SME loan portfolio increase among Russia's largest banks;
- Key Bank in the 2008-2012 State Program on Agribusiness Development;
- More than 3 million customers.

2012

- Stood as the No. 2 largest branch network in the Russian Federation;
- Ranked No. 4 among Russia's largest banks in terms of assets;
- Ranked No. 189 by The Banker;
- Recorded a RUB 40 billion capital increase;
- Key financial institution implementing the 2008-2012 State Program on Agribusiness Development. The total amount of financial resources provided within the Program exceeded RUB 1.7 trillion;
- More than 70% share in seasonal field work financing.

2013

- Ranked No. 159 by The Banker;
- Key financial institution implementing the 2013-2020 State Program on Agribusiness Development;
- Recorded a RUB 30 billion capital increase.

2014

- Ranked No. 159 by The Banker;
- Key financial institution implementing the 2013-2020 State Program on Agribusiness Development;
- More than 6 million customers;
- 2 capital increases totaling RUB 30 billion;
- Total loans extended by RusAg under the National Priority Project "Agribusiness Development" and within the framework of the 2008-2020 State Programs on Agribusiness Development amounted to RUB 2.9 trillion.

2014 Calendar

JANUARY	FEBRUARY	MARCH
■ In 2013, the loan portfolio increased 15% up to RUB 1.274 trillion. Assets amounted to RUB 1.968 trillion; ■ Dmitry Patrushev held a working meeting with the Governor of the Voronezh Region; ■ Signed a Cooperation Agreement on Agribusiness Development with the Kaliningrad Region.	■ Held a round table on the Saratov Region's investment potential; ■ Signed a Cooperation Agreement with the Tambov Regional Administration; ■ For the first time entered the list of Top 500 Banking brands, which was jointly released by The Banker magazine and Brand Finance consultancy. RusAg made a strong debut at No. 337 overall and No. 7 among all Russian banks; ■ Signed a Cooperation Agreement with the Zabaikalsky Regional Administration; ■ Signed a Cooperation Agreement with the Chuvash Republic Administration; ■ Ranked 1st among the 100 largest global SWIFT member banks, demonstrating a 420% increase in traffic.	■ Signed a Cooperation Agreement on Agribusiness Development with the Krasnoyarsk Regional Administration; ■ Dmitry Patrushev paid a working visit to the People's Republic of China; ■ Signed a Cooperation Agreement with Novosibirsk Regional Administration.
APRIL	**MAY**	**JUNE**
■ Awarded the Golden Diploma of the Association of Russian Banks in the category, "For contributions to small- and mid-sized business development"; ■ Held a round table on the investment potential of the Orenburg Region.	■ Extended more than RUB 2.4 trillion for the State Programs on Agribusiness Development; ■ Signed a Cooperation Agreement on implementation of the State Program on Agribusiness Development with the Bryansk Regional Administration; ■ Partner for the 18th Saint Petersburg International Economic Forum 2014 (SPIEF).	■ Dmitry Patrushev paid a working visit to the city of Saint Petersburg and the Leningrad Region.
JULY	**AUGUST**	**SEPTEMBER**
■ Ranked No. 159 in The Banker's Top 1000 World Banks; ■ Topped the ranking of the most reliable banks, conducted by the Russian Public Opinion Research Center (VTSIOM) and the National Agency for Financial Studies (NAFS); ■ Approved the branch network development program through 2020.	■ Signed Cooperation Agreements on implementation of the State Program with the Chelyabinsk Regional Administration.	■ Signed a Cooperation Agreement on Agribusiness Development with the Sakhalin Region; ■ Signed a Cooperation Agreement with the Sverdlovsk Region Administration.

OCTOBER	NOVEMBER	DECEMBER
■ Placed 10-year Series BO-13 and BO-14 local bond issues with a nominal value of RUB 5 billion per bond. Both issues have a put option in 5 years; ■ Acted as a general partner for the 16th Russian Agricultural Exhibition "Golden Autumn"; ■ Signed a Cooperation Agreement with the Federal Agency for Fisheries within the framework of the State Program for Fishing Industry Development till 2020; ■ Signed a Cooperation Agreement with the Export-Import Bank of China; ■ Share capital increased RUB 25 billion and amounted to RUB 243.048 billion.	■ Dmitry Patrushev was awarded the first degree Order of Merit of Mari El; ■ Signed a Cooperation Agreement with the Export Insurance Agency of Russia (EXIAR); ■ Signed a Cooperation Agreement with the Republic of Kalmykia.	■ Awarded an Honorary Diploma of the Association of Regional Banks of Russia "For significant contributions to the implementation of regional small- and mid-sized enterprises (SME) support programs and constructive cooperation with the Association of Regional Banks of Russia"; ■ Signed a Cooperation Agreement with the Arkhangelsk Region; ■ Received Cbonds' 2014 Award in the category, 'Best Primary Corporate Bond Deal'; ■ Received the National Banking Award presented by the Association of Russian Banks in the category 'For achievements in lending to the real sector of economy'; ■ Winner of the national 'People's Brand - 2014' award among banks; ■ Share capital increased RUB 5 billion and reached RUB 248.048 billion.

Key Events after the Reporting Date

January 2015

- Signed a Cooperation Agreement with the Stavropol Regional Administration within the framework of the 2013-2020 State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs.
- Signed a Cooperation Agreement with UnionPay International in Shanghai (China). The Agreement provides for RusAg's development of the ATM and merchant (POS) network that accepts UnionPay cards and supports its further extension by UnionPay International.
- Opened a Renminbi correspondent account with Agricultural Bank of China to facilitate further development of international settlement services for both Russian and Chinese entrepreneurs.

February 2015

- Supported the holding of the XXVI Russian Farmers Congress. This annual forum, arranged by the Russian Association of Farms and Agricultural Cooperatives, is intended to define problems faced by agricultural producers and to outline possible solutions.
- Approved the 2015 Program for branch network development, which stipulates that the Bank will open, renovate, or change the format of 279 points of sale.

3. Corporate Governance

Leader in lending to agriculture and related sectors of economy

Sound corporate governance serves as an institutional guarantee of sustainable development and is the key element of a prudent business model for practically every financial organization. Russian Agricultural Bank has a solid record of a highly efficient corporate governance model which is based on the fundamental principles of transparency, integrity and credibility. It is structured in accordance with Russian corporate governance legislation, the Corporate Governance Code (adopted March 21, 2014) and best international practices. This structure ensures a proper balance of governing bodies, leverages authority and distributes the management process based on a four tier system that comprises the General Shareholders Meeting (represented by the Federal Agency for State Property Management (Rosimushchestvo)), the Supervisory Board, the Management Board and the Chairman of the Management Board.

The Supervisory Board exercises the leading role in ensuring effective interactions between the Bank's shareholders and its management and preventing conflicts of interests.

The Supervisory Board permanently monitors the Bank's business activities and the management bodies. When analyzing the Bank's performance, the Supervisory Board objectively assesses management efficiency. It also determines key performance targets and controls their accomplishment.

Specialized committees under the Supervisory Board perform preliminary reviews and prepare recommendations on issues that fall within the competence of the Board, including those concerning audits, strategic planning and development, staff policy and remuneration.

The Revision Commission is the body responsible for controlling the Bank's financial and business activity.

2014

No.1


Agribusiness accounts for
the largest share of the Bank's
loans, totaling 72.8% at YE2014

72.8%

The Corporate Secretary is responsible for ensuring procedures aimed at championing the rights and interests of Bank shareholders. In accordance with newly adopted Russian anti-corruption legislation amendments, in 2014, the Bank introduced numerous rules regulating disclosure of internal income and expenditures. Another important step towards improved transparency was the adoption of the Bank's Gift Policy. It establishes the procedure for accepting gifts and reporting cases in which Bank employees receive gifts from interested parties.

In 2014, Russian Agricultural Bank, also following new Russian legislation requirements, transferred its shareholder register to a registrar company. In June 2014, the Supervisory Board appointed CJSC VTB Registrar as the Bank's registrar for a three-year term.

Another major improvement in corporate governance in 2014 was adoption of the Staff Remuneration Policy. This policy incorporated all recent changes and amendments made in Russian legislation and formalized the Bank's internal staff remuneration rules and procedures.

The Supervisory Board

The role and responsibilities of the Supervisory Board, which consists of seven members, are set out in the Bank's Charter. These responsibilities include: considering and approving the corporate strategy, risk management policy, annual reports and business plans. The Supervisory Board also provides advisory assistance to the Management Board on comprehensive issues, in accordance with the Bank's core values of transparency, trust and integrity.

The presence of independent directors with solid industry expertise on the Board ensures that the Bank will continue its development under the leadership of highly competent professionals with a deep understanding of the economic and business environment.

In 2014, the General Shareholders Meeting elected the Bank's Supervisory Board comprising 7 members.

Chairman of the Supervisory Board

Denis S. Morozov
Executive Director representing the Russian Federation, Belarus and Tajikistan on the Board of Directors of the European Bank for Reconstruction and Development

Members of the Supervisory Board

Artem D. Avetisyan
Head of the "New Business" division of the autonomous non-commercial organization "Agency of Strategic Initiatives"

Oleg A. Bogomolov
Advisor to the Chairman of the Management Board of JSC "Rosselkhozbank"

Andrey Y. Ivanov
Deputy Finance Minister of the Russian Federation

Dmitry N. Patrushev
Chairman of the Board and CEO of JSC "Rosselkhozbank"

Mukhadin A. Eskindarov
Rector of the Financial University under the Government of the Russian Federation

Dmitry V. Yuriev
Deputy Agriculture Minister of the Russian Federation

There are three committees operating under the Supervisory Board:

The Audit Committee
Reviews the Bank's accounting and risk policies, as well as the internal control environment.

The Strategic Planning and Development Committee
Sets forth and supervises general and priority strategic objectives, makes recommendations on the Bank's dividend policy and evaluates the Bank's operational efficiency.

The Human Resources and Remuneration Committee
Approves the Human Resources and Remuneration policy for senior executives.

The Revision Commission

The Revision Commission is the body responsible for controlling the Bank's financial and business activity. It carries out the revision of current operations' compliance with the financial plan, analyzes the Bank's financial position, evaluates the functioning of internal control and risk management systems, and checks the legitimacy of selected transactions.

The Revision Commission is elected based on an order of Rosimushchestvo, which exercises its rights as the Bank's sole shareholder.

The Commission comprises 5 members and currently includes representatives of Rosimushchestvo, the Russian State Duma, the Federal Service for Financial and Budgetary Oversight, and the Russian Institute of Directors.

The Corporate Secretary

The Corporate Secretary is responsible for ensuring procedures aimed at championing the rights and interests of the Bank's shareholders. The Secretary participates in arranging the General Shareholders Meeting and Supervisory Board meetings, as well as works out resolutions that need approval of the Bank's shareholder. The Corporate Secretary secures effective cooperation between the shareholder and the Bank's management team.

The Management Board

The Chairman of the Board and the Management Board are Russian Agricultural Bank's sole and collective executive bodies. They perform general duties related to achieving the Bank's key business goals, accomplishing long-term targets set forth by the shareholder, supervising the compliance of the Bank's operations with all relevant laws and regulations, overseeing the introduction and functioning of appropriate risk management systems (including: defining the Bank's risk appetite), monitoring the environment in which the Bank operates, and strengthening the Bank's corporate culture.

Dmitry N. Patrushev	Chairman of the Board and CEO
Boris P. Listov	First Deputy Chairman of the Board
Victoria V. Kirina	Deputy Chairman of the Board
Evgeny V. Kryukov	Deputy Chairman of the Board
Kirill Y. Levin	Deputy Chairman of the Board
Dmitry G. Sergeev	Deputy Chairman of the Board
Irina V. Zhachkina	Deputy Chairman of the Board
Aleksey Y. Zhdanov	Deputy Chairman of the Board

The Management Board is supported by numerous specialized committees and commissions, including, but not limited to:

The ALCO Committee

Headed up by the Deputy Chairman of the Management Board.

Committee members comprise the Deputy Chairman of the Management Board, the Chief Accountant, and representatives of the following departments: Treasury, Capital Markets, Financial Institutions, Finance and Planning, Risk Management, Large Business, Legal and Retail Business.

The ALCO Committee's primary task is to review the implementation of policies on attracting and placing funds on financial markets, the sale and purchase of securities, foreign currencies and precious metals, issuing and repaying debt securities, the internal allocation of resources, market and liquidity risk management, and working out tariffs and interest rate policy.

The Credit Committee

Headed by the First Deputy Chairman of the Management Board.

Committee members include: the Deputy Chairman of the Management Board, and representatives of the following departments: Risk Management, Credit Operations, Marketing and Credit Management, Security, Large Business, Treasury, Problem Loan Management, and Legal.

The Credit Committee plays a key role in implementing and modifying the Bank's credit policy. Its tasks include minimizing credit risk and maximizing the return on lending operations both in domestic and foreign currencies. The Committee also monitors the quality of the Bank's loan portfolio and supervises decision-making process efficiency. The Credit Committee is authorized to make credit decisions without the Management Board's special approval on deals not exceeding 1% of the Bank's capital.

The Junior and Micro Credit Committees

The primary task of the Junior and Micro Credit Committees is reviewing issues related to implementing the Bank's credit policy, minimizing credit risk and ensuring rewards from operations that carry credit risk, as well as increasing the quality of the loan portfolio, and ensuring the efficiency of lending operations by increasing the quality and timeliness of decision-making when supporting credit transactions.

The Junior Credit Committee considers and sets individual credit limits for borrowers or groups of inter-related borrowers at not more than RUB 500 million. Another task is considering additional limits for Bank branches when default limits need to be raised.

The Junior Credit Committee

Chaired by the Head of Risk Management.

Committee members are representatives of the following departments: Security, Problem Loan Management, Risk Management, Credit Operations, Large, Mid-sized, Small and Micro Business, Legal, Treasury, and Retail.

The Micro Credit Committee

Headed up by the Deputy Chairman of the Management Board.

Committee members include: the Deputy Chairmen of the Management Board, representatives of the Risk Management, Retail Business, Microbusiness, and Small and Mid-sized Business Departments.

The Finance Committee

Headed up by the Chairman of the Management Board.

Committee members are made up of the Deputy Chairmen of the Management Board, the Chief Accountant, and representatives of the following departments: Finance and Planning and Branch Network Development.

Business planning, cost control, pricing policy and profitability analysis are the main issues that the Finance Committee works on. Its activities are aimed at constantly upgrading the Bank's financial and operating performance management.

The Problem Loan Management Committee

Headed up by the Deputy Chairman of the Management Board.

Committee members comprise the Deputy Chairmen of the Management Board, and representatives of the following departments: Risk Management, Security, Large, Mid-sized, and Micro Business, Problem Loan Management, Credit Operations, Legal, Finance and Planning, Treasury, and Tax.

The Problem Loan Management Committee's main function is organizing a comprehensive system for distressed debt recovery and settlement, and the management of problem and non-core assets. The Committee is responsible for working out a range of instruments for both the Bank's Head Office and branches to ensure that non-performing and/or restructured loans generate financial returns.

The Branch Network Committee

Headed up by the Deputy Chairman of the Management Board.

Committee members include: the Deputy Chairmen of the Management Board and representatives of the following departments: Branch Network Development, Marketing and Credit Management, Strategy, Finance and Planning, Human Resources, Administrative, Large, Mid-sized, Small and Micro Business, Retail, and Operations and Security.

The Branch Network Committee reviews issues on implementing the Bank's branch network development policy, setting up points-of-sale and assessing branch and representative office efficiency, coordinating government and regulatory relations activities at branches, and guiding the Bank on how to better capitalize on Russia's second largest nationwide branch network.

The Strategy and Corporate Development Committee

Headed up by the Chairman of the Management Board.

Committee members are the Deputy Chairmen of the Management Board, the Chief Accountant, the Head of the Chairman's Office and representatives of the following departments: Corporate Development and Legal.

The Strategy and Corporate Development Committee elaborates on recommendations and proposals for the Management Board related to general strategy and corporate development, and project and overall corporate management.

The Corporate Ethics and Discipline Committee

Headed up by the Deputy Chairman of the Management Board.

The Committee includes representatives of the following departments: Human Resources, Security, Legal, Corporate Development, Financial Institutions, and Branch Network Development.

The Corporate Ethics Committee is responsible for promoting unified corporate values and ethical rules among the Bank's staff. The Committee exercises general control over employees' observation of labor legislation, internal norms and codes, subordination principles and any other rules that regulate the Bank's working environment.

The Technological Committee

Headed up by the Chief Accountant.

Committee members represent the following departments: Automated Systems, Financial Institutions, Corporate Development, Finance and Planning, Risk Management, Security, Marketing and Credit Management, Branch Network Development, Card Operations and Remote Banking, Treasury, Operations, and Retail Business and Procurement Services.

The Technological Committee functions as an internal think tank for technological development. The Committee is responsible for ensuring that the Bank's IT infrastructure is up-to-date. It analyzes the latest trends and suggests the introduction of new hard- and software solutions. The Committee acts as a mediator to harmonize the technological development process when two or more business divisions are involved.

4. Operating Environment

Loans extended to agribusiness totaled RUB 454 billion in 2014

4.1 2014 Macroeconomic Climate and 2015 Outlook[1]

2014 was marked by a deterioration of operating conditions in the Russian economy and the banking sector. Negative factors include: geopolitical tensions, the imposition of sanctions against numerous Russian banks and companies by the US and the EU, and a mid-year decline in oil prices.

Economic growth slowed by the end of 2014, but still remained positive, and totaled 0.6%. 2014 retail trade turnover exceeded the previous year's level by 2.5%. Imports declined, and as a result, net exports increased. However, there was a decrease in investment activity mostly due to growth in macroeconomic uncertainty and rising borrowing costs.

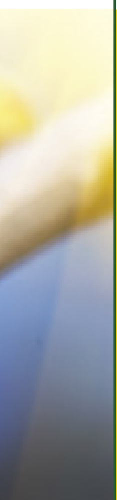
Manufacturing growth at the end of 2014 reached 1.7%, primarily due to a 2.1% overall sector increase.

Considerable ruble depreciation and the influence of specific factors on food markets have led to accelerated inflation. The 2014 consumer price index stood at 11.4%.

To implement its monetary policy, the Bank of Russia has repeatedly raised the key interest rate. As a consequence, interest rates on the financial market have increased proportionately resulting in the lower availability of borrowed funds.

In 2015, both the supply-demand balance on the global oil market and oil prices are expected

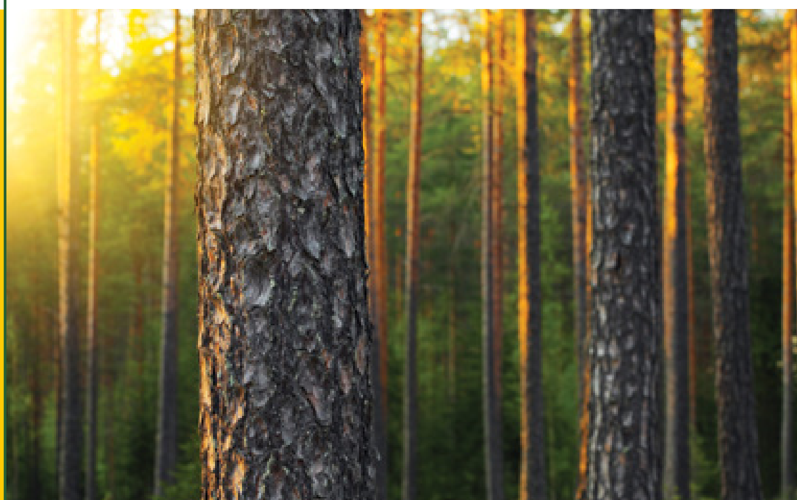
1 The forecasts in this section are only general guidelines and are subject to change.



2014

RUB billion

454




The Bank's lending priorities
in Russian agribusiness are
determined by its active
participation in the State Program
implementation

thousand loans in 2014

449

to recover, which would positively impact the main economic indicators and financial market stability. At the same time, persistent sanctions will lead to a limited access to external capital markets in 2015.

Measures adopted by the Russian Government, which are aimed at ensuring sustainable economic development and social stability, will support economic dynamics, including investment and consumer demand. However, they will not help avoid a decline in GDP.

A balanced government fiscal policy, significant amounts of sovereign wealth funds, as well as strong public finances and significant international reserves, will ensure macroeconomic stability.

With ruble stabilization and an inflation decrease, the Bank of Russia will continue lowering the key rate, which will positively impact the growth of the economy credit rate and the potential for modernization and import substitution.

Despite an increase in the external debt burden for banks and companies due to ruble devaluation, Russian exporters are able to independently repay foreign debts; the problem of external debt refinancing for the banking sector is not system-wide. The ratio of Russia's external debt to GDP remains relatively low at 47.5% as of January 1, 2015. A substantial portion of the external debt is long-term. By the end of 2014, the external debt of banks and non-financial corporations had decreased 11%.

The impact of the macroeconomic situation on Russian Agricultural Bank Actions taken to minimize negative impacts

The sanctions imposed on strategically important Russian companies, including Russian Agricultural Bank, have limited borrowing possibilities on both the foreign and domestic financial markets. Under these conditions, the Bank is gradually increasing its presence on the client resources market by actively raising funds from both retail and corporate clients. In addition to that, Russian Agricultural Bank uses funding offered by the Bank of Russia, which includes medium-term funding secured by loans, as well as specialized refinancing tools.

The Government of the Russian Federation has taken a set of measures on recapitalizing Russian Agricultural Bank, which provides the necessary financial support and expands lending availability for companies and agribusiness organizations. In particular, the share capital of Russian Agricultural Bank increased RUB 25 billion in October 2014, following the conversion of a subordinated loan received in 2008 from Vnesheconombank into preferred shares. In December 2014, the Government of the Russian Federation increased the Bank's authorized capital RUB 5 billion. In addition, the Russian Deposit Insurance Agency (DIA) was entitled to allocate federal loan bonds (OFZ) received from the Government in the form of subordinated loans to banks or subordinated bonds issued by banks as well as to banks' shares outside of bankruptcy prevention procedures. The expected capital increase for Russian Agricultural Bank is RUB 68.8 billion.

4.2 The Banking Sector

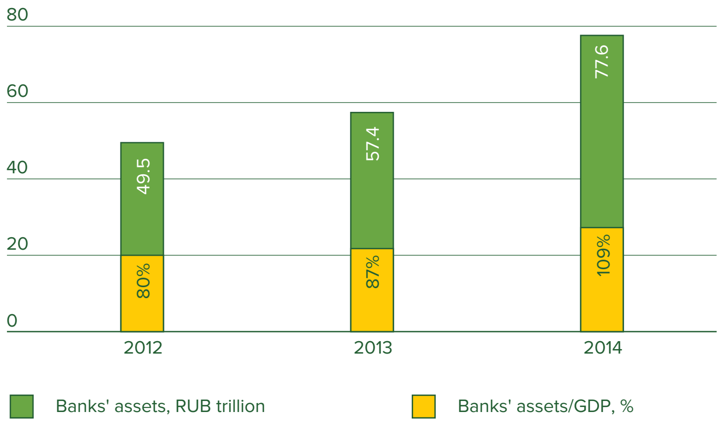
Key Indicators of the Russian Banking Sector[2]

	2014 RUB billion	% Change from the previous year	2013 RUB billion	% Change from the previous year
Assets	77,653	35	57,423	16
Capital	7,928	12	7,064	16
Loans to the non-financial sector	29,536	31	22,499	13
Loans to individuals	11,330	14	9,957	29
Corporate deposits (non-financial organizations)	24,993	41	17,754	14
Retail deposits	19,329	14	16,958	19

In 2014, the Russian banking sector developed under difficult macroeconomic conditions. Nevertheless, the sector remains stable. As of January 1, 2015, the capital adequacy ratio stood at 12.5%, with a regulatory level of 10%.

In 2014, banking sector assets grew 35.2%, with half of this increase stemming from currency revaluation. Consequently, the sector assets/GDP ratio has increased from 86.8% to 109.4% y-o-y.

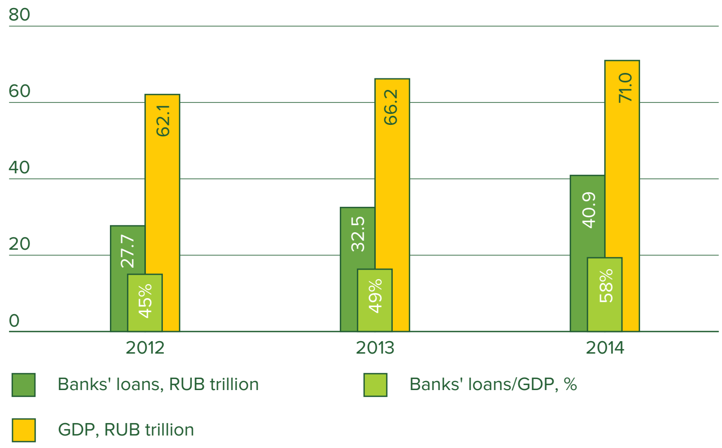
BANKING SECTOR ASSETS



2 Source: the Bank of Russia

In 2014, loans to non-financial organizations showed a significant 31.3% growth. The main growth driver in corporate lending was high demand for loans to large businesses in conditions of limited access to external capital markets. Agribusiness loans remained at the previous year's level (+1.2%), due to lower demand for credit resources against the background of the improving financial situation of agricultural producers, overall macroeconomic instability, and the slight impact of currency revaluation.

PENETRATION RATIO OF THE BANKING SECTOR



The 13.8% decrease in the retail loans growth rate at the end 2014 (from 28.7% in 2013) was mainly due to unsecured consumer lending, whereas the increase in outstanding mortgage loans amounted to 33.5%.

The share of overdue loans in the corporate portfolio remained stable due to growth in lending to less risky large businesses. The share of overdue loans in the retail portfolio increased from 4.4% to 5.9%, which was mainly the result of rapid growth of retail lending prior to 2014.

With limited access to external markets, banks reduced their external debt. Subsequently, the importance of the internal funding base has increased. Against a background of a structural liquidity deficit, the proportion of funds raised from the Bank of Russia in total liabilities for the banking sector increased from 9.5 to 12.0%.

In 2014, customer accounts grew 25.4%, due to a significant 56.9% (excluding ruble depreciation – 24%) increase in corporate deposits. Retail deposits grew at a moderate 9.4% pace.

The banks' growing provisioning expenses, which have increased 42.2%, and negative revaluation of debt securities due to rising interest rates led to a decline in profits – the main capital source for the banking sector. In 2014, financial institutions' profit amounted to RUB 589 billion, which is a 40.7% decrease compared with 2013.

The Government's implementation of a special set of measures for recapitalizing Russian banks in the total amount of more than RUB 1.5 trillion in 2015 will allow for the maintenance of growth in loans to non-financial institutions at a positive level and to achieve sustainable bank activity in accordance with effective regulation.

In 2015, customer accounts and loans from the Bank of Russia will remain the main funding source for the banking sector. A positive trend is expected in individual deposits and the deposits of non-financial organizations. High interest rates, an increased propensity to save, a slowdown in businesses' investment activity and capital repatriation will also contribute to this trend.

Measures to Support Russian Banking Sector Liquidity and Capitalization Levels implemented in 2014[3]:

- The Russian Ministry of Economic Development has introduced a program to support large investment projects to be implemented by banks via project financing and then refinanced from government funds;
- The Russian Ministry of Finance approved the recapitalization of numerous banks via the Deposit Insurance Agency (DIA) – OFZ scheme: the DIA will receive OFZ totaling RUB 1 trillion to boost banks' capital;
- The Bank of Russia decided to introduce a new instrument – foreign currency-denominated loans secured by foreign currency-denominated receivables;
- The Bank of Russia has started accepting Eurobonds as collateral under its REPO deals with banks;
- The Bank of Russia has lowered discounts on securities accepted as collateral under REPO deals by 5-5.5% to pump more liquidity into the banking system;
- The Bank of Russia has extended the terms of its loans to banks covered by non-market assets, sureties or gold from 1 to 1.5 years;
- The Bank of Russia has started offering FX liquidity to banks via USD/RUB swaps;
- The Bank of Russia has started to conduct FX REPO auctions for a term of up to 1 year;
- The conversion of subordinated loans received by banks from the State in 2008-2009 into preferred shares.

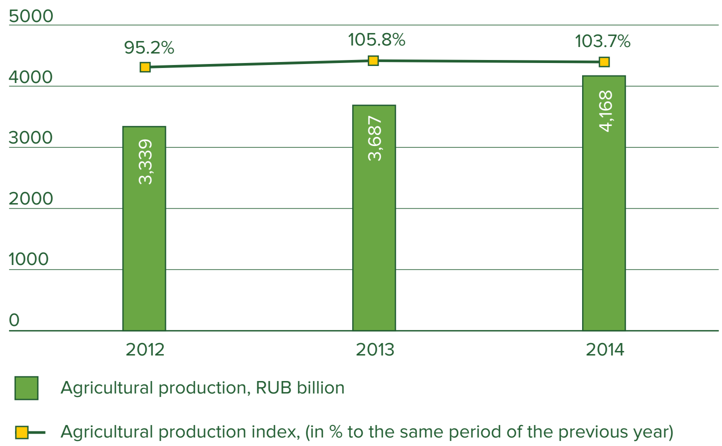
3 The above-list is not exhaustive.
Source: the Bank of Russia, Federal State Statistics Service, Russian Ministry of Finance, and Russian Ministry of Economic Development.

4.3 The Agribusiness Sector

Key Agribusiness Development Figures for 2014/2015[4]

- In 2014, net grain yield increased 12% and amounted to 103.8 million tons (according to preliminary data). This is the second highest grain yield in Russia since 2008, when it harvested 108 million tons in net weight.
- In 2014, agricultural production in current prices reached RUB 4,168.3 billion. The agricultural production index stood at 103.7%.
- In 2014, according to preliminary data, the share of agribusiness (including: food production, fishery and forestry) in GDP will be 3.5-3.8%.
- As of February 2015, grain exports amount to 23.9 million tons.
- In monetary terms, wheat exports reached USD 5.4 billion. The increase over the same period in 2014 amounted to 56%.
- The Russian grain export potential for the current agricultural season is 23% above the previous period's level.
- Meat and dairy product imports decreased 32.6% in 2014 – down to 1.1 million tons, compared with the previous year.
- In 2014, agricultural product imports to Russia decreased 9% y-o-y and amounted to USD 40.9 billion. Russian agricultural product exports, on the contrary, increased 14% to USD 19.1 billion.

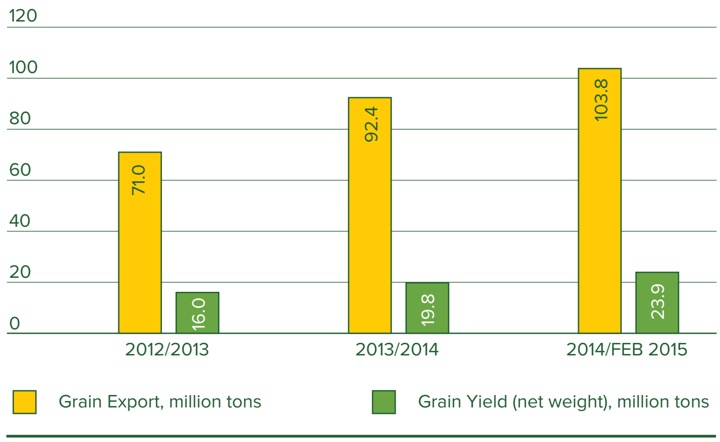
AGRICULTURAL PRODUCTION



4 Source: The Russian Ministry of Agriculture, the Russian Federal State Statistics Service

In 2014, agriculture was one of the economic growth drivers (a growth rate of 103.7%). The key factors in agribusiness development were: favorable agro-climatic conditions, import substitution and increasing exports. As a result, crop and meat production showed significant growth in 2014, and milk production was maintained at a sustainable level.

GRAIN YIELD AND EXPORT (Agricultural Year - July/June)



According to the Russian Federal State Statistics Service, the crop production index in 2014 amounted to 105.1%. Gross grain harvest increased 12.4%, whereas the sunflower harvest decreased 17% and sugar beets fell 16.8%.

In 2014, the livestock sector showed a positive trend; the production index for livestock breeding amounted to 102.1%. During the reporting period, agricultural producers increased the output of livestock and poultry (in live weight) 4%, up to 12.7 million tons. Meat production grew 8.1%, including slaughter pigs – 12.5%, poultry – 7.6%, and milk production increased 2.2%.

Due to an embargo on pork imports from EU countries (January), sanctions imposed by Russia (August), and ruble devaluation (throughout the year), 2014 has seen record high price levels for key foodstuffs. This, coupled with the growth of the industry's gross output, produced sizable financial results. Thus, as of 11M 2014, the pre-tax profit of the livestock sector increased 3 times – up to RUB 114 billion; crop production rose 45%, up to RUB 60 billion.

At the same time, factors such as macroeconomic uncertainty, the indefinite validity period for the ban on imports imposed by Russia, rising expenses due to ruble devaluation, and the lack of availability of long-term financial resources due to sectoral sanctions against Russian banks have substantially limited investment activity in the industry. The abovementioned factors have caused a slowdown in agribusiness lending. In 2014, lending decreased 13%

and amounted to RUB 520.5 billion; the agribusiness loan portfolio increased 1.3% to RUB 1,294 billion.

Despite all the above-mentioned difficulties, agribusiness retains considerable investment potential, substantiated by factors including: import substitution, productivity growth, structural adjustment, and exports.

In 2014, amendments introduced to the 2013-2020 State Program on Agribusiness Development and the Regulation of Farm Produce, Raw Materials and the Foodstuffs Markets provided particular details of government support, specifying concrete areas of financing, with due regard for import substitution development.

Government Support of the 2013-2020 State Program on Agribusiness Development[5]

- Total federal budget expenditures for State Program implementation increased 47.9% and may exceed RUB 2.1 trillion, including additional support in the amount of more than RUB 680 billion until 2020. These funds are primarily aimed at agribusiness import substitution and export accumulation.
- In 2015, the consolidated budget stipulated RUB 190 billion for support of the State Program on Agribusiness Development, in 2016 – RUB 258 billion, in 2017 – approximately RUB 301 billion.
- Interest rate subsidies from the State budget for short-term loans to agricultural producers, including for seasonal field work, will amount to 14.68% p.a. (instead of the prevailing compensation scheme: 2/3 of the Bank of Russia refinancing rate).

5 Source: the Russian Ministry of Agriculture, Russian Federal State Statistics Service

5. Management Discussion and Analysis

2nd largest share in SME lending

5.1 Financial and Operating Performance[1]

Amid macroeconomic challenges that emerged in 2014, sanctions imposed by the US, EU and numerous other countries, Russian Agricultural Bank ensured positive dynamics for its key business lines while maintaining sufficient capital adequacy levels.

The Bank's total assets increased 15% year-on-year to RUB 1.916 trillion; the loan portfolio before impairment grew 13% and amounted to RUB 1.554 trillion (as of December 31, 2014). The corporate loan portfolio reached RUB 1.273 trillion – 13% growth. The retail loan portfolio was up RUB 281 billion, a 12% increase. Customer accounts grew 6% and totaled RUB 762 billion.

The rise in financial market interest rates, on the back of the Bank of Russia's (CBR) key rate increase in 2014, and a spike in funding costs led to an 8% contraction year-on-year in the Bank's net interest income, down to RUB 60 billion. Notwithstanding the unfavorable market environment, the Bank expanded its customer base, and continued to develop transaction services, which drove a 6% increase in net fee and commission income, up to RUB 9 billion.

Russian Agricultural Bank maintained necessary capital adequacy levels in 2014. Total and Tier I capital adequacy ratios, in accordance with Basel II, stood at 13.0% and 9.9%, respectively.

Assets and Liabilities

In 2014, the Bank's total assets increased RUB 245 billion (15%) to RUB 1.916 trillion. Corporate and retail loans (74%) consistently dominate the Bank's asset structure, indicating a historically high degree of customer loyalty.

1 Note: Financial data in this section is prepared under IFRS as of December 31, 2014. All data in percentage (%) terms is calculated based on Russian ruble-denominated financial results. Some detailed information on Russian Agricultural Bank's business performance is prepared under RAS, as of January 1, 2015.

