Audit report
on the financial statements of
OOO UBS Bank
for the year ended 31 December 2014

April 2015

Translation from the original in the Russian language

Translation of the original Russian version

Contents

Independent auditor's report

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To the Participant and the Board of Directors of OOO UBS Bank

Report on the financial statements

We have audited the accompanying financial statements of OOO UBS Bank (the "Bank"), which consist of the statement of financial position as of 31 December 2014, and the statement of of profit or loss and other comprehensive income, of changes in net assets attributable to the participant and of cash flows for 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

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

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

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

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

Opinion

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

Report on the results of the work in accordance with the requirements of Article 42 of Federal Law No. 395-1

***Concerning Banks and Banking Activity* of 2 December 1990**

The management of the Bank is responsible for the Bank's compliance with the obligatory ratios established by the Bank of Russia and for the conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2014, we determined:

1) Whether the Bank complies as at 1 January 2015 with the obligatory ratios established by the Bank of Russia;

2) Whether the Bank's internal control and organization of the risk management systems conform to the requirements set forth by the Bank of Russia for such systems in respect of the following:

    - subordination of risk management departments;
    - existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - Oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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This work included the procedures selected on the basis of our judgment, such as inquiries, analysis, review of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and recalculation, comparison and reconciliation of numerical values and other information.

The results of our work are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of obligatory ratios of the Bank as of 1 January 2015 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of the Bank's accounting data, except for the procedures we considered necessary for expressing our opinion on the fair presentation of the Bank's financial statements.

Conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2014, the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- We found that the Bank's internal documents effective as at 31 December 2014 that establish the methodologies for detecting and managing credit, market, operational and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2014, the Bank has a reporting system pertaining to credit, market, operational and liquidity risks that are significant to the Bank and pertaining to its capital.
- We found that the periodicity and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2014 with regard to the management of the Bank's credit, market, operational and liquidity risks complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of the Bank's relevant risk management methodologies.
- We found that, as at 31 December 2014, the authority of the Board of Directors and executive management bodies of the Bank included control over the Bank's compliance with internally established risk limits and capital adequacy requirements. For the purposes of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2014, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purposes of determining the conformity of certain elements of the Bank's internal control and organization of risk management systems, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

T.L. KOZLOVA
Director
Ernst & Young LLC

29 April 2015

Details of the audited entity

Name: OOO UBS Bank
Record made in the State Register of Legal Entities on 9 March 2006;
Main State Registration Number 1067711001863.
Address: 115054, Russia, Moscow, Paveletskaya square, 2, building 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002;
Main State Registration Number 1027739707203.
Address: 115035, Russia, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated Organization of Auditors Non-profit Partnership "Russian Audit Chamber" ("SRO NP APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Statement of financial position

As of 31 December 2014

(Thousands of Russian rubles)

	Note	*31 December 2014*	*31 December 2013*
Assets			
Cash and cash equivalents	5	3,992,972	4,746,300
Obligatory reserves with the Central Bank of the Russian Federation		77,049	97,565
Amounts due from clearing institutions	6	304,217	12,889
Loans to customers	7	–	450,080
Property and equipment and intangible assets	8	146,798	111,877
Current income tax assets	9	90,507	90,507
Other assets	10	222,678	168,496
Total assets		**4,834,221**	**5,677,714**
Liabilities			
Amounts due to credit institutions	11	24,360	1,310,464
Amounts due to customers	12	690,070	315,432
Other liabilities	10	769,023	320,503
Total liabilities		**1,483,453**	**1,946,399**
Net assets attributable to the participant			
Share capital	13	3,450,000	3,450,000
Additional paid-in capital		1,742,018	1,404,510
Accumulated loss		(1,841,250)	(1,123,195)
Total net assets attributable to the participant		**3,350,768**	**3,731,315**
Total liabilities		**4,834,221**	**5,677,714**

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

Chairman of the Management Board E.B. Titova

Chief Accountant O.N. Rubashko

29 April 2015

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

(Thousands of Russian rubles)