2014

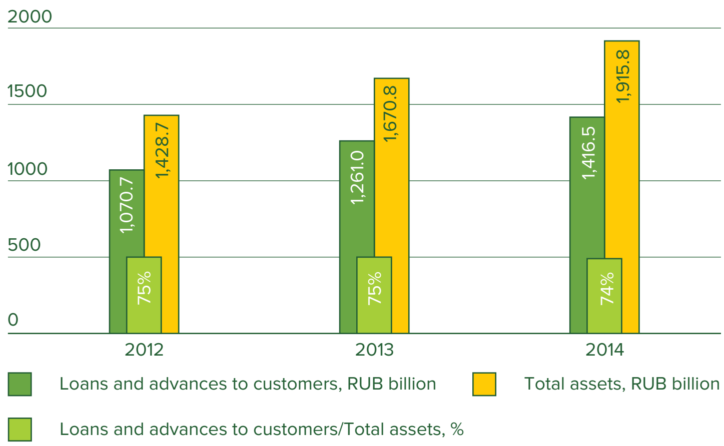
No.2


The Bank has financially supported producers, businesses and farms in implementation of 4,796 investment projects

investment projects

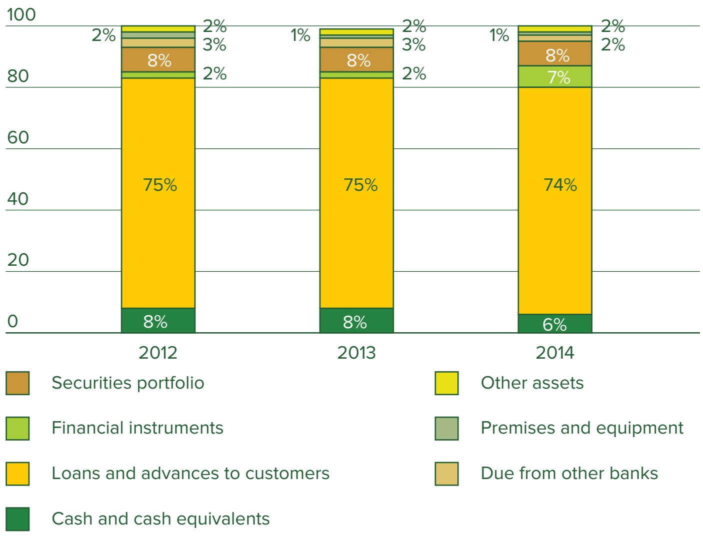
4,796

SUSTAINABLE GROWTH



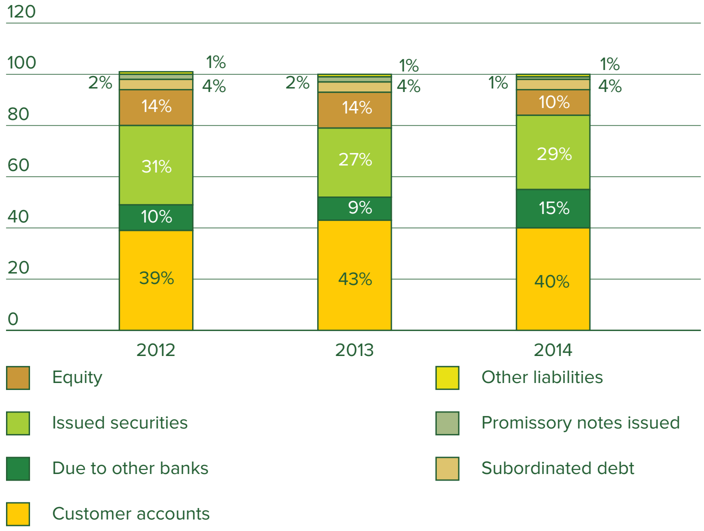
The share of cash and cash equivalents accounted for 6% of the Bank's total assets, financial instruments and securities –15%, amounts due from other banks – 2%, and premises and other assets –3%.

ASSET STRUCTURE



Russian Agricultural Bank liabilities are reasonably well diversified. In 2014, customer accounts made up 40% of the Bank's total liabilities (the largest share of liabilities). The share of issued debt securities accounted for 29% of the Bank's total liabilities, equity and the amount due to other banks – 10% and 15%, respectively.

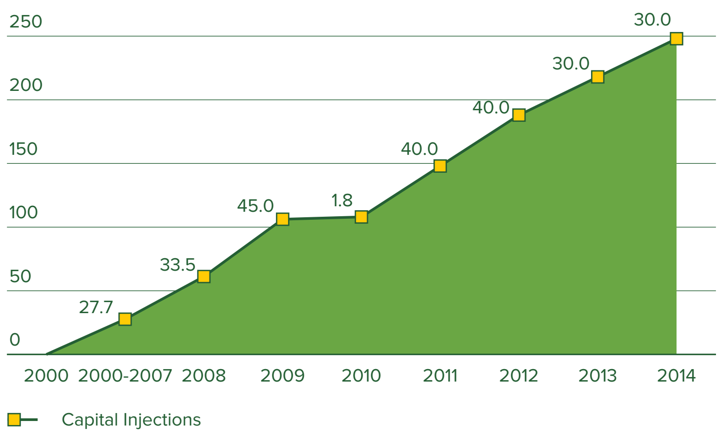
LIABILITY STRUCTURE



Capital

The Government possesses all the resources and capacity to provide financial support to the Bank, as the sole shareholder, in appropriate amounts, taking into account Russia's strong fiscal position, low level of public debt, substantial amount of foreign exchange reserves, and flexible State monetary policy.

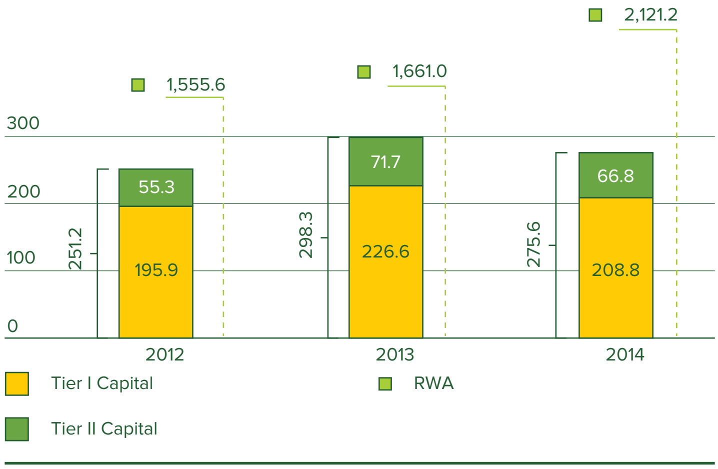
SHARE CAPITAL GROWTH, RUB BILLION



The share capital of Russian Agricultural Bank increased RUB 25 billion in October 2014, following the conversion of a subordinated loan received in 2008 from Vnesheconombank into preferred shares. In December 2014, the Government increased the capital of Russian

Agricultural Bank by RUB 5 billion. Consequently, the Bank's share capital amounted to RUB 248 billion and total capital reached RUB 276 billion.

CAPITAL AND RISK-WEIGHTED ASSETS (RWA), RUB BILLION



The Bank's capital ratios comply with Bank of Russia requirements and Basel Committee recommendations. The capital adequacy ratio stood at 13% as of YE 2014, while the CBR requires 10% and Basel II – 8%.

Capital Adequacy Ratios, YE2014

Basel II Capital Ratios, %	
Tier I Capital	9.9
Total Capital	13.0

CBR Basel III Capital Ratios, %		**Minimum requirement**
Core Tier I Capital	10.48	5
Tier I Capital	10.48	6
Total Capital	13.04	10

The Government is committed to funding further Russian Agricultural Bank capital increases. The annual capital replenishment of Russian Agricultural Bank is a part of planned federal budget expenditures up to 2020.

In 2014, the 2013-2020 State Program on Agribusiness Development was supplemented by a new sub-program "Development of the financial and credit system in agribusiness," which stipulates annual injections into Russian Agricultural Bank's share capital from 2016 to 2020 in the total amount of RUB 79.5 billion. Russian Agricultural Bank is the only bank included in this sub-program.

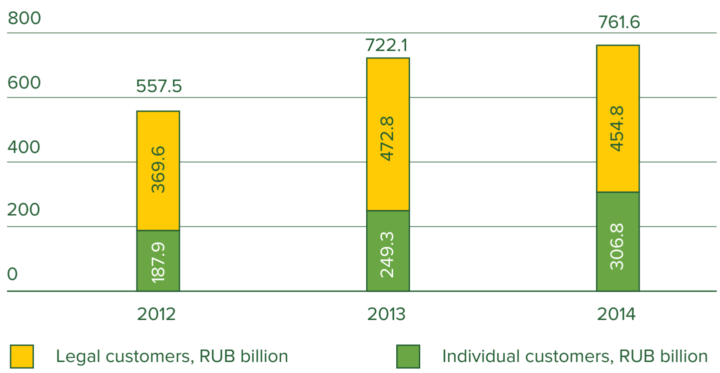
Customer Base

Russian Agricultural Bank has a nation-wide network of approximately 1,500 points of sale, including those in small settlements and remote regions. The network covers 77% of Russian territory, providing potential and existing clients with access to financial services across the country.

The Bank offers a wide range of products and provides professional advice and dedicated and personalized service to both retail and corporate business. In 2014, the number of clients grew to 6.2 million.

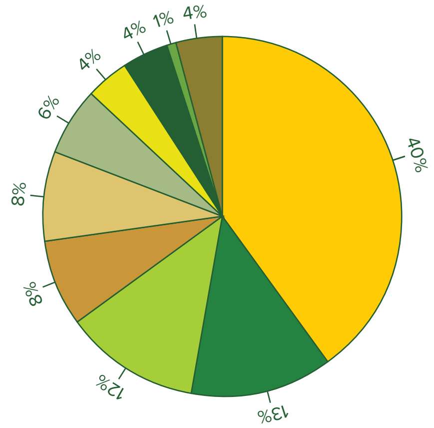
In 2014, Russian Agricultural Bank customer accounts grew RUB 39 billion (6%) and totaled RUB 762 billion. Corporate and retail customer accounts grew in line with the Bank's plans to increase its customer base.

DEPOSIT GROWTH



Private sector corporate accounts grew 11% and reached RUB 354 billion. Retail customer accounts increased 23% up to RUB 307 billion. In total, corporate and retail client funds (except for State and public organizations) grew 16% and reached RUB 660 billion. Resources that were raised from State and public organizations amounted to RUB 101 billion. The strong deposit growth enabled the Bank to continue to meet customers' borrowing demand.

CUSTOMER ACCOUNTS BY SECTOR



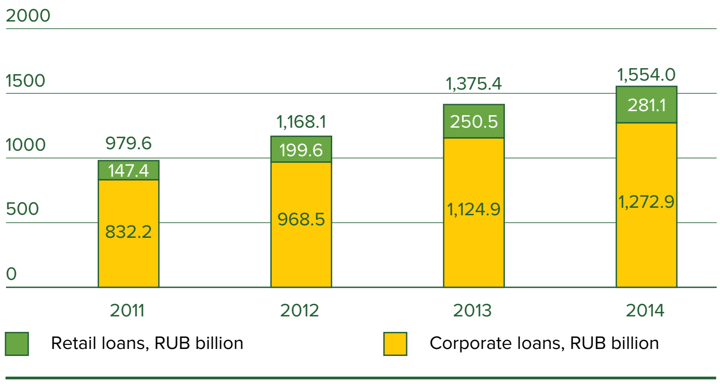
Individuals, 40%	Agriculture, 6%
State and public organizations, 13%	Insurance, 4%
Financial services and pension funds, 12%	Trading, 4%
Manufacturing, 8%	Telecommunication, 1%
Construction, 8%	Other, 4%

5,500 loans extended to farms in 2014

Loan Portfolio

Consistently developing its work with clients over the past year, Russian Agricultural Bank has increased its loan portfolio before provisions by RUB 179 billion (13%) up to RUB 1.554 trillion.

LOAN PORTFOLIO STRUCTURE



The corporate loan portfolio grew 13% and reached RUB 1.273 trillion. The corporate segment remains the key to the Bank's business, with loans to corporate customers representing 82% of the total loan book.

The retail loan portfolio increased RUB 31 billion (12%) up to RUB 281 billion. Loans to individuals represent 18% of the gross loan portfolio.

loans

5,500


Seasonal field works financing remains one of the Bank's focuses. In 2014, RUB 147.8 billion were extended for this purpose

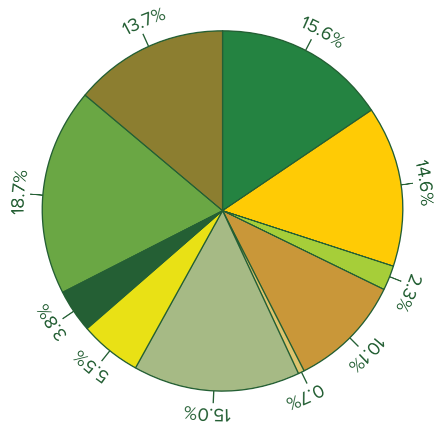
RUB billion

147.8

In 2014, Russian Agricultural Bank extended loans to retail customers in an amount exceeding RUB 138 billion; 78% of this amount is made up of mortgage and consumer loans. Mortgage loans reached RUB 54 billion, which is two times higher than in 2013. Consumer loans remain the most demanded product type by retail clients. The Bank extended RUB 55 billion for consumer lending. The pension loan program accounts for 30% of this figure.

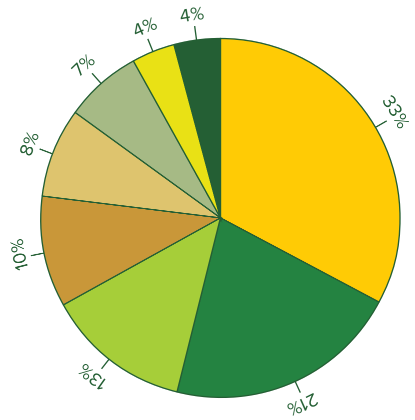
The Bank's loan portfolio is well-diversified within the agribusiness sector and related sub-sectors, as well as across the whole agribusiness chain. Agribusiness is a highly diversified sector with more than 20 sub-sectors and related industries, which provides for multiple lending segments within the framework of the agribusiness production chain.

LOAN PORTFOLIO DIVERSIFICATION BY SECTOR



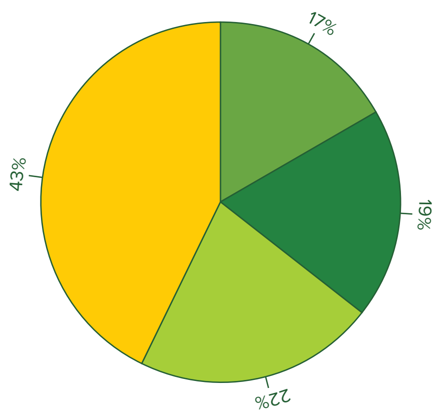
Plant breeding, 15.6%
Animal breeding, 14.6%
Plant and animal breeding enterprises, 2.3%
Food and processing, 10.1%
Agribusiness service enterprises, 0.7%
Other agribusiness enterprises, 15.0%
Farms, 5.5%
Trade enterprises, 3.8%
Other industries, 18.7%
Individuals, 13.7%

LOAN PORTFOLIO DIVERSIFICATION BY REGION



1 - Central region, 33%	5 - North-West region, 8%
2 - Volga region, 21%	6 - North Caucasus, 7%
3 - South region, 13%	7 - Far East region, 4%
4 - Siberia, 10%	8 - Ural, 4%

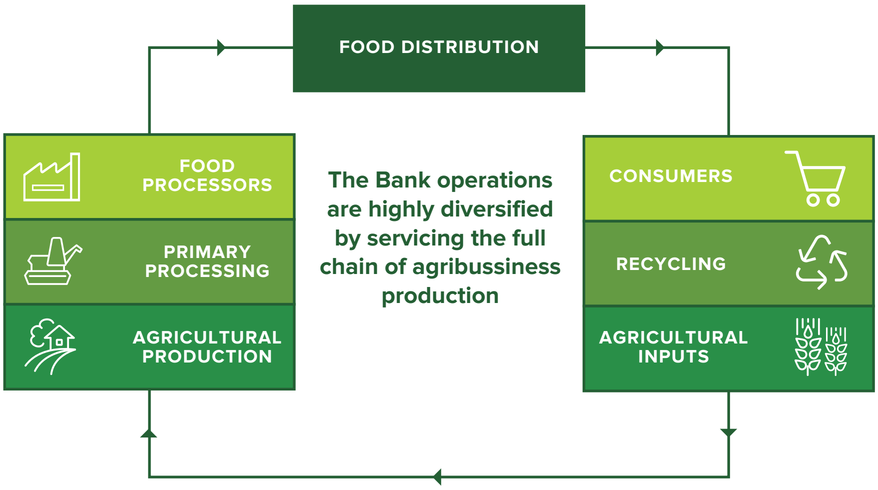
CORPORATE PORTFOLIO SPLIT BY MATURITY



Less than 1 year, 17%	From 3 to 5 years, 22%
From 1 to 3 years, 19%	Over 5 years, 43%

During the reporting period, the Bank provided financial support to agribusiness enterprises across all production cycle stages: from primary agricultural production, to storage and processing, and on to final output and marketing.

LOAN PORTFOLIO DIVERSIFICATION ACROSS THE AGRIBUSINESS PRODUCTION CHAIN



In 2014, agribusiness lending reached RUB 1.052 trillion. The share of agribusiness in the Bank's loan portfolio amounted to 73%.

One of the main agribusiness lending directions is financing seasonal field work. For these purposes, in 2014, Russian Agricultural Bank extended RUB 148 billion. The Bank's market share in financing seasonal field work is 78% as of YE2014.

The Bank extended 5.5 thousand loans to farmers totaling RUB 15 billion. Personal household plot owners received RUB 25 billion in loans.

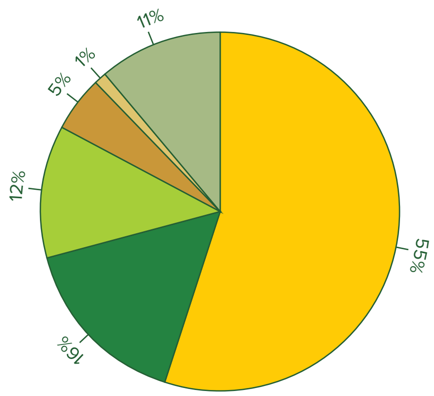
Loan Portfolio Quality and Collateral

The Russian economic slowdown, ruble devaluation, rate increases and the ensuing rise in debt burden contributed to the deterioration of agribusiness enterprises' financial position. The Bank took adequate measures to mitigate higher credit risks and create additional loan loss provisions.

In 2014, Russian Agricultural Bank substantially increased its provisions by 20% y-o-y, from RUB 114 billion to RUB 137 billion, which increases the Bank's capacity to withstand potential losses. The size of provisions is based on estimated future cash flows arising from borrower performance and, if applicable, collateral sale – 99% of the loan portfolio is collateralized and 83% of the received collateral is highly liquid.

The 1.3-times growth in non-performing loans (NPL) in 2014 was mainly driven by the ageing of loans issued from 2006-2009 and the impact of unfavorable weather conditions (2013), as well as consequences of the 2009-2010, 2012 droughts and the challenging macroeconomic environment for agribusiness.

COLLATERAL STRUCTURE



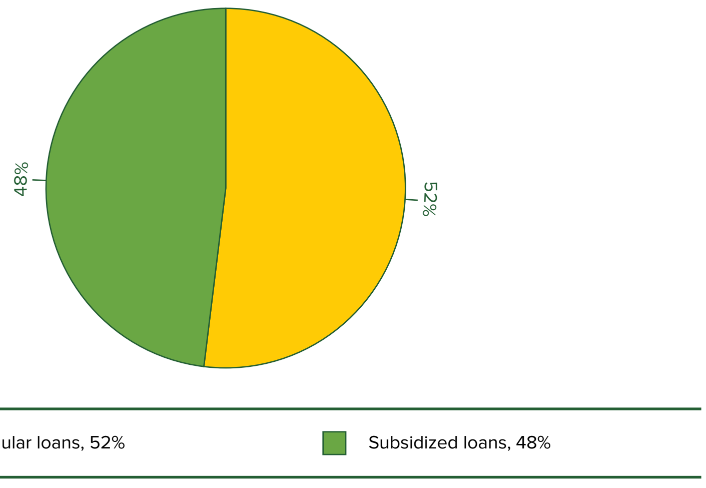
Subsidizied Lending

Borrowers participating in State agribusiness development programs are eligible for partial compensation of interest rate expenses under the loan agreement. For a borrower to receive compensation from the appropriate budget, a loan must be granted to agricultural producers, farmers, small- and medium-sized enterprises, agricultural cooperatives or personal household plot owners to purchase agricultural machinery or equipment, seeds, fodder, fertilizers or other similar products that are required for seasonal work and other products that comply with a list approved by the Russian Ministry of Agriculture. The borrower must also have a good credit history and be in good financial condition. A subsidy during the next period is available only if the borrower has shown positive payment discipline in previous periods. Subsidized lending is one of the most effective measures to foster agribusiness development and to support agricultural producers.

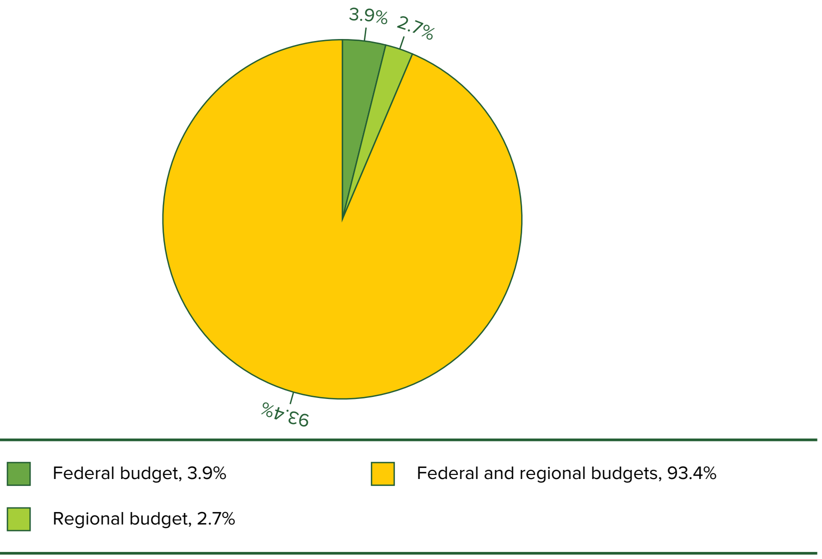
Russian Agricultural Bank is a key participant in federal and regional programs under which agricultural producers receive compensation via subsidies from respective budgets for interest repayment.

Subsidized loans are granted on the same basis as regular loans. Subsidy availability for a borrower does not require the Bank to approve such a loan. Depending on the purpose of the loan and the borrower category, loans eligible for subsidies may have a maturity of up to ten years.

SUBSIDIZED LOANS – SHARE IN THE BANK'S CORPORATE LOAN PORTFOLIO



SUBSIDY SOURCES



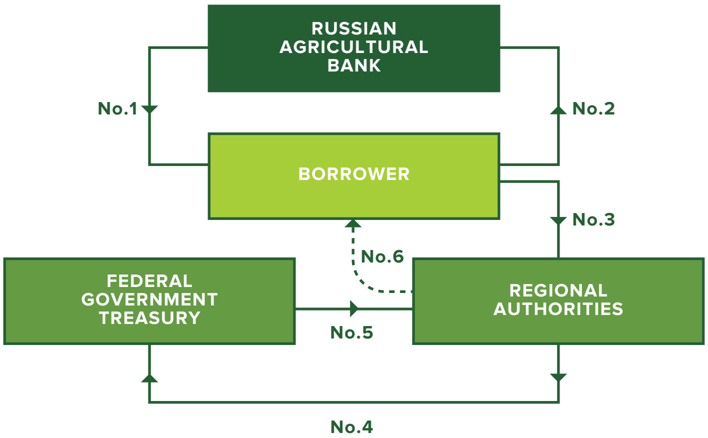
During 2014, borrowers were eligible for the following interest rate subsidies, calculated on the basis of the Bank of Russia's (CBR) refinancing rate (8.25%):

Corporate borrowers: 2/3 of the CBR refinancing rate from the federal budget and up to 1/3, but not less than 20% of the CBR refinancing rate from the regional budget, including:

- Dairy production – 80% of the CBR refinancing rate from the federal budget and not less than 20% of the CBR refinancing rate from the regional budget;
- Livestock meat production – 100% of the CBR refinancing rate from the federal budget and up to 3% more than the CBR refinancing rate from the regional budget.

Individuals and farmers: 95% of the CBR refinancing rate from the federal budget, and the remaining 5% compensated from regional budgets.

PROCEDURE FOR SUBSIDIZED LOANS REIMBURSEMENT



No.1	Loan Extended	No.4	Specified Documents
No.2	Interest and Loan Payments	No.5	Subsidies
No.3	Bank Notification on Interest and Loan Payments	No.6	Part of Interest Reimbursement

In 2014, the federal budget allocated more than RUB 91 billion to compensate borrowers' interest expenses, including: RUB 27 billion to crop producers, RUB 56 billion to livestock producers and more than RUB 3 billion on investment loans for the construction and modernization of agribusiness production complexes.

Income and Expenses

The rise in financial market interest rates on the back of the 2014 CBR key rate increase and a spike in funding costs led to an 8% contraction in the Bank's net interest income year-on-year down to RUB 60 billion. Notwithstanding the unfavorable market environment, the Bank expanded its customer base, continued to develop transaction services, which drove a 6% increase in net fee and commission income – up to RUB 9 billion. During the reporting period, 51% of the Bank's fee and commission income was generated by cash transactions, 20% – by agency fees for the sale of insurance contracts, and settlement transactions accounted for 11%.

The share of interest income from loans and customer advances (89.9%) prevailed in the Bank's 2014 total interest income, revenues from investments in securities accounted for 7.4% and from interbank lending – 1.2%.

2014 interest expenses were comprised mostly of expenses on corporate and retail deposits (48.5%) and issued debt securities (33%). The share of bank deposits accounted for 12.6% and subordinated debts was 4.9%.

The Russian economic slowdown, ruble devaluation, rate increase and the ensuing rise in debt burden added to the deterioration of agribusiness enterprises' financial position. The Bank took adequate measures to mitigate higher credit risks and create additional loan loss provisions. Given the worsening non-financial sector operating conditions, which put additional pressure on the borrowers' financial standing, loan impairment charges increased more than twice year-on-year (up to RUB 56 billion), which affected Bank profits. 2014 losses stood at RUB 47.9 billion.

2015 Outlook

In 2015, as part of the Government anti-crisis plan and steps to support Russian Agricultural Bank and its lending to priority domestic industries, Russian authorities will allocate RUB 10 billion to the Bank's share capital. Another RUB 68.8 billion is stipulated for capital replenishment in the form of federal loan bonds through the Russian Deposit Insurance Agency.

These measures, combined with the expense optimization program implemented in 2015, relating to the branch network, business processes and administrative costs, will keep up the expansion of Russian Agricultural Bank's lending to agricultural producers, aimed at promoting greater efficiency of domestic agribusiness, faster import substitution and greater Russian food independence.

5.2 State Program Implementation[2]

Russian Agricultural Bank is a 100 % State-owned specialized financial institution. The Bank is a state agent for agribusiness development. It plays a fundamental role in financing domestic agribusiness. The Bank's mission and strategy focuses on financing and fostering the development of agribusiness (including fishery and forestry enterprises), and the population of small towns and rural areas as core goals.

Russian Agricultural Bank plays a major role in implementing the 2013-2020 State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs and other federal and regional agribusiness development programs. The Bank has cooperation agreements in place to implement State programs and support agribusiness with Russian constituent administrations. Moreover, the Bank has become an effective instrument for supporting national agriculture, forestry and fishery after WTO accession.

In the current situation of US and EU sanctions and reciprocal sanctions of the Russian Federation, the Bank plays an important role in financing import substitution, and therefore, contributes to domestic food security.

2 Note: Financial data in this section is prepared under RAS as of January 1, 2015.

Russian Agricultural Bank, as the key financial institution for agribusiness development, plays a significant role in implementing State food security policy. Financing for long-term investment projects and seasonal field work, and ensuring lending availability in complex climatic and economic conditions, have secured high growth rates for domestic agricultural production.

State Agribusiness Development Program

Russian Agricultural Bank holds a unique position in the market, fostering Russia's sustainable agribusiness sector development. It is the key financial institution supporting implementation of the 2013-2020 State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs. The 2013-2020 State Program succeeded the 2008-2012 State Program on Agribusiness Development and the National Priority Project on Agribusiness Development (which was in place for 2005-2007). The Bank's strategy is consistent with the 2020 State Program.

In 2014, the State Program stipulated RUB 150 billion for agriculture support. In 2015, the consolidated budget stipulated RUB 190 billion for supporting the State Program on Agribusiness Development, in 2016 – RUB 258 billion, and in 2017 – approximately RUB 301 billion. Total federal budget expenditures for State Program implementation may exceed RUB 2.1 trillion, including additional support in the amount of more than RUB 680 billion until 2020, primarily aimed at agribusiness import substitution and export stimulation.

The 2013-2020 State Program objectives are:

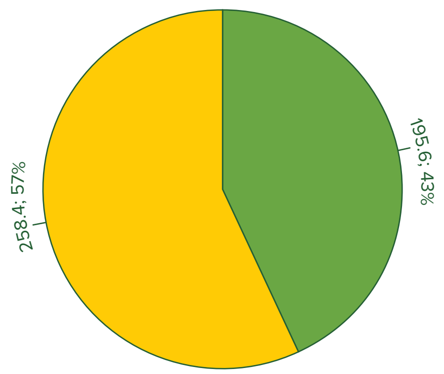
- Fostering production growth for major agricultural goods;
- Supporting efficient agricultural market infrastructure management and development;
- Supporting small-scale business patterns;
- Ensuring agribusiness profitability growth and sustainable development;
- Improving the living standards of the rural population;
- Promoting innovative agribusiness development;
- Reclaiming, protecting and continually utilizing crop lands.

Russian Agricultural Bank is the only financial institution specified in the Program as an instrument for its implementation and industry support (carrying out government agent functions). The 2016-2020 planned capital replenishment of Russian Agricultural Bank, in the total amount of RUB 79.5 billion, is part of the State Program.

Overall, since the start of implementing the National Priority Project "Agribusiness Development" and within the framework of State Programs on Agribusiness Development, Russian Agricultural Bank has provided more than 2.1 million loans totaling RUB 2.9 trillion. The Bank has financially supported the implementation of 4,796 investment projects to construct, overhaul and renovate agribusiness facilities.

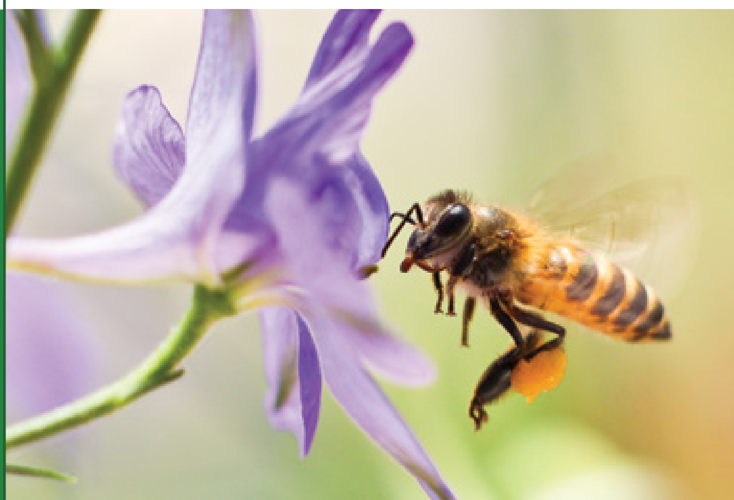
The major guidelines for the Bank's lending support to agribusiness are determined by its active participation in State Program implementation. In 2014, the Bank extended 449 thousand loans to the agribusiness sector in the total amount of RUB 454 billion; 57% of these are short-term loans. As of YE2014, agribusiness' share in the Bank's loan portfolio stood at 73%.

AGRIBUSINESS LOAN PORTFOLIO BY TERM, RUB BILLION



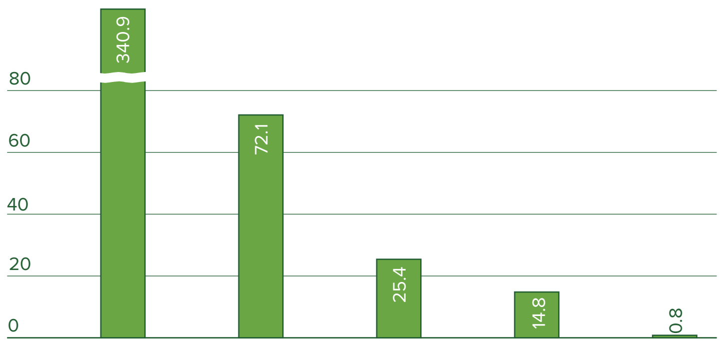
Long-term, 43% | Short-term, 57%

In 2014, the Bank extended RUB 33.4 billion for construction, overhaul and renovation of agribusiness facilities



The Bank's loan portfolio within the framework of State Program implementation comprises the following entities: agribusiness enterprises – 75.1% or RUB 341 billion; individuals, residing in rural areas and mid-sized towns – 15.9% or RUB 72 billion; owners of personal household plots – 5.6% or RUB 25.4 billion; farms – 3.3% or RUB 14.8 billion; and agricultural consumer cooperatives – 0.2% or RUB 0.8 billion.

AGRIBUSINESS LENDING BY TYPES OF BORROWERS, RUB BILLION



340.9 Agribusiness enterprises

72.1 Individuals residing in rural areas

25.4 Personal household plots

14.8 Farms

0.8 Agricultural cooperatives

As of YE2014, agricultural producers accounted for 46% of the financial resources allocated to agribusiness. The share of loans to personal household plot owners stood at 7.5%, loans to farms – 4.8%, loans to the food and processing industry accounted for 13.9%, and agribusiness service enterprises – 1.0%.

RUB billion

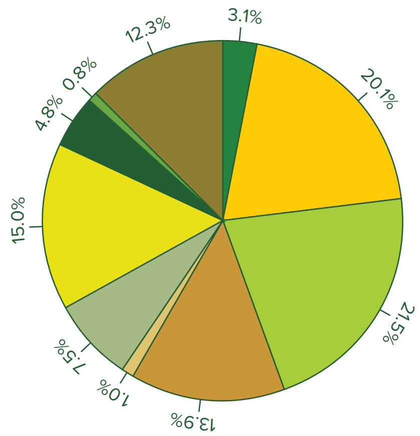
33.4

Retail loan portfolio grew by RUB 29.4 billion, or 11.9%, since the start of 2014 and reached RUB 276.6 billion

RUB billion

276.6

LOAN PORTFOLIO DIVERSIFICATION BY SECTOR



Livestock and crop production, 3.1%	Personal household plots, 7.5%
Animal breeding, 20.1%	Other, 15.0%
Plant breeding, 21.5%	Farms, 4.8%
Food and processing, 13.9%	Fishery, fish breeding and hunting, 0.8%
Agribusiness service enterprises, 1.0%	Individuals residing in rural areas, 12.3%

Financing seasonal field work is one the major directions of Bank activity. In 2014, RUB 147.8 billion in loans was issued for this purpose.

Another important lending direction is investment projects aimed at constructing, renovating and overhauling agribusiness facilities, including: livestock facilities, greenhouses, and vegetable storage sites, etc. In 2014, RUB 33.4 billion in loans was issued for this purpose.

The Bank has successfully implemented numerous special corporate lending programs for agricultural equipment and machinery purchases. In 2014, the Bank extended RUB 21.5 billion for these purposes.

Financing farm animal purchases stood at RUB 3.9 billion in 2014.

In total, starting in 2006, within the framework of the Priority National Project and the implementation of the State Program on Agribusiness Development, Russian Agricultural Bank has provided financial resources to enterprises and farmers for 4,796 investment projects to construct and upgrade livestock (including poultry) and other agribusiness facilities, in the total amount of RUB 381.6 billion. In total, the Bank has financed 4,796 projects, 3,713 of these were put into operation, including 121 projects in 2014.

Financing Grain Purchases and Commodity Interventions

Since 2005, in accordance with a Government resolution, Russian Agricultural Bank has served as the State agent and has provided financial resources for grain market purchasing interventions.

In accordance with a resolution of the Russian Ministry of Agriculture, grain market purchasing interventions for the 2013 yield were held in 2014. For grain held in the federal intervention fund in the amount of 195.3 thousand tons, Russian Agricultural Bank provided RUB1,104.1 million to JSC "OZK."

Ensuring the Repayment of Outstanding Loans

Since 2002, Russian Agricultural Bank has acted as a State agent for recovering loans from legal entities, constituents and municipalities in favor of the Russian Federation.

In 2014, the Bank maintained analytical records on 91 liabilities in the total amount of RUB 816 million and provided respective information to the Russian Ministry of Finance and Accounts Chamber.

Moreover, the Bank carried out required action with respect to the debt settlement of liabilities not registered with the Russian Ministry of Finance – 472 liabilities in the total amount of RUB 1,444.9 million.

Russian Agricultural Bank took part in 11 court sessions on debt enforcement proceedings. 8 court decisions on previously submitted claims in the total amount of RUB 1.7 million were made in favor of the Russian Ministry of Finance.

The Bank submitted 7 claims to institute enforcement proceedings and to seize borrowers' property. The Bank interacted with bailiff services to control 96 enforcement proceedings against borrowers.

In total, the Bank enforced the recovery of RUB 7.3 billion to the federal budget during the 2002-2014 period, including RUB 4.7 million in 2014.

Financial Rehabilitation of Agribusiness Enterprises

Since 2002, Russian Agricultural Bank has implemented governmental policy on the financial rehabilitation of agricultural producers. Within the framework of performing its State agent function, the Bank ensures the monitoring of financial standings both by regions and participating borrowers. Aggregated information is provided to the Russian Ministry of Agriculture.

Financial support to companies involved in financial rehabilitation programs is constantly increasing. Thus, the loan portfolio of agricultural producers participating in the financial rehabilitation program increased RUB 20 billion and amounted to RUB 73.2 billion during the reporting period.

2015 Outlook

The Bank's long-term guidelines are defined taking into account core targets of the Bank's Strategy, Russia's Food Security Doctrine, and the 2013-2020 State Program for Agribusiness Development, which dictate Russian agribusiness development, including:

- Increasing the profitability of agricultural producers – a condition for transitioning to an innovative agribusiness development model;
- Developing all types of small businesses in rural areas, including supporting start-up farmers;
- Providing for the sustainable development of rural areas;
- Developing cooperation and integration in rural areas;
- Guaranteeing further diversification across the whole value chain in agribusiness, forestry, fishery and related industries.

Therefore, as the key financial institution for implementing both federal and regional government programs, the Bank intends to grow its share in lending to agribusiness, and the fishery and forestry spheres.

5.3 Financial Institutions

Despite the challenging geopolitical situation and sanctions introduced by the US and EU countries against the Russian Federation and State-related institutions, Russian Agricultural Bank undertakes persistent efforts to maintain a confident position on the international financial market by engaging in ongoing cooperation with its business partners, institutional investors, and credit rating agencies. The Bank also participates in several inter-governmental commissions and is a member in international business councils.

Ratings

The Bank's major credit ratings (as of March 2015):

Fitch

Long-term foreign and local currency IDRs — BB+, negative outlook
Short-term IDR — B
National long-term rating — AA+ (rus), stable outlook
Viability rating — b-

Support rating — 3
Senior unsecured debt — BB+
Subordinated debt — BB

Moody's

Long-term foreign and local currency deposit ratings — Ba2, negative outlook
Long-term foreign and local currency senior debt ratings — Ba2, negative outlook
Long-term subordinated debt ratings — B2, negative outlook
Baseline credit assessment – b3
Short-term foreign and local currency deposit ratings — Not Prime
National long-term rating — Aa2.ru

Membership and Cooperation

The Bank's participation in several inter-governmental commissions and membership in international business councils provides Russian Agricultural Bank with unique opportunities to adopt best international practices and solutions, deliver its views to professional society, and influence both the decision- and law-making process.

Russian Agricultural Bank is an active member in the following organizations: the Association of Russian Banks, the Association of Regional Banks of Russia, the US-Russia Business Council, the Canada Eurasia Russia Business Association (CERBA), the Russian-Chinese Business Council and the International Confederation of Agricultural Credit (CICA).

The Bank's representatives regularly participate in international conferences, meetings, forums and other events on topical issues in both Russia and abroad. These activities not only provide valuable information, but also play an important role in strengthening cooperation with existing counterparties and helping the Bank find new partners for future projects.

Correspondent Relations

The Bank continues to enjoy a solid record of being internationally recognized as a highly reliable and transparent partner, and as a strategically important financial institution.

Within the framework of its strategy to enhance and diversify its correspondent bank network, in 2014, Russian Agricultural Bank continued to develop and expand its correspondent relationships with international counterparties. Russian Agricultural Bank's network is currently comprised of more than one hundred banks worldwide. It creates a solid base for carrying out comprehensive financial operations in the best interests of both the Bank and its clients.

To strengthen and expand correspondent relations with both domestic and foreign financial institutions during the reporting period, Russian Agricultural Bank has:

- Opened 7 new loro accounts. The Bank now has 73 such accounts;
- Opened 8 new nostro accounts, including 4 impersonal metal accounts. The total number of accounts opened by the Head Office reached 76;
- The Bank signed 9 interbank cooperation agreements on the interbank and foreign exchange markets. At present, Russian Agricultural Bank has 193 such agreements;
- Signed 2 agreements for securities market transactions; the number of master agreements reached 65 by year-end;
- Signed 5 banknote transaction agreements. The number of agreements reached 16 by year-end;
- Issued mid-term interbank loans with a term of up to one year in the total amount of USD 170.75 million.

In 2014, Russian Agricultural Bank joined the European Market Infrastructure Regulation (EMIR) with the purpose of subsequently verifying obligations under the ISDA off-exchange transactions, the resolution of disputes and information disclosure in accordance with EMIR requirements.

Russian Agricultural Bank has registered with the United States' Internal Revenue Service to become a Participating FFI for Foreign Account Tax Compliance Act (FATCA) purposes. The Bank identified its current and new clients – financial institutions with the purpose of implementing US FATCA legislative requirements. As a result of executed work, FATCA-status was assigned to 325 financial institutions - Bank clients and partners.

During the reporting period, Russian Agricultural Bank achieved remarkable results in strengthening and building partnerships with both Russian and international financial institutions:

- Extended the counterparty risk exposure limits framework due to an increase in limits for financially sound counterparties to RUB 2 trillion from RUB 1.5 trillion (a 38% increase) and closed or adjusted downward limits for potentially problematic counterparties – limits for 33 counterparties were closed in 2014;
- Established limits for new counterparties, including banks from near abroad countries, - 27 new counterparties.

In total, limits for 259 counterparties/issuers were established or revised in 2014.

Trade Finance

While its core business is concentrated in Russia, Russian Agricultural Bank has been consistently increasing its international presence in recent years. Via international business expansion, Russian Agricultural Bank has been widely recognized by foreign partners as a Russian-based institution that cooperates both within Russia and across international borders.

Well-established contacts allow the Bank to continue its operations with international partners even in the current unfavorable market conditions.

Thanks to State support and the Government's efforts to stimulate and intensify export-oriented production, the agricultural industry is becoming an internationally competitive player in a growing number of markets. As the Government agent to implement national agribusiness policy, Russian Agricultural Bank effectively supports its clients in their international activities with a special focus on export deliveries.

During the reporting period, the Bank and its partners signed 39 export-related trade finance deals totaling USD 64.2 million. The agreements promoted deliveries of chemical fertilizers, metallurgical production, and agricultural equipment.

The Bank also continued implementing, in cooperation with the Russian Agency for Export Credit and Investment Insurance (EXIAR), a USD 5.4 million project on insuring the financing of Russian-made combine harvester exports to the Republic of Kazakhstan. The project tenor is 5 years.

In addition, in 2014, Russian Agricultural Bank and EXIAR signed a Cooperation Agreement stipulating the Bank's participation in a support program for export-oriented small- and medium-sized enterprises (SMEs) and other producers with an annual turnover of up to RUB 2 billion. Lending will be provided for working capital financing to pay up to 80% of the export contract amount and for a term of up to 2 years. At least 20% of exports should be of Russian origin.

Program implementation provides an additional incentive to domestic producers' export activity and contributes to SME's dynamic growth.

During the reporting period, the Bank set up 147 letters of credit for imports in the amount of USD 232.2 million, advised and confirmed on 98 export letters of credit totaling USD 136.1 million and advised on 77 guarantees totaling USD 95.5 million issued by foreign banks in favor of Bank clients. In 2014, Russian Agricultural Bank also carried out 99 operations to reimburse letters of credit issued by counter-party banks in the amount of more than USD 268.6 million.

In 2014, Russian Agricultural Bank implemented 24 structured finance transactions in the amount of USD 90.1 million and attracted a USD 62 million loan for up to one year from Russian financial institutions to finance and refinance Bank clients' trade operations.

As a specialized financial institution with an in-depth focus on agribusiness, Russian Agricultural Bank strives to further expand its competence, and to share experience with both international and domestic partners and peers.

Investor Relations

Despite ongoing restrictions and limited access to the international capital market, the Bank maintains contacts with its investors. Maintaining communication with the international business community is an important element for the Bank's performance on global capital markets, both now and in the future.

Russian Agricultural Bank has proved itself to be a transparent, reliable and flexible partner for both existing and potential investors by constantly delivering required information in the right way and on time. The Bank's IR team continually updates the investor relations web page where investors can easily access relevant Bank information and documents which are subject to disclosure, including: statutory documents, internal regulations and policies, annual reports, financial statements (both consolidated and interim), ratings information, material facts and other relevant data. In addition to the website, Russian Agricultural Bank eagerly provides investors with alternative communication channels, such as: conference calls, email newsletters and direct meetings.

In 2014, Russian Agricultural Bank organized numerous major and regular events where senior management explained the Bank's strategies and operating performance to global investors. Russian Agricultural Bank proactively enhanced investor relations activities by participating in related conferences, holding due diligence calls and gathering investor feedback. During the reporting period, the Bank's senior executives held a series of non-deal roadshows. Via these activities, Russian Agricultural Bank expressed its interest in building new relationships in particular in new Southeast Asian and Middle Eastern markets and in maintaining strong ties with its international investors on traditional markets.

The Bank's thorough and consistent approach has logically resulted in strong and sustainable relationships with both foreign and Russian institutional investors in recent years.

Capital and Money Markets

Russian Agricultural Bank offers a comprehensive range of debt instruments to reduce risks by placing funds in the market and to raise additional funds, via: REPO operations, ruble-denominated bonds, loan participation notes, government and municipal debt securities, corporate debt securities, and promissory notes and equities. The Bank is an active player on both international and domestic capital markets.

Both sectoral sanctions and market disruption limited the Bank's international capital market opportunities. Therefore, in 2014, the Bank primarily raised funding on the local market.

In 2014, the Bank arranged numerous borrowings from both domestic and international investors:

- In February 2014, Russian Agricultural Bank placed a USD 500 million Eurobond (due in July 2018) with a 5.1% coupon rate per annum;
- In June 2014, Russian Agricultural Bank placed a RUB 5 billion and RUB 10 billion local bond with a coupon rate set at 9.55% p.a. The maturity of these issues is 3 years, with a 1-year put option;
- In October 2014, Russian Agricultural Bank placed two RUB 5 billion local bonds with a coupon rate set at 11.10% p.a. The maturity of these issues is 10 years, with a put option in 5 years;
- In December 2014, Russian Agricultural Bank placed a RUB 5 billion local bond issue with a coupon rate set at 17.00% p.a. The maturity of these issues is 10 years, with a 1-year put option.

Russian Agricultural Bank is proactively involved in the local interbank and derivative financial instruments market. As a member of the National Foreign Exchange Association, Russian Agricultural Bank is one of the banks determining core money market indicators - MosPrime and NFEA FX Swap Rates. The Bank's money-market division competency was duly appreciated by market participants – based on results of the annual competitive questionnaire of dealers and interbank relations specialists (conducted by the Moscow International Forex Association (MICEX)). Russian Agricultural Bank was ranked as one of the top ten Best Dealers in 2014.

In 2014, despite the negative influence of sectoral sanctions, foreign exchange transactions grew 75% over 2013. During the reporting period, the Bank proceeded with structured dual currency deposits; year-end results showed that clients from different regions and businesses are highly interested in this product.

Within the framework of the Bank's IT development, a special program module for information and trade system RSHB-dealing was launched. The program provides the opportunity to regulate regional branches' FX position online and to provide clients with financial market transaction quotes.

Closed international financial markets and deterioration in the local environment have seriously limited the ability to raise funds on the capital markets. To overcome these problems, the Bank used alternative funding sources:

- A flexible and effective interest-rate policy ensured stable client account growth;
- Proactive efforts aimed at raising Bank of Russia funds, including building up collateral value to raise funds under Resolution No. dated 12.11.2007 "On the procedure of granting by the Bank of Russia to credit institutions loans secured by assets or guarantees" (dated 12.11.2007).

In 2015, the Bank plans to focus mainly on the local capital market.

5.4 Payment Cards

Russian Agricultural Bank plays an important role in integrating the non-cash payment system in rural areas by expanding client opportunities, encouraging the use of payment cards and increasing its loan portfolio. Furthermore, it contributes to financial literacy growth in the rural population.

Russian Agricultural Bank issues Visa International and MasterCard Worldwide debit and credit cards for different customer segments:

- Personal cards;
- Payroll cards;
- Credit cards;
- Pension cards;
- Cards issued in partnership with charity funds. In particular, in 2014, the Bank implemented a project to support a program aimed at protecting and preserving Amur tigers, which are currently on the verge of extinction.

In 2014, Russian Agricultural Bank issued more than 2.8 million payment cards. The number of cards in circulation grew by 250 thousand.

As one of the most important players on the national financial market, Russian Agricultural Bank plans to become the leading financial institution in developing Russia's national payment card system.

A broad network of ATMs and cash points provides Bank clients with an opportunity to use its services in most Russian regions. Cooperation with Visa International and MasterCard Worldwide allows cardholders to pay for products and services and to withdraw cash in 210 countries and at 29 million global points and also to use privileges, special services and discounts.

In the current macroeconomic situation, Russian Agricultural Bank offers its clients favorable terms for card products with savings purposes.

In 2014, the total commission income from the Bank's acquisition network was RUB 64.3 million, which is 18% higher than 2013.

The number of Bank ATMs in service grew 11.7% in 2014 and stood at 3,600 units (as compared with 3,223 in 2013). Cash withdrawal from Bank cards at proprietary ATMs grew 21.3% (to RUB 199 billion from RUB 164 billion); the number of such operations grew 8.7% (to 29.9 million from 27.5 million). Cash withdrawal from other banks' cards at Bank ATMs grew 47.7% (to RUB 32.5 billion from RUB 22 billion); the number of such operations grew 15.5% (to 7.06 million from 6.11 million). Cash acceptance at Bank ATMs grew 27.3% (to RUB 14 billion from RUB 11 billion); the number of such operations grew 24.2% (to 2.1 million from 1.69 million).

To improve the availability of services for individual customers and facilitate card operations throughout the country, in 2013, Russian Agricultural Bank signed bilateral agreements with Alfa-Bank and Promsvyazbank to merge their ATM networks. In 2014, the total number of ATMs in the integrated network of Russian Agricultural Bank, Alfa-Bank and Promsvyazbank grew 13.2% and amounted to 8,600 units. The number of operations with Bank cards in Alfa-Bank and Promsvyazbank ATMs grew 373% (almost fivefold) or to 0.54 million from 0.12 million operations in 2013. The number of operations with Alfa-Bank and Promsvyazbank cards at Russian Agricultural Bank ATMs grew 348% (4.5 times) or to 2.6 million from 0.58 million operations in 2013.

In 2014, Russian Agricultural Bank initiated POS-terminal network development. As of YE2014, the Bank has opened 234 POS-terminals.

Russian Agricultural Bank continued cooperation with payment systems to provide money transfers without opening an account. Within the framework of cooperation with Western Union, 162.5 thousand ruble operations in the total amount of RUB 3.3 billion and 88.5 thousand operations in foreign currencies in the total amount of USD 93.5 million were conducted.

The Bank partnered with Unistream, providing its clients with access to online money transfers without opening a banking account in 44 Moscow and St. Petersburg branch offices and in more than 330 thousand Unistream offices. Looking forward, the Bank is going to connect 1,400 offices throughout the country to Unistream and thereby provide rural populations and residents of small- and medium-sized towns with access to online money transfer services.

Despite geopolitical turmoil, Russian Agricultural Bank continued its cooperation with VISA and MasterCard international payment systems. The Bank undertakes efforts to promptly adopt new and marketable technologies provided by the partners to enable its customers to engage in the full range of modern payment instruments. These efforts are aimed at both retaining existing clients and attracting customers seeking high tech solutions on a highly competitive market.

Russian Agricultural Bank strongly believes that a prompt introduction of new technologies, innovative products and user-friendly payment environment are vital for successful development of Russia's retail banking market. In 2015 and beyond, Russian Agricultural Bank plans to pursue this strategy and continually bring to the market new products and solutions making payment operations to its clients more quickly, as well as more easily and more safely.

6. Controls and Procedures

2nd largest by branch network

Risk management is not only an essential part of a successfully operating financial institution, but also the main line of defense against both internal and external shocks. Russian Agricultural Bank has always placed a special emphasis on developing a system which would serve as an effective firewall against economic uncertainties in turbulent markets.

In 2014, the Bank’s coherent efforts to build an effective and highly responsive risk management system fully paid off. With the new challenges arising in the economic, geopolitical and business environment, Russian Agricultural Bank managed to avert a significant deterioration in its business profile thanks to its refined risk management practices.

6.1 Risk Management

Risk Management Framework

The Bank’s risk management framework is made up of various processes and strategies for managing risk exposure. The main risk management principles and key elements of Russian Agricultural Bank’s risk management framework are defined by the Bank’s risk management policy. The policy is established by the Supervisory Board which is in charge of elaboration and operational control of the Bank’s risk management system. It also has the authority to make decisions on large risk exposure.

The Bank’s Management Board monitors risk management system functioning, approves documents and procedures for identifying, evaluating, and determining the risk tolerance level, and selects response actions - acceptance, limitation, re-allocation, hedging, and avoidance - and the monitoring thereof.

2014

No.2

Russian Agricultural Bank successfully implements specialized lending programs for purchase of agricultural machinery and/or equipment

RUB billion

21.5

Independent analysis and risk assessment are undertaken by special units– the Risk Management Department and the Risk Control and Assessment Services at Bank branches. The Risk Management Department also provides a methodology basis for risk management; supervises the implementation of principles and instruments to detect, assess and monitor financial risk (credit, market, and liquidity) and operational risk, including those at the regional level.

On a day-to-day basis, authorized bodies analyze the Bank's financial performance and approve and fine tune measures aimed at the early detection and minimization of potential threats. Russian Agricultural Bank recognizes that it is exposed to cyclical changes in credit quality. Consequently, the Bank tries to ensure that its credit portfolio is resilient to economic downturns, which, for example, are now currently taking place in Russia. The Bank's most important tool in this endeavor is sound underwriting criteria based on conservative assumptions. When assessing risks on unsecured consumer loans, the Bank generally assumes that loans will be subject to an environment in which losses are higher than those prevailing at the time when the loan is initially extended. In commercial loan underwriting, the Bank generally requires strong cash flow, collateral, covenants and guarantees. Special attention is also paid to the regional economic and political environment. Strong support from regional authorities is usually a valuable advantage for those projects which are economically risky, but highly socially significant. In addition to sound underwriting, Russian Agricultural Bank continually monitors its portfolio and takes steps to recover or work out distressed loans.

2014 Major Advances

In 2014, the Bank's Supervisory Board implemented the Risk Management Strategy. The Strategy stipulates three major targets:

- Securing continuity of the Bank's business activities;
- Sustaining the Bank's financial stability;
- Developing risk management as a key component of the Bank's operational environment.

The risk management strategy defines major stages and steps in risk management system development and sets targets up to 2020.

In 2014, numerous important risk management system upgrades were either initiated or implemented.

The Bank has put into test operation the internal ratings system for corporate borrowers. The Bank plans to proceed with fine-tuning it based on pilot project results. Then, the system will be installed for commercial operations.

In a joint effort with a prominent international consultancy, the Bank launched a project to boost the efficiency of its risk management system by:

- Developing quantitative approaches to risk assessment (risk modeling under the Loss Given Default (LGD) and Exposure At Default (EAD) principles) along with capital calculation and allocation–based approaches;
- Developing the credit risk limits system;
- Optimizing credit power architecture;
- Developing risk-based credit product pricing;
- Enhancing the Key Performance Indicators (KPIs) system for business divisions on a risk-adjusted basis.

To enhance its protection against liquidity risk, in 2014, the Bank took numerous steps, such as the automation of the liquidity risk management system and updating approaches to liquidity risk management in accordance with recommendations of the Bank of Russia and the Basel Committee on Banking Supervision (BCBS). Among other measures, the Bank upgraded its liquidity risk assessment mechanism taking into consideration the Bank's ability to attract funding from additional sources to cover liquidity gaps.

In 2014, another direction of the risk management system upgrade was operational risk management methodology. The Bank introduced the recommendations of the Bank of Russia and the BCBS within this sphere and upgraded information analysis on operational risks and possible losses caused by them.

Russian Agricultural Bank pays close attention to fostering a risk-sustainable corporate management system. The Bank organizes regular training sessions for branch directors and risk managers to hone their skills and competence in operational risk management.

In 2014, the Bank completed the “Credit Decision Line” (CDL) project, having replicated its mechanism across the whole branch network. From now on, this process is applicable to decision-making on car loans, personal household plot loans and credit card applications. The next stage is testing the CDL mechanism for mortgage product applications. Testing is currently underway. After that, 99% of mortgage applications will be processed through the CDL.

Another 2014 milestone was the start of migration to an integrated risk management at the banking Group level. In accordance with the general strategy, the Bank initiated the process of risk identification with the next target being to work out common risk management principles at the Group level.

Being aware of the complicated and highly volatile economic environment, in 2014, the Management Board adopted the Plan of stabilization measures based on Bank of Russia recommendations. The Plan stipulates various steps to secure the Bank’s financial sustainability in terms of capital adequacy and asset quality in case of unfavorable events in the Russian economy.

In 2015, further development of the risk management system will continue in accordance with Russian Agricultural Bank’s adopted risk management system. The main activities under the Strategy in the coming years will be the introduction of internal ratings for corporate borrowers, the completion of a joint project with an international consultancy on improved risk management in the Bank’s corporate business, and the implementation of an automated system of assets and liabilities management which will mitigate the Bank’s liquidity risks.

To boost operational risk management, in 2015, the Bank will proceed with further development of qualitative and quantitative assessment of these types of risk, refine mechanisms and procedures for their monitoring, employ a system of risk indicators to perform online supervision of the Bank’s capability to continue operations in unusual or emergency situations. The Bank will also install an automated operational risk control system.

Within the framework of migrating to integrated risk management, the Bank is moving to a unified risk reporting system and a risk monitoring and control system at the Group level.

Achieving these targets will raise the Bank's capital management efficiency and enhance the Group's financial sustainability.

Risk Profile

The types of risk to which the Bank is subject include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology), reputation, strategic, legal and regulatory compliance, and capital adequacy risks.

Credit Risk

Credit risk is the risk of losses arising due to a borrower's failure to perform or inappropriately perform his/her financial obligations to the Bank. Efficient credit risk management is achieved through the balanced distribution of decision-making authorities among the Bank's various management bodies.

Credit risk is evaluated at the level of asset portfolios that are exposed to this type of risk, by counterparties' (groups of counterparties) credit risks, as well as by countries and industries. Individual counterparty risks are assessed based on a comprehensive and objective analysis of the counterparty's business, taking into account their creditworthiness, cash flows, management, and other relevant available information.

The Bank manages risk concentration in its loan portfolio by setting limits on lending operations by regions, and types of loans, as well as by single-name borrowers (and / or groups of related borrowers).

When implementing its lending and investment programs, the Bank prioritizes the agricultural industry and related sectors that service the needs of agricultural producers. In doing so, industry concentration risks are mitigated by:

- Lending to the whole value creation chain (production, storage, processing and sales);
- Focusing on different borrower specializations across regions;
- Combining several production types by agricultural producers within one enterprise;
- Diversifying by investing in highly efficient and sustainable projects in other economic spheres;
- Capping exposure to a single-name borrower.

To minimize risks, the Bank accepts certain types of loan security in the form of property and property rights pledges.

As of January 1, 2015, the share of agribusiness in the Bank’s loan portfolio stood at 73.8 percent. Loan portfolio concentration at the branch level is capped at 15 percent of the Bank’s total loan book. This ratio is highest in the Moscow branch and was 10.4 percent as of January 1, 2015. As of January 1, 2015, the Bank also complied with the Bank of Russia’s ratio for maximum risk per group of related borrowers.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will be unable to meet its obligations in a timely and complete manner. The Bank is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing inter-bank loans (deposits), term deposits and issued securities, loan drawdowns, and guarantees, as well as from margins and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to cover all these needs, as experience shows that a minimum re-investment level for maturing funds can be predicted with a high degree of certainty.

The Bank analyzes and assesses liquidity risk by:

- Evaluating and analyzing the Bank’s correspondent current account balances;
- Conducting an asset and liability maturities mismatch analysis (GAP-analysis);
- Analyzing and assessing actual values and dynamics of interest rate risk indicators;
- Carrying out stress testing.

The Bank manages liquidity risk by:

- Managing the asset-liability structure;
- Setting and controlling limits and liquidity indicators, for both those set by the CBR and internal ones, calculated by the Bank;
- Maintaining a liquidity cushion;
- Prioritizing liquidity over profit maximization;
- Engaging in prior planning and preparing measures to maintain and restore liquidity in unfavorable conditions.

To control the Bank's liquidity position, the Assets and Liabilities Management Committee (ALCO) has determined a set of ratios, restricting the level of the Bank's exposure to assets that mature either in less than 90 days or in more than 1 year.

Information on the structure and maturity gaps of the Bank's financial assets and liabilities is used to maintain sufficient liquidity. For this purpose, the Treasury maintains an appropriate short-term liquid assets portfolio, which mainly comprises liquid trading securities, deposits with banks and other inter-bank market instruments.

As of January 1, 2015, the Bank was in compliance with Bank of Russia liquidity ratios.

The Bank's liquidity management measures ensure compliance with regulatory ratios, and stable business performance, including optimized utilization of current facilities, and the maintenance of medium-term liquidity and, in terms of strategic planning, long-term funding requirement evaluation.

The Bank will closely monitor the credit risk level in its corporate loan portfolio and will further diversify its funding base to ensure compliance with both medium- and long-term liquidity targets.

Market Risk

Market risk is the risk of losses arising from unfavorable changes in the market value of financial instruments within the Bank's trading portfolio and derivative financial instruments, as well as in foreign currency and precious metal exchange rates.

The Bank takes on market risk exposure via its open positions in (a) currency; (b) interest; and (c) equity products.

The Bank manages market risk by:

- Setting and controlling structural and position limits, as well as stop-loss limits;
- Diversifying and hedging accepted risks;
- Conducting prior planning and preparing measures to minimize losses in case of unfavorable changes.

The Bank's authorized bodies carry out qualitative evaluations of market risk based on expert analysis.

The Bank conducts a daily assessment of equity, currency and interest rate risks arising from market uncertainty based on VAR (Value-at-Risk) analysis, which is a statistical assessment of maximum losses for a given time period with a specified confidence level. In addition to VAR, the Bank also calculates the ES indicator (the Expected Shortfall), which represents the monetary value of expected losses in case of excess VAR.

As of January 1, 2015, the Bank's exposure to market risk in its securities portfolio, relative to total equity, was negligible.

Currency Risk

Currency risk is the risk of incurring losses due to unfavorable changes in the foreign currency and/or precious metals exchange rate via open foreign currency and/or precious metal options.

The Bank manages currency risks by identifying operations that impact the Bank's currency position, evaluating and analyzing the structure of foreign currency assets and liabilities, and regulating and setting limits for the execution of certain operations which involve currency risk, as well as their hedging. The Bank enters into forwards, SWAPs and other derivative financial instruments, which are designed to effectively hedge currency risk.

As of January 1, 2015, the Bank was in compliance with all CBR ratios that regulate currency positions.

Interest Rate Risk

Interest rate risk is the risk of incurring losses due to an unfavorable change in the balance sheet and off-balance sheet instruments' interest rates.

The principal method for measuring interest rate risk is evaluating the repayment/ re-pricing maturity gaps between the Group's assets and liabilities which are sensitive to interest rate level changes - the GAP method. Furthermore, the Bank analyzes and assesses actual values and dynamics for interest rate risk values - the coefficient method.

Moreover, the Bank evaluates the interest rate risk down to certain operations by analyzing expected cash flow changes in case of market condition and/or financial position changes, as well as actions undertaken by the Bank's clients and/or counter-parties.

Equity Risk

Equity risk is the risk of incurring losses due to unfavorable changes in the market price of the equity trading portfolio and derivative instruments (due to the impact of issuer-related factors and general market price volatility).

The Bank employs a system of mitigating equity risk, comprising limits set for the Bank's securities portfolio and sub-portfolios, as well as aggregate limits for the trading portfolio, meaning first and foremost, stop-loss limits.

Operational Risk

Operational risk is the risk of loss(es) resulting from inadequate or failed internal processes, systems, and people, or external events.

The Bank recognizes the critical nature of managing operational risk on a day-to-day basis and has expanded its approach to operational risk management (based on the company's growth and complexity). The Bank has an appropriate operational management policy, standards, processes and tools to enable the delivery of high quality and consistent customer and client experiences.

Qualitative evaluation of the operational risk level is carried out via expert analysis. Operational risk monitoring is carried out by the Bank's divisions, including at the branch level, on a regular basis by applying the warning signal system.

Russian Agricultural Bank maintains a database that accumulates comprehensive information on operational risk events and related losses, their types and amounts, and the dates of loss occurrence (recovery).

The Bank works out business continuity and recovery plans designed to minimize losses and to be invoked under negative circumstances that can affect Bank operations.

Capital Adequacy Risk

For financial institutions, capital buffers against insolvency. It is available to absorb unforeseen losses so the financial institution can remain in business. The more capital a bank has relative to the risks it takes, the more confident its partners, investors and stakeholders are that it will meet its obligations.

Russian Agricultural Bank's capital adequacy ratio (CAR) experienced an anticipated drop in 2014, but remained well above regulatory requirements. As of YE 2014, the Bank's CAR was 13% (compared with 18% as of YE 2013), while the Bank of Russia requires 10% and Basel II only 8%.

6.2 Internal Control

The main objective of Russian Agricultural Bank's Internal Control Service is to guarantee the legitimacy and compliance of the Bank's business process management with national laws and regulations and internal Bank regulations, accuracy, completeness and reliability of financial information, and the effectiveness of risk management and asset security, thus enabling the Bank to ultimately accomplish its development strategy and operational objectives.

In 2014, in accordance with the new approach(es) to internal control in banking groups introduced by the Bank of Russia, Russian Agricultural Bank's Supervisory Board made a resolution that established the Internal Audit Service (IAS), starting from October 1, 2015.

It is important to note that the functions and mission of the Bank's Internal Audit Service were fully harmonized with those of the Bank's Internal Control Service prior to October 1, 2015. The IAS is integrated within the Bank's internal control system and is a unit directly accountable to the Bank's Supervisory Board.

Regarding the Bank's Internal Control Service, its tasks and functions are concentrated on monitoring and minimizing compliance (regulatory) risk. Its structure was enhanced with the introduction of a dedicated controller to supervise the Bank as a professional securities market participant.

In accordance with the Bank's existing organization chart, some compliance risk management functions are performed by other units apart from the Internal Control Service. Namely, these include the Legal Department and the Financial Monitoring Service. Their interactions in compliance risk management are regulated by the Bank's internal procedures.

During the reporting period, the Internal Control Service / the Internal Audit Service units carried out 106 audits and inspections, including:

- 68 planned branch inspections;
- 13 unscheduled branch audits;
- 10 planned inspections of Head Office units;
- 5 unscheduled audits of Head Office units;
- 8 inspections of Bank subsidiaries;
- 2 planned inspections of the Bank's representative offices.

In addition to inspections conducted by the centralized services, the Bank also exercised checkups of its branches with local IAS officers. In total, 2,215 such checkups were performed in 2014.

These measures resulted in numerous upgrades and improvements of various internal procedures and practices which enhanced the Bank's general compliance discipline.

In 2015, the Internal Control Service and the Internal Audit Service will continue their efforts to further refine the Bank's control procedures in line with best international practices. Presently, both units are moving towards greater process automation. The Internal Control Service focuses on compliance risk monitoring automation, whereas the Internal Audit Service emphasizes the elaboration of audit and inspection agendas.

6.3 Anti-money Laundering and Terrorism Financing Policy

A major focus of Russian governmental policy on financial institutions is combating money laundering and terrorist financing. Russian banking regulations contain numerous anti-money laundering requirements for financial institutions that are applicable to the business activities of Russian Agricultural Bank and its subsidiaries. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report activity related to money laundering and terrorist financing and to verify customer identities.

Russian Agricultural Bank has always been known for its strict and comprehensive approach to complying with Russian regulations in the field of anti-money laundering and terrorism financing.

The Bank has established and operates a system of specialized internal controls based on Financial Action Task Force (FATF) recommendations, the Basel Committee on Banking Supervision and Wolfsberg principles. These principles underscore the Bank's Anti-money Laundering and Terrorism Financing (hereinafter – the AML/FT) Policy.

In 2014, the Bank continued updating its internal procedures to address recent regulatory changes and to ensure the highest level of compliance. The Bank widely practices "Know Your Customer" (KYC) principles which stipulate a detailed review of the customer profile, information on its representatives, beneficiary owners, business operations and other related activities, as well as partners and counterparties.

Russian Agricultural Bank carries out regular staff trainings to provide the necessary skills to counteract money laundering and terrorism financing.

While rendering services to private customers, the Bank strictly adheres numerous rules. The Bank has not:

- opened / served accounts for anonymous clients without identifying their persons with all necessary papers and documents;
- opened accounts remotely without the owner's or his/her representative's presence;
- established and maintained relationships with banks that do not have permanent governing bodies based on the jurisdictions in which they are incorporated;

- established and kept relationships with banks whose accounts are presumably being used by other banks that do not have permanent governing bodies based in the jurisdictions in which they have been incorporated.

When establishing account relationships with a partner bank, Russian Agricultural Bank inquires whether the correspondent bank has implemented AML/FT procedures, including client identification. In cases in which the partner bank has not implemented these measures, the Bank will refrain from establishing correspondent relations with that particular institution.

In accordance with the Foreign Account Tax Compliance Act (FATCA), Russian Agricultural Bank registered as a Participating Foreign Financial Institution (PFFI) on the website of the U.S. Internal Revenue Service.

The Global Intermediary Identification Number (GIIN) assigned to Russian Agricultural Bank is: FE0DCW.00000.LE.643

The effective date of the inclusion of Russian Agricultural Bank in the US Internal Revenue Service's list of financial institutions that joined FATCA is: June 30, 2014.

7. Regional Perspective

In 2014, the Bank extended RUB 3.9 billion for livestock purchase

Russian Agricultural Bank's diversified geographical presence and sales channels development support its long-term and balanced business growth taking into account client needs and market conditions. With Russia's second largest branch network, which covers 77 percent of Russian territory, the Bank enjoys solid regional franchises in urban, semi-urban and rural areas. The Bank's branches operate in 81 constituent areas of the Russian Federation and service clients in rural territories, towns, and mid-sized and large cities, including areas in which no other banks are present.

As of January 1, 2015, Russian Agricultural Bank's branch network comprised 78 branches and 1,475 points-of-sale, including:

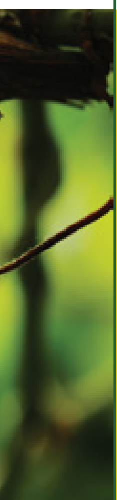
- 1,347 additional offices;
- 121 operational offices;
- 3 separate cash desks;
- 4 mobile and self-service offices.

The Bank also operates 3,600 ATMs and 234 payment terminals.

In 2014, Russian Agricultural Bank continued its branch network optimization, which had started a year earlier. In particular, the Bank focused on upgrading efficiency to ensure returns on business operations. The task is accomplished by business development and choosing the most suitable office formats. Introducing new online and mobile banking functions allowed the Bank to keep down costs related to premises and to maintain returns at each point-of-sale.

To ensure efficient setup of its points-of-sale, which enables high quality client service delivery, the Bank has introduced new office formats focusing on light and mini offices. In territories in which the Bank cannot efficiently open a fully-fledged office, Russian Agricultural Bank opens

2014



RUB billion

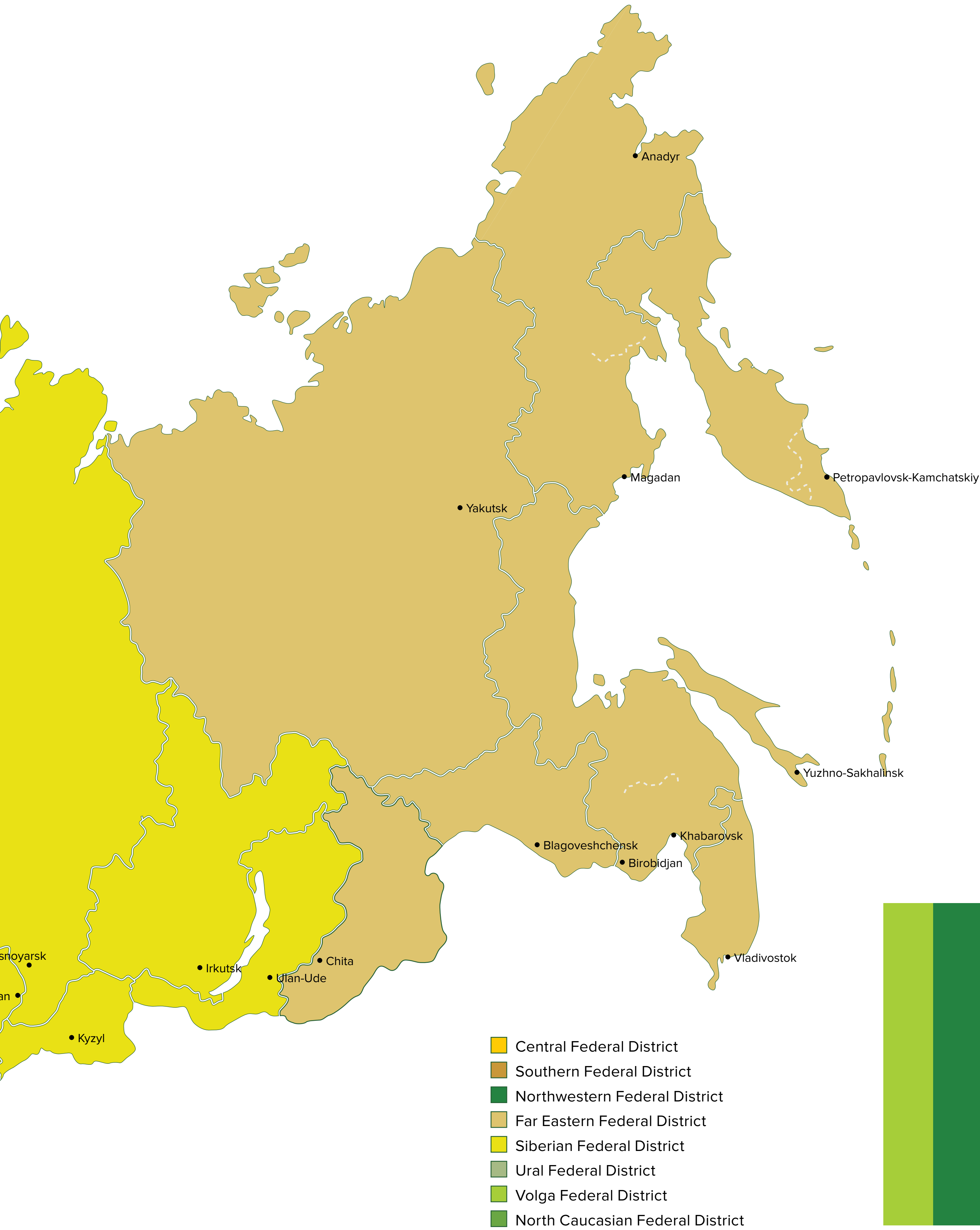
3.9


The Bank's customer accounts
totalled RUB 1.217,5 trillion

RUB trillion

1.217,5

- The second largest banking network in the Russian Federation
- 78 regional branches and 1,347 additional offices


Anadyr
Magadan
Petropavlovsk-Kamchatskiy
Yakutsk
Yuzhno-Sakhalinsk
Khabarovsk
Blagoveshchensk
Birobidjan
Vladivostok
Chita
Irkutsk
Ulan-Ude
Kyzyl
Central Federal District
Southern Federal District
Northwestern Federal District
Far Eastern Federal District
Siberian Federal District
Ural Federal District
Volga Federal District
North Caucasian Federal District

mobile and self-service offices. Moreover, the Bank has 443 authorized representatives working in mid-sized cities not covered by the Bank's branch network.