	Note	*2014*	*2013*
Interest income			
Cash and cash equivalents		940	813
Amounts due from other banks		267,551	239,351
		268,491	**240,164**
Trading securities		–	48,217
		268,491	**288,381**
Interest expense			
Amounts due to customers		–	(590)
Amounts due to credit institutions		(485)	(77,555)
		(485)	**(78,145)**
Net interest income		**268,004**	**210,236**
Net fee and commission income/(expense)	15	104,629	(14,007)
Net losses from trading securities		–	(46,563)
Net (losses)/gains from foreign currencies:			
- dealing		56,231	287,915
- translation differences		(44,618)	(227,031)
Income from consulting services and other income		731,225	331,627
Non-interest income		**847,467**	**331,941**
Personnel expenses	16	(1,387,594)	(808,171)
Depreciation and amortization	8	(38,518)	(3,498)
Other operating expenses	16	(407,416)	(261,433)
Gain on sale of property and equipment		–	749
Non-interest expense		**(1,833,528)**	**(1,072,353)**
Loss before income tax		**(718,055)**	**(530,176)**
Income tax expense	9	–	(48,142)
Loss for the year		**(718,055)**	**(578,318)**
Other comprehensive income		**–**	**–**
Total comprehensive loss for the year		**(718,055)**	**(578,318)**

Statement of changes in net assets attributable to the participant

For the year ended 31 December 2014

(Thousands of Russian rubles)

	Note	*Share capital*	*Additional paid-in capital*	*Accumulated loss*	*Net assets attributable to the participant*
31 December 2012		**3,450,000**	**925,851**	**(544,877)**	**3,830,974**
Loss for the year		–	–	(578,318)	**(578,318)**
Other comprehensive income for the year		–	–	–	**–**
Total comprehensive loss for the year		**–**	**–**	**(578,318)**	**(578,318)**
Pecuniary aid	13	–	478,659	–	**478,659**
31 December 2013		**3,450,000**	**1,404,510**	**(1,123,195)**	**3,731,315**
Loss for the year		–	–	(718,055)	**(718,055)**
Other comprehensive income for the year		–	–	–	**–**
Total comprehensive loss for the year		**–**	**–**	**(718,055)**	**(718,055)**
Pecuniary aid	13	–	337,508	–	**337,508**
31 December 2014		**3,450,000**	**1,742,018**	**(1,841,250)**	**3,350,768**

The accompanying notes on pages 11 to 40 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2014

(Thousands of Russian rubles)

	Note	*2014*	*2013*
Cash flows from operating activities			
Interest received		268,411	295,693
Interest paid		(485)	(80,572)
Fees and commissions received		109,519	4,981
Fees and commissions paid		(4,890)	(18,988)
Gains less losses from trading securities		–	(47,995)
Realized gains less losses from dealing in foreign currencies		52,533	239,377
Other income received		731,225	331,627
Personnel expenses paid		(976,496)	(720,206)
Other operating expenses paid		(400,355)	(441,261)
Cash flows used in operating activities before changes in operating assets and liabilities		**(220,538)**	**(437,344)**
Net (increase)/decrease in operating assets			
Trading securities		–	277,469
Amounts due from clearing institutions and obligatory reserves with the Central Bank of the Russian Federation		(270,812)	(21,650)
Loans to customers		450,160	(450,000)
Other assets		(45,423)	(101,659)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(1,434,629)	(2,764,265)
Amounts due to customers		282,231	(910,461)
Other liabilities		44,906	191,083
Net cash flows used in operating activities before income tax		**(1,194,105)**	**(4,216,827)**
Income tax paid		–	(3,616)
Net cash used in operating activities		**(1,194,105)**	**(4,220,443)**
Cash flows from investing activities			
Purchase of property and equipment	8	(86,831)	(85,352)
Proceeds from sale of property and equipment		–	884
Net cash used in investing activities		**(86,831)**	**(84,468)**
Cash flows from financing activities			
Pecuniary aid from the participant	13	337,508	478,659
Net cash from financing activities		**337,508**	**478,659**
Effect of exchange rates changes on cash and cash equivalents		190,100	86,881
Net decrease in cash and cash equivalents		**(753,328)**	**(3,739,371)**
Cash and cash equivalents, beginning		**4,746,300**	**8,485,671**
Cash and cash equivalents, ending	5	**3,992,972**	**4,746,300**

(In thousands of Russian rubles, unless otherwise indicated)

1. Principal activities

OOO UBS Bank (hereinafter, the “Bank”) was established on 22 July 2005 as a Limited Liability Company under the laws of the Russian Federation.

The Bank operates under banking license No. 3463 issued by the Central Bank of Russia (“CBR”) on 6 June 2006.

The Bank holds license No. 3463 issued by the Bank of Russia on 4 August 2010 for accepting public deposits denominated in Russian rubles and foreign currency.

The Bank also possesses licenses of a professional participant of the securities market issued by the Federal Service for the Securities Market:

- for custody services No. 177-12414-000100 dated 30 July 2009 − unlimited;
- for brokerage services No. 177-12405-100000 dated 30 July 2009 − unlimited;
- for dealing services No. 177-12408-010000 dated 30 July 2009 − unlimited.

Since August 2010, the Bank has been a member of the obligatory individual deposit insurance system applied to individual deposits with Russian banks and is included in the register of the banks participating in this system under registration number 982.

The Bank’s strategic development area for 2014 was further consolidation of efforts aimed at the provision of integrated financial services.

In 2014, the following changes occurred in the Bank’s Management Board: Goldfinch Paul Andrew left the Management Board of the Bank. Titova Elena Borisovna was appointed to the post of the Chairman of the Management Board of the Bank.

As of 31 December 2014 and 2013, the Bank did not have its own credit ratings.

The Bank has no branches and affiliates. As of 31 December 2014, the actual headcount of the Bank was 113 employees (31 December 2013: 95 employees).

The Bank’s registered address and principal place of business is 2/2 Paveletskaya Square, Moscow, 115054, Russia.

As of 31 December 2014 and 2013, UBS AG, the sole participant of the Bank, owned 100% of the Bank’s share capital.

UBS AG is the ultimate parent of the Bank, incorporated and operating under the Swiss laws. The Bank conducts its activities and determines range of transactions, pricing policy and risk assessment techniques in compliance with the parent’s requirements.

2. Basis of preparation

General

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

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

The financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below.

These financial statements are presented in thousands of Russian rubles (“RUB”), unless otherwise indicated.

(In thousands of Russian rubles, unless otherwise indicated)

2. Basis of preparation (continued)

Reconciliation of RAL and IFRS equity (net assets attributable to the participant) and loss for the year

Equity (net assets attributable to the participant) and profit/(loss) for the year are reconciled between RAL and IFRS as follows:

	31 December 2014		*31 December 2013*	
	Equity (net assets attributable to the participant)	*Profit/(loss) for the year*	*Equity (net assets attributable to the participant)*	*Loss for the year*
Russian Accounting Legislation	**4,031,281**	**82,293**	**3,948,985**	**(56,042)**
Bonuses accrued	(668,905)	(412,757)	(256,148)	(91,201)
Pecuniary aid	–	(337,508)	–	(478,659)
Audit fees accrued	(5,842)	(2,441)	(3,401)	(177)
Recognition of and accounting for property and equipment	15,751	727	15,024	16,214
Fair value revaluation of securities	–	–	–	579
Fair value revaluation of derivative assets and liabilities	–	–	–	46,560
Deferred tax	–	–	–	(43,005)
Income tax	–	–	–	–
Other	(21,517)	(48,369)	26,855	27,413
International Financial Reporting Standards	**3,350,768**	**(718,055)**	**3,731,315**	**(578,318)**

Changes in presentation

Due to changes in presentation of amounts due from clearing institutions in the current period, the presentation of comparative information was adjusted. The effect of changes on the statement of financial position and respective notes as of 31 December 2013 is presented below:

	Previously recognized amounts	*Effect of reclassification*	*As adjusted*
Cash and cash equivalents	4,751,557	(5,257)	4,746,300
Amounts due from other banks	7,632	(7,632)	–
Amounts due from clearing institutions	–	12,889	12,889

3. Summary of accounting policies

Changes in accounting policy

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on 1 January 2014:

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

IFRIC Interpretation 21 Levies

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

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

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when these assets are derecognized or impaired, as well as through the amortization process.