In 2014, Russian Agricultural Bank continued to increase the cost effectiveness of its regional franchise having renovated, relocated, closed and opened new points-of-sale. The Bank strengthened its regional franchises by opening a new office in the Khanty-Mansiysk Autonomous District. In light of the deteriorating macroeconomic environment in H2 2014, the Bank has scaled down its network expansion plans for 2015, while maintaining long-term strategic objectives set for 2020.

Russian Agricultural Bank's strong regional footprint is a key competitive advantage in attracting new customers throughout Russia.

The Moscow, Krasnodar, Rostov, Saint Petersburg and Altai branches are the top 5 business units in terms of assets, with total assets of RUB 441 billion at YE2014 (compared with YE2013: RUB 309 billion), which represents 28% of total branch network assets (YE2013: 22%). Despite the rise in the share of its top 5 branches, Russian Agricultural Bank controls concentration risks by capping loan portfolio size at the branch level at 15 percent of the Bank's total loans. This policy contributes to overall organic and homogeneous growth in the Bank network.

The five largest branches comprise 172 offices, which account for 12% of the Bank's total network outlets. The Krasnodar, Rostov and Altai branches operate the largest number of points-of-sale (with 36 units each).

As of January 1, 2015, the loan portfolio of the top 5 branches amounted to RUB 392 billion, a 46% increase as compared with 2013. The share of the top 5 branches in the loan portfolio of the entire branch network stood at 28%. The total customer accounts of the top 5 branches amounted to RUB 120 billion, a 62% increase as compared with 2013. The share of the top 5 branches in the entire branch network's customer accounts stood at 22%.

The Bank works in CIS countries, namely Belarus, Tajikistan, Kazakhstan, Azerbaijan and Armenia through its representative offices. Pursuant to its strategic goals, the Bank will take full advantage of its presence in the CIS countries and leverage the opportunities of the newly formed market of the Eurasian Economic Union.

2015 Focus

According to the 2015 branch network development program, Russian Agricultural Bank will open, renovate and change the format of almost 300 points-of-sale. The measures are designed to increase access to financing for agricultural producers and other client segments, ensure the timely provision of State support to borrowers and to increase branch network efficiency.

8. Human Resources Management

Russian Agricultural Bank's stability and results are mainly derived from and solidly rest upon the high degree of professionalism of Russian Agricultural Bank's employees, as well as its elaborate and streamlined Human Resources Management Policy (the HR Policy).

The Bank's HR Policy is designed to help accomplish strategic goals while ensuring adherence to the Bank's socially responsible business practices. The Bank's Development Strategy through 2020 sets forth the following goals in personnel management: developing a professional, loyal and motivated team, and enhancing the Bank's image as an attractive employer.

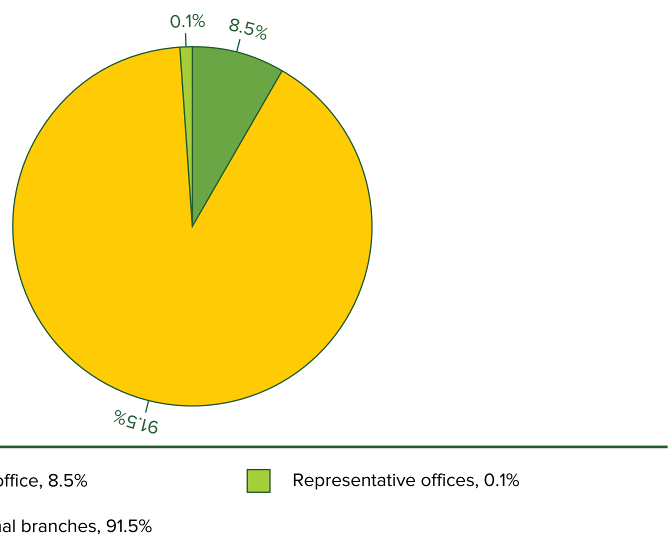
The Bank's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, and dialogue between management and employees, as well as continuous, comprehensive training and development opportunities across all levels.

The main constituents of Russian Agricultural Bank's HR management are sound financial and non-financial motivation, systematic recruitment and appraisal, training and development, and a strong internal social policy.

Personnel Overview

Russian Agricultural Bank is one of the largest employers in the Russian banking sector. As of December 31, 2014, the Bank's total head count amounted to 33,005 (as compared with 33,018 as of December 31, 2013).

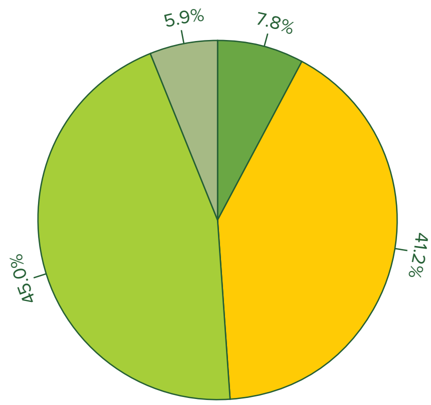
STAFF BREAKDOWN[2]



In 2014, the actual number of Bank employees reached 33,005[1], including:

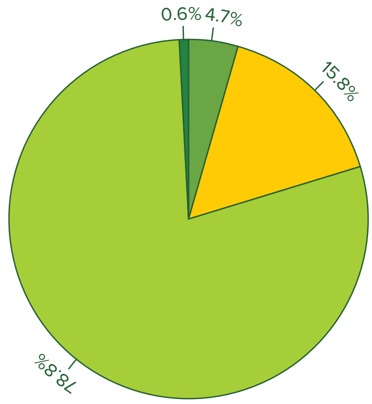
- Head office – 2,793;
- Regional branches and additional offices – 30,194;
- Representative offices – 18.

STAFF BREAKDOWN BY AGE[2]



< 25 years, 7.8%
25 - 35 years, 41.2%
35 - 55 years, 45.0%
> 55 years, 5.9%

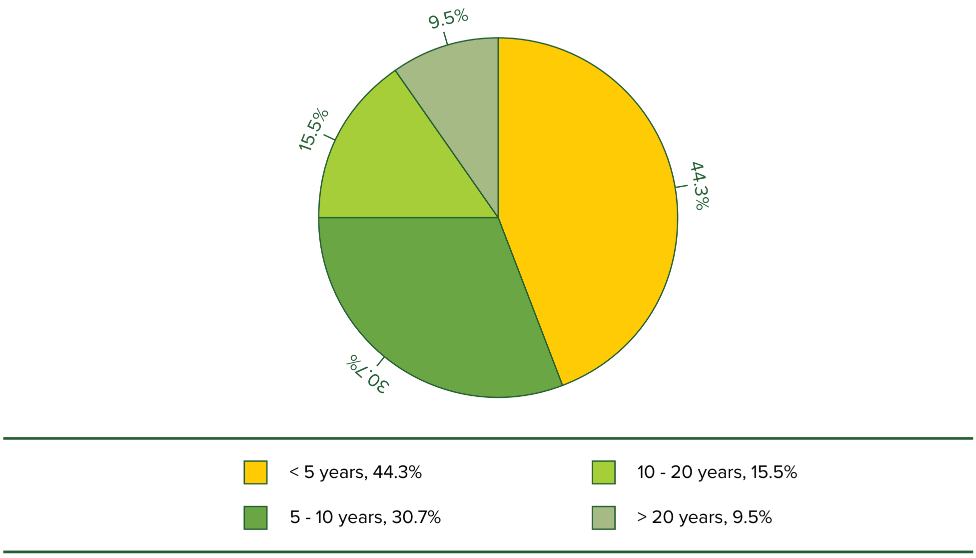
STAFF BREAKDOWN BY EDUCATION[2]



Secondary education, 4.7%
Specialized secondary and incomplete higher education, 15.8%
Higher education, 78.8%
Postgraduate education, 0.6%

1 The total number of Russian Agricultural Bank personnel on a standalone basis. The number does not include contract employees.

STAFF BREAKDOWN BY WORK EXPERIENCE IN THE BANKING SECTOR[2]



For the most part, the Bank's staff have higher education and considerable prior banking industry experience. The average age of the Bank's workforce is 37.8 percent of the Bank's employees have completed a higher education. More than 55 percent of employees have 5 or more years of work experience within the banking sector.

Recruitment, Appraisal and Retention

Employees are the Bank's most valuable asset, allowing the Bank to develop in line with its strategic objectives. The Bank strives to employ the best talent in the market while adhering to fair selection and equal opportunity principles. When recruiting new staff, the Bank is guided by professional expertise criteria. The Bank's specific role as a lender to agribusiness calls for possessing professional banking sphere knowledge, as well as knowledge of agribusiness and related sub-sectors. All employees must pass a half-day introductory course.

The comprehensive personnel assessment system is designed to ensure necessary qualifications and performance by executive personnel at both the branches and the Head office.

In 2014, the Bank introduced a standardized applicant assessment system using cognitive and specific ability tests, personality tests and interest assessments. In 2014, a total of 4,690 employees underwent comprehensive assessments, including an appraisal of their managerial and ad hoc competencies. Based on personnel assessment results, the Bank has determined the need for further employee professional training and development.

2 Source: Information in this section is prepared accordingly to the Company information as of December 31, 2014.

The Bank understands that developing human capital is essential for the achievement of corporate goals. The Bank consistently manages its internal and external succession pools, ensuring timely and effective recruiting for vacant executive positions, as well as the mitigation of risks associated with management turnover.

In 2014, the Bank continued to build upon its earlier efforts to create conditions for the more effective employment of university and college resources through its external succession pool. Its development is carried out in the following directions:

- Cooperation with more than 140 universities, including: the Finance University under the auspices of the Russian Government, M.V. Lomonosov Moscow State University, and the Russian State Agrarian University-Moscow K.A. Timiryazev Agricultural Academy;
- A student scholarship program;
- An internship program for university students – 2,531 trainees, 34 of whom were recruited for the Bank;
- Finance student teams in Bank branches. A total of 623 students took part in these projects.

The student scholarship program aims to support agrarian students and retain young professionals in rural areas, as well as to strengthen the Bank's attractiveness as an employer brand. More than 300 students from 103 universities were awarded Bank scholarships.

The Bank has in place a well-developed succession planning process. This process includes carrying out 'talent reviews' and encouraging ongoing development across all corporate levels. The Bank's Nominations Commission conducts ongoing succession planning and recommends candidates for executive positions in both the Head Office and Bank branches.

The internal talent pool ensures timely recruiting for vacant management positions. The talent pool also mitigates HR risks and shortens the employee adaptation period (when employees are appointed to management positions), provides career growth opportunities to all employees and motivates staff to upgrade their qualifications. This ensures development, progress and lower employee turnover rates.

In 2014 the internal pool comprised more than 2,600 employees. Pool members pass training programs to be well-equipped for upcoming appointments. More than 200 pool members were internally recruited during the reporting year.

Training and Development

Russian Agricultural Bank's human resources policies aim to increase the involvement of every employee in professional development and to provide all Bank business units with highly qualified staff. This approach contributes to preserving and accumulating Bank expertise.

The Bank has a comprehensive training system, which comprises both external and internal training across all employee grades. In 2014, 22,283 (64.5%) employees received on-site training via seminars, video courses, and tests.

Self-education is encouraged through user-friendly online resources. On-the-job learning and mentoring are also available. In 2014, 34,549 (100%) employees passed distance learning courses and tests.

The Bank's Corporate University, which operates through six training centers at the Head Office and in the regions, offers an integrated educational environment contributing to creating a team of like-minded professionals.

The primary tasks of the Corporate University include:
- Developing a unified system for planning and implementing training programs;
- Implementing programs to upgrade employee qualifications;
- Equipping branch and point-of-sale specialists with the requisite functional knowledge and essential customer service and sales skills.

In 2014, key corporate training achievements were:
- Conducting client communication and presentation skills trainings;
- Developing a continuous education system and qualification upgrades within the retail business;
- Implementing qualification upgrade programs for the Chief Accountant and Management Board members;
- Launching the Internal Coaching system;
- Carrying out qualification upgrade programs for the Bank's branch management;
- Working out video seminars on call center, debtor communication and coaching skills;
- Elaborating a course on change management, efficient mortgage loan sales, and effective meeting arrangements and presentations;
- Working out a set of courses for compliance, officers, and security officers based on the requirements of respective business units.

The Corporate University has carried out the following socially-oriented projects:
- Financial literacy seminars for the children of Head Office employees, as well as for boarding school children;
- Financial literacy seminars for the general public in which more than 15,000 people took part;
- Business simulation games and excursions for upper grade schoolchildren within the framework of the career guidance project 'PRO: Pass to Profession;'
- Educational seminars for university students.

In 2014, a total of 22,556 employees took part in Corporate University trainings, compared with 12,447 a year earlier, which represents 81% growth.

Motivation and Performance Recognition

One of the Bank's key priorities is continuous improvement of personnel competencies and higher labor productivity across all spheres. The Bank strives to ensure employee performance recognition and an increase in their aspiration for achievement through ongoing training and development, as well as promoting personal well-being (and that of their dependents). To this end, the Bank has put into place a motivation and incentive policy.

The Bank holds professional excellence contests and contests to reward business activity results for department staff teams, individual employees and branches. The "Best in the Profession" contest has been held 5 years in succession to encourage employees' strong performance.

Russian Agricultural Bank's Retail Banking Unit has developed a unique system of motivation contests. These contests are designed to increase employee efficiency, enhance service quality, and achieve target indicators within the framework of ad hoc contests that are held among teams and individual employees. Contests motivate front-office employees to effectively implement new product offerings and sales models.

The provision of a competitive benefits package is important for attracting and retaining the talented staff that the Bank needs to deliver its strategy. Compensation for completed work is supplemented by a bonus system which is tied to achieving key performance indicators (KPIs).

The Bank's non-financial motivation includes: commendations, letters of appreciation and other incentives awarded to the most effective employees. In 2014, more than 350 employees were given awards to mark their achievements.

Internal Corporate Culture and Social Policies

The Bank's corporate culture effectively blends innovations and traditions and is aimed at strengthening team spirit and accomplishing corporate goals. The HR policy is conducive to creating a culture of values, which forms the basis of the strength and cohesion intrinsically present within a healthy working environment.

For Russian Agricultural Bank, a large employer with clearly defined strategic purposes, it is vital to involve and engage its employees.

The Bank's corporate culture promotes mutual respect for employees and creates a motivating and comfortable environment. Russian Agricultural Bank considers employee care and merit recognition to be priority directions for its internal corporate social policy. The Bank's employment policies meet relevant social, statutory and regulatory conditions and practices. Rules of professional conduct and the basics of ethical conduct at the workplace are effectively presented to employees via leaflets and handouts.

Employees - under the internal social policy – are eligible for social protection based on responsibility and partnership principles. Employment benefits include: medical insurance, medical services in the office, workplace accident insurance, one-time financial allowances for certain family circumstances, partial compensation vouchers to health resorts and discounts from partner companies. In extraordinary cases, the Bank can provide additional financial aid.

The Bank makes all mandatory contributions to the Russian Social and Pension Funds, in accordance with applicable Russian legislation. Pensions are duly provided to former employees via the Bank's own established pension fund – the APK Fund.

Russian Agricultural Bank carries out activities to ensure employees' occupational safety. The Bank pursues preventative policies that help avoid workplace accidents, health accidents and professional diseases, providing workplace safety and safe behavior education, and certifying workplaces in terms of ecological safety, including providing for employees' comprehensive medical checkups. As part of its health and safety strategy, the Bank has developed the "Absolute Rules" list to draw attention to common causes of fatalities and serious injuries.

The Bank has created ample opportunities for its employees to follow a healthy lifestyle. In particular, it has established futsal, volleyball, skiing, and hockey teams. Members of these sports teams have made successful appearances at various interbank competitions.

The Bank maintains a consistent approach in rewarding personnel, based on their performance, and efforts towards business success. The Bank also supports workforce retention and employee performance by actively engaging employees via communication and participation in various social, cultural and sports activities.

All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. Successful employees can be promoted internally based on a special personnel succession plan. This process supports staff development, links behavior to corporate values and helps ensure that employees have the requisite business skills, and that in the long-term they can help implement the Bank's ambitious strategic goals. The Bank holds a series of contests to adequately recognize employees' professional achievements.

Open and regular communication is fundamental to employee engagement and involvement. Russian Agricultural Bank ensures an ongoing employee-manager dialogue. The Bank maintains an open dialogue between staff and management via the internal website where personnel can discuss important questions or make a proposal on increasing overall effectiveness or upgrading business processes.

Agrocredit magazine and Utrenniy Express newspaper are important components of the internal communications framework. The magazine provides employees with an opportunity to better understand the Bank's mission and strategy, the macroeconomic environment, industry specifics and recent events and to feel like he/she is an integral part of the entire Bank network. The newspaper gives employees a clear picture of the Bank's latest developments and serves as a platform for receiving employee feedback on corporate social and charity activities.

In 2014, Russian Agricultural Bank launched a new format for meetings between the CEO and the branch management team, providing a platform for expertise and best practice exchange, as well as allowing top managers to receive first-hand information about branch developments. Branch heads also take part in extended Management Board meetings once a year.

2015 Focus Areas

In 2014, the Bank undertook further steps towards accomplishing its long-term strategic goals. Human capital investments are some of the most important building blocks for this. In particular, the Bank has made significant efforts to strengthen its corporate culture and enhance employee engagement.

Ongoing human capital investments will remain the Bank's priority task going forward. In 2015, Russian Agricultural Bank will continue developing an ongoing employee training system, including: trainings on change management, front office sales for small, retail and micro business units, and soft collection techniques, etc.

Russian Agricultural Bank will uphold its commitment to its core employer policies and aspire to create a motivating and rewarding work environment conducive to achieving sustainable business results.

9. Information Technology

Russian Agricultural Bank views modern technologies as an inalienable part of its operations and a strong factor supporting accomplishment of its business goals. The Bank services more than 6 million clients through a wide-spread network of points-of-sale and remote banking channels. A consistent approach to IT systems ensures impeccable service quality and high customer satisfaction levels, while minimizing operational risks. This is why Russian Agricultural Bank considers advanced IT systems essential for its development within Russia's competitive and fast-changing banking landscape.

In late 2012, the Bank embarked on a corporate-wide transformation of its operating model that envisages launching strategic projects, the most important of which are aimed at:

- Increasing cost efficiency through key process optimization;
- Standardizing, unifying and streamlining business processes;
- Achieving lending growth targets through introduction of scoring, underwriting and operations quality improvement;
- Increasing client focus through CRM system development;
- Centralizing functions and resources including through measures to strengthen control of point-of-sales operations.

In 2014, Russian Agricultural Bank continued its IT evolution aimed at introducing the most advanced IT solutions and maximizing business processes optimization (in line with Bank strategy). The focus areas of the Bank's IT development are modern platforms, operational streamlining, and the centralization of all services and business applications. This approach allows for the fast introduction of new banking products and offers clients a uniform set of services in all Russian regions. In addition, IT centralization ensures effective resource management, control of their use by the Bank's branches, and makes up for the lack of specialized expertise in regions.

In early 2015, the Bank completed introduction of the Central Storage System that provided a unified platform accumulating client and transaction data for 78 remote branches. This solution provides data marts for each business line, which enable end users to consolidate and itemize information. The project optimized the decision-making process and human resources utilization.

Pursuing further unification and centralization of major operating processes, the Bank in 2014 replicated an automated retail loan application processing system (the Credit Conveyor) across the entire branch network. The core banking system has been configured to centralize back-office functions at the branch level.

During the reporting period, the following solutions and upgrades were successfully put into operation at the Bank:

- A back-office system for FX and money market operations based on the CFT-Bank software solution;

- Management reporting, client base and transaction amount reports compiled by the Centralized Storage System. Head Office business units have daily access to these systems;
- As part of the automated cash flow management system (Kondor+ software), the Bank installed a NOSTRO-positioning module to forecast account balances. This module will allow the Treasury to effectively route payments;
- Trial module operation used for security market limit control (based on the Kondor+ software platform);
- 'RSHB dealing' system has been prepared for operation. It is designed for transactions generating fee and commission income and offering competitive client terms. The system allows the Bank to carry out real time transactions with clients and branches;
- A cash management solution for the ATM network;
- Internal website renovations;
- Launch of the integrated collateral registration database.

In addition, the IT unit started testing an end-to-end 'Soft Collection' retail business process, released the credit conveyor edition for processing mortgage loan applications, completed its preliminary examination and chose the vendor for the proposed Asset Liability Management solution.

With a view to increasing client focus, Russian Agricultural Bank continuously enhances its CRM systems. This is clearly seen through the almost completed installation of an operational CRM for the retail business unit (being an effective tool for task planning, account and product management). In 2014, the Bank started working on corporate operational CRM (including installation of the customer information file (CIF)) to streamline services to corporate clients. Moreover, the Bank continued the roll-out of a regional contact center intended for promoting the Bank's services and increasing the quality of overdue debt management. The Bank invests significant effort in developing remote sales channels to attract clients, and diversify its funding base and operating income sources. In 2014, the IT unit expanded the range of functions available to retail clients online and at ATMs. New functions include remote money transfers and currency conversion.

To optimize customer flow management, Russian Agricultural Bank installed and put into trial operation electronic queuing systems at 44 branches. The system not only makes customers' visits more comfortable, but also simplifies the work of Bank employees and allows employees to factor customer preferences into the decision-making process.

Regarding IT infrastructure, the Bank currently carries out upgrades of the local area network, data back-up systems, transfers of data resources to a virtual environment, and the set-up of in-house and reserve data processing centers. These measures will enhance the safety and fault tolerance of the Bank's IT systems. The corporate telecommunications network provides an integrated environment connecting all offices and departments and is built using high speed landlines and alternate satellite channels.

2015 Focus Areas

In the near term, Russian Agricultural Bank will adhere to its policy stipulating the deployment of the latest technologies to ensure client focus and cost efficiency. In 2015, the Bank's IT unit will work out an ad hoc strategy to maximize the beneficial effect of introduced changes on its business processes.

Russian Agricultural Bank since its inception has enhanced the access of millions of people and companies to banking and financial services. Businesses and residents in remote areas can conveniently access the same range of services as clients in large cities. These results wouldn't be feasible without a consistent and thorough approach to IT development. Therefore, the Bank will continue to focus on cutting-edge technologies that support its business development and provide a competitive advantage compared with its peers.

10. Corporate Social Responsibility

In the framework of the State Program implementation the Bank has provided RUB 25.4 billion to household plot owners

Business practices resulting from corporate social responsibility (CSR) concepts have become an organic part of Russian Agricultural Bank's core operations. The Bank's continuous efforts towards pursuing CSR values comes from its unique role in developing national agriculture. The Bank's adopted CSR-related policies are focused on developing rural territories and mid-sized cities, upgrading the living standards of the country's rural population, promoting innovations and resource-efficient technologies in agribusiness, supporting small businesses and young professionals, financing priority import substitution projects, and enhancing access to financial services.

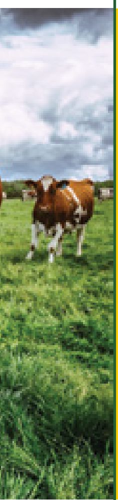
Liaising with regional communities is essential for the Bank to accomplish its mission, given that more than 90% of its assets are located in Russian regions. The Bank leverages its countrywide footprint and partners with governments in the territories in which it is present to prepare and implement regional development strategies.

Small- and medium-sized business support is an important task on the State level and is also one of the Bank's focal points. The Bank strives to develop products and services - both financial and non-financial - that supplement direct benefits with added value via fostering a favorable business environment, supporting new job creation and contributing to social and economic progress.

Sustainable Business Practices

In addition to business objectives, Russian Agricultural Bank is guided by long-term value creation principles which translate into a sustainable future for customers, shareholders and the wider community.

2014



RUB billion

25.4

Food and processing industry accounts for 13.9% of loans to agribusiness

13.9%

The Bank's sustainability approach derives from its strategic priorities, in the first place – facilitating investments in agriculture and rural infrastructure development, and increasing financial literacy and upgrading the overall welfare of the rural population.

Proceeding from its mission and CSR commitment, the Bank consistently works towards:

- Providing affordable, innovative and environmentally responsible banking products and services for agricultural producers and the rural population;
- Implementing the Government's socio-economic and lending policies;
- Mobilizing domestic and foreign investments in Russian agribusiness;
- Ensuring sustainable development of the agribusiness industry and Russian rural areas;
- Preserving and restoring natural resources, and reducing the environmental impact of the Bank's activities.

Since the Bank's founding, special focus has been paid to combining the efforts of federal and local authorities and businesses towards economic progress. As part of this effort, in 2014, the Bank signed 21 bilateral cooperation agreements with Russian regional authorities to implement the 2013-2020 State Program on Agribusiness Development. This type of cooperation facilitates lending to regional agribusinesses, including financing seasonal field work, inflows of investments into priority sub-sectors and infrastructure development, as well as implementation of State policy into economic, social, educational and other spheres by Russian constituents.

Customer Focus and Access to Financing

Increasing the availability of financial resources for small businesses and the rural population is an important task at the State level and is also one of the Bank's priorities. This is crucial for ensuring social equality, through inclusive and sustainable economic growth. Supporting the launch of new agribusinesses creates new jobs for young people and retains qualified professionals in rural areas. Multi-purpose lending to individuals and businesses helps support employment rates and economic development across the regions in which the Bank is present.

In 2014, the Bank grew its agribusiness portfolio RUB 21.7 billion, thereby supporting the sector's development across its footprint. During the year, Russian Agricultural Bank continued to focus on upgrading product and service offerings to meet the requirements of all types of entities working in rural and semi-urban areas: farmers, household plot owners, and larger agricultural holdings.

The Bank signed a Cooperation Agreement with the Credit Guarantee Agency incorporated to support small and mid-sized enterprises and forge a national system of guarantee institutions. The first tripartite contract was signed by the Bank, the Agency and a company producing construction materials.

In almost every region, the Bank provides financial support to entrepreneurs employed in trade, tourism, household services and other services not directly related to agribusiness. Thanks to this, the commercial sector, in fact, is also engaged in developing rural territories.

Russian Agricultural Bank delivers services through the country's second largest branch network, comprising 78 branches and more than 1,400 additional offices. The Bank leverages these resources to participate in financing various regional programs aimed at the economic and social development of Russian constituents, as well as enhancing the penetration of banking services into remote areas — thereby ensuring engagement and the overall well-being of these communities.

Russian Agricultural Bank increases the efficiency of its branch network, ensuring access for all client segments to the full range of banking products and services. An increasing number of rural residents can apply to open deposits, receive cash services, and special purpose loans to upgrade living conditions and set up businesses.

Going forward, the Bank will take advantage of its branch network to deliver better services targeted towards customers in rural and semi-urban areas across the entire agribusiness value chain.

Recognition

The Bank regularly ranks among companies that demonstrate 'a very high level of CSR practices,' according to a poll conducted by the Political and Economic Communications Agency.

In 2014, Russian Agricultural Bank was awarded an Honorary Diploma by the Association of Regional Banks of Russia "For significant contributions to implementing regional small- and mid-sized enterprise (SME) support programs and constructively cooperating with the Association of Regional Banks of Russia."

Russian Agricultural Bank won the national 'People's Brand - 2014' award among banks. The winner was chosen based on voting by Russian consumers and shows a high level of confidence in the Bank, brand awareness and client loyalty. Furthermore, according to a survey jointly conducted by Russian Public Opinion Research Center (VTSIOM) and the National Agency for Financial Studies (NAFS), Russian Agricultural Bank took a leading position in the ranking of most reliable banks as seen by their customers.

Social Commitment

As the backbone financial institution for agribusiness financial support, Russian Agricultural Bank, for more than 11 years now, has participated in sustainability programs focused on social aspects and initiated by the Russian Government. Program objectives include: providing affordable financing to agribusiness enterprises and ensuring the financial stability of agricultural producers, thereby promoting the well-being of the rural population and comprehensive sustainable development for the national agribusiness.

The Bank is engaged in implementing the following programs:

- Sustainable development of rural areas. This program is aimed at upgrading living standards, stimulating investments into agribusiness, strengthening positive attitudes towards rural life and developing non-agricultural production and employment;
- Recovery of loans extended from the Russian federal budget and extra-budgetary sources to legal entities engaged in agribusiness from 1992 to 2000;
- Implementation of the Federal Law "On the Financial Rehabilitation of Agricultural Enterprises." Russian Agricultural Bank monitors the financial standing of respective enterprises;
- Financing grain purchases and commodity interventions;
- Financing seasonal field work. The Bank accounts for 78% of total seasonal field work financing, with more than RUB 148 billion in loans issued for this purpose in 2014;
- Lending for various purposes, such as: machinery, livestock and grain purchases;
- Financing investment projects for constructing and upgrading greenhouses, and livestock and fish breeding facilities;
- Lending to agricultural credit and consumer cooperatives. This type of support contributes to closer cooperation and integration in rural areas. Credit and consumer cooperatives are an important vehicle for rural financial stability;
- Developing all forms of small business, including family-operated farms and start-ups;
- Federal and regional programs, whereby agricultural producers receive subsidies to partially compensate for interest expenses on loans;
- The Federal Project Finance Program. The Program stipulates that the Central Bank refinances loans extended for projects approved by the Russian Economic Development Ministry. This program is designed to boost domestic production in real economic sectors;
- Support of export-oriented businesses. The Bank supports export-oriented SMEs based on a Cooperation Agreement with the Russian Export Insurance Agency (EXIAR).

The Bank offers more than 30 types of loan facilities, tailored to meet individual needs, to Russian farmers. Special focus is paid to projects involving import substitution, modernization and renovations of agribusiness facilities, which enhance industry competitiveness.

Moreover, the Bank provides products customized to specific social groups, such as pensioners. For example, the Bank offers the social card – a convenient tool to receive pensions and allowances.

To upgrade housing conditions, Russian Agricultural Bank provides mortgages to young families (under Federal Special Purpose Programs) and military servicemen (pursuant to Russian Federal Law No. 117-FZ "On the Mortgage Savings System for Housing Provisions for Military Servicemen").

In early 2015, the Bank enrolled in the subsidized mortgage program initiated by the Government. Sector-wise, RUB 20 billion will be allocated from the federal budget for this purpose. It will support the residential construction market during the current unfavorable macroeconomic conditions.

The Bank undertakes efforts to make its purchasing processes transparent, efficient and non-discriminatory and promotes compliance with the Russian Federal Procurement Law, including by adopting an Internal Regulation "On the Organization of Procurement Activity." The Bank publishes information on its procurement activities online at www.zakupki.gov.ru. To encourage fair competition and transparency, as well as cost optimization, the Bank conducts electronic procurement procedures via auctions/requests for proposals and other methods. As a result of the undertaken procedures, the Bank saved approximately RUB 470 million.

With a view to implementing the Government approved road map 'Enhancing the access of small- and medium-sized business to purchases of infrastructure monopolies and State-owned companies,' the Bank placed 37% of its procurement orders with SMEs, whereas the minimum required amount is 15%.

Russian Agricultural Bank's international operations facilitate the inflow of foreign investments into the Russian agricultural sector. Bank representatives visited China and held talks with Russia's Ambassador Extraordinary and Plenipotentiary to China and top executives of China's largest banks. The parties came away with a better understanding of how to grow business pursuant to existing or proposed cooperation agreements. The Bank's active membership in the Russian-Chinese Business Council, the US-Russia Business Council and the International Confederation of Agricultural Credit (CICA), as well as the Canada Eurasia Russia Business Association (CERBA), reinforces the potential for further development and international cooperation in agribusiness lending.

The Bank is a financial partner of the Strategic Initiatives Agency. This partnership promotes socially important projects with a focus on innovations and upgrading the agribusiness investment climate. Bank employees actively took part in numerous initiatives, such as implementation of investment standards, the Far Eastern Federal District Priority Development. The Regional Investment Standard is the Agency's central project designed to create a favorable investment climate in Russian regions. The Standard is made up of the 15 best investment practices, employed by Russia's most successful regions.

Russian Agricultural Bank regularly hosts roundtable discussions that bring together regional authorities and potential investors in agribusiness and related spheres. The Bank's specialists also engage in disseminating and incorporating ecological practices and environmentally responsible policies into corporate culture.

The Bank has adopted and implemented voluntary environmental responsibility principles to preserve and restore natural resources, and to reduce the environmental footprint from the Bank's activities, as well as to raise social responsibility awareness.

When implementing voluntary ecological responsibility mechanisms, the Bank strives to comply with local and international ecological standards and norms, provides for expenses related to ecological aspects of the Bank's activity, including for environmental protection, rationalizes and controls performance related to the input(s) (raw materials, energy, and water) and output(s) (waste) for tangible resources per one employee (per one unit of usable space), and optimizes the use of Bank resources, including by reducing electricity and heating usage, and water via the application of resource-efficient technologies, and automates the control of resource use and conservation ('smart office' policies).

With the Bank's active financial support of measures outlined in the State Program on Agribusiness Development, gross industry output reached 6.2% in 2013 and 3.7% in 2014, according to preliminary estimates.

Stakeholder Relations and Societal Impact

Russian Agricultural Bank's corporate culture blends innovation and traditions, and is aimed at strengthening team cooperation to achieve common corporate goals.

In the framework of the State Program implementation the Bank has provided RUB 14.8 billion to farms

To promote better corporate governance standards, in 2012, the Bank adopted the Corporate Ethics Code, in particular relating to conflicts of interest, anti-bribery and corruption policy, intellectual property rights, mass media and government relations. The Code promotes a stronger reputation for the Bank, and ensures that the interests of the Bank's clients, partners and employees are observed. The Code sets conduct rules for employees when they interact with their co-workers, clients, government bodies and municipalities, as well as with political, religious and other organizations.

The Bank organizes various corporate events: team building activities, CSR, sporting and client events, and arts and professional contests. In 2014, the Bank's Head Office and branches held more than 1,660 events and campaigns including 4 bank-wide contests. Professional excellence contests are held to reward the performance of department staff teams, individual employees and branches. The "Best in the Profession" contest has been held for 5 years in succession to encourage employees' strong performance.

The following policies are among human resources management priorities: recognizing employees' merits and fairly assessing their contribution to achieving tasks set by the shareholder. The Bank's non-financial motivation includes: commendations, letters of appreciation and other incentives awarded to its most effective employees. In 2014, more than 350 employees were given awards to mark their achievements.

Russian Agricultural Bank believes that CSR is a way of thinking that drives a desire to upgrade living standards for its employees and society as a whole. This sentiment translates into the tangible help that the Bank gives local communities via charitable activities, sponsorships and donations and gives rise to the positive impression of the Bank's operations for its wide and diverse stakeholder base.

RUB billion

14.8

The Bank adheres to its principles of creating a favorable working environment, contributing to healthy lifestyle practices and skill development for its employees.

In its internal social policy, the Bank promotes personnel protection based on principles of responsibility, non-discrimination and mutual respect. Bank employees are eligible for voluntary medical insurance, on-site basic medical assistance, occupational accident insurance, one-time financial allowances in case of certain family circumstances, compensation vouchers for staying at health resorts, and corporate discounts from partner companies. In extraordinary cases, the Bank can provide additional financial aid.

The Bank insures 2,793 Head Office employees and almost 33,000 branch employees under its voluntary medical insurance program. 507 Head Office employees and 6,553 branch employees are insured against accidents.

Russian Agricultural Bank carries out activities to ensure its employees' occupational safety. The Bank's objectives are to minimize risks related to fires and injuries to employees, customers and visitors, including appropriate education on workplace safety and safe behavior, certifying that workplaces comply with ecological safety standards, and investigating health accidents and professional diseases, including providing for comprehensive medical check-ups. The Bank holds emergency evacuation trainings.

The Bank cares about employees' health. A healthy lifestyle is one of the Bank's core values. Providing additional sports amenities is a significant task within the Bank's HR policy.

The Head Office and Bank branches have set up different sports teams, such as: the futsal, volleyball, and hockey team. These teams have participated in numerous sporting events on both the regional and federal levels.

Volunteer projects evidence that the Bank's staff upholds and embraces the Bank's commitment to socially responsible practices. The Bank actively engages its staff in volunteer projects benefiting local communities. The “Volunteer Descent” project supports socially-oriented organizations in almost all Bank branches. Starting from 2010, the Bank has implemented the “Project PRO: Pass to Profession” project, which includes career guidance excursions for high school students and orphaned children.