Fair value measurement

The Bank measures financial instruments, such as trading securities and derivatives, at fair value at each reporting date.

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Obligatory reserves with the Central Bank of the Russian Federation

Obligatory reserves with the Central Bank of the Russian Federation are the deposits with the CBR which may not be withdrawn by the Bank to finance its day-to-day operations. Credit institutions are required to maintain a non-interest earning deposit (as contributions to the obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. Those contributions are not included in cash and cash equivalents as such deposit withdrawal is significantly restricted by the statutory legislation.

Derivative financial instruments

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

Borrowings

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

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

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

Amounts due from other banks

For amounts due from credit institutions carried at amortized cost, the Bank assesses individually whether objective evidence of impairment exists.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If amounts due from credit institutions have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Russia also has various operating taxes that are applicable to the Bank's activities. These taxes are included in other operating expenses.

Property and equipment and intangible assets

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

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Property and equipment and intangible assets (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office equipment	2-6
Computers and office appliances	3-4
Telecommunication equipment	3-4
Computer software	3-4
Motor vehicles	3-4

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

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

Expenditures incurred in developing or upgrading computer software are recognized as an asset when the related software meets the identifiability criterion and it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Internally developed software that meets the above criteria, and acquired software is classified into the "Computer Software" category.

Provisions

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

Retirement and other employee benefit obligations

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

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

Fees earned for the provision of services over a certain period of time are accrued over that period.

- *Fee and commission income from providing transaction services*

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of comprehensive income as net (losses)/gains arising from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of transactions in a foreign currency and the Central Bank exchange rate on the date of the transactions are included in gains less losses from dealing in foreign currencies.

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

Future changes in accounting policies

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt with by the respective standards.

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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

IFRS 14 Regulatory Deferral Accounts

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

Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

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

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

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

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

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

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

Equity Method in Separate Financial Statements – Amendments to IAS 27

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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

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

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

Short-term Receivables and Payables – Amendments to IFRS 13

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

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

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual improvements 2012-2014 Cycle

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

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 early application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

(In thousands of Russian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (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 is effective for annual periods beginning on or after 1 January 2016, with early 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 is effective for annual periods beginning on or after 1 January 2016, with early 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 early application permitted.

4. Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities and the present values of assets and liabilities in the following financial year. Estimates and professional judgments are continuously 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.

Judgments

In the process of applying the Bank’s accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recorded in the financial statements:

Taxation

A significant part of the Bank’s business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is subject to varying interpretations, selective and inconsistent application and changes which can occur frequently and at short notice. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events in the Russian Federation suggest that the tax authorities may be taking an assertive approach in their interpretation and application of various provisions of this legislation and performing tax audits. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and fines may be assessed by the relevant authorities. Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year in which the tax audit decision was made by the tax authorities. Under certain circumstances, tax reviews may cover longer periods.

(In thousands of Russian rubles, unless otherwise indicated)

4. Significant accounting judgments and estimates (continued)

Taxation (continued)

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows Russian tax authorities to apply tax base adjustments and assess additional corporate and individual income tax and value added tax in respect of all “controlled” transactions, if the transaction price is different from the range of market prices. The list of “controlled” transactions includes transactions between related parties and certain types of transactions between unrelated parties that are deemed “controlled” transactions. These rules are applied not only to transactions made in 2013, but also to the transactions made in previous tax periods, if corresponding gains and losses were recognized in 2013 (except for certain types of transactions).

In 2014, the Bank determined its tax liabilities arising from “controlled” transactions based on actual transaction prices. Management believes that the Bank fully complies with transfer pricing rules, and prices applied in “controlled” transactions in 2014 are consistent with market prices. The Bank will submit a duly executed notification on “controlled” transactions to the Russian tax authorities within terms specified by the Tax Code of the Russian Federation and prepare respective documentation on transfer pricing with regard to “controlled” transactions.

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

Deferred tax asset recognition

A deferred tax asset is recorded only to the extent that the realization of the related tax credit is probable. Future taxable income and tax credit, which are likely to arise in the future, are determined based on the management’s expectations deemed reasonable under the current circumstances. In 2014, the Bank decided not to recognize a deferred tax asset, as the Bank’s management does not have a reliable estimation of future taxable income and the amount of tax credit.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2014	*31 December 2013*
Cash on hand	530	111
Current accounts with the CBR (other than obligatory reserves)	1,844	100,077
Current accounts with other credit institutions		
- Russian Federation	171	262
- other countries	3,427	124,683
Settlement accounts with trading systems	–	1,309,167
Time deposits with credit institutions up to 90 days in other countries	3,987,000	3,212,000
Total cash and cash equivalents	**3,992,972**	**4,746,300**

Current accounts with the CBR include deposits with the CBR placed to effectuate current settlements and other operations.

As of 31 December 2014, balances on current accounts with banks in other countries comprise balances on current accounts with the parent bank in the amount of RUB 3,427 thousand (2013: RUB 124,683 thousand) (Note 19).

As of 31 December 2014, RUB 3,987,000 thousand (2013: RUB 3,212,000 thousand) was placed as RUB-denominated short-term deposits with the parent bank (Note 19).

6. Amounts due from clearing institutions

As of 31 December 2014, amounts due from clearing institutions of RUB 304,217 thousand (2013: RUB 12,889 thousand) comprise funds placed on accounts with trading systems as amounts due to customers and bidding security.

(In thousands of Russian rubles, unless otherwise indicated)

7. Loans to customers

As of 31 December 2013, the respective balance representing a RUB-denominated loan provided to a company under common control and repaid on 9 January 2014 was RUB 450,080 thousand (Note 19).

8. Property and equipment and intangible assets

Movements in property and equipment and intangible assets were as follows:

	Office equipment	*Computers and office appliances*	*Telecom-munication equipment*	*Computer software*	*Motor vehicles*	*Total*
Cost						
31 December 2012	**17,994**	**13,717**	**710**	**21,669**	**9,155**	**63,245**
Additions	–	27,205	–	81,284	–	**108,489**
Disposals	–	(1,652)	–	–	(2,993)	**(4,645)**
31 December 2013	**17,994**	**39,270**	**710**	**102,953**	**6,162**	**167,089**
Additions	411	17,641	–	54,087	1,300	**73,439**
31 December 2014	**18,405**	**56,911**	**710**	**157,040**	**7,462**	**240,528**
Depreciation						
31 December 2012	**(15,773)**	**(9,052)**	**(710)**	**(21,669)**	**(9,155)**	**(56,359)**
Depreciation charge	(1,003)	(2,495)	–	–	–	**(3,498)**
Disposals	–	1,652	–	–	2,993	**4,645**
31 December 2013	**(16,776)**	**(9,895)**	**(710)**	**(21,669)**	**(6,162)**	**(55,212)**
Depreciation charge	(515)	(9,160)	–	(28,681)	(162)	**(38,518)**
31 December 2014	**(17,291)**	**(19,055)**	**(710)**	**(50,350)**	**(6,324)**	**(93,730)**
Net book value						
31 December 2013	**1,218**	**29,375**	**–**	**81,284**	**–**	**111,877**
31 December 2014	**1,114**	**37,856**	**–**	**106,690**	**563**	**146,798**

In 2014, the Bank recognized an intangible asset representing a new software required to improve the efficiency of many units of the Bank, which was developed with the participation of a large Russian company specializing in the development of software for the banking sector, within computer software. In 2014, the total amount of capitalized costs related to the development of this software amounted to RUB 54,087 thousand (2013: RUB 81,284 thousand), of which RUB 9,745 thousand represent the amount payable under the contract (2013: RUB 23,137 thousand).

The Bank started to use previously mentioned software in 2013.

As of 31 December 2014, fully depreciated property and equipment amounted to RUB 50,956 thousand (2013: RUB 46,707 thousand).