Employees' artistic talents have been displayed at a photo and drawing contest for employees' children. These contests were scheduled to coincide with the Bank's birthday and the Day of the Agricultural and Processing Industry Worker:

The Head Office and most branches have launched volunteer initiatives. The key socially oriented projects that have helped boost the Bank's corporate values are: the Donor's Day, Volunteer Descent and the Pass to Profession. In 2014, volunteers have raised RUB

224 thousand at various charity auctions. These funds were further directed to activities at children's boarding schools and rehabilitation centers, as well as for assistance to military veterans. The Bank's employees also volunteered in a few environmental protection campaigns and community clean-up days where they were joined by public activists.

In late 2014, the Bank held the 'Open Hearts' contest to choose the best social impact volunteer project.

Sponsorship and Charity

The Bank's charitable activity is driven by its commitment to basic human values and to being a responsible corporate citizen. Russian Agricultural Bank pays significant attention to social development in the regions in which it is present, and promoting agriculture across wider audiences.

The key projects are aligned with the Bank's core priority - agribusiness support. In the course of developing its charity policy, the Bank has decided on charitable initiatives related to key priorities of Russia's social and economic development and defined by Bank shareholders – namely, developing the country's health care and education system, preserving Russia's cultural and historical heritage and promoting spirituality.

In 2014, Russian Agricultural Bank implemented projects in 4 principal spheres: community support, education, spiritual education, and sports and physical education.

The Amur Tiger Protection Project

Special mention should be made about the sponsorship help provided to the autonomous non-profit organization 'Center for Studying and Conserving the Amur Tiger Population.' The Bank became the primary sponsor of the mass media campaign, which effectively combined the resources of a commercial and non-profit entity to increase the number of Amur tigers in Russia and expand their habitat. Protecting the environment and engendered species is a civic duty for responsible corporations, including the Bank.

Furthermore, in mid-2014, the Bank launched a payment card that gives cardholders a unique opportunity to help conserve this rare species without incurring any expenses. The Bank transfers 0.7% of each transaction from its income to the project's account. In less than 6 months,

100 thousand people joined this large scale federal program. The first amounts transferred by the Bank were directed at financing a census for the Amur tigers.

With the aim of supporting communities, the Bank provided financial aid to individuals, a state social services agency, a non-profit fund and a veterans' organization.

One priority project is financially supporting architectural monuments and spiritually significant culture objects. The Bank supports restoring numerous churches and cathedrals. The Bank's charitable fund supports restoration of the Voskresensky New Jerusalem Stauropegial Monastery. This initiative contributes significantly to further developing Russian national identity.

The Bank supports art and culture as a general sponsor of the Moscow-based theater under the artistic direction of Armen Dzhigarkhanyan.

The Bank holds an annual Donor Day. In 2014, 270 Head Office employees donated blood and raised more than RUB 50 thousand for young patients at the Federal Research and Clinical Center for Children's Hematology, Oncology and Immunology.

Starting from 2008, the Bank has awarded scholarships to agrarian students. Russian Agricultural Bank's initiatives facilitate the education of highly-qualified professionals in key rural specializations and the retention of young specialists in rural areas, since these are key prerequisites for Russian agribusiness development.

As part of the initiative to support industry-specific mass media, the Bank has sponsored radio and TV shows that raise agricultural issues. In addition, the Bank sponsored an artistic gymnastic competition and the all-Russian Woodcutting Competition.

In 2014, the Bank became a partner for numerous large specialized events, including: the XVIII Saint Petersburg Economic Forum, the Golden Autumn Exhibition, the "Agrorus-Regions" all-Russian Agricultural Exhibition, the Exhibition of Agribusiness Innovations at the Shanghai Cooperation Organization (SCO) member states "AGRO-INNOTECH" and the XXV Congress of the Association of Farms and Agricultural Cooperatives of Russia, the XII Russian Bond Congress, and one of the sessions at the "Seliger 2014" National Youth Forum. The Bank became the primary sponsor of the XXV Annual Convention of the Association of Russian Banks, which is a forum for fostering dialogue within the wider banking community.

The Bank has allocated approximately RUB 248 million for sponsorship and charitable activities in 2014.

The Bank will further pursue adopted CSR policies, placing a special focus on its pivotal role in supporting the financial stability of agribusiness enterprises, especially when this industry comes to the forefront in resolving national scale tasks leading to Russia's economic prosperity.

11. Consolidated Financial Statements with Independent Auditor’s Report

Russian Agricultural Bank Group

Consolidated financial statements

for the year ended 31 December 2014

with independent auditor’s report

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улучшаем мир

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Independent auditor's report

To the shareholder and Supervisory Board of Russian Agricultural Bank Group

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

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Совершенствуя бизнес,
улучшаем мир

Opinion

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

31 March 2015

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	7	105 009	128 444
Mandatory cash balances with the Central Bank of the Russian Federation		9 373	8 735
Trading securities	8	2 090	2 810
Financial instruments designated at fair value through profit or loss	10	6 902	12 220
Due from other banks	11	34 036	43 065
Derivative financial instruments	35	131 819	25 667
Loans and advances to customers	12	1 416 463	1 261 046
Investment securities available for sale	13	113 638	50 299
Investment securities held to maturity	14	11 568	11 291
Investment securities pledged under repurchase agreements	9	26 278	73 210
Deferred income tax asset	28	13 317	7 868
Intangible assets	15	2 330	1 769
Premises and equipment	15	24 314	24 655
Current income tax assets		450	22
Other assets	16	17 819	18 833
Assets held for sale	39	411	830
Total assets		**1 915 817**	**1 670 764**
Liabilities			
Derivative financial instruments	35	1 207	950
Due to other banks	17	285 776	149 680
Customer accounts	18	761 595	722 125
Promissory notes issued and deposit certificates	19	18 680	31 174
Bonds issued	20	554 568	449 803
Deferred income tax liability	28	1 245	1 358
Current income tax liability		5	508
Other liabilities	21	10 481	13 330
Subordinated debts	22	84 261	74 053
Total liabilities		**1 717 818**	**1 442 981**
Equity			
Share capital	23	248 798	218 798
Revaluation reserve for premises		1 194	1 232
Revaluation reserve for investment securities available for sale		(12 403)	(1 285)
(Accumulated loss)/retained earnings		(39 922)	7 863
Equity attributable to the Bank's shareholder		**197 667**	**226 608**
Non-controlling interest		**332**	**1 175**
Total equity		**197 999**	**227 783**
Total liabilities and equity		**1 915 817**	**1 670 764**

Approved for issue and signed on behalf on the Management Board on 31 March 2015

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D.N. Patrushev

Chairman of the Management Board

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E.A. Romankova

Chief Accountant

In millions of Russian Roubles	**Note**	**2014**	**2013**
Interest income	24	161 439	152 591
Interest expense	24	(101 466)	(87 238)
Net interest income		**59 973**	**65 353**
Provision for loan impairment	11, 12	(55 895)	(27 003)
Net interest income after provision for loan impairment		**4 078**	**38 350**
Fee and commission income	25	10 008	9 302
Fee and commission expense	25	(1 189)	(944)
(Losses net of gains)/gains less losses from trading securities		(59)	42
Losses net of gains from financial instruments designated at fair value through profit or loss		(1 612)	(398)
Losses net of gains from investment securities available for sale		(1 913)	(51)
Losses from impairment of investment securities available for sale		(253)	-
Losses net of gains from investment securities held to maturity		(344)	(1)
Foreign exchange translation losses net of gains		(117 919)	(9 589)
Gains less losses from derivative financial instruments		107 480	3 450
(Losses net of gains)/gains less losses from dealing in foreign currencies		(2 731)	50
Provision for credit related commitments and other assets impairment	16, 34	(358)	(617)
Losses net of gains from early redemption of borrowed funds		(1 629)	(39)
Gains from non-banking activities		5 549	5 702
Losses from non-banking activities		(8 651)	(8 033)
Loss on disposal of subsidiaries	39	-	(551)
Other operating income		1 233	688
Administrative and other operating expenses	27	(41 953)	(36 822)
(Loss)/profit before tax		**(50 263)**	**539**
Income tax credit	28	2 335	190
(Loss)/profit for the year		**(47 928)**	**729**
(Loss)/profit is attributable to:			
Shareholder of the Bank		(47 405)	840
Non-controlling interest		(523)	(111)
(Loss)/profit for the year		**(47 928)**	**729**
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Securities available for sale:			
- Revaluation of securities at fair value		(16 037)	(1 318)
- Realised revaluation reserve (at disposal)		1 913	51
- Reclassification to profit or loss at impairment		226	-
Income tax	28	2 780	253
Other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of tax		**(11 118)**	**(1 014)**
Total other comprehensive loss		**(11 118)**	**(1 014)**
Total comprehensive loss for the year		**(59 046)**	**(285)**
Total comprehensive loss is attributable to:			
Shareholder of the Bank		(58 523)	(174)
Non-controlling interest		(523)	(111)
Total comprehensive loss for the year		**(59 046)**	**(285)**

		Attributable to Shareholder of the Bank						
In millions of Russian Roubles	**Note**	**Share capital**	**Revaluation reserve for premises**	**Revaluation reserve for securities available for sale**	**Retained earnings/ (accumulated loss)**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2012		**188 798**	**1 270**	**(271)**	**7 117**	**196 914**	**983**	**197 897**
Profit/(loss) for the year, net of tax		-	-	-	840	840	(111)	729
Other comprehensive loss for the year, net of tax		-	-	(1 014)	-	(1 014)	-	(1 014)
Total comprehensive (loss)/income for the year, net of tax		**-**	**-**	**(1 014)**	**840**	**(174)**	**(111)**	**(285)**
Share issue	23	30 000	-	-	-	30 000	-	30 000
Change in ownership interests and disposal of subsidiaries		-	-	-	(1)	(1)	303	302
Depreciation of revaluation reserve for premises		-	(38)	-	38	-	-	-
Dividends declared	29	-	-	-	(131)	(131)	-	(131)
Balance at 31 December 2013		**218 798**	**1 232**	**(1 285)**	**7 863**	**226 608**	**1 175**	**227 783**
Loss for the year, net of tax		-	-	-	(47 405)	(47 405)	(523)	(47 928)
Other comprehensive loss for the year, net of tax		-	-	(11 118)	-	(11 118)	-	(11 118)
Total comprehensive loss for the year, net of tax		**-**	**-**	**(11 118)**	**(47 405)**	**(58 523)**	**(523)**	**(59 046)**
Share issue	23	30 000	-	-	-	30 000	-	30 000
Change in ownership interests		-	-	-	(163)	(163)	(320)	(483)
Depreciation of revaluation reserve for premises		-	(38)	-	38	-	-	-
Dividends declared	29	-	-	-	(255)	(255)	-	(255)
Balance at 31 December 2014		**248 798**	**1 194**	**(12 403)**	**(39 922)**	**197 667**	**332**	**197 999**

In millions of Russian Roubles	Note	2014	2013
Cash flows from operating activities			
Interest received		153 480	133 223
Interest paid		(100 650)	(86 726)
Expenses incurred from trading in securities and financial instruments designated at fair value through profit or loss		(3 296)	(16)
Income received/(expenses incurred) from derivative financial instruments		1 585	(7 870)
(Expenses incurred)/income received from dealing in foreign currencies		(2 731)	50
Fees and commissions received		10 229	9 268
Fees and commissions paid		(1 189)	(944)
Other operating income received		950	337
Net insurance income received		692	631
Income received from non-banking activities		3 626	4 642
Losses incurred from non-banking activities		(3 750)	(6 541)
Administrative and other operating expenses paid		(38 597)	(36 287)
Income tax paid		(1 341)	(376)
Cash flows from operating activities before changes in operating assets and liabilities		**19 008**	**9 391**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(638)	419
Net decrease in trading securities		1 065	15 422
Net decrease in financial instruments designated at fair value through profit or loss		7 743	837
Net decrease in due from other banks		20 283	4 732
Net increase in loans and advances to customers		(149 649)	(190 662)
Net decrease/(increase) in other assets		3 559	(2 246)
Net increase in due to other banks		125 052	9 892
Net increase in customer accounts		4 762	164 355
Net (decrease)/increase in promissory notes issued and deposit certificates		(13 520)	7 735
Net (decrease)/increase in other liabilities		(1 567)	1 697
Net cash from operating activities		**16 098**	**21 572**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(3 334)	(1 226)
Proceeds from disposal of premises and equipment		306	208
Acquisition of intangible assets	15	(1 185)	(602)
Acquisition of investment securities available for sale		(113 105)	(134 039)
Proceeds from disposal of investment securities available for sale		77 186	90 873
Acquisition of investment securities held to maturity		-	(596)
Proceeds from redemption of investment securities held to maturity		8 957	1 720
Acquisition of subsidiaries		(482)	-
Net cash used in investing activities		**(31 657)**	**(43 662)**
Cash flows from financing activities			
Issue of ordinary shares	23	5 000	30 000
Issue of preference shares	23	25 000	-
Proceeds from bonds issued		47 756	72 396
Repayment of bonds issued		(59 131)	(74 716)
Proceeds from sale of previously bought back bonds issued		19 297	7 533
Buy back of bonds issued		(26 895)	(11 499)
Repayment of subordinated debt	22	(25 000)	-
Proceeds from subordinated debts		-	16 134
Proceeds from sale of previously bought back subordinated debts		-	1
Buy back of subordinated debts		-	(73)
Dividends paid	29	(255)	(131)
Proceeds from sale of interest in subsidiary		-	61
Net cash (used in)/from financing activities		**(14 228)**	**39 706**
Effect of exchange rate changes on cash and cash equivalents		**6 352**	**4 486**
Net (decrease)/increase in cash and cash equivalents		**(23 435)**	**22 102**
Cash and cash equivalents at the beginning of the period	7	128 444	106 342
Cash and cash equivalents at the end of the period	7	**105 009**	**128 444**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) for the year ended 31 December 2014 for Open Joint-Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Government of the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (89.92% from total share capital) and the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (10.08% from total share capital).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Closed Joint-Stock Company RSHB Insurance (ownership interest of the Bank is 100%), RSHB Capital S.A. (structured entity incorporated for Eurobonds issue for the Bank), Limited Liability Company RSHB Asset Management (ownership interest of the Bank is 100%) and 39 companies and funds operating in agricultural and other industries (ownership interest of the Bank is from 75% to 100%).

Principal activity. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. 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 and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (31 December 2013: 78) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group’s employees as at 31 December 2014 was 35 945 (31 December 2013: 36 349).

Presentation currency. These consolidated financial statements are presented in Russian Roubles (“RR”). All amounts are expressed in RR millions unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation. The Russian Federation is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

2 Operating Environment of the Group (Continued)

During 2014 the Russian economy was negatively impacted by a significant drop in crude oil prices, ongoing political tension and international sanctions imposed against certain Russian companies and individuals. As a result during 2014:

- the Russian Rouble weakened from RR 32.7292 to RR 56.2584 per 1 US Dollar;
- the CBRF increased key interest rate from 5.5% p.a. to 17.0% p.a.;
- the RTS stock exchange index fell from 1 445 to 791 points;
- access to international financial markets to raise funding was limited for certain Russian entities; and
- capital outflow increased compared to prior years.

In July-September 2014, several countries imposed limited sectoral sanctions on state-owned Russian banks, including OJSC Russian Agricultural Bank. Sanctions forbidden financing for the period exceeding 30 days with state-owned Russian banks. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

In 2014 Russia's credit rating was downgraded by Moody's to Baa2 with a negative outlook, Standard & Poor's cut it to BBB- and further included it in watch list for downgrade. Fitch ratings retained Russia's rating at BBB while changing outlook to negative.

In December 2014, the Rouble interest rates increased significantly after CBRF raised its key rate from 10.5% to 17.0%. The combination of the above resulted in reduced access to capital, higher cost of funding, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3 Summary of Significant Accounting Policies

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

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

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

3 Summary of Significant Accounting Policies (Continued)

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity.

Structured entities. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Refer to Note 4 for the information about the Group's exposure to structured entities.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an principal market. MICEX is considered as principal market for financial instruments listed on Russian stock exchanges and Bloomberg is considered as primary source of quotes for financial instruments listed on foreign stock exchanges. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Initial recognition of financial instruments. Trading securities, derivatives and financial instruments designated 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 with the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Precious metals. Gold and other precious metals are recorded at CBRF bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in other income.

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

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 Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through 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 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 Group 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 consolidated statement of profit or loss and other comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

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

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, 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.

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

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

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

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

3 Summary of Significant Accounting Policies (Continued)

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year.

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

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3 Summary of Significant Accounting Policies (Continued)

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

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

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises included in equity 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 Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20-40
Equipment	5-20	5-20
Leasehold improvements	10	-

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

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

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

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

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

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

3 Summary of Significant Accounting Policies (Continued)

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

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

Promissory notes issued and deposit certificates. Promissory notes issued by the Group and deposit certificates are carried at amortised cost. If the Group purchases its own promissory notes issued or deposit certificates, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Bonds issued. Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

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 financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

Regular way transactions. Regular way transactions are purchases or sales of financials assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized or derecognized on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognized as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

3 Summary of Significant Accounting Policies (Continued)

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognized in the income statement and for financial assets available for sale is recognized in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognized in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

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

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. 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 other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

Gross insurance premiums written. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognized when due from a policyholder. Specifically, the Group recognizes premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognized as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognized as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Claims paid. Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

3 Summary of Significant Accounting Policies (Continued)

Loss provision. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve ("OCR") and provision for losses incurred but not yet reported ("IBNR"). Estimates of the claims handling expenses are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

Deferred acquisition costs. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortized over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

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

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

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

Share capital. Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after 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. Russian legislation identifies the basis of distribution as the current year net profit.

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.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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.

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

As at 31 December 2014 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 56.2584 (31 December 2013: USD 1 = RR 32.7292), EUR 1 = RR 68.3427 (31 December 2013: EUR 1 = RR 44.9699).

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

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off 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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital and equipment. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Federal Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

Segment reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

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

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.

During the year ended 31 December 2014, the Group modified certain accounting estimates in calculating provision for loan impairment for corporate loans assessed on collective basis, primarily in respect of impairment criteria which resulted in the cumulative positive effect of RR 5 842 million on the provision for loan impairment in the Group's consolidated statement of profit or loss and other comprehensive income.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount close to maturity — it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 14.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. Key assumptions in the business plan is to obtain profits in subsequent financial years through widening of product range and client base. Refer to Note 28.

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 December 2014 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 379 609 million and subordinated debts in the amount of RR 72 827 million (31 December 2013: Eurobonds issued in the amount of RR 299 782 million and subordinated debts in the amount of RR 42 363 million). During 2014 and 2013 the Group did not provide any other financial support to the consolidated structured entity. The Group has no current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

Holding Corporate Eurobonds in the trading and investment portfolios of the Group is considered under IFRS 12 requirements as interest in unconsolidated structured entities. Maximum exposure equals to carrying value of Corporate Eurobonds.

5 Adoption of New or Revised Standards and Interpretations

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

Amendments to IFRS 10, IFRS 12 and IAS 27 — Investment Entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. These amendments had no impact on the Group's financial position since none of the entities in the Group qualify to be an investment entity.

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

Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). These amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. These amendments had no impact on the Group's financial position.

IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This Interpretation had no impact on the Group's financial position.

Amendments to IAS 39 — Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. This amendment is not relevant to the Group since the Group does not apply hedge accounting.

Amendments to IAS 36 — Recoverable Amount Disclosures for Non-financial Assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position.

6 New Accounting Pronouncements

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

IFRS 9 Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early adoption permitted). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project (except for macro hedging accounting) and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. Key features of the new standard are:

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

6 New Accounting Pronouncements (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a “three stage” approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is considering the implications of the standard and the impact on its financial statements.

IFRS 14 Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

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

Amendments to IAS 19 — Defined Benefit Plans: Employee Contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendments will not have any impact on the Group’s financial statements.

Amendments to IFRS 11 — Accounting for Acquisitions of Interests in Joint Arrangements (issued on 6 May 2014 and effective for annual periods beginning on or after 1 January 2016). 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 Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective 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. The Group is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IAS 16 and IAS 41 — Agriculture: Bearer Plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. These amendments are not expected to have any impact to the Group's financial statements as the Group does not own or control any bearer plants.

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. First-time adopters of IFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to IFRS. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. The amendments are not applicable for consolidated financial statements of the Group.

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 applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early adoption permitted). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2010 - 2012 cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The Group is currently assessing the impact of the improvements on its financial statements. The improvements consist of changes in seven standards:

- IFRS 2 *Share-based Payment* was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
- IFRS 3 *Business Combinations* was amended to clarify that
    1. an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and
    2. all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

- IFRS 8 *Operating Segments* was amended to require
    1. disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and
    2. a reconciliation of segment assets to the entity's assets when segment assets are reported.
- IFRS 13 *Fair Value Measurement.* The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
- IAS 16 *Property, Plant and Equipment* and IAS 38 Intangible Assets were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

6 New Accounting Pronouncements (Continued)

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

Annual improvements to IFRSs 2011-2013 Cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The Group is currently assessing the impact of the improvements on its financial statements. The improvements consist of changes in four standards:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 *Business Combinations* was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11 *Joint Arrangements.* The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- IFRS 13 *Fair Value Measurement.* The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments.*
- IAS 40 *Investment Property* was amended to clarify that IAS 40 and IFRS 3 *Business Combinations* are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Annual improvements to IFRSs 2012-2014 Cycle (issued on 25 September 2014 and effective for annual periods starting on or after 1 January 2016). The Group is currently assessing the impact of the improvements on its financial statements. The improvements consist of changes in the following standards:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* — changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IFRS 7 *Financial Instruments: Disclosures* — servicing contracts. IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

6 New Accounting Pronouncements (Continued)

- IFRS 7 *Financial Instruments: Disclosures* — applicability of the offsetting disclosures to condensed interim financial statements. In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IAS 19 *Employee Benefits* — regional market issue regarding discount rate. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IAS 34 *Interim Financial Reporting* — disclosure of information 'elsewhere in the interim financial report'. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Cash on hand	36 834	22 481
Cash balances with the CBRF (other than mandatory reserve deposits)	37 930	39 812
Correspondent accounts and deposits with other banks with original maturities less than one month	24 488	63 549
Settlement accounts with stock and currency exchanges	3 609	2 068
Settlement accounts with clearing organisations	1 883	534
Deals with securities pledged under repurchase agreements with original maturities of less than one month	265	-
Total cash and cash equivalents	**105 009**	**128 444**

7 Cash and Cash Equivalents (Continued)

As at 31 December 2014 and 31 December 2013, cash and cash equivalents included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, correspondent accounts and deposits with other banks with original maturities less than one month included the balances with five counterparties (four counterparties with rating not less than BB- (S&P) and one non-rated counterparty) in the amount of RR 23 638 million, or 23% of total cash and cash equivalents (31 December 2013: two counterparties with rating not less than BB- (S&P) in the amount of RR 37 949 million, or 29% of total cash and cash equivalents), in aggregate above 10% of the Group's equity.

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Current and not impaired		
Cash on hand	36 834	22 481
Cash balances with the CBRF (other than mandatory reserve deposits)	37 930	39 812
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	14 456	35 018
- OECD banks and their subsidiary banks	10 011	26 242
- other Russian banks	-	2 179
- other non-resident banks	21	110
Settlement accounts with stock and currency exchanges	3 609	2 068
Settlement accounts with clearing organisations	1 883	534
Deals with securities pledged under repurchase agreements with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	265	-
Total cash and cash equivalents	**105 009**	**128 444**

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for cash and cash equivalents. Geographical and liquidity analyses of cash and cash equivalents are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

8 Trading Securities

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Promissory notes	1 699	2 749
State Eurobonds	391	-
Corporate Eurobonds	-	61
Total trading securities	**2 090**	**2 810**

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group neither analyse nor monitor impairment indicators.

8 Trading Securities (Continued)

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

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
Promissory notes	1 303	396	1 699
State Eurobonds	391	-	391
Total debt trading securities	**1 694**	**396**	**2 090**

* or analogous ratings of other rating agencies.

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

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
Promissory notes	946	1 803	2 749
Corporate Eurobonds	61	-	61
Total debt trading securities	**1 694**	**1 803**	**2 810**

* or analogous ratings of other rating agencies.

If a security's rating is unavailable, the issuer's rating is used.

Promissory notes are represented by promissory notes denominated in Russian Roubles issued at a discount to nominal value by Russian banks. As at 31 December 2014, these promissory notes have maturity dates in January 2015 (31 December 2013: promissory notes had maturity dates from February to October 2014).

State Eurobonds are represented by securities denominated in USD. State Eurobonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2014, these bonds have maturity date in March 2030 and coupon rate of 7.5% p.a.

As at 31 December 2013, Corporate Eurobonds were represented by securities denominated in USD. Corporate Eurobonds were traded at a discount or premium to face value and carried a coupon payable semi-annually. As at 31 December 2013, these bonds had maturity date in September 2022 and coupon rate of 4.4% p.a.

Refer to Note 36 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 31.

The Group reclassified the following financial assets from held for trading category during 2008:

In millions of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7-7.3
Municipal and subfederal bonds	1 201	1 698	7.1-9.2
Corporate bonds	980	1 411	6.7-10.1
Corporate Eurobonds	793	1 300	7.0-8.8
Reclassified into available for sale			
Corporate bonds	2 792	3 868	7.3-15.4
Corporate Eurobonds	1 959	2 918	6.2-11.6
Municipal and subfederal bonds	53	56	7.0
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

8 Trading Securities (Continued)

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognized, were as follows:

	31 December 2014		**31 December 2013**	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity	2 763	2 082	2 987	2 835
Reclassified into available for sale	10	10	7	7
Total	**2 773**	**2 092**	**2 994**	**2 842**

Income or loss recognised for 2008-2014 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	**Income recognised in profit or loss after reclassification***							**Fair value gain/(loss) that would have been recognised if the assets had not been reclassified**						
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Reclassified into held to maturity	200	276	511	486	480	540	482	162	178	191	84	441	833	(1 307)
Reclassified into available for sale	-	-	4	59	215	492	743	2	(1)	(1)	(40)	74	1 067	(1 612)
Total	**200**	**276**	**515**	**545**	**695**	**1 032**	**1 225**	**164**	**177**	**190**	**44**	**515**	**1 900**	**(2 919)**

* Income or loss recognised after reclassification comprises gains less losses from sale, interest income and foreign exchange gains less losses.

9 Investment Securities Pledged Under Repurchase Agreements

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Securities available for sale		
Corporate bonds	3 034	14 592
Municipal and subfederal bonds	1 486	2 528
Federal loan bonds (OFZ)	1 362	15 880
Corporate Eurobonds	-	2 240
State Eurobonds	-	1 618
Total securities available for sale pledged under repurchase agreements	**5 882**	**36 858**
Securities held to maturity		
Corporate Eurobonds	20 396	20 459
Corporate bonds	-	13 109
Municipal and subfederal bonds	-	2 784
Total securities held to maturity pledged under repurchase agreements	**20 396**	**36 352**
Total investment securities pledged under repurchase agreements	**26 278**	**73 210**

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or yearly. As at 31 December 2014, these bonds have maturity dates from September 2015 to September 2032 (31 December 2013: from March 2014 to July 2023) and coupon rates from 7.6% to 10.3% p.a. (31 December 2013: from 7.5% to 15.0% p.a.).

9 Investment Securities Pledged Under Repurchase Agreements (Continued)

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually. As at 31 December 2014, these bonds have maturity dates from July 2018 to July 2021 (31 December 2013: from April 2014 to November 2018) and coupon rates from 8.2% to 11.5% p.a. (31 December 2013: from 7.0% to 12.0% p.a.).

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2014, these bonds have maturity dates from August 2016 to August 2023 (31 December 2013: from March 2014 to January 2028) and coupon rates from 6.2% to 7.6% p.a. (31 December 2013: from 7.1% to 8.2% p.a.).

Corporate Eurobonds are securities denominated in Russian Roubles and USD. Corporate Eurobonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2014, these bonds have maturity date in November 2016 (31 December 2013: from November 2016 to March 2022) and coupon rate of 9.9% p.a. (31 December 2013: from 6.0% to 7.8% p.a.).

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2013, these bonds had maturity date in April 2042 and coupon rate of 5.6% p.a. payable semi-annually.

Analysis by credit quality of investment securities pledged under repurchase agreements outstanding as at 31 December 2014 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
Corporate Eurobonds	20 396	-	20 396
Corporate bonds	2 794	240	3 034
Municipal and subfederal bonds	1 486	-	1 486
Federal loan bonds (OFZ)	1 362	-	1 362
Total investment securities pledged under repurchase agreements	**26 038**	**240**	**26 278**

* or analogous ratings of other rating agencies.

Analysis by credit quality of investment securities pledged under repurchase agreements outstanding as at 31 December 2013 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Corporate bonds	24 093	2 902	706	27 701
Corporate Eurobonds	22 699	-	-	22 699
Federal loan bonds (OFZ)	15 880	-	-	15 880
Municipal and subfederal bonds	4 888	424	-	5 312
State Eurobonds	1 618	-	-	1 618
Total investment securities pledged under repurchase agreements	**69 178**	**3 326**	**706**	**73 210**

If a security's rating is unavailable, the issuer's rating is used.

Refer to Note 36 for the disclosure of fair value hierarchy for investment securities pledged under repurchase agreements related to securities available for sale and fair value and fair value hierarchy for investment securities pledged under repurchase agreements related to securities held to maturity. Geographical and liquidity analyses of investment securities pledged under repurchase agreements are disclosed in Note 31.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	31 December 2014	31 December 2013
Due from other banks	6 260	10 730
Credit Linked Notes	642	1 490
Total financial instruments designated at fair value through profit or loss	**6 902**	**12 220**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2014 (31 December 2013: not less than BB- (S&P)).

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity date in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

In December 2013, the Group purchased three Credit Linked Notes from an OECD bank in the nominal amount of USD 15 million at the net price from 75.4% to 85.3% of the nominal amount with maturity dates from April 2017 to September 2017 and a zero coupon. The Notes had embedded Credit Default Swaps linked to credit risk of large Russian banks and companies. In December 2014, these Credit Linked Notes were repaid before maturity date.

Due from other banks with embedded derivatives are as follows:

In August 2010, the Group placed funds with the OECD bank in the total amount of USD 67 million, with maturity date in August 2015 and interest rate of 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity date in May 2016 and interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

In April 2014, the Group received funds placed in March 2010 with the OECD bank in the total amount of USD 200 million, with interest rates of 10.0% and 10.4% p.a. and included in financial instruments designated at fair value through profit or loss as at 31 December 2013. The contracts had embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

Refer to Note 36 for the disclosure of the fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and liquidity analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

11 Due from Other Banks

In millions of Russian Roubles	31 December 2014	31 December 2013
Current term placements with other banks	30 372	42 675
Promissory notes	3 664	342
Overdue placements with other banks	172	155
Less: provision for impairment	(172)	(107)
Total due from other banks	**34 036**	**43 065**

11 Due from Other Banks (Continued)

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	2014	2013
Provision for loan impairment for due from other banks at 1 January	**107**	**111**
Provision/(recovery of provision) for loan impairment for due from other banks during the year	65	(4)
Provision for loan impairment for due from other banks at 31 December	**172**	**107**

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Current and not impaired		
- Top 30 Russian banks (by net assets) and their subsidiary banks	15 752	12 973
- Other non-resident banks	13 443	16 187
- Other Russian banks	4 841	1 387
- OECD banks and their subsidiary banks	-	12 470
Total current and not impaired	**34 036**	**43 017**
Individually assessed for impairment		
- over 365 days overdue	172	155
Total individually assessed for impairment	**172**	**155**
Total due from other banks (before impairment)	**34 208**	**43 172**
Provision for impairment	**(172)**	**(107)**
Total due from other banks	**34 036**	**43 065**

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Unsecured due from other banks loans	21 071	41 576
Due from other banks loans collateralised by:		
- securities	12 087	563
- other assets	878	926
Total due from other banks	**34 036**	**43 065**

As at 31 December 2014 and 31 December 2013, due from other banks included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, due from other banks included the balances with two counterparties with rating Ba3 (Moody's) in the amount of RR 20 599 million, or 61% of total due from other banks (31 December 2013: three counterparties with rating not less than Ba3 (Moody's) in the amount of RR 29 422 million, or 68% of total due from other banks), in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for due from other banks. Geographical and liquidity analyses of due from other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

12 Loans and Advances to Customers

In millions of Russian Roubles	31 December 2014	31 December 2013
Loans to legal entities		
- Loans to corporates	1 261 960	1 113 110
- Lending for food interventions	10 097	10 896
- Deals with securities purchased under "reverse-repo agreements"	425	504
- Investments in agricultural cooperatives	395	391
Loans to individuals	281 065	250 538
Total loans and advances to customers (before impairment)	**1 553 942**	**1 375 439**
Less: provision for loan impairment	(137 479)	(114 393)
Total loans and advances to customers	**1 416 463**	**1 261 046**

As at 31 December 2014, included in gross amount of loans are loans in the principal amount of RR 624 706 million (31 December 2013: RR 637 423 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to the company under the control of the Russian Federation.

As at 31 December 2014, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 243 100 million (before impairment), or 16% of total loans and advances to customers (before impairment) (31 December 2013: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 155 910 million (before impairment), or 11% of total loans and advances to customers (before impairment)).

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of CBRF of the contributions made. The Group's management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2014, loans and advances to customers in the amount of RR 425 million are effectively collateralized by securities purchased under reverse repo agreements with a fair value RR 472 million (31 December 2013: loans and advances to customers in the amount of RR 504 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value RR 580 million). The Group had the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

	2014				2013			
In millions of Russian Roubles	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total
Provision for loan impairment at 1 January	**108 964**	**26**	**5 403**	**114 393**	**92 257**	**16**	**5 092**	**97 365**
Provision/(recovery of provision) for loan impairment during the year	52 803		3 027	55 830	26 661	10	336	27 007
Recovery of provision for loans sold during the year	(25 962)	-	(627)	(26 589)	(2 950)	-	-	(2 950)
Loans and advances to customers written off during the year as uncollectible	(6 127)		(28)	(6 155)	(5 567)		(25)	(5 592)
Recovery of provision on loans restructured with significantly changed terms resulting in assets derecognition	-	-	-	-	(990)	-	-	(990)
Disposal of subsidiaries	-	-	-	-	(447)	-	-	(447)
Provision for loan impairment at 31 December	**129 678**	**26**	**7 775**	**137 479**	**108 964**	**26**	**5 403**	**114 393**

No provision for "Lending for food interventions" and "Reverse repo agreements" was recorded as at 31 December 2014 and 31 December 2013.

12 Loans and Advances to Customers (Continued)

The economic sector structure of the credit portfolio is as follows:

	31 December 2014		31 December 2013	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	916 939	59	895 288	65
Individuals	281 065	18	250 538	18
Manufacturing	89 838	6	63 243	6
Trading	62 224	4	47 827	3
Construction	50 318	3	32 298	2
Other	153 558	10	86 245	6
Total loans and advances to customers (before impairment)	**1 553 942**	**100**	**1 375 439**	**100**

As at 31 December 2014, the aggregate amount of loans to individuals included loans in the principal amount of RR 79 356 million issued to individuals-sole farmers (31 December 2013: RR 86 000 million).

During the year ended 31 December 2014, the Group modified approach to disclosing economic sector structure of the credit portfolio. As a result of this modification some loans and advances to customers related to agriculture sector previously included in manufacturing, trading, construction and other sectors were reclassified to agriculture sector. The presentation of comparative figures as at 31 December 2013 has been adjusted to be consistent with the new presentation.

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event and/or a borrower/debtor default into the category *"collectively assessed for impairment"*.

During the year ended 31 December 2014, the Group modified certain accounting estimates in calculating provision for loan impairment for corporate loans assessed on collective basis, primarily in respect of impairment criteria. The effect of this modification on the provision for loan impairment in the Group's consolidated statement of profit or loss and other comprehensive income disclosed in Note 4.

In accordance with the methodology of financial assets impairment evaluation actual as at 31 December 2014, as a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs — sole farmers):*
    - breach of contract — principal or interest overdue by more than 30 days;
- *for loans issued to individuals:*
    - significant financial difficulty of the borrower — changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
    - breach of contract — principal or interest overdue by more than 30 days.