9. Taxation

The income tax expense comprises:

	2014	*2013*
Current tax expense	–	5,137
Deferred tax expense – origination and reversal of temporary differences	–	43,005
Income tax expense	**–**	**48,142**

Russian legal entities must file individual tax declarations. The income tax rate for companies (including banks) was 20% for 2014 and 2013. In 2014 and 2013, the corporate income tax rate applicable to interest (coupon) income on state bonds and mortgage-backed bonds was 15%, while the corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which can be reduced to 0% subject to certain criteria.

As of 31 December 2014, income tax overpayment amounted to RUB 90,507 thousand (2013: RUB 90,507 thousand).

(In thousands of Russian rubles, unless otherwise indicated)

9. Taxation (continued)

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

	2014	*2013*
Loss before tax	**(718,055)**	**(530,176)**
Statutory tax rate	20%	20%
Theoretical income tax benefit at the statutory rate	**143,611**	**106,035**
Adjustments to financial results from securities	–	(393)
Interest (coupon) income on state securities taxed at different rates	–	1,206
Non-deductible expenditures	(2,568)	(12,308)
Change in unrecognized deferred tax assets/liabilities	(141,116)	(141,116)
Current tax expense (adjustment to prior year)	–	1,521
Other permanent differences	73	(3,087)
Income tax expense	**–**	**(48,142)**

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

	31 December 2012	*Origination and reversal of temporary differences in the statement of comprehensive income*	*31 December 2013*	*Origination and reversal of temporary differences in the statement of comprehensive income*	*31 December 2014*
Tax effect of deductible temporary differences					
Tax loss carried forward	104,340	91,159	195,499	50,870	246,369
Accrued employee bonuses	32,989	18,241	51,230	82,551	133,781
Fair value measurement of securities	292	(292)	–	–	–
Fair value measurement of derivative financial assets	9,312	(9,312)	–	–	–
Property and equipment	238	(238)	–	–	–
Other temporary differences	174	16,654	16,828	2,084	18,912
Deferred tax assets	**147,345**	**116,212**	**263,557**	**135,505**	**399,062**
Unrecognized deferred tax assets	(104,340)	(159,217)	(263,557)	(135,505)	(399,062)
Deferred tax asset, net	**43,005**	**(43,005)**	**–**	**–**	**–**
Tax effect of taxable temporary differences:					
Fair value measurement of securities	–	–	–	–	–
Property and equipment	–	(18,101)	(18,101)	5,549	(12,552)
Fair value measurement of derivative financial assets	–	–	–	–	–
Deferred tax liability	**–**	**(18,101)**	**(18,101)**	**5,549**	**(12,552)**
Unrecognized deferred tax liabilities	–	18,101	18,101	(5,549)	12,552
Deferred tax liability, net	**–**	**–**	**–**	**–**	**–**

As of 31 December 2014, the Bank's tax losses to be carried forward to future tax periods amount to RUB 1,231,844 thousand (2013: RUB 977,494 thousand). Such tax losses are allowed to be carried forward within a 10-year period from the end of the tax period in which such losses were incurred.

(In thousands of Russian rubles, unless otherwise indicated)

10. Other assets and liabilities

Other assets comprise:

	31 December 2014	*31 December 2013*
Settlements on information and advisory services	106,060	152,594
Prepayments	52,162	3,057
Guarantee deposit	39,506	–
Settlements with suppliers	18,752	9,376
Spot deals	3,698	–
Advances issued	2,253	2,538
Prepaid taxes other than income tax	247	909
Settlements on custody services	–	22
Total other assets	**222,678**	**168,496**

As of 31 December 2014, cash which represents a collateral transferred to ensure that the Bank will fulfill its obligations under the lease agreement was recorded within guarantee deposit and is subject to refund upon the expiration of the agreement (the year 2020). Lease payments and other amounts due pursuant to the agreement may be withheld from the collateral. In December 2014, these funds were transferred to ENKA in accordance with the lease agreement specifying the lease of office in the building located at the address: 2/2 Paveletskaya Square, Moscow.