12 Loans and Advances to Customers (Continued)

As *a default* of a borrower/debtor, the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs — sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence; and
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence; and
  - principal or interest overdue by over 365 days.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

12 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	1 781	10 097	425	-	-	12 303
Total current and not impaired	**1 781**	**10 097**	**425**	**-**	**-**	**12 303**
2. Collectively assessed for impairment						
Current						
- included in portfolios of similar risk loans	858 841	-	-	395	253 177	1 112 413
Overdue						
- overdue by: less than 31 days for legal entities and individuals	21 271	-	-	-	4 194	25 465
Total collectively assessed for impairment	**880 112**	**-**	**-**	**395**	**257 371**	**1 137 878**
3. Individually assessed for impairment						
- watch list	184 145	-	-	-	-	184 145
- poor financial position	37	-	-	-	-	37
- 31 to 90 days overdue	31 111	-	-	-	3 213	34 324
- 91 to 180 days overdue	30 709	-	-	-	3 126	33 835
- 181 to 365 days overdue	50 746	-	-	-	5 375	56 121
- over 365 days overdue	83 319	-	-	-	11 980	95 299
Total individually assessed for impairment	**380 067**	**-**	**-**	**-**	**23 694**	**403 761**
Total loans and advances to customers (before impairment)	**1 261 960**	**10 097**	**425**	**395**	**281 065**	**1 553 942**
Provision for loan impairment	**(129 678)**	**-**	**-**	**(26)**	**(7 775)**	**(137 479)**
Total loans and advances to customers	**1 132 282**	**10 097**	**425**	**369**	**273 290**	**1 416 463**

12 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	1 028	10 896	504	-	-	12 428
Total current and not impaired	**1 028**	**10 896**	**504**	**-**	**-**	**12 428**
2. Collectively assessed for impairment						
Current						
- included in portfolios of similar risk loans	765 865	-	-	391	232 774	999 030
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 458	-	-	-	2 867	8 325
Total collectively assessed for impairment	**771 323**	**-**	**-**	**391**	**235 641**	**1 007 355**
3. Individually assessed for impairment						
- watch list	202 384	-	-	-	-	202 384
- poor financial position	25 518	-	-	-	-	25 518
- 6 to 30 days overdue	3 139	-	-	-	-	3 139
- 31 to 90 days overdue	4 479	-	-	-	2 153	6 632
- 91 to 180 days overdue	6 500	-	-	-	2 524	9 024
- 181 to 365 days overdue	14 567	-	-	-	3 074	17 641
- over 365 days overdue	84 172	-	-	-	7 146	91 318
Total individually assessed for impairment	**340 759**	**-**	**-**	**-**	**14 897**	**355 656**
Total loans and advances to customers (before impairment)	**1 113 110**	**10 896**	**504**	**391**	**250 538**	**1 375 439**
Provision for loan impairment	**(108 964)**	**-**	**-**	**(26)**	**(5 403)**	**(114 393)**
Total loans and advances to customers	**1 004 146**	**10 896**	**504**	**365**	**245 135**	**1 261 046**

Overdue loans represent not only past due payments but the whole outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 1 to 180 days of RR 21 147 million (31 December 2013: RR 14 119 million) and loans and advances to customers overdue more than 180 days of RR 84 337 million (31 December 2013: RR 86 672 million). The remaining loans included in the watch list are not overdue.

As at 31 December 2014, interest accrued on impaired loans included in carrying value of loans and advances to customers amounts to RR 49 613 million (31 December 2013: RR 42 788 million).

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment. According to internal policies the bank before granting each particular loan analyses sufficiency of earnings and collateral (where applicable), obtains confirmation from external sources on positive credit history and reputation of each borrower.

As at 31 December 2014, current collectively assessed loans to individuals comprises: loans to the sole farmers — 29% (31 December 2013: 35%), mortgage loans — 32% (31 December 2013: 18%) and consumer and other individual loans — 39% (31 December 2013: 47%).

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Current loans	1 203 414	1 138 569
Past due instalments	191 250	156 967
Current portion of past due loans	159 278	79 903
Provision for loan impairment	(137 479)	(114 393)
Total loans and advances to customers	**1 416 463**	**1 261 046**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group includes:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 84%) (31 December 2013: over 80%) relates to the following types: real estate - 56% (31 December 2013: 52%), equipment - 16% (31 December 2013: 16%) and vehicles - 12% (31 December 2013: 12%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities — overdrafts; and
- for individuals — loans up to RR 750 thousand under the program "Consumer loan without collateral"; loans up to RR 1 million under the program "Consumer loan to individuals — OJSC RSHB salary card holder"; loans up to RR 1 million under the program "Credit card" and overdrafts (up to RR 300 thousand); loans up to RR 1 million under the program "Refinancing consumer loans received by individuals from other banks and agricultural cooperatives" in case loans subject to refinancing initially received from other banks were unsecured; loans up to RR 700 thousand under the program "Loans to the sole farmers; loans up to RR 500 thousand under the program "Pension credit".

Refer to Note 36 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. Geographical and liquidity analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

13 Investment Securities Available for Sale

In millions of Russian Roubles	31 December 2014	31 December 2013
Corporate bonds	67 695	32 403
Corporate Eurobonds	19 630	9 585
Federal loan bonds (OFZ)	16 149	5 224
Municipal and subfederal bonds	6 717	1 950
State Eurobonds	3 398	1 109
Corporate shares	49	28
Total investment securities available for sale	**113 638**	**50 299**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. Furthermore, the Group analyzes reasons for a decline in the fair value of investment securities available for sale in order to identify whether there is objective evidence that these securities are impaired. In 2014 the Group reclassified from equity the cumulative loss that had been recognized in other comprehensive income in the amount of RR 226 million and recognized losses from impairment of investment securities available for sale in the consolidated statement of profit or loss and other comprehensive income. The Group estimates that for the year ended 31 December 2014 losses from impairment of investment securities available for sale amounted to RR 253 million.

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	51 257	14 431	2 007	67 695
Corporate Eurobonds	18 865	765	-	19 630
Federal loan bonds (OFZ)	16 149	-	-	16 149
Municipal and subfederal bonds	6 706	11	-	6 717
State Eurobonds	3 398	-	-	3 398
Total debt investment securities available for sale	**96 375**	**15 207**	**2 007**	**113 589**

* or analogous ratings of other rating agencies.

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	19 754	9 571	3 078	32 403
Corporate Eurobonds	8 081	-	1 504	9 585
Federal loan bonds (OFZ)	5 224	-	-	5 224
Municipal and subfederal bonds	1 914	36	-	1 950
State Eurobonds	1 109	-	-	1 109
Total debt investment securities available for sale	**36 082**	**9 607**	**4 582**	**50 271**

* or analogous ratings of other rating agencies.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2014, these bonds have maturity dates from January 2015 to March 2033 (31 December 2013: from February 2014 to November 2028) and coupon rates from 6.8% to 18.0% p.a. (31 December 2013: from 6.7% to 14.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Corporate Eurobonds are bonds denominated in USD and Russian Roubles issued by major Russian companies. As at 31 December 2014, these bonds have maturity dates from December 2015 to November 2025 (31 December 2013: from November 2019 to February 2028) and coupon rates from 3.1% to 9.0% p.a. (31 December 2013: from 4.2% to 7.8% p.a.), payable semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2014, these bonds have maturity dates from July 2015 to January 2028 (31 December 2013: from July 2015 to January 2028) and coupon rates from 6.2% to 8.2% p.a. (31 December 2013: from 6.4% to 7.0% p.a.), depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2014, these bonds have maturity dates from May 2016 to June 2022 (31 December 2013: from December 2014 to November 2020) and coupon rates from 7.0% to 12.8% p.a. (31 December 2013: from 7.0% to 8.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

As at 31 December 2014, State Eurobonds are represented by Russian Federation bonds denominated in USD (31 December 2013: denominated in USD and Russian Roubles). As at 31 December 2014, these bonds have maturity dates from April 2022 to April 2042 (31 December 2013: in March 2030) and coupon rates from 4.5% to 7.5% p.a. (31 December 2013: 7.5% p.a.), payable semi-annually.

During 2011 and 2012 the Group reclassified financial assets from the available-for-sale category as a result of reassessment of its intention to hold to maturity. As at 31 December 2014, the amount of all financial assets that have been reclassified from investment securities available for sale and which were not yet sold or otherwise derecognized, were as follows:

In millions of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity during 2011			
Corporate bonds	9 136	11 392	6.7 - 8.9
Reclassified into held to maturity during 2012			
Corporate Eurobonds	20 721	22 916	6.7
Total	**29 857**	**34 308**	

Refer to Note 36 for the disclosure of the fair value hierarchy for investment securities available for sale. Geographical and liquidity analyses of investment securities available for sale are disclosed in Note 31.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Corporate bonds	8 920	1 272
Federal Loan bonds (OFZ)	2 323	2 318
Municipal and subfederal bonds	325	467
State Eurobonds	-	7 175
Corporate Eurobonds	-	59
Total investment securities held to maturity	**11 568**	**11 291**

14 Investment Securities Held to Maturity (Continued)

Analysis by credit quality of investment securities held to maturity as at 31 December 2014 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Total**
Corporate bonds	8 920	8 920
Federal Loan bonds (OFZ)	2 323	2 323
Municipal and subfederal bonds	325	325
Total investment securities held to maturity	**11 568**	**11 568**

* or analogous ratings of other rating agencies.

Analysis by credit quality of investment securities held to maturity as at 31 December 2013 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
State Eurobonds	7 175	-	7 175
Federal Loan bonds (OFZ)	2 318	-	2 318
Corporate bonds	657	615	1 272
Municipal and subfederal bonds	467	-	467
Corporate Eurobonds	59	-	59
Total investment securities held to maturity	**10 676**	**615**	**11 291**

* or analogous ratings of other rating agencies.

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually (31 December 2013: payable quarterly, semi-annually or annually), depending on the type of the bond issue and the issuer. As at 31 December 2014, these bonds have maturity dates from October 2015 to July 2023 (31 December 2013: from February 2014 to July 2023) and coupon rates from 7.7% to 8.2% p.a. (31 December 2013: from 7.2% to 15.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2014, these OFZ have maturity dates from August 2016 to February 2036 (31 December 2013: from August 2016 to February 2036) and coupon rates from 5.5% to 7.0% p.a. (31 December 2013: from 5.5% to 7.0% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually (31 December 2013: payable quarterly or semi-annually), depending on the type of the bond issue and the issuer. As at 31 December 2014, these bonds have maturity dates from June 2015 to December 2015 (31 December 2013: from April 2014 to December 2015) and coupon rates from 5.5% to 7.0% p.a. (31 December 2013: from 5.5% to 12.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

As at 31 December 2013, State Eurobonds were represented by Russian Federation bonds denominated in USD. As at 31 December 2013, these bonds had maturity date in April 2020 and coupon rate of 5.0% p.a., payable semi-annually.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for investment securities held to maturity. Geographical and liquidity analyses of securities held to maturity are disclosed in Note 31.

15 Premises, Equipment and Intangible Assets

		Used in banking activities			
In millions of Russian Roubles	**Note**	**Office premises**	**Leasehold (premises) improvements**	**Office and computer equipment**	**Land**
Cost or valuation at 1 January 2013		10 147	1 515	6 910	386
Accumulated depreciation		(1 010)	(743)	(3 806)	-
Carrying amount at 1 January 2013		**9 137**	**772**	**3 104**	**386**
Additions		82	94	986	1
Disposals		(153)	(16)	(14)	-
Disposal of entities		-	-	-	-
Reclassification from assets of disposal groups held for sale	39	-	-	-	-
Reclassification to assets held for sale	39	(149)	-	-	-
Depreciation charge: before revaluation	26, 27	(217)	(157)	(972)	-
Depreciation charge: realised revaluation reserve and revaluation loss	27	(31)	-	-	-
Carrying amount at 31 December 2013		**8 669**	**693**	**3 104**	**387**
Cost or valuation at 31 December 2013		9 927	1 571	7 694	387
Accumulated depreciation		(1 258)	(878)	(4 590)	-
Carrying amount at 31 December 2013		**8 669**	**693**	**3 104**	**387**

Used in non-banking activities

Production premises	Equipment	Land	Total premises and equipment	Intangible assets	Total
9 936	1 306	99	30 299	3 479	33 778
(1 472)	(200)	-	(7 231)	(1 756)	(8 987)
8 464	**1 106**	**99**	**23 068**	**1 723**	**24 791**
4	32	28	1 227	602	1 829
(9)	(33)	(2)	(227)	-	(227)
-	(12)	-	(12)	-	(12)
2 100	898	108	3 106	-	3 106
-	-	-	(149)	-	(149)
(617)	(364)	-	(2 327)	(556)	(2 883)
-	-	-	(31)	-	(31)
9 942	**1 627**	**233**	**24 655**	**1 769**	**26 424**
12 104	2 278	233	34 194	3 655	37 849
(2 162)	(651)	-	(9 539)	(1 886)	(11 425)
9 942	**1 627**	**233**	**24 655**	**1 769**	**26 424**

15 Premises, Equipment and Intangible Assets (Continued)

		Used in banking activities			
In millions of Russian Roubles	**Note**	**Office premises**	**Leasehold (premises) improvements**	**Office and computer equipment**	**Land**
Cost or valuation at 1 January 2014		9 927	1 571	7 694	387
Accumulated depreciation		(1 258)	(878)	(4 590)	-
Carrying amount at 1 January 2014		**8 669**	**693**	**3 104**	**387**
Additions		220	88	2 758	23
Disposals		(2)	(29)	(26)	-
Reclassification to repossessed collateral		-	-	-	-
Impairment	27	-	-	-	-
Depreciation charge: before revaluation	26, 27	(220)	(158)	(982)	-
Depreciation charge: realised revaluation reserve and revaluation loss	27	(31)	-	-	-
Carrying amount at 31 December 2014		**8 636**	**594**	**4 854**	**410**
Cost or valuation at 31 December 2014		10 145	1 576	10 055	410
Accumulated depreciation		(1 509)	(982)	(5 201)	-
Carrying amount at 31 December 2014		**8 636**	**594**	**4 854**	**410**

Used in non-banking activities

Production premises	Equipment	Land	Total premises and equipment	Intangible assets	Total
12 104	2 278	233	34 194	3 655	37 849
(2 162)	(651)	-	(9 539)	(1 886)	(11 425)
9 942	**1 627**	**233**	**24 655**	**1 769**	**26 424**
70	174	1	3 334	1 185	4 519
(1 170)	(16)	(50)	(1 293)	-	(1 293)
(56)	(18)	(35)	(109)	-	(109)
(222)	-	-	(222)	-	(222)
(474)	(186)	-	(2 020)	(624)	(2 644)
-	-	-	(31)	-	(31)
8 090	**1 581**	**149**	**24 314**	**2 330**	**26 644**
10 610	2 392	149	35 337	4 176	39 513
(2 520)	(811)	-	(11 023)	(1 846)	(12 869)
8 090	**1 581**	**149**	**24 314**	**2 330**	**26 644**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2014 was RR 157 million (31 December 2013: RR 8 million).

Carrying amount of office premises without revaluation at 31 December 2014 is RR 7 724 million, including cost in amount of RR 8 909 million and accumulated depreciation of RR 1 185 million (31 December 2013: carrying amount of office premises without revaluation was RR 7 720 million, including cost in amount of RR 8 690 million and accumulated depreciation of RR 970 million).

As at 31 December 2012, premises were independently valued. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

The Group believes that fair value of premises has not changed significantly during 2013 and 2014 years. Therefore as at 31 December 2014 and 31 December 2013 the Group has not performed revaluation of premises.

Refer to Note 36 for the disclosure of the fair value hierarchy for office premises.

16 Other Assets

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
Non-financial assets			
Repossessed collateral		7 466	3 993
Inventory		967	778
Prepayment for goods		811	674
Prepayment for services		738	527
Prepaid taxes		492	121
Prepayments on lease		22	3
Goodwill		8	8
Other		151	15
Total non-financial assets		**10 655**	**6 119**
Financial assets			
Due from State Corporation Deposit Insurance Agency (SC DIA)		1 239	2 708
Settlements on banking cards		1 089	5 735
Trade receivables		547	885
Settlements on funds transfer operations		382	464
Restricted cash	34	202	202
Settlements on asset management		132	-
Other		2 946	2 336
Provision for impairment of other financial assets		(1 376)	(901)
Total financial assets		**5 161**	**11 429**
Insurance assets		**2 003**	**1 285**
Total other assets		**17 819**	**18 833**

Repossessed collateral mainly represents the land and production premises. The Group is not going to use repossessed collateral in its own operations. The Group is currently assessing the possibility of disposal of the assets in the future.

Due from State Corporation Deposit Insurance Agency (SC DIA) represents amounts due by SC DIA on settlements with individuals — former clients of banks with revoked licences.

16 Other Assets (Continued)

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2014	2013
Provision for impairment of other financial assets at 1 January	**901**	**434**
Provision for impairment of other financial assets during the year	494	481
Other financial assets written off during the year as uncollectible	(19)	(14)
Provision for impairment of other financial assets at 31 December	**1 376**	**901**

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2014	2013
Repossessed collateral at 1 January		**3 993**	**5 766**
Additions for the year		3 975	167
Disposal during the year		(217)	(1 129)
Reclassification to assets held for sale	39	(220)	(808)
Depreciation charge	27	(65)	(3)
Repossessed collateral at 31 December		**7 466**	**3 993**

As at 31 December 2014, the fair value of repossessed collateral was RR 7 415 million (31 December 2013: RR 3 920 million).

As at 31 December 2014, significant part of repossessed collateral was evaluated for the purpose of impairment assessment by an independent appraisers firm, INVEST PROEKT Ltd (31 December 2013: significant part of repossessed collateral was evaluated for the purpose of impairment assessment by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd), which hold a relevant professional qualification and which have experience in valuation of assets of similar location and category.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for other financial assets. Geographical analysis of other assets and maturity analysis of other financial assets are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

17 Due to Other Banks

In millions of Russian Roubles	31 December 2014	31 December 2013
Correspondent accounts and overnight placements of other banks	17 415	498
Borrowings from other banks with term to maturity:		
- sale and repurchase agreements less than 30 days	5 107	12 424
- sale and repurchase agreements from 181 days to 1 year	14 902	20 393
- less than 30 days	8 780	12 825
- from 31 to 180 days	7 701	19 762
- from 181 days to 1 year	1 183	14 312
- from 1 year to 3 years	25 214	5 336
- more than 3 years	1 742	14 182
Borrowings from the CBRF with term to maturity:		
- sale and repurchase agreements less than 30 days	-	28 999
- less than 30 days	17 440	32
- from 31 to 180 days	127 830	19 517
- from 181 days to 1 year	10 000	1 400
- from 1 year to 3 years	48 462	-
Total due to other banks	**285 776**	**149 680**

As at 31 December 2014, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 203 732 million, or 71% of total due to other banks (31 December 2013: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 49 947 million, or 33% of total due to other banks).

17 Due to Other Banks (Continued)

As at 31 December 2014 and 31 December 2013, due to other banks included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, due to other banks included the balances with two counterparties with rating not less than Ba1 (Moody's) in the amount of RR 28 053 million, or 10% of total due to other banks (31 December 2013: two counterparties with rating not less than A- (S&P) in the amount of RR 36 538 million, or 24% of total due to other banks), in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for due to other banks. Geographical and liquidity analyses of due to other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

18 Customer Accounts

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
State and public organisations		
- Current/settlement accounts	15 421	6 333
- Term deposits	85 837	148 573
Other legal entities		
- Current/settlement accounts	65 796	75 668
- Term deposits	287 768	242 250
- Sale and repurchase agreements with securities	15	14
Individuals		
- Current/demand accounts	32 395	36 738
- Term deposits	274 363	212 549
Total customer accounts	**761 595**	**722 125**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	31 December 2014		**31 December 2013**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	306 758	40	249 287	35
State and public organisations	101 258	13	154 906	21
Financial services and pension funds	93 468	12	113 710	16
Manufacturing	60 105	8	53 265	7
Construction	58 996	8	26 571	4
Agriculture	46 234	6	36 015	5
Insurance	31 552	4	28 403	4
Trading	29 232	4	29 890	4
Telecommunication	2 316	1	6 605	1
Other	31 676	4	23 473	3
Total customer accounts	**761 595**	**100**	**722 125**	**100**

As at 31 December 2014, customer accounts included balances with five customers each above 10% of the Group's equity (31 December 2013: balances with two customers each above 10% of the Group's equity). The aggregate balance of these customers was RR 131 328 million, or 17% of total customer accounts (31 December 2013: RR 102 153 million, or 14% of total customer accounts).

As at 31 December 2013, customer accounts included secured deposit from OECD counterparty in the amount of RR 6 010 million. The deposit was secured by State Eurobonds with carrying value of RR 7 176 million. Refer to Note 34. In November 2014 the Group repaid before maturity this deposit with initial maturity date in April 2020. As at the date of settlement, the carrying amount of the outstanding loan was RR 8 036 million. Loss from early repayment of the loan amounts to RR 1 154 million.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for customer accounts. Geographical and liquidity analyses of customer accounts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

19 Promissory Notes Issued and Deposit Certificates

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Promissory notes issued	18 680	30 190
Deposit certificates	-	984
Total promissory notes issued and deposit certificates	**18 680**	**31 174**

As at 31 December 2014, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles, US dollars and Euros with interest or discount rates from zero p.a. (for promissory notes on demand) up to 28.1% p.a. and maturity dates from January 2015 to May 2021 (31 December 2013: interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US dollars with interest or discount rates from zero p.a. (for promissory notes on demand) up to 11.0% p.a. and maturity dates from January 2014 to May 2021).

As at 31 December 2013, deposit certificates were represented by deposit certificates issued at nominal value denominated in Russian Roubles with interest rates from 7.1% p.a. up to 8.7% p.a. and maturity dates from February 2014 to December 2015.

As at 31 December 2014, the Group did not have promissory notes issued and deposit certificates, which were initially purchased by one counterparty, each or in aggregate above 10% of the Group's equity. As at 31 December 2013, promissory notes issued and deposit certificates included no balances with counterparties each above 10% of the Group's equity. As at 31 December 2013, promissory notes issued and deposit certificates included balances with three counterparties in the amount of RR 24 010 million, or 77.0% of total promissory notes issued and deposit certificates, in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for promissory notes issued and deposit certificates. Geographical and liquidity analyses of promissory notes issued and deposit certificates are disclosed in Note 31.

20 Bonds Issued

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Eurobonds issued	379 609	299 782
Bonds issued on domestic market	174 959	150 021
Total bonds issued	**554 568**	**449 803**

As at 31 December 2014, bonds issued consist of US Dollars, Russian Roubles, Swiss Francs and Chinese Yuan denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A., as well as Russian Roubles denominated bonds issued on domestic market.

20 Bonds Issued (Continued)

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months
US Dollars - tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months
Russian Roubles	19 385	17 March 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	20 000	23 November 2011	23 November 2016	-	9.900%	6 months
Russian Roubles	9 575	17 February 2012	17 February 2017	-	8.625%	6 months
US Dollars	500	27 June 2012	27 December 2017	-	5.298%	6 months
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	10 000	26 July 2012	17 February 2017	-	8.625%	6 months
Swiss Francs	450	17 August 2012	17 August 2015	-	3.125%	1 year
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months
Chinese Yuan	1 000	4 February 2013	4 February 2016	-	3.600%	6 months
Russian Roubles	7 896	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	785	25 July 2013	25 July 2018	-	5.100%	6 months
US Dollars	500	25 February 2014	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	4 533	22 February 2007	9 February 2017	15 February 2016	8.150%	6 months
Russian Roubles	10 000	11 October 2007	27 September 2017	2 October 2015	7.800%	6 months
Russian Roubles	5 000	22 February 2008	9 February 2018	18 August 2015	9.950%	6 months
Russian Roubles	5 000	17 June 2008	5 June 2018	10 December 2015	7.850%	6 months
Russian Roubles	2 699	10 December 2008	27 November 2018	4 June 2015	7.750%	6 months
Russian Roubles	4 984	26 November 2009	14 November 2019	25 May 2015	10.000%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	25 May 2015	10.000%	6 months
Russian Roubles	5 000	11 February 2010	29 January 2020	6 February 2015	8.200%	6 months
Russian Roubles	5 000	12 February 2010	30 January 2020	9 February 2015	8.200%	6 months
Russian Roubles	5 000	7 February 2012	3 February 2015	-	7.700%	6 months
Russian Roubles	5 000	9 February 2012	5 February 2015	-	7.700%	6 months
Russian Roubles	10 000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months
Russian Roubles	10 000	8 November 2011	26 October 2021	7 May 2015	7.750%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	15 April 2015	8.550%	6 months
Russian Roubles	9 975	23 October 2012	11 October 2022	22 October 2015	10.900%	6 months
Russian Roubles	4 717	25 October 2012	13 October 2022	26 October 2015	10.900%	6 months
Russian Roubles	10 000	23 April 2013	11 April 2023	21 April 2016	7.990%	6 months
Russian Roubles	10 000	30 July 2013	18 July 2023	30 July 2015	7.850%	6 months
Russian Roubles	5 000	30 September 2013	18 September 2023	28 September 2016	7.900%	6 months
Russian Roubles	5 000	22 November 2013	10 November 2023	22 November 2016	8.100%	6 months
Russian Roubles	10 000	25 June 2014	21 June 2017	26 June 2015	9.550%	6 months
Russian Roubles	5 000	27 June 2014	23 June 2017	30 June 2015	9.550%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.100%	3 months
Russian Roubles	5 000	13 October 2014	30 September 2024	9 October 2019	11.100%	3 months
Russian Roubles	5 000	26 December 2014	13 December 2024	29 December 2015	17.000%	3 months

20 Bonds Issued (Continued)

As at 31 December 2013, bonds issued consist of US Dollars, Russian Roubles, Swiss Francs and Chinese Yuan denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A., as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months
US Dollars						
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months
- tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	20 000	23 November 2011	23 November 2016	-	7.400%	6 months
Russian Roubles	10 000	17 February 2012	17 February 2017	-	8.625%	6 months
US Dollars	500	27 June 2012	27 December 2017	-	5.298%	6 months
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	10 000	26 July 2012	17 February 2017	-	8.625%	6 months
Swiss Francs	450	17 August 2012	17 August 2015	-	3.125%	1 year
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months
Chinese Yuan	1 000	4 February 2013	4 February 2016	-	3.600%	6 months
Russian Roubles	10 000	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	800	25 July 2013	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months
Russian Roubles	10 000	11 October 2007	27 September 2017	2 October 2015	7.800%	6 months
Russian Roubles	5 000	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months
Russian Roubles	5 000	17 June 2008	5 June 2018	10 December 2015	7.850%	6 months
Russian Roubles	2 231	10 December 2008	27 November 2018	4 June 2015	7.750%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	26 May 2014	8.400%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	26 May 2014	8.400%	6 months
Russian Roubles	5 000	11 February 2010	29 January 2020	6 February 2015	8.200%	6 months
Russian Roubles	5 000	12 February 2010	30 January 2020	9 February 2015	8.200%	6 months
Russian Roubles	5 000	7 February 2012	3 February 2015	-	7.700%	6 months
Russian Roubles	5 000	9 February 2012	5 February 2015	-	7.700%	6 months
Russian Roubles	10 000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months
Russian Roubles	10 000	8 November 2011	26 October 2021	7 May 2015	7.750%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	15 April 2015	8.550%	6 months
Russian Roubles	10 000	23 October 2012	11 October 2022	23 October 2014	8.350%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	27 October 2014	8.350%	6 months
Russian Roubles	10 000	23 April 2013	11 April 2023	21 April 2016	7.990%	6 months
Russian Roubles	10 000	30 July 2013	18 July 2023	30 July 2015	7.850%	6 months
Russian Roubles	5 000	30 September 2013	18 September 2023	28 September 2016	7.900%	6 months
Russian Roubles	5 000	22 November 2013	10 November 2023	22 November 2016	8.100%	6 months

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for bonds issued. Geographical and liquidity analyses of bonds issued are disclosed in Note 31.

21 Other Liabilities

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
Non-financial liabilities			
Accrued staff costs		2 510	2 396
Taxes payable other than on income		638	593
Insurance contribution		311	224
Other		965	1 251
Total non-financial liabilities		**4 424**	**4 464**
Financial liabilities			
Trade payables		1 575	611
Settlements on banking cards		731	5 262
Other subsidiaries' payables		265	271
Carrying value of guarantees issued		80	19
Other provisions	34	-	136
Total financial liabilities		**2 651**	**6 299**
Insurance liabilities			
Provision for unearned premiums		2 199	1 575
Loss provision		648	725
Insurance payables		559	267
Total insurance liabilities		**3 406**	**2 567**
Total other liabilities		**10 481**	**13 330**

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

In millions of Russian Roubles	Note	2014	2013
Provision for unearned premiums as at 1 January		**1 575**	**988**
Premium earned	26	(2 128)	(1 776)
Premium written		2 752	2 363
Provision for unearned premiums as at 31 December		**2 199**	**1 575**

Movements in the loss provision are as follows:

In millions of Russian Roubles	Note	2014	2013
Loss provision as at 1 January		**725**	**309**
Claims incurred during the period	26	892	943
Insurance claims settled		(969)	(527)
Loss provision as at 31 December		**648**	**725**

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for other financial liabilities. Geographical analysis of other liabilities and liquidity analysis of other financial liabilities are disclosed in Note 31.

22 Subordinated Debts

As at 31 December 2014, the Group's subordinated debts equals to RR 84 261 million (31 December 2013: RR 74 053 million).

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor +1.875% p.a. In June 2012 the Group decided not to use its option to terminate this subordinated debt and interest rate was stepped up to Libor +3.375% p.a.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in June 2021 and have contractual interest rate of 6.0% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

In October 2013, the Group attracted a subordinated debt totalling USD 500 million equivalent to RR 16 134 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in October 2023 and have contractual interest rate of 8.5% p.a.

In October 2014 accordance with the amendments to the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation", the Bank repaid the subordinated debt from Vnesheconombank totalling RR 25 000 million and issued non-cumulative preference shares with the total nominal amount of RR 25 000 million.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for subordinated debts. Geographical and liquidity analyses of subordinated debts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	**Number of outstanding shares**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2013	**188 048**	**188 048**	**188 798**
New ordinary shares issued	30 000	30 000	30 000
At 31 December 2013	**218 048**	**218 048**	**218 798**
New ordinary shares issued	5 000	5 000	5 000
New preference shares issued	25 000	25 000	25 000
At 31 December 2014	**248 048**	**248 048**	**248 798**

As at 31 December 2014, issued and fully paid share capital comprises 223 048 issued and registered ordinary shares and 25 000 preference shares (31 December 2013: 218 048 issued and registered ordinary shares). All ordinary and preference shares have a nominal value of RR 1 million per share and rank equally within the same class. Each ordinary share carries one vote.

In 2014, the Bank increased its share capital by issuing 5 000 ordinary shares (2013: 30 000 ordinary shares) and 25 000 preference shares (2013: zero preference shares) with the total nominal amount of RR 30 000 million (2013: RR 30 000 million).

All ordinary shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The proceeds from the repayment of subordinated loan from Vnesheconombank (refer to Note 22) were used by the Ministry of Finance of the Russian Federation to purchase the preference shares of the Bank.

The terms of the preference shares do not include any fixed dividends and the decision on repayment of dividends is approved by the shareholder of the Bank.

24 Interest Income and Expense

In millions of Russian Roubles	2014	2013
Interest income on financial instruments carried at fair value through profit or loss		
Financial instruments designated at fair value through profit or loss	634	1 035
Trading securities	332	441
Total interest income on financial instruments carried at fair value through profit or loss	**966**	**1 476**
Interest income on other financial instruments		
Loans and advances to customers	145 143	139 760
Investment securities available for sale including pledged under repurchase agreements	8 619	5 079
Investment securities held to maturity including pledged under repurchase agreements	3 298	3 318
Due from other banks	1 752	2 085
Cash equivalents	1 661	873
Total interest income on other financial instruments	**160 473**	**151 115**
Total interest income	**161 439**	**152 591**
Interest expense		
Bonds issued	(32 251)	(32 766)
Term deposits of legal entities	(31 656)	(26 888)
Term deposits of individuals	(17 520)	(13 254)
Term deposits of the CBRF	(6 837)	(1 038)
Term deposits of other banks	(5 951)	(6 597)
Subordinated debts	(5 022)	(3 647)
Promissory notes issued and deposit certificates	(1 362)	(2 276)
Current/settlement accounts	(867)	(772)
Total interest expense	**(101 466)**	**(87 238)**
Net interest income	**59 973**	**65 353**

The information on related party transactions is disclosed in Note 38.

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2014	2013
Fee and commission income		
Commission on cash transactions	5 099	4 507
Fees for sale of insurance contracts	2 031	2 468
Commission on settlement transactions	1 080	845
Commission on guarantees issued	863	575
Commission on banking cards	448	438
Fees for currency control	161	132
Other	326	337
Total fee and commission income	**10 008**	**9 302**
Fee and commission expense		
Commission on cash collection	(564)	(518)
Commission on settlement transactions	(491)	(364)
Commission on guarantees received	(28)	
Other	(106)	(62)
Total fee and commission expense	**(1 189)**	**(944)**
Net fee and commission income	**8 819**	**8 358**

26 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2014	2013
Sales of goods	3 649	3 804
Cost of goods sold	(3 641)	(4 449)
Impairment charge of trade receivables and prepayments	(212)	(1 159)
Net income from insurance operations	507	276
Other non-banking income	834	841
Other non-banking expenses	(4 239)	(1 644)
Total losses net of gains from non-banking activities	**(3 102)**	**(2 331)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other nonfoods.

In 2014 cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 660 million (2013: RR 981 million).

In 2014 other non-banking expenses include expenses related to property disposal from the balance of one subsidiary company of the Group in the total amount of RR 1 766 million (2013: nil).

Net income from insurance operations is as follows:

In millions of Russian Roubles	Note	2014	2013
Insurance premiums			
Premium earned	21	2 128	1 776
Reinsurance share in premiums earned		(1 062)	(719)
Net insurance premiums earned		**1 066**	**1 057**
Insurance benefits and claims			
Claims incurred during the period	21	(892)	(943)
Acquisition costs		(280)	(287)
Reinsurance share in claims incurred during the period		613	449
Net insurance benefits and claims		**(559)**	**(781)**
Net income from insurance operations		**507**	**276**

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2014	2013
Staff costs		25 332	24 185
Rental expenses		3 434	2 972
Taxes other than on income		1 596	1 333
Depreciation of premises and equipment	15	1 391	1 377
Advertising and marketing services		1 230	977
Payments to the Deposit Insurance Fund (SC DIA)		1 044	754
Security services		1 025	999
Supplies and other materials		1 018	693
Communications and information services		992	828
Other costs of premises and equipment		992	680
Amortization of intangible assets	15	624	556
Impairment loss at reclassification to assets held for sale	39	411	127
Impairment of premises	15	222	-
Depreciation of repossessed collateral	16	60	3
Other		2 582	1 338
Total administrative and other operating expenses		**41 953**	**36 822**

In 2014 staff costs include statutory social security and contributions to a state pension fund in the amount of RR 4 882 million (2013: RR 4 579 million). The information on related party transactions is disclosed in Note 38.

28 Income Taxes

Income tax (credit)/expense comprises the following:

In millions of Russian Roubles	2014	2013
Current tax	447	3 384
Deferred tax	(2 782)	(3 574)
Income tax credit for the year	**(2 335)**	**(190)**

The income tax rate applicable to the majority of the Group's income is 20% (2013: 20%). A reconciliation between the theoretical and the actual taxation charge is provided below.

In millions of Russian Roubles	2014	2013
IFRS (loss)/profit before tax	**(50 263)**	**539**
Theoretical tax charge at statutory rate (2014: 20%; 2013: 20%)	(10 053)	108
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible interest expenses	604	193
- Non-deductible staff costs	41	55
- Non-deductible charity costs	15	7
- Non-taxable income arising from disposal of subsidiaries	-	(489)
- Income on government securities taxed at different rates	(146)	(22)
- Unrecognised deferred tax asset	6 674	-
- Other non-temporary differences	530	(42)
Income tax credit for the year	**(2 335)**	**(190)**

Differences between IFRS and Russian statutory tax regulations 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% (2013: 20%), except for income on government securities that is taxed at 15% (2013: 15%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Russian Roubles	31 December 2013	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Accruals on loans	7 706	5 055	-	12 761
Tax losses carried forward	274	4 642	-	4 916
Provision for impairment	(937)	1 627	-	690
Fair valuation of derivative financial instruments	(504)	(1 196)	-	(1 700)
Accrued staff costs	469	11	-	480
Accruals on due to other banks	313	(51)	-	262
Fair valuation of securities	196	(1 383)	2 780	1 593
Deferral of fees on guarantees issued	4	12	-	16
Promissory notes issued and deposit certificates	6	4	-	10
Premises and equipment	(1 828)	144	-	(1 684)
Accruals on bonds issued and subordinated debts	(73)	(71)	-	(144)
Intangible assets	(57)	2	-	(55)
Other	941	660	-	1 601
Deferred tax asset	**6 510**	**9 456**	**2 780**	**18 746**
Unrecognised deferred tax asset	-	(6 674)	-	(6 674)
Net deferred income tax asset	**6 510**	**2 782**	**2 780**	**12 072**
Recognised deferred income tax asset	7 868	5 449	-	13 317
Recognised deferred income tax liability	(1 358)	(2 667)	2 780	(1 245)
Net deferred income tax asset	**6 510**	**2 782**	**2 780**	**12 072**

28 Income Taxes (Continued)

In millions of Russian Roubles	**31 December 2012**	**Credited/ (charged) to profit or loss**	**Credited directly to other comprehensive income**	**Transfer to disposal groups classified as held for sale**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	5 441	2 212	-	53	7 706
Provision for impairment	(1 358)	499	-	(78)	(937)
Fair valuation of derivative financial instruments	(739)	235	-	-	(504)
Accrued staff costs	463	2	-	4	469
Accruals on due to other banks	312	1	-	-	313
Tax losses carried forward	217	30	-	27	274
Fair valuation of securities	(100)	43	253	-	196
Defferal of fees on guarantees issued	10	(6)	-	-	4
Promissory notes issued and deposit certificates	25	(19)	-	-	6
Premises and equipment	(1 787)	317	-	(358)	(1 828)
Accruals on bonds issued and subordinated debts	(31)	(42)	-	-	(73)
Intangible assets	(47)	(10)	-	-	(57)
Other	629	312	-	-	941
Net deferred income tax asset	**3 035**	**3 574**	**253**	**(352)**	**6 510**
Recognised deferred income tax asset	5 100	2 768	-	-	7 868
Recognised deferred income tax liability	(2 065)	806	253	(352)	(1 358)
Net deferred income tax asset	**3 035**	**3 574**	**253**	**(352)**	**6 510**

As at 31 December 2014, recognised deferred tax assets included RR 4 916 million resulting from tax losses carried forward (31 December 2013: RR 274 million). The existing tax losses eligible for carry forward are expected to be fully utilised by 2025.

29 Dividends

In millions of Russian Roubles	**2014 Ordinary shares**	**2013 Ordinary shares**
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	255	131
Dividends paid during the year	(255)	(131)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0012**	**0.0007**

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements the Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2014 and 31 December 2013 the Group defines the following reportable segments:

- Head office;
- Central federal district;
- Far Eastern federal district;
- Volga federal district;
- North-West federal district;
- North-Caucasian federal district;
- Siberian federal district;
- Ural federal district;
- Southern federal district.

As at 31 December 2014 Krasnodar branch does not meet criteria of defining it as a separate reportable segment. CODM does not treat Krasnodar branch as separate reportable segment, therefore it was included in Southern federal district. The presentation of the comparative figures for 2013 has been adjusted to be consistent with the new presentation.

For analysis of revenue by products refer to Notes 24, 25.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

30 Segment Analysis (Continued)

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2014 December 2013 is as follows:

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district
For the year ended 31 December 2014			
Revenue from external customers:	**17 955**	**42 084**	**6 780**
- Interest income from loans and advances to customers, due from other banks and other placed funds	17 559	38 180	6 070
- Net fee and commission income from credit related operations	396	3 904	710
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(22 000)	23 221	1 694
Interest expenses from due to other banks, customer accounts and bonds issued	(70 358)	(9 553)	(2 030)
Provision (charge)/recovery for impairment	(416)	(9 886)	(1 119)
Administrative and Maintenance expense	(29 476)	(2 236)	(680)
- Including depreciation charge	(307)	(235)	(50)
(Other expenses less other income)/other income less other expenses	(3 864)	(835)	(21)
Current income tax expense	(389)	-	-
Deferred income tax credit	14 281	-	-
Intersegment income/(expense)*	**100 842**	**(26 462)**	**(3 693)**
(Loss)/profit of reportable segments	**(94 267)**	**42 795**	**4 624**
For the year ended 31 December 2013			
Revenue from external customers:	**16 167**	**37 354**	**7 316**
- Interest income from loans and advances to customers, due from other banks and other placed funds	16 038	33 780	6 496
- Net fee and commission income from credit related operations	129	3 574	820
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(4 702)	51	165
Interest expenses from due to other banks, customer accounts and bonds issued	(62 464)	(9 872)	(1 251)
Provision (charge)/recovery for impairment	(6 590)	7 369	(2 703)
Administrative and Maintenance expense	(27 437)	(1 824)	(586)
- Including depreciation charge	(150)	(211)	(46)
(Other expenses less other income)/other income less other expenses	(808)	(229)	(32)
Current income tax expense	(3 343)	-	-
Intersegment income/(expense)*	**94 804**	**(22 479)**	**(4 233)**
(Loss)/profit of reportable segments	**(89 177)**	**32 849**	**2 909**
Total assets			
31 December 2014	1 864 277	677 014	81 092
31 December 2013	1 538 127	434 155	67 370
Provision for loan impairment (RAR)			
31 December 2014	(800)	(25 859)	(5 515)
31 December 2013	(1 465)	(20 537)	(4 719)

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or

and 31 December 2013 and segment reporting of the Group’s assets as at 31 December 2014 and 31

Volga federal district	**North-west federal district**	**North-Caucasian federal district**	**Siberian federal district**	**Ural federal district**	**Southern federal district**	**Total**
38 623	**10 542**	**11 877**	**19 194**	**6 198**	**20 538**	**173 791**
35 752	9 356	10 794	17 490	5 685	19 210	**160 096**
2 871	1 186	1 083	1 704	513	1 328	**13 695**
(4 684)	(2 897)	(4 181)	(815)	3 038	(385)	**(7 009)**
(7 426)	(4 609)	(981)	(3 082)	(1 312)	(2 307)	**(101 658)**
(8 236)	(9 377)	(6 592)	(3 945)	(501)	5 706	**(34 366)**
(1 974)	(724)	(909)	(1 368)	(445)	(880)	**(38 692)**
(192)	(73)	(98)	(134)	(32)	(84)	**(1 205)**
23	(19)	(417)	146	(128)	(10 177)	**(15 292)**
-	-	-	-	-	-	**(389)**
-	-	-	-	-	-	**14 281**
(23 467)	**(5 999)**	**(8 597)**	**(12 881)**	**(3 282)**	**(16 461)**	**-**
16 326	**(7 084)**	**(1 203)**	**10 130**	**6 850**	**12 495**	**(9 334)**
35 381	**10 264**	**13 650**	**16 834**	**5 098**	**15 753**	**157 817**
32 383	9 266	12 401	15 025	4 639	14 445	**144 473**
2 998	998	1 249	1 809	459	1 308	**13 344**
(179)	(134)	(270)	47	(54)	(52)	**(5 128)**
(5 145)	(2 159)	(771)	(2 351)	(992)	(1 903)	**(86 908)**
(1 650)	(2 112)	(4 267)	3 314	(281)	(19 456)	**(26 376)**
(1 687)	(640)	(716)	(1 209)	(367)	(812)	**(35 278)**
(180)	(72)	(89)	(122)	(23)	(80)	**(973)**
231	(42)	(533)	825	1	821	**234**
-	-	-	-	-	-	**(3 343)**
(22 020)	**(6 861)**	**(8 922)**	**(12 583)**	**(2 922)**	**(14 784)**	**-**
26 951	**5 177**	**7 093**	**17 460**	**3 405**	**(5 649)**	**1 018**
387 803	184 891	144 581	194 953	102 318	253 131	**3 890 060**
333 995	120 154	133 685	174 579	62 447	223 586	**3 088 098**
(17 062)	(15 209)	(13 933)	(14 747)	(2 084)	(40 533)	**(135 742)**
(10 541)	(7 841)	(8 037)	(12 871)	(1 940)	(48 510)	**(116 461)**

loss of the operating segments.

30 Segment Analysis (Continued)

In 2014 the Bank changed its approach to intersegment income and expense calculation that resulted in changes in expenses allocation to operating segments. Intersegment income and expense were adjusted to include, in addition to transfer income and expenses, insurance premiums earned and staff costs. The presentation of the comparative figures for 2013 has been adjusted to be consistent with the new presentation.

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2014 and 31 December 2013 is as follows:

In millions of Russian Roubles	**2014**	**2013**
Additions/(disposals)*		
Head office	953	153
Central federal district	456	12
Siberian federal district	195	71
North-Caucasian federal district	156	19
Volga federal district	125	(320)
Far Eastern federal district	106	32
Ural federal district	62	80
Southern federal district	61	66
North-West federal district	58	39
Total additions	**2 172**	**152**

* Based on RAR.

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

Reconciliation of profit of the reporting segments for the reporting period ended 31 December 2014 and 31 December 2013 is as follows:

In millions of Russian Roubles	**2014**	**2013**
Total (loss)/profit of reportable segments (after tax)	**(9 334)**	**1 018**
Adjustments of provision for impairment	(12 933)	(542)
Results of non-reportable segments, including the effect of consolidation*	(10 756)	4 108
Accounting for financial instruments at fair value	(7 890)	(854)
Adjustments of deferred tax	(5 663)	4 031
Losses net of gains from revaluation of other financial instruments at fair value through profit and loss	(1 088)	(398)
Accrued staff costs	(248)	(229)
Adjustments of financial assets and liabilities carried at amortized cost	423	(6 030)
Other	(439)	(375)
The Group's (loss)/profit under IFRS (after tax)	**(47 928)**	**729**

Reconciliation of assets of the reporting segments for the reporting period ended 31 December 2014 and 31 December 2013 is as follows:

30 Segment Analysis (Continued)

In millions of Russian Roubles	31 December 2014	31 December 2013
Assets of reportable segments	**3 890 059**	**3 088 098**
Elimination of settlements between branches	(1 643 192)	(1 120 530)
Provision for loan impairment	(137 651)	(114 500)
Elimination of back-to-back deposits	(135 235)	(182 576)
Accounting for financial instruments at fair value	(15 013)	14 194
Adjustments of financial assets carried at amortized cost	(10 955)	(10 788)
Assets of non-reportable segments, including the effect of consolidation*	(4 820)	7 367
Other	(27 376)	(10 501)
The Group's assets under IFRS	**1 915 817**	**1 670 764**
Provision for loan impairment for loans and advances to customers of reportable segments	**(135 742)**	**(116 461)**
Accounting for provision under IFRS	(9 939)	(2 525)
Provision related to non-reportable segments, including the effect of consolidation*	8 202	4 593
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(137 479)**	**(114 393)**

* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of material items of income and expenses for the years ended 31 December 2014 and 31 December 2013 is as follows:

In millions of Russian Roubles	2014	2013
Total revenue of reportable segments from external customers	**173 791**	**157 817**
Reclassification of income not included in segment revenue	3 646	2 971
Interest income related to effective interest rate implication	1 436	2 142
Results of non-reportable segments, including the effect of consolidation*	(3 415)	(2 316)
Effect of disposal of loans	(5 201)	335
Other	1	-
The Group's revenue under IFRS**	**170 258**	**160 949**
Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments	**(101 658)**	**(86 908)**
Reclassification of interest expense not included in segment interest expenses	(890)	(876)
Effective interest rate adjustments	795	420
Results of non-reportable segments, including the effect of consolidation*	289	127
Other	(2)	(1)
The Group's interest expense under IFRS	**(101 466)**	**(87 238)**
Provision charge for impairment	**(34 366)**	**(26 376)**
Accounting for provision under IFRS	(18 245)	(2 232)
Provision related to non-reportable segments, including the effect of consolidation*	(3 642)	988
The Group's provision charge for impairment under IFRS	**(56 253)**	**(27 620)**
Administrative and Maintenance expenses of reportable segments	**(38 692)**	**(35 278)**
Reclassification of payments to the Deposit Insurance Fund not included in segment administrative and maintenance expenses	(1 044)	(754)
Accrued staff costs	(248)	(229)
Expense of non-reportable segments, including the effect of consolidation*	(217)	1 211
Other	(1 752)	(1 772)
The Group's administrative and other operating expenses under IFRS	**(41 953)**	**(36 822)**

* Non-reportable segments are represented by subsidiaries of the Group.

** Group's revenue under IFRS comprises of interest income and net fee and commission income.

30 Segment Analysis (Continued)

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 35. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of financial assets including derivative financial assets (both at initial recognition and subsequent measurement) resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortized cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach under RAR.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method, whereas there is nominal rate accrual approach under RAR.
- Balances of intercompany settlements related to regional branches of the Bank are presented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.
- Revaluation of premises resulted under RAR are based on current replacement cost basis, whereas under IFRS on fair value basis.
- Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision) under RAR compared to IFRS and regulatory requirements of tax-filing date. Deferred tax accounting in RAR for credit organisations was introduced from 1 April 2014.
- Income, which is not included into segmental revenue, mainly relates to interest income, which is reclassified into “Other income less other expenses” line of management accounts according to its economic substance.

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

31 Risk Management

The purpose of the Group’s risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group’s priority task is to ensure the maximum safety of assets and capital through minimizing exposures that can lead to unforeseen losses. Group provides coordinated management of significant risks such as credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank’s Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank’s risk management system in general. Its competence also covers decisions relating to significant risks.

31 Risk Management (Continued)

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and revise measures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

According to the Risk management strategy, the key objectives of the bank's risk management system are as follows:

- maintaining the Bank's activity on the "going concern" basis;
- providing the Bank's financial stability;
- development of risk culture/risk-oriented model within the Bank.

The Bank's risk management strategy defines target model, main stages and directions for the Bank's risk management system development till 2020.

In order to ensure stable operation of the Bank in 2014 and future risk management system developments, the Bank took the following priority steps.

- The Bank carried out and/or initiated the following measures related to the development of credit risk management.
- The internal credit rating system for corporate borrowers was put into testing operation. As a result of this pilot project the internal credit rating models will be validated and calibrated with a view of further implementation in real operations.
- The Bank together with a leading international consulting company initiated a project on enhancing efficiency of credit risk management system that includes the following activities:
    - development of quantitative approaches to credit risk assessment (drawing the models for assessing loss given default (LGD) and exposure at defaults (EAD)) and approaches to economic capital calculation and allocation;
    - development of system of limits for credit risk;
    - improvement of credit authority system;
    - development of risk-oriented pricing models for creditproducts;
    - improvement of key performance indicators (KPI) system for business departments in order to account for related risks.
- In order to improve liquidity control risk system in 2014, the Bank implemented measures for system automation and enhancing approaches to liquidity control risk management in accordance with recommendations by CBRF and Basel Committee on Banking Supervision (BCBS). In particular, in 2014 the Bank updated its methodology for calculating limits on liquidity gap risk taking into account the Bank's opportunity to raise funds from additional sources to cover liquidity gaps.
- In order to improve operational risk management system, in 2014 the Bank implemented measures on enhancing methodological documents regulating the process of operational risk management in accordance with recommendations by CBRF and BCBS, as well as applied a number of activities to increase effectiveness of the processes of detection, analysis and assessment of information related to operational risks and losses in case of its realization. In particular, the system for collection and verification of information on operational risks was improved as well as reports on operational risks.

31 Risk Management (Continued)

- The Bank conducted a number of educational seminars on improvement of the operational risks management procedures aimed at the heads of the Bank's region branches and risk-managers.
- In year 2014 the retail credit risk management project "Application for credit decisions" was replicated to the whole regional network. The purpose of this project was to automate and centralize the process of approval credit applications by individuals-sole farmers, on auto loans and credit cards. Currently the Bank is testing the automated process of approval credit applications on mortgage loans, replication of the system should start in the first quarter of 2015. After the replication of automated and centralized process of approval credit applications on mortgage loans, 99% of all applications from individuals will be considered under "Application for credit decisions" project technology.
- In 2014 year the Bank started building the process of integrated risk management over the banking Group. In accordance with the approved in the Bank action plan, there were defined main principals of the Group's risk management system together with identification of risks relevant to the Group. Currently the Bank is developing the single risk management policy for the Group. Moreover, in accordance with the CBRF rules # 3080-U, the Bank determined the procedure of disclosure information about risks incurred, risk assessment procedures, risk management procedures and process of Group's capital management. The report for the six months ended 30 June 2014 was published in accordance with CBRF requirements.
- In order to enhance financial stability of the Group in case of crisis events in the economy and financial markets, in 2014 the Bank's Management Board approved the Plan of stabilizing activities developed in accordance with recommendations of CBRF # 193-T. This Plan provides activities for solving potential problems with capital, liquidity and quality of the Banks's assets in case of unfavorable for the Bank scenarios.

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

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

The risk management policy aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio of the Group, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The management of credit risk of the Bank comprises determination and evaluation risk before transactions, limitation of credit risk, with correspondent limits, structuring of the deals, subsequent monitoring and controlling of credit risk level.

Credit risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Bank, and also by structural departments of the Bank and executives within their scope of authorities.

The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

31 Risk Management (Continued)

In selecting lending and investment programs, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors; and
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products. The market risk of the subsidiaries is estimated to be non-material due to proportion and structure of their assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk hedging mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the RD within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

Decision-making authority in the event of sudden market changes is on the Chairman of the Management Board or the Asset and Liabilities Management Committee depending on specified limiting control procedure.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operations Department are in charge of preliminary and current monitoring over compliance with limits of exposed to market risks positions in the process of entering into, and accounting for transactions.

31 Risk Management (Continued)

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- authorities of the Bank's staff to adopt independent decisions concerning certain types of transactions (personal limits);
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

31 Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk as at 31 December 2014 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	141 473	267 484	167 900	311 001	505 008	447 664	1 840 530
Total interest bearing financial liabilities*	328 300	310 798	199 824	330 630	422 938	241 021	1 833 511
Sensitivity gap	**(186 827)**	**(43 314)**	**(31 924)**	**(19 629)**	**82 070**	**206 643**	**7 019**
Cumulative sensitivity gap	**(186 827)**	**(230 141)**	**(262 065)**	**(281 694)**	**(199 624)**	**7 019**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarises the Group's exposure to interest rate risk as at 31 December 2013 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	183 085	157 120	181 978	276 331	437 963	448 379	1 684 856
Total interest bearing financial liabilities*	181 484	161 227	331 929	263 482	308 236	272 773	1 519 131
Sensitivity gap	**1 601**	**(4 107)**	**(149 951)**	**12 849**	**129 727**	**175 606**	**165 725**
Cumulative sensitivity gap	**1 601**	**(2 506)**	**(152 457)**	**(139 608)**	**(9 881)**	**165 725**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the tables above are presented by maturity (repricing) dates.

For the year ended 31 December 2014, if interest rates at that date had been 400 basis points lower with all other variables held constant, profit before tax for the year would have been RR 10 412 million higher (31 December 2013: RR 4 328 million higher). As at 31 December 2014, other components of equity (pre¬tax) would have been RR 2 575 million higher (31 December 2013: RR 3 160 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale and at fair value through profit or loss (31 December 2013: classified as available for sale).

For the year ended 31 December 2014, if interest rates at that date had been 400 basis points higher with all other variables held constant, profit before tax for the year would have been RR 10 412 million lower (31 December 2013: RR 4 328 million lower). As at 31 December 2014, other components of equity (pre-tax) would have been RR 2 575 million lower (31 December 2013: RR 3 160 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale and at fair value through profit or loss (31 December 2013: classified as available for sale).

31 Risk Management (Continued)

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 95% or 99% (depending on the purpose of calculations) confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% (99%) probability; however, in 5% (1%) of cases losses may exceed this level.

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR — losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

VAR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% (99%) confidence level does not take into account losses that may occur beyond this level. There is a 5% (1%) probability that the loss could exceed the VAR; and
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VAR and Expected Shortfall methods with 99% confidence level.

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Short position	(391)	(829)
VAR	30	8
Expected Shortfall	37	11

31 Risk Management (Continued)

Geographical risk concentration

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	94 997	10 011	1	105 009
Mandatory cash balances with the CBRF	9 373	-	-	9 373
Trading securites	2 090	-	-	2 090
Financial instruments designated at fair value through profit or loss	-	6 902	-	6 902
Due from other banks	20 593	-	13 443	34 036
Derivative financial instruments	27 711	104 108	-	131 819
Loans and advances to customers	1 416 463	-	-	1 416 463
Investment securities available for sale	113 638	-	-	113 638
Investment securities held to maturity	11 568	-	-	11 568
Investment securities pledged under repurchase agreements	26 278	-	-	26 278
Deferred income tax asset	13 317	-	-	13 317
Intangible assets	2 330	-	-	2 330
Premises and equipment	24 314	-	-	24 314
Current income tax prepayment	450	-	-	450
Other assets	17 687	131	1	17 819
Assets held for sale	411	-	-	411
Total assets	**1 781 220**	**121 152**	**13 445**	**1 915 817**
Liabilities				
Derivative financial instruments	324	883	-	1 207
Due to other banks	249 753	35 888	135	285 776
Customer accounts	760 940	655	-	761 595
Promissory notes issued and deposit certificates	18 680	-	-	18 680
Bonds issued	174 959	379 609	-	554 568
Deferred income tax liability	1 245	-	-	1 245
Current income tax liability	5	-	-	5
Other liabilities	10 131	350	-	10 481
Subordinated debts	-	84 261	-	84 261
Total liabilities	**1 216 037**	**501 646**	**135**	**1 717 818**
Net position in on-balance sheet instruments	**565 183**	**(380 494)**	**13 310**	**197 999**

* OECD — Organisation for Economic Cooperation and Development.

Assets and liabilities have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

31 Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	108 224	20 219	1	128 444
Mandatory cash balances with the CBRF	8 735	-	-	8 735
Trading securites	2 810	-	-	2 810
Financial instruments designated at fair value through profit or loss	-	12 220	-	12 220
Due from other banks	16 610	11 457	14 998	43 065
Derivative financial instruments	94	25 573	-	25 667
Loans and advances to customers	1 261 046	-	-	1 261 046
Investment securities available for sale	50 299	-	-	50 299
Investment securities held to maturity	11 291	-	-	11 291
Investment securities pledged under repurchase agreements	73 210	-	-	73 210
Deferred income tax asset	7 868	-	-	7 868
Intangible assets	1 769	-	-	1 769
Premises and equipment	24 655	-	-	24 655
Current income tax prepayment	22	-	-	22
Other assets	18 588	231	14	18 833
Assets held for sale	830	-	-	830
Total assets	**1 586 051**	**69 700**	**15 013**	**1 670 764**
Liabilities				
Derivative financial instruments	153	797	-	950
Due to other banks	100 496	48 987	197	149 680
Customer accounts	706 830	15 186	109	722 125
Promissory notes issued and deposit certificates	31 174	-	-	31 174
Bonds issued	150 021	299 782	-	449 803
Deferred income tax liability	1 358	-	-	1 358
Current income tax liability	508	-	-	508
Other liabilities	13 330	-	-	13 330
Subordinated debts	25 000	49 053	-	74 053
Total liabilities	**1 028 870**	**413 805**	**306**	**1 442 981**
Net position in on-balance sheet instruments	**557 181**	**(344 105)**	**14 707**	**227 783**

* OECD — Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Assets and Liabilities Management Committee and the Treasury within their competence. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the RD at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts, and due to other banks.

The Group develops and instantly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the CBRF is forecasted on a regular basis for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses liquidity limits which compliance is supervised by the RD as part of ongoing monitoring.

The table below shows distribution of financial liabilities as at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

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

31 Risk Management (Continued)

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

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 492)	(4 160)	(48 942)	(144 009)	(91 628)	(290 231)
- outflow	981	7 853	31 539	92 356	58 494	191 223
Net settled derivative financial instruments (liabilities)	373	1 588	432	11	9	2 413
Due to other banks	49 853	141 614	29 863	92 233	7 248	320 811
Customer accounts	257 031	250 333	187 834	109 497	2 873	807 568
Promissory notes issued and deposit certificates	3 324	10 909	3 551	1 597	138	19 519
Bonds issued	3 301	77 470	116 360	282 249	149 078	628 458
Subordinated debts	-	2 737	2 738	21 989	96 079	123 543
Other financial liabilities	731	-	1 592	-	248	2 571
Off-balance sheet financial liabilities						
Financial guarantees issued	150 415	-	-	-	-	150 415
Letters of credit	18 542	-	-	-	-	18 542
Other credit related commitments*	50 289	-	-	-	-	50 289
Total potential future payments for financial obligations	**533 348**	**488 344**	**324 967**	**455 923**	**222 539**	**2 025 121**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

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

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(16 755)	(16 541)	(30 775)	(43 409)	(108 240)	(215 720)
- outflow	17 204	28 161	34 222	48 985	106 992	235 564
Net settled derivative financial instruments (liabilities)	147	131	201	6	22	507
Due to other banks	54 911	40 005	36 668	6 089	20 111	157 784
Customer accounts	206 486	302 382	133 613	99 396	9 399	751 276
Promissory notes issued and deposit certificates	4 336	5 353	15 992	7 338	210	33 229
Bonds issued	25 611	65 875	33 146	218 436	177 386	520 454
Subordinated debts	-	2 002	2 829	9 665	95 867	110 363
Other financial liabilities	5 398	19	616	20	227	6 280
Off-balance sheet financial liabilities						
Financial guarantees issued	39 754	-	-	-	-	39 754
Letters of credit	25 296	-	-	-	-	25 296
Other credit related commitments*	47 804	-	-	-	-	47 804
Total potential future payments for financial obligations	**410 192**	**427 387**	**226 512**	**346 526**	**301 974**	**1 712 591**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 34.

31 Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right for accrued interest. Refer to Note 18.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The table below summarizes contractual maturity analysis as at 31 December 2014:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	105 009	-	105 009
Mandatory cash balances with the CBRF	9 373	-	9 373
Trading securities	1 699	391	2 090
Financial instruments designated at fair value through profit or loss	3 596	3 306	6 902
Due from other banks	29 495	4 541	34 036
Derivative financial instruments	35 404	96 415	131 819
Loans and advances to customers	692 263	724 200	1 416 463
Investment securities available for sale	9 926	103 712	113 638
Investment securities held to maturity	595	10 973	11 568
Investment securities pledged under repurchase agreements	628	25 650	26 278
Other financial assets	4 968	193	5 161
Total financial assets	**892 956**	**969 381**	**1 862 337**
Financial liabilities			
Derivative financial instruments	(1 207)	-	(1 207)
Due to other banks	(210 358)	(75 418)	(285 776)
Customer accounts	(664 443)	(97 152)	(761 595)
Promissory notes issued and deposit certificates	(17 117)	(1 563)	(18 680)
Bonds issued	(44 206)	(510 362)	(554 568)
Other financial liabilities	(2 347)	(304)	(2 651)
Subordinated debts	(2 374)	(81 887)	(84 261)
Total financial liabilities	**(942 052)**	**(766 686)**	**(1 708 738)**
Net liquidity gap	**(49 096)**	**202 695**	**153 599**
Cumulative liquidity gap	**(49 096)**	**153 599**	**-**

31 Risk Management (Continued)

The table below summarizes contractual maturity analysis as at 31 December 2013:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	128 444	-	128 444
Mandatory cash balances with the CBRF	8 735	-	8 735
Trading securities	2 749	61	2 810
Financial instruments designated at fair value through profit or loss	6 897	5 323	12 220
Due from other banks	39 720	3 345	43 065
Derivative financial instruments	3 851	21 816	25 667
Loans and advances to customers	630 401	630 645	1 261 046
Investment securities available for sale	4 266	46 033	50 299
Investment securities held to maturity	817	10 474	11 291
Investment securities pledged under repurchase agreements	9 093	64 117	73 210
Other financial assets	11 422	7	11 429
Total financial assets	**846 395**	**781 821**	**1 628 216**
Financial liabilities			
Derivative financial instruments	(260)	(690)	(950)
Due to other banks	(130 162)	(19 518)	(149 680)
Customer accounts	(627 079)	(95 046)	(722 125)
Promissory notes issued and deposit certificates	(24 599)	(6 575)	(31 174)
Bonds issued	(63 201)	(386 602)	(449 803)
Other financial liabilities	(6 052)	(247)	(6 299)
Subordinated debts	(1 825)	(72 228)	(74 053)
Total financial liabilities	**(853 178)**	**(580 906)**	**(1 434 084)**
Net liquidity gap	**(6 783)**	**200 915**	**194 132**
Cumulative liquidity gap	**(6 783)**	**194 132**	**-**

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

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

Operational risk. Operational risk is the risk of losses in a result of mismatch of character and range of Bank's activity, internal rules and procedures of making bank operations and other deals, staff or other person infraction (as a result of unintentional or intended activity or inactivity), mismatch (insufficiency) functional abilities using information technical and other system and (or) there multifunction (disrupting operation) and also as a result of influence of external events.

Main principles of Operational risk management are incorporated in Bank's internal documents.

The main goal of Bank's operational risk management is maintain acceptable operation risk level, undertake by Bank for secure Bank reliability during its usual operation activity and achievement strategic aims and objectives.

The Bank's Management Board performs operational risk management in the Bank within its authorities. Responsibility for completeness, quality and timeliness of reporting on operational risks and losses in case of its realization, as well as responsibility for compliance with principles and procedures of operational risk management in the process of operational activity lies with the heads of divisions of the Bank and regional branches.

31 Risk Management (Continued)

The Group manages operational risk using the following methods:

- creating internal culture of operational risk management on all levels of Groups organizational structure, including levels of regional branches;
- methodological support of operational risk management process. Developing and enhancing Groups internal documents regulating the process of operational risk management;
- identification and assessment of operational risk on all old and new business lines, business processes, products and information systems of the Group, as well as developing and providing measures necessary for maintaining operational risk at the acceptable for the Bank level;
- selection and analyse of any data relating to operational risks, supporting the Data warehouse of operational risk trigger events and losses in case of its realization;
- developing and providing the actual plan for minimization of operational risk and probable subsequent losses in case of its realization;
- developing actual plans for providing regularity or/and recover of Groups activity in case of unobservable and unexpected circumstances, and for limiting Groups losses in case of adverse circumstances arisen;
- monitoring and preparing the report of operational risk level on regular basis;
- maintaining effective internal control environment within the framework of operational risk management.

The internal culture of operational risk management is the combination of individual and corporate values, settings, competences and behavioral models which determine Bank's attitude to operational risk management and assume knowledge by the Bank's employees of the main operational risk management principles and methods and their active participation in the process of operational risk management.

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group provides non-life insurance services, i.e. property insurance, agricultural insurance and personal accident insurance.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Insurance Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

32 Offsetting Financial Assets and Financial Liabilities

The table below shows financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2014:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	15 872	-	15 872	(499)	(114)	15 259
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	1 207	-	1 207	(499)	-	708

The table below shows financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2013:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	718	-	718	(180)	-	538
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	261	-	261	(180)	-	81

The Group has master netting arrangements with stock exchange and counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Information on such balances is subject to disclosure as they were set off in the statement of financial position.

33 Management of Capital

The Group's objectives when managing capital are:

i. to comply with the capital requirements set by the CBRF;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Basel Capital Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

Compliance with the capital adequacy ratio set by the CBRF is monitored by the Group's management on a monthly basis.

33 Management of Capital (Continued)

Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level of 10%.

During 2014 and 2013 the Bank's capital adequacy ratio in accordance with CBRF requirements exceeded the minimum level and as at 31 December 2014 and 31 December 2013 was as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Capital of the Bank	275 109	272 768
Capital adequacy ratio (N1.0)	13.0 %	16.0 %

Capital of the Bank and capital adequacy ratio as at 31 December 2013 were recalculated as required by the new version of CBRF Rules # 395-P "Methodology for capital adequacy calculation by credit organizations (Basel III)" effective from 1 January 2014.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures. The level of capital adequacy ratio under Basel II requirements equals 8%.

The composition of the Group's capital calculated based on IFRS in accordance with Basel II Capital Accord is as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Share capital	248 798	218 798
Retained earnings	(39 922)	7 863
Goodwill	(8)	(8)
Total tier 1 capital	*208 868*	*226 653*
Revaluation reserves	(11 209)	(53)
Subordinated debts	77 980	71 711
Total tier 2 capital	*66 771*	*71 658*
Total capital	**275 639**	**298 311**
Risk weighted assets	**2 121 189**	**1 661 047**
Tier 1 capital adequacy ratio	9.9 %	13.6%
Total capital adequacy ratio	13.0%	18.0%

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the CBRF and loan covenants.

34 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2014, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (31 December 2013: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (except for the claim described below)).

As at 31 December 2013, the Group was involved in litigations against the subsidiary company. Litigations pose the risk of property disposal from the balance of related subsidiary. Carrying amount of that property as at 31 December 2013 was RR 1 820 million. The Group assessed the probability of property disposal to be less than 50%.

34 Contingencies and Commitments (Continued)

Tax contingencies. 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 Group. 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.

Amended Russian transfer pricing legislation took effect 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 make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the consequences of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may have an impact on the financial conditions and/or the overall operations of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2014 the management has not created any provision for potential tax liabilities (31 December 2013: none).

Capital expenditure commitments. As at 31 December 2014, the Group has contractual capital expenditure commitments of RR 266 million (31 December 2013: RR 488 million).

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

In millions of Russian Roubles	**31 December 2014**	**31 December 2013**
Not later than 1 year	4 351	2 867
Later than 1 year and not later than 5 years	10 365	7 929
Later than 5 years	2 266	2 023
Total operating lease commitments	**16 982**	**12 819**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

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

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

34 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
Financial guarantees issued		150 415	39 754
Undrawn credit lines		37 506	36 736
Letters of credit		18 542	25 296
Less: provision for impairment	21	-	(136)
Total credit related commitments		**206 463**	**101 650**

As at 31 December 2014, credit related commitments included commitments for one Russian bank above 10% of the Group's equity in the amount of RR 22 554 million, or 11% of total credit related commitments (31 December 2013: no commitments to counterparties each above 10% of the Group's equity). As at 31 December 2014, the amount of financial guarantees issued to the CBRF for Russian banks was RR 61 264 million, or 30% of total credit related commitments (31 December 2013: the amount of financial guarantees issued to the CBRF for Russian banks was RR 2 111 million, or 2% of total credit related commitments).

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 31 December 2014 and 31 December 2013, there were no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Russian Roubles	175 201	74 200
Euros	25 167	5 420
US Dollars	6 080	21 983
Other currencies	15	47
Total	**206 463**	**101 650**

Assets pledged and restricted. The Group had the following assets pledged and restricted:

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
Assets pledged under loan agreements with banks (including CBRF)		237 396	18 017
State Eurobonds pledged under term deposits from clients	18	-	7 176
Security deposit under the lease agreement	16	202	202

As at 31 December 2014, mandatory cash balances with the CBRF of RR 9 373 million (31 December 2013: RR 8 735 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2014, the Bank's subsidiaries did not pledge production premises and equipment under loan agreements with other banks (31 December 2013: RR 268 million).

As at 31 December 2014 and 31 December 2013 assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P "On the procedures of granting loans secured by assets or guarantees by CBRF to credit organisations" dated 12 November 2007.

34 Contingencies and Commitments (Continued)

Financial assets transferred without derecognition

Transferred financial assets that are not derecognized in their entirely are represented by securities transferred without derecognition and pledged under repurchase agreements. As at 31 December 2014, the associated liabilities of these agreements in the current amount of RR 20 009 million are included in due to other banks (31 December 2013: RR 61 461 million) and RR15 million are included in customer accounts (31 December 2013: RR 14 million).

The following table provides a summary of financial assets transferred without derecognition:

	31 December 2014		31 December 2013	
In millions of Russian Roubles	Carrying amount assets	Carrying amount associated liabilities	Carrying amount assets	Carrying amount associated liabilities
Repurchase agreements				
Corporate Eurobonds	20 396	15 019	22 699	18 471
Corporate bonds	3 034	2 729	27 701	22 846
Federal loan bonds (OFZ)	1 362	1 116	15 880	14 148
Municipal and subfederal bonds	1 486	1 160	5 312	4 562
State Eurobonds	-	-	1 618	1 448
Total	**26 278**	**20 024**	**73 210**	**61 475**

As at 31 December 2013, amount of liabilities related to assets that are not derecognized in their entirety does not include borrowings from other banks in the amount of RR 355 million received by the Group on sale and repurchase agreements associated with corporate Eurobonds of special purpose entity RSHB Capital S.A.

35 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognized as assets (in case of positive fair value) or liabilities (in case of negative fair value).

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

In the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars, Swiss Francs, Chinese Yuans and Japanese yens to six large OECD banks and one of the Russian banking groups with maturities from July 2015 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

As at 31 December 2014, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2013: not less than BB- (S&P)).

35 Derivative Financial Instruments (Continued)

Interest rate swaps entered into by the Group has underlying assets of RR and USD floating interest rates and are entered into with the aim of interest rate risk management.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2014 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	258 636	(140 614)	119 132	(1 110)
- Interest rate	30 484	(17 894)	12 590	-
Options	892	(892)	97	(97)
Total	**290 012**	**(159 400)**	**131 819**	**(1 207)**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2013 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	319 596	(295 160)	25 373	(937)
- Interest rate	3 040	(2 759)	294	(13)
Total	**322 636**	**(297 919)**	**25 667**	**(950)**

As at 31 December 2014, the Group had one foreign exchange swap with one foreign bank with rating not lower than BB- (S&P) with fair value above 10% of the Group's equity (31 December 2013: four foreign exchange swaps with four foreign banks with rating not lower than BB- (S&P) with aggregate fair value above 10% of the Group's equity). As at 31 December 2014, receivables and payables on settlement of this foreign exchange swap amounted to RR 80 334 million and RR 36 234 million, respectively, or 36% of total receivables or 34% of total payables on settlement of foreign exchange swaps (31 December 2013: RR 168 031 million and RR 144 431 million, respectively, or 80% of total receivables or 78% of total payables on settlement of foreign exchange swaps).

Refer to Note 36 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 38.

36 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

36 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, and related investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities and securities held to maturity pledged under repurchase agreements is based on market price.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

36 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value

	31 December 2014		31 December 2013	
In millions of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	105 009	105 009	128 444	128 444
Mandatory cash balances with the CBRF	9 373	9 373	8 735	8 735
Due from other banks	34 036	31 790	43 065	43 203
Loans and advances to customers				
- Loans to corporates	1 132 282	1 078 121	1 004 146	989 321
- Lending for food interventions	10 097	10 097	10 896	10 896
- Reverse repo agreements	425	425	504	504
- Investments in agricultural cooperatives	369	369	365	365
- Loans to individuals	273 290	252 732	245 135	248 743
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	8 920	7 430	14 381	14 345
- State Eurobonds	-	-	7 175	7 411
- Municipal and subfederal bonds	325	317	3 251	3 246
- Federal Loan bonds (OFZ)	2 323	1 681	2 318	2 165
- Corporate Eurobonds	20 396	19 785	20 518	19 813
Other financial assets	5 161	5 161	11 429	11 429
Total financial assets carried at amortised cost	**1 602 006**	**1 522 290**	**1 500 362**	**1 488 620**
Financial assets carried at fair value	**260 331**	**260 331**	**127 854**	**127 854**
Total financial assets	**1 862 337**	**1 782 621**	**1 628 216**	**1 616 474**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	64 629	63 804	99 234	102 854
- Term borrowings from the CBRF	203 732	203 732	49 948	49 948
- Correspondent accounts and overnight placements of other banks	17 415	17 415	498	498
Customer accounts				
- State and public organisations	101 258	100 362	154 906	154 906
- Other legal entities	353 579	349 516	317 932	317 932
- Individuals	306 758	302 146	249 287	248 753
Promissory notes issued and deposit certificates	18 680	18 680	31 174	31 174
Bonds issued				
- Eurobonds issued	379 609	337 719	299 782	309 886
- Bonds issued on domestic market	174 959	169 641	150 021	150 716
Other financial liabilities	2 651	2 651	6 299	6 299
Subordinated debts	84 261	62 393	74 053	71 175
Total financial liabilities carried at amortised cost	**1 707 531**	**1 628 059**	**1 433 134**	**1 444 141**
Financial liabilities carried at fair value	**1 207**	**1 207**	**950**	**950**
Total financial liabilities	**1 708 738**	**1 629 266**	**1 434 084**	**1 445 091**

36 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value hierarchy

For the purpose of fair value disclosures, the Group 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.

Analysis of financial and non-financial instruments as at 31 December 2014 is as follows:

In millions of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with nonobservable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	391	1 699	-	**2 090**
Financial instruments designated at fair value through profit or loss	-	6 902	-	**6 902**
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	115 371	4 149	-	**119 520**
Derivative financial instruments	-	131 819	-	**131 819**
Office premises	-	-	8 636	**8 636**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	105 009	-	**105 009**
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	9 373	**9 373**
Due from other banks	-	31 790	-	**31 790**
Loans and advances to customers	-	-	1 341 744	**1 341 744**
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	9 428	19 785	-	**29 213**
Other financial assets carried at amortised cost	-	-	5 161	**5 161**
Total financial and non-financial assets	**125 190**	**301 153**	**1 364 914**	**1 791 257**
Liabilities measured at fair value				
Derivative financial instruments	-	1 207	-	**1 207**
Liabilities for which fair values are disclosed				
Due to other banks	-	284 951	-	**284 951**
Customer accounts	-	-	752 024	**752 024**
Promissory notes issued and deposit certificates	-	-	18 680	**18 680**
Bonds issued				
- Eurobonds issued	317 929	19 790	-	**337 719**
- Bonds issued on domestic market	160 720	8 921	-	**169 641**
Subordinated debts	51 641	10 752	-	**62 393**
Other financial liabilities	-	-	2 651	**2 651**
Total financial liabilities	**530 290**	**325 621**	**773 355**	**1 629 266**

36 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2013 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with nonobservable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	61	2 749	-	**2 810**
Financial instruments designated at fair value through profit or loss	-	12 220	-	**12 220**
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	87 157	-	-	**87 157**
Derivative financial instruments	-	25 667	-	**25 667**
Office premises	-	-	8 669	**8 669**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	128 444	-	**128 444**
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	8 735	**8 735**
Due from other banks	-	43 203	-	**43 203**
Loans and advances to customers	-	-	1 249 829	**1 249 829**
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	27 167	19 813	-	**46 980**
Other financial assets carried at amortised cost	-	-	11 429	**11 429**
Total financial and non-financial assets	**114 385**	**232 096**	**1 278 662**	**1 625 143**
Liabilities measured at fair value				
Derivative financial instruments	-	950	-	**950**
Liabilities for which fair values are disclosed				
Due to other banks	-	153 300	-	**153 300**
Customer accounts	-	-	721 591	**721 591**
Promissory notes issued and deposit certificates	-	-	31 174	**31 174**
Bonds issued				
- Eurobonds issued	290 069	19 817	-	**309 886**
- Bonds issued on domestic market	150 716	-	-	**150 716**
Subordinated debts	43 522	27 653	-	**71 175**
Other financial liabilities	-	-	6 299	**6 299**
Total financial liabilities	**484 307**	**201 720**	**759 064**	**1 445 091**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 31 December 2014 (31 December 2013: none).

During 2014 the Group transferred part of its investment securities available for sale from Level 1 to Level 2 of the fair value hierarchy due to the absence of quoted prices in an active market for these securities. There were no other transfers between levels of the fair value hierarchy during 2014. There were no transfers between levels of the fair value hierarchy during 2013.

37 Presentation of Financial Instruments by Measurement Category

According to the IAS 39 *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading.

The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2014.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial instruments designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- cash on hand	36 834	-	-	-	-	**36 834**
- cash balances with the CBRF (other than mandatory reserve deposits)	37 930	-	-	-	-	**37 930**
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	24 488	-	-	-	-	**24 488**
- settlement accounts with stock and currency exchanges, clearing organisations and other	5 757	-	-	-	-	**5 757**
Mandatory cash balances with the CBRF	9 373	-	-	-	-	**9 373**
Trading securities	-	-	2 090	-	-	**2 090**
Financial instruments designated at fair value through profit or loss	-	-	-	6 902	-	**6 902**
Due from other banks	34 036	-	-	-	-	**34 036**
Derivative financial instruments	-	-	131 819	-	-	**131 819**
Loans and advances to customers						
- Loans to corporates	1 132 282	-	-	-	-	**1 132 282**
- Lending for food interventions	10 097	-	-	-	-	**10 097**
- Deals with securities purchased under “reverse-repo agreements”	425	-	-	-	-	**425**
- Investments in agricultural cooperatives	369	-	-	-	-	**369**
- Loans to individuals	273 290	-	-	-	-	**273 290**
Investment securities available for sale	-	113 638	-	-	-	**113 638**
Investment securities held to maturity	-	-	-	-	11 568	**11 568**
Investment securities pledged under repurchase agreements	-	5 882	-	-	20 396	**26 278**
Other financial assets	5 161	-	-	-	-	**5 161**
Total financial assets	**1 570 042**	**119 520**	**133 909**	**6 902**	**31 964**	**1 862 337**
Non-financial assets						**53 480**
Total assets	**1 570 042**	**119 520**	**133 909**	**6 902**	**31 964**	**1 915 817**

37 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2013.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial instruments designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- cash on hand	22 481	-	-	-	-	**22 481**
- cash balances with the CBRF (other than mandatory reserve deposits)	39 812	-	-	-	-	**39 812**
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	63 549	-	-	-	-	**63 549**
- settlement accounts with stock and currency exchanges, clearing organisations and other	2 602	-	-	-	-	**2 602**
Mandatory cash balances with the CBRF	8 735	-	-	-	-	**8 735**
Trading securities	-	-	2 810	-	-	**2 810**
Financial instruments designated at fair value through profit or loss	-	-	-	12 220	-	**12 220**
Due from other banks	43 065	-	-	-	-	**43 065**
Derivative financial instruments	-	-	25 667	-	-	**25 667**
Loans and advances to customers						
- Loans to corporates	1 004 146	-	-	-	-	**1 004 146**
- Lending for food interventions	10 896	-	-	-	-	**10 896**
- Deals with securities purchased under “reverse-repo agreements”	504	-	-	-	-	**504**
- Investments in agricultural cooperatives	365	-	-	-	-	**365**
- Loans to individuals	245 135	-	-	-	-	**245 135**
Investment securities available for sale	-	50 299	-	-	-	**50 299**
Investment securities held to maturity	-	-	-	-	11 291	**11 291**
Investment securities pledged under repurchase agreements	-	36 858	-	-	36 352	**73 210**
Other financial assets	11 429	-	-	-	-	**11 429**
Total financial assets	**1 452 719**	**87 157**	**28 477**	**12 220**	**47 643**	**1 628 216**
Non-financial assets						**42 548**
Total assets	**1 452 719**	**87 157**	**28 477**	**12 220**	**47 643**	**1 670 764**

All of the Group’s financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property and the Ministry of Finance of the Russian Federation. Refer to Note 1.

In these consolidated financial statements, significant balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

38 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	31 December 2014	31 December 2013
Cash and cash equivalents		
CBRF	37 930	39 812
Other banks	15 199	28 989
Loans and advances to customers		
Loans and advances to customers (before impairment)	60 580	44 685
Less: provision for loan impairment	(2 453)	(322)
Derivative financial instruments - assets	27 658	95
Securities		
Securities issued by Russian Federation	23 623	33 324
Securities of entities and banks	52 924	36 933
Due from other banks	1 903	1 700
Other assets		
State Corporation Deposit Insurance Agency	1 239	2 708
Customer accounts		
Entities	170 898	207 211
Key management and their family members	956	195
Subordinated debts	-	25 000
Due to other banks		
CBRF	203 732	49 948
Other banks	33 210	19 595
Derivative financial instruments - liabilities	246	150
Credit related commitments		
Undrawn credit lines	7 222	9 158
Guarantees issued	41 449	3 660
Guarantees received	16 860	14 964

38 Related Party Transactions (Continued)

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

In millions of Russian Roubles	**2014**	**2013**
Interest income on cash and cash equivalents		
CBRF	132	36
Other banks	785	248
Interest income on due from other banks	372	223
Interest income on loans and advances to customers	5 040	3 555
Interest income on securities		
Securities issued by Russian Federation	2 463	1 177
Securities of entities and banks	3 223	2 301
Losses net of gains from securities		
Securities issued by Russian Federation	(1 587)	(199)
Securities of entities and banks	(1 100)	(3)
Gains less losses from derivative financial instruments	21 103	189
Interest expense on customer accounts		
Entities	(21 023)	(12 911)
Key management and their family members	(16)	(8)
Interest expense on subordinated debts	(1 287)	(1 625)
Interest expense on due to other banks		
CBRF	(6 837)	(1 038)
Other banks	(1 430)	(799)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund (SC DIA)	(1 044)	(754)

In 2014 and 2013, the only transactions with the shareholder were share capital increase, taxes and dividends paid. Refer to Notes 23, 28 and 29.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2014 short-term benefits of the key management amounted to RR 328 million (2013: RR 378 million).

	2014		**2013**	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	224	73	249	98
Post-employment benefits:				
State pension and social costs	31	-	31	-
Total	**255**	**73**	**280**	**98**

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

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for sale

a) Disposal of Subsidiaries

In January 2013 as a result of insolvency procedures the Group lost the control over OOO “Agrostar” and recognized gain from disposal of subsidiary in the amount of RR 24 million.

In February 2013 as a result of insolvency procedures the Group lost the control over OOO “Agroinvest” and recognized loss from disposal of subsidiary in the amount of RR 720 million.

In September 2013 as a result of insolvency procedures the Group lost the control over ZAO “Agroproekt” and recognized gain from disposal of subsidiary in the amount of RR 145 million.

b) Groups Classified as Held for Sale

As at 31 December 2012, the assets and liabilities related to companies in Bashkortostan and Leningrad Region were classified as disposal groups held for sale. The Group intended to complete the sale by the end of 2013, however due to unforseeable circumstances the sale has not been completed. Thus, as at 31 December 2013 these assets did not qualify for IFRS 5 requirements.

In order to comply with the requirements of IFRS 5, as at 31 December 2013 the Group transferred the assets and liabilities related to companies in Bashkortostan and Leningrad Region from disposal groups held for sale. Major part of such assets were represented by premises and equipment of RR 3 106 million. Refer to Note 15.

c) Assets held for sale

During 2013 and 2014, the Group transferred certain assets from premises and equipment and repossessed collateral to assets held for sale. The Group expects the sale to be completed by the end of 2015.

Assets held for sale are accounted for at the lower of net carrying value and fair value less costs to sell with expenses recognized in profit or loss after reclassification.

As at 31 December 2014, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	**Balance amount (before reclassi-fication)**	**Accumulated depreciation (before reclassi-fication)**	**Net carrying value before reclassi-fication**	**Impairment**	**Carrying value after reclassi-fication**
Reclassified from repossessed collateral in 2013	688	(23)	665	(471)	194
Reclassified from repossessed collateral in 2014	230	(10)	220	(56)	164
Reclassified from premises and equipment in 2013	53	-	53	-	53
Total	**971**	**(33)**	**938**	**(527)**	**411**

As at 31 December 2013, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	**Note**	**Balance amount (before reclassi-fication)**	**Accumulated depreciation (before reclassi-fication)**	**Net carrying value before reclassi-fication**	**Impairment**	**Carrying value after reclassi-fication**
Reclassified from repossessed collateral in 2013	16	837	(29)	808	(127)	681
Reclassified from premises and equipment in 2013	15	149	-	149	-	149
Total		**986**	**(29)**	**957**	**(127)**	**830**

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for sale (Continued)

The movement in net carrying value of assets held for sale before reclassification is as follows:

	Note	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
Net carrying value before reclassification as at 1 January 2014		**808**	**149**	**957**
Reclassified during the period	16	220	-	220
Disposed during the period		(143)	(96)	(239)
Net carrying value before reclassification as at 31 December 2014		**885**	**53**	**938**

The movement in the impairment of assets held for sale is as follows:

	Note	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
Impairment as at 1 January 2014		**(127)**	**-**	**(127)**
Loss from impairment for the current year	27	(411)	-	(411)
Realized impairment loss at disposal of assets		11	-	11
Impairment as at 31 December 2014		**(527)**	**-**	**(527)**

40 Events after the End of the Reporting Period

In February 2015 the Group issued RR 10 000 million bonds (placed at par) maturing in January 2025 with quarterly payments of coupon at 15.0% p.a. for the first twenty quarterly interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In February 2015 the Group issued RR 5 000 million bonds (placed at par) maturing in February 2025 with quarterly payments of coupon at 15.25% p.a. for the first four quarterly interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In February 2015, the Group repaid at the maturity date bonds denominated in RR issued in February 2012 on the domestic market in the amount of RR 10 000 million.

In February and March 2015 the CBRF decreased key interest rate from 17.0% p.a. to 14.0% p.a.

12. Regional Branch Addresses

The Adygea Regional Branch Reg. No. 3349/12 as of September 27, 2000	24 Krasnooktiabrskaya St., Maikop, Russia, 385000 Tel/Fax: +7 (8772) 52-30-24, 57-12-01 E-mail: direktor@adg.rshb.ru
The Altai Regional Branch Reg. No. 3349/18 as of December 18, 2000	80b Lenina Ave., Barnaul, the Altai Territory, Russia, 656015 Tel/Fax: +7 (3852) 35-69-39, 35-69-52 E-mail: bank@altay.rshb.ru
The Amur Regional Branch Reg. No. 3349/23 as of December 18, 2000	142 Lenina St., Blagoveshchensk, Russia, 675000 Tel/Fax: +7 (4162) 22-18-02, 22-18-05 E-mail: referent@amur.rshb.ru
The Arkhangelsk Regional Branch Reg. No. 3349/48 as of October 4, 2001	34 Karl Libchnecht St., Arkhangelsk, Russia, 163000 Tel/Fax: +7 (8182) 65-38-42 E-mail: info@arh.rshb.ru
The Astrakhan Regional Branch Reg. No. 3349/17 as of December 18, 2000	34 Sverdlova St., Astrakhan, Russia, 414000 Tel/Fax: +7 (8512) 63-28-00, 63-28-04 E-mail: office@astr.rshb.ru
The Bashkir Regional Branch Reg. No. 3349/62 as of April 26, 2004	70 Lenina St., Ufa, Russia, 450008 Tel/Fax: +7 (3472) 73-54-32 E-mail: info@bash.rshb.ru
The Belgorod Regional Branch Reg. No. 3349/30 as of April 10, 2001	49 Pushkina St., Belgorod, Russia, 308015 Tel/Fax: +7 (4722) 23-50-23, 23-50-33 E-mail: BRF@belg.rshb.ru
The Bryansk Regional Branch Reg. No. 3349/69 as of September 14, 2006	1/5 Bezhitskaya St., Bryansk, Russia, 241007 Tel/Fax: +7 (4832) 68-19-23, 68-19-65 E-mail:dir@bryansk.rshb.ru
The Buryatia Regional Branch Reg. No. 3349/59 as of August 1, 2002	57D Smolina St., Ulan-Ude, Russia, 670000 Tel/Fax: +7 (3012) 28-71-00 E-mail: bank@bur.rshb.ru
The Chechen Regional Branch Reg. No. 3349/34 as of April 10, 2001	10/77 M.A. Esambaeva Ave., Grozny, Russia, 364024 Tel/Fax: +7 (8712) 22-27-50, 22-28-01 E-mail: erihanov@rshb.ru
The Chelyabinsk Regional Branch Reg. No. 3349/78 as of August 7, 2008	26-A Lenina Ave., Chelyabinsk, Russia, 454091 Tel/Fax: +7 (351) 749-08-00, 749-08-02 E-mail: bank@chel.rshb.ru
The Chita Regional Branch Reg. No. 3349/47 as of October 4, 2001	21 Alexandro-Zavodskaya St., the Ingodinsky Administrative District, Chita, Russia, 672039 Tel/Fax: +7 (3022) 36-99-10, 36-99-99 E-mail: referent@chita.rshb.ru
The Chukotka Regional Branch Reg. No. 3349/77 as of April 7, 2008	47 Lenina St., Anadyr, Russia, 689000 Tel/Fax: +7 (427-22) 2-88-65, 2-02-55 E-mail: director@chukotka.rshb.ru
The Chuvash Regional Branch Reg. No. 3349/11 as of September 27, 2000	31 Presidentsky Blvd., Cheboksary, Russia, 428032 Tel/Fax: +7 (8352) 66-24-64, 58-37-48 E-mail: RF@chuvashia.rshb.ru
The Dagestan Regional Branch Reg. No. 3349/4 as of September 27, 2000	54a Gamidova Ave., Makhachkala, Russia, 367010 Tel/Fax: +7 (8722) 51-71-06, 51-71-00 E-mail: referent@dag.rshb.ru
The Gorno-Altaysk Regional Branch Reg. No. 3349/70 as of October 6, 2006	68 Kommunistichesky Ave., Gorno-Altaysk, the Republic of Altai, Russia, 649000 Tel/Fax: +7 (38822) 2-30-49, 2-48-45 E-mail: director@galtay.rshb.ru
The Jewish Regional Branch Reg. No. 3349/29 as of March 22, 2001	6 Komsomolskaya St., Birobidjan, Russia, 679000 Tel/Fax: +7 (42622) 2-39-21, 2-39-72 E-mail: referent@bir.rshb.ru

The Ivanovo Regional Branch Reg. No. 3349/38 as of May 29, 2001	21/1 Lenina Ave., Ivanovo, Russia, 153002 Tel/Fax: +7 (4932) 41-41-42 E-mail: ivrshb@ivanovo.rshb.ru
The Irkutsk Regional Branch Reg. No. 3349/66 as of October 13, 2005	180 Rozy Lyuksemburg St., Irkutsk, Russia, 664040 Tel/Fax: +7 (3952) 44-24-00 E-mail: director@irk.rshb.ru
The Ingush Regional Branch Reg. No. 3349/42 as of June 21, 2001	13a Moskovskaya St., Nazran, Russia, 386102 Tel/Fax: +7 (8732) 22-08-01, 22-08-00 E-mail: office@ing.rshb.ru
The Kabardino-Balkaria Regional Branch Reg. No. 3349/44 as of June 26, 2001	10a Kuliev Ave., Nalchik, Russia, 360030 Tel/Fax: +7 (8662) 47-77-94, 40-00-13 E-mail: kbr@kbal.rshb.ru
The Kaliningrad Regional Branch Reg. No. 3349/55 as of March 6, 2002	51v Alexander Nevsky St., Kaliningrad, Russia, 236008 Tel/Fax: +7 (4012) 556-201, 556-271 E-mail: info@klngd.rshb.ru
The Kalmyk Regional Branch Reg. No. 3349/36 as of April 20, 2001	87 Y. Klykova St., Elista, Russia, 358003 Tel/ Fax: +7 (84722) 6-43-58, 6-43-63 E-mail: elista@kalmyk.rshb.ru
The Kaluga Regional Branch Reg. No. 3349/27 as of February 13, 2001	9a Kirov St., Kaluga, Russia, 248001 Tel/ Fax: +7 (4848-2) 57-50-03, 57-11-68 E-mail: Director@kaluga.rshb.ru
The Kamchatka Regional Branch Reg. No. 3349/53 as of February 8, 2002	63 Pobedy Ave., Petropavlovsk-Kamchatsky, Russia, 683023 Tel/Fax: +7 (4152) 49-02-15, 49-02-18 E-mail: post@kamchatka.rshb.ru
The Karachay-Cherkessia Regional Branch Reg. No. 3349/31 as of April 10, 2001	102-a Kosmonavtov St., Cherkessk, Russia, 369001 Tel/Fax: +7 (8782) 27-00-08, 27-20-57 E-mail: Hadzhieva@karacherk.rshb.ru
The Karelia Regional Branch Reg. No. 3349/21 as of December 18, 2000	37/1 Pervomaisky Ave., Petrozavodsk, Russia, 185910 Tel/Fax: +7 (8142) 70-34-57 E-mail: public@karel.rshb.ru
The Kemerovo Regional Branch Reg. No. 3349/56 as of March 6, 2002	8a Sovetsky Ave., Kemerovo, Russia, 650099 Tel/Fax: +7 (3842) 34-60-30, 34-60-32 E-mail: office@kemerovo.rshb.ru
The Khabarovsk Regional Branch Reg. No. 3349/75 as of October 1, 2007	120 Kalinina St., Khabarovsk, Russia, 680000 Tel/Fax: +7 (4212) 47-66-52 E-mail: priem@hab.rshb.ru
The Khakassia Regional Branch Reg. No. 3349/37 as of April 20, 2001	72 Chertygasheva St., Abakan, Russia, 655017 Tel/Fax: +7 (3902) 22-33-60, 22-44-67 E-mail: office@hakas.rshb.ru
The Kirov Regional Branch Reg. No. 3349/22 as of December 18, 2000	5 Gorky St., Kirov, Russia, 610017 Tel/Fax: +7 (88332) 57-96-45, 54-16-99 E-mail: mail@kirov.rshb.ru
The Komi Regional Branch Reg. No. 3349/74 as of June 5, 2007	112/1 Pervomayskaya St., Syktyvkar, Russia, 167000 Tel/Fax: +7 (8212) 44-83-79, 44-80-19 E-mail: filial@komi.rshb.ru
The Kostroma Regional Branch Reg. No. 3349/51 as of January 11, 2002	6 Mira Ave., Kostroma, Russia, 156000 Tel/Fax: +7 (4942) 37-35-20 E-mail: mail@kostroma.rshb.ru
The Krasnodar Regional Branch Reg. No. 3349/3 as of September 27, 2000	2 Korolenko St., the Central District, Krasnodar, Russia, 350038 Tel/Fax: +7 (861) 253-66-15, 253-66-51 E-mail: director@krd.rshb.ru

The Krasnoyarsk Regional Branch Reg. No. 3349/49 as of December 13, 2001	33 Perensona St., Krasnoyarsk, Russia, 660049 Tel/Fax: +7 (391) 267-67-07, 267-66-99 E-mail: info@krsn.rshb.ru
The Kurgan Regional Branch Reg. No. 3349/45 as of July 27, 2001	157 Sovetskaya St., Kurgan, Russia, 640018 Tel/Fax: +7 (3522) 23-90-70, 23-98-98 E-mail: rshb@kurgan.rshb.ru
The Kursk Regional Branch Reg. No. 3349/32 as of April 10, 2001	12 Sadovaya St., Kursk, Russia, 305004 Tel/Fax +7 (4712) 39-05-80 E-mail: referent@kursk.rshb.ru
The Lipetsk Regional Branch Reg. No. 3349/24 as of December 18, 2000	17A Vodopianova St., Lipetsk, Russia, 398046 Tel/Fax: +7 (4742) 40-18-90, 30-75-06 E-mail: office@lip.rshb.ru
The Magadan Regional Branch Reg. No. 3349/40 as of June 13, 2001	40 Karl Marx Ave., Magadan, Russia, 685000 Tel/Fax: +7 (4132) 65-16-41, 60-55-65 E-mail: info@magadan.rshb.ru
The Mari El Regional Branch Reg. No. 3349/16 as of September 29, 2000	116 Volkova St., Yoshkar-Ola, Russia, 424002 Tel/Fax: +7 (8362) 45-23-55, 63-81-21 E-mail: office@mar.rshb.ru
The Mordovia Regional Branch Reg. No. 3349/20 as of December 18, 2000	47a Sovetskaya St., Saransk, Russia, 430005 Tel/Fax: +7 (8342) 29-23-01, 29-23-00 E-mail: info@mrd.rshb.ru
The Moscow Regional Branch Reg. No. 3349/63 as of January 28, 2005	2d Listvennichnaya Alley, Moscow, Russia, 127550 Tel/Fax: +7 (495) 644-02-25, 644-02-30 E-mail: referent@msk.rshb.ru
The Murmansk Regional Branch Reg. No. : 3349/33 as of April 10, 2001	11 Pavlov St., Murmansk, Russia, 183032 Tel/Fax: +7 (8152) 25-86-60, 25-86-61 E-mail: office@murm.rshb.ru
The Nizhny Novgorod Regional Branch Reg. No. 3349/39 as of June 13, 2001	3 Kulibina St., Nizhny Novgorod, Russia, 603022 Tel/Fax: +7 (831) 211-62-70, 211-64-09 E-mail: nnrshb@nnovgorod.rshb.ru
The North Ossetia Regional Branch Reg. No. 3349/26 as of February 9, 2001	2 Kantemirova St., Vladikavkaz, Russia, 362007 Tel/Fax: +7 (8672) 53-22-81, 53-44-30 E-mail: alania@oset.rshb.ru
The Novgorod Regional Branch Reg. No. 3349/8 as of September 27, 2000	9 Bolshaya Moscovskaya St., Veliky Novgorod, Russia, 173610 Tel/Fax: +7 (8162) 63-22-21, 97-43-00 E-mail: ngd@vnovgorod.rshb.ru
The Novosibirsk Regional Branch Reg. No. 3349/25 as of February 9, 2001	13 Fabrichnaya St., Novosibirsk, Russia, 630007 Tel/Fax: +7 (383) 218-30-35 E-mail: bank@nsk.rshb.ru
The Omsk Regional Branch Reg. No. 3349/9 as of September 27, 2000	52 Frunze St., Omsk, Russia, 644099 Tel/Fax +7 (3812) 23-34-23 E-mail: office@omsk.rshb.ru
The Orenburg Regional Branch Reg. No. 3349/5 as of September 27, 2000	59b Leninskaya St., Orenburg, Russia, 460000 Tel/Fax: +7 (3532) 77-02-95 E-mail: referent@orn.rshb.ru
The Orel Regional Branch Reg. No. 3349/10 as of September 27, 2000	60 Dubrovinsky Emb., Orel, Russia, 302030 Tel/Fax: +7 (4862) 43-41-05 E-mail: ref@orel.rshb.ru
The Penza Regional Branch Reg. No. 3349/15 as of September 29, 2000	39 Bekeshskaya St., Penza, Russia, 440018 Tel/Fax: +7 (8412) 42-18-73, 42-18-45 E-mail: info@penza.rshb.ru
The Perm Regional Branch Reg. No. 3349/76 as of December 14, 2007	50 Lenina St., Perm, Russia, 614000 Tel/Fax: +7 (342) 259-07-26, 218-14-62 E-mail: office@perm.rshb.ru

The Primorsky Regional Branch Reg. No. 3349/54 as of February 8, 2002	26-1 Okeansky Ave., Vladivostok, Russia, 690091 Tel/Fax: +7 (4232) 22-13-27, 22-35-87 E-mail: referent@primor.rshb.ru
The Pskov Regional Branch Reg. No. 3349/68 as of September 14, 2006	44a Nekrasova St., Pskov, Russia, 180000 Tel/Fax: +7 (8112) 68-72-22, 68-72-23 E-mail: bank@pskov.rshb.ru
The Rostov Regional Branch Reg. No. 3349/7 as of September 27, 2000	14a M. Nagibina Ave., Rostov-on-Don, Russia, 344038 Tel/Fax:+7 (8632) 43-25-00, 43-25-36 E-mail: mail@rostov.rshb.ru
The Ryazan Regional Branch Reg. No. 3349/58 as of July 31, 2002	58 Svobody St., Ryazan, Russia, 390000 Tel/Fax: +7 (4912) 28-42-00, 28-42-01 E-mail: bank@ryazan.rshb.ru
The Samara Regional Branch Reg. No. 3349/13 as of September 29, 2000	10 Akademika Platonova St., Samara, Russia, 443011 Tel/Fax: +7 (846) 373-51-04, 373-51-48 E-mail: tmas@samara.rshb.ru
The Saint Petersburg Regional Branch Reg. No. 3349/35 as of April 12, 2001	5 Paradnaya St., St. Petersburg, Russia, 119014 Tel/Fax: +7 (812) 335-06-30 E-mail: office@spb.rshb.ru
The Saratov Regional Branch Reg. No. 3349/52 as of February 6, 2002	65/2 Radischeva St., Saratov, Russia, 410003 Tel/Fax: +7 (8452) 26-22-00, 27-59-59 E-mail: info@saratov.rshb.ru
The Sakhalin Regional Branch Reg. No. 3349/72 as of April 19, 2007	107 Mira Ave., Yuzhno-Sakhalinsk, the Sakhalin Region, Russia, 693020 Tel/Fax: +7 (4242) 31-21-01 E-mail: office@shl.rshb.ru
The Smolensk Regional Branch Reg. No. 3349/43 as of June 25, 2001	2-B Tvardovskogo St., Smolensk, Russia, 214014 Tel/Fax: +7 (4812) 38-14-41, 38-27-68 E-mail: info@smol.rshb.ru
The Stavropol Regional Branch Reg. No. 3349/6 as of September 27, 2000	26 Marshala Zhukova St., Stavropol, the Stavropol Territory, Russia, 355037 Tel/Fax: +7 (8652) 25-80-80 E-mail: referent@stavropol.rshb.ru
The Sverdlovsk Regional Branch Reg. No. 3349/73 as of May 18, 2007	15 Fevralskoj Revolyutsii St., Ekaterinburg, Russia, 620014 Tel/Fax: +7 (343) 356-18-60 E-mail: office@sverdlovsk.rshb.ru
The Tambov Regional Branch Reg. No. 3349/2 as of September 27, 2000	20 Maksim Gorky St., Tambov, Russia, 392000 Tel/Fax: + 7 (4752) 63-03-05, 63-03-20 E-mail: office@tambov.rshb.ru
The Tatarstan Regional Branch Reg. No. 3349/67 as of March 16, 2006	80 Dostoevsky St., Kazan, Russia, 420097 Tel/Fax: +7 (843) 524-98-05, 524-98-02 E-mail: rkazan@kazan.rshb.ru
The Tomsk Regional Branch Reg. No. 3349/64 as of May 11, 2005	8b Moskovsky Trakt, Tomsk, Russia, 634050 Tel/Fax: +7 (3822) 20-22-24, 42-60-69 E-mail: info@tomsk.rshb.ru
The Tver Regional Branch Reg. No. 3349/19 as of December 18, 2000	37 Dmitry Donskoy St., Tver, Russia, 170006 Tel/Fax: +7 (4822) 31-07-20 E-mail: mail@tver.rshb.ru
The Tuva Regional Branch Reg. No. 3349/57 as of March 6, 2002	23 Tyvinskie Dobrovoltsy St., Kyzyl, the Tuva Republic, Russia, 667000 Tel/Fax: +7 (39422) 1-41-01, 1-41-04 E-mail: rshb@tuva.ru

The Tula Regional Branch Reg. No. 3349/1 as of September 27, 2000	5 Turgenevskaya St., Tula, Russia, 300041 Tel/Fax: +7 (4872) 55-04-04, 55-00-80 E-mail: filial@tula.rshb.ru
The Tyumen Regional Branch Reg. No. 3349/71 as of December 29, 2006	21 Pervomaiskaya St., Tyumen, Russia, 625000 Tel/Fax: +7 (3452) 50-06-25, 50-05-48 E-mail: office@tumen.rshb.ru
The Udmurt Regional Branch Reg. No. 3349/28 as of February 26, 2001	30 Telegina St., Izhevsk, Russia, 426006 Tel/Fax: +7 (3412) 631-136 E-mail: RF@udm.rshb.ru
The Ulyanovsk Regional Branch Reg. No. 3349/65 as of June 17, 2005	15 Minayeva St., Ulyanovsk, Russia, 432063 Tel/Fax: +7 (8422) 41-00-22 E-mail: DirectorUln@uln.rshb.ru
The Vladimir Regional Branch Reg. No. 3349/41 as of June 21, 2001	1b Bolshaya Moskovskaya St., Vladimir, Russia, 600000 Tel/Fax: +7 (4922) 42-12-80, 32-48-78 E-mail: info@vladimir.rshb.ru
The Volgograd Regional Branch Reg. No. 3349/46 as of October 4, 2001	1B Barrikadnaya St., Volgograd, Russia, 400047 Tel/Fax: +7 (8442) 96-23-00, 96-23-01 E-mail: mail@volg.rshb.ru
The Vologda Regional Branch Reg. No. 3349/50 as of January 11, 2002	4 Petina St., Vologda, Russia, 160002 Tel/Fax: +7 (8172) 53-33-05, 53-61-02 E-mail: info@vologda.rshb.ru
The Voronezh Regional Branch Reg. No. 3349/14 as of September 29, 2000	19b Moskovsky Ave., the Kominternovsky District, Voronezh, Russia, 394016 Tel/Fax: +7 (4732) 69-71-71, 46-21-72 E-mail: vrf@vrn.rshb.ru
The Yakutsk Regional Branch Reg. No. 3349/60 as of February 11, 2003	12 Pushkina St., Yakutsk, Russia, 677000 Tel/Fax: +7 (4112) 40-21-01 E-mail: office@yakutia.rshb.ru
The Yaroslavl Regional Branch Reg. No. 3349/61 as of June 11, 2003	28a Pobedy St., Yaroslavl, Russia, 150040 Tel/Fax: +7 (4852) 30-16-19, 32-12-44 E-mail: dir@yar.rshb.ru

13. Contact and Payment Details

Russian Agricultural Bank Details

Full Name	Russian Agricultural Bank
Legal Form	Open Joint Stock Company
General Banking License	No. 3349 dated July 11, 2012
Registration Details	Central Bank of the Russian Federation, dated April 24, 2000, Moscow, Russia
Registered Number	1027700342890
Regulatory / Supervisory Authority	Central Bank of the Russian Federation
Legal Address	3 Gagarinsky Pereulok, Moscow, Russia, 119034
Tel	+ 7 (495) 787-7787
E-mail	office@rshb.ru
Website	www.rshb.ru, www.rusagrobank.com

International Contacts

Address	1 Arbat Street, Moscow, Russia, 119019
Tel/Fax	+7 (495) 363-0653
E-mail	**Investor Relations** IR_RusAgroBank@rshb.ru **Financial Institutions** fininst@rshb.ru **Structured and Trade Finance** exterfin@rshb.ru

Account Details

Account with The Central Bank of the Russian Federation Main Branch for the Central Federal District, Moscow	30101810200000000111
Tax Identification Number (TIN) / KPP	7725114488 / 997950001
BIC	044525111
OKPO Code	52750822
OKONKH Code	96120
OKOGU	15001
OKATO Code	45286590000
OKFS	12
OGRN	1027700342890
OKVED	65.12
OKOPF	47
Telex	485493 RSB RU
SWIFT	RUAG RU MM

14. Licenses and Certificates

Licenses:

- General license for banking operations No. 3349 (issued by the Central Bank of the Russian Federation, July 11, 2012);
- License for brokerage activity (issued by the Russian Federal Service for Financial Markets, May 19, 2005, No. 007-08455-100000);
- License for dealing operations (issued by the Russian Federal Service for Financial Markets, May 19, 2005, No. 007-08456-010000);
- License for depositary operations (issued by the Russian Federal Service for Financial Markets, May 19, 2005, No. 007-08461-000100);
- License as a stock market agent for concluding commodity futures and options stock trading transactions (issued by the Russian Federal Service for Financial Markets, November 17, 2009, No. 1473);
- License for attracting deposits and placing precious metals (issued by the Central Bank of the Russian Federation, April 17, 2013, No. 3349);
- License for the development, production, and distribution of encryption (cryptographic) facilities, information and telecommunication systems, which are protected by encryption (cryptographic) facilities, for work and services in data encryption, technical support services for encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities (except where the technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, are performed for the own needs of the legal entity or the individual entrepreneur) (issued by the Center of the Federal Security Service of the Russian Federation for Licensing, Certifying and Protecting State Secrets, April 11, 2013, No. 12810H).
- Certificate of completion by Russian Agricultural Bank OJSC of verification procedures for compliance with the Payment Card Industry Data Security Standard (PCI DSS) (issued by ZAO "NVision Group," QSA auditor, certified by the Payment Card Industry Security Standards Council (PCI SSC) February 21, 2014).

Certificates:

- Certificate of State registration of a credit organization, Registration No. 3349 (issued by the Bank of Russia, April 24, 2000);
- Certificate of the Bank's inclusion in the State Register of banks-participants in the obligatory deposit insurance system (issued by the State Agency for Deposit Insurance, March 14, 2005, No. 760);
- Certificate of registration of the legal entity by the tax authority (issued by the Russian Ministry of Taxation, February 8, 2001);
- Certificate of registration in the Unified State Register of Legal Entities (issued by the Russian Ministry of Taxation, October 22, 2002);
- Insurance certificate (issued by the Social Insurance Fund of the Russian Federation, March 14, 2001);
- Certificate of registration in the Municipal Register of Enterprises of the city of Moscow (issued by the Moscow Registration Chamber, May 18, 2000, No. 002.003.381);
- Certificate of a change in legal address (issued by the Federal Tax Service, December 25, 2008).