Other liabilities comprise:

	31 December 2014	*31 December 2013*
Settlements with employees on year-end bonuses, unused vacation and accountable amounts	596,361	245,703
Taxes payable other than income tax	137,880	48,486
Settlements for software development	9,745	23,137
Audit fees	5,842	1,699
Settlements on other operations	19,195	1,478
Total other liabilities	**769,023**	**320,503**

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2014	*31 December 2013*
Settlements on corporate cards	–	1,296
Term deposits and loans	24,360	1,309,168
Amounts due to credit institutions	**24,360**	**1,310,464**

As of 31 December 2014, the Bank received an equivalent of RUB 22,504 thousand in US dollars from the parent bank with date of maturity 12 January 2015 (31 December 2013: RUB 1,309,168 thousand) (Note 19).

12. Amounts due to customers

Amounts due to customers comprise:

	31 December 2014	*31 December 2013*
Corporate customers		
- current/settlement accounts	688,905	308,226
Individuals		
- current/settlement accounts	1,165	7,206
Amounts due to customers	**690,070**	**315,432**

(In thousands of Russian rubles, unless otherwise indicated)

12. Amounts due to customers (continued)

As of 31 December 2014, included in current accounts of corporate customers are amounts due to companies related to the Bank in the amount of RUB 688,905 thousand (99.8% of total amounts due to customers) (2013: RUB 308,226 thousand (97.7% of total amounts due to customers) (see Note 19).

As of 31 December 2014, included in current accounts of individuals are balances of RUB 1,165 thousand with the Bank.

In 2014, current/settlement accounts of individuals do not comprise amounts in the accounts opened by members of key management personnel (31 December 2013: amounts of RUB 6,528 thousand (91% of total amounts due to customers), in the current accounts opened by a member of key management personnel).

13. Net assets attributable to the participant

The Bank was founded as a limited liability company with a sole participant. As of 31 December 2014, the share capital of the Bank amounted to RUB 3,450,000 thousand (2013: RUB 3,450,000 thousand) comprising one share contributed by UBS AG. The latest increase in the share capital in the amount of RUB 2,200,000 thousand was made in November 2011. The funds were contributed by the Bank's sole participant UBS AG that owns 100% of the share capital. All changes to the charter documents were duly registered.

In 2014, the Bank received pecuniary aid from the parent bank in the amount of RUB 337,508 thousand (2013: RUB 478,659 thousand). The funds were not registered as an increase in the share capital.

In accordance with the Bank's charter, withdrawal of participant from the Bank resulting in the Bank having no members as well as withdrawal of the Bank's sole participant is not permitted.

14. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by 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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth and availability of financing and cost of capital, which could negatively affect the Bank's financial position, results of operations and business prospects.

Decline in energy prices through 2014 and international sanctions against Russian entities and individuals due to recent events in Crimea and Ukraine resulted in weakening of the Russian ruble, which, in its turn, caused increased inflation that amounted to 11.4% for 2014 and drop in the household income and economic and political instability. Geopolitical tension and sectoral sanctions sped up capital outflow, further hampered investing activities and deprived Russia of access to external financial markets. Thus, Russian entities are forced to borrow on the internal financial market, this results in growing demand for loans and simultaneously causes liquidity problems in the banking sector.

In mid-December 2014, the Russian ruble depreciated sharply against major global currencies. As of 31 December 2014, the CBR exchange rate was RUB 56.2584 to 1 USD (31 December 2013: RUB 32.7292) and RUB 68.3427 to 1 EUR (31 December 2013: RUB 44.9699). Since 16 December 2014 the CBR has increased the key interest rate from 10.5% to 17%.

A crisis of confidence with irregular liquidity distribution occurred in the internal inter-bank market and resulted in increase in the interest rates of loans denominated in RUB, illustrated with the increase of Mosprime 3m from 14.8% in mid-December 2014 to 24.2% at the end of December 2014.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

(In thousands of Russian rubles, unless otherwise indicated)

14. Commitments and contingencies (continued)

Commitments and contingencies

As of 31 December, the Bank's commitments and contingencies comprised:

	Note	*31 December 2014*	*31 December 2013*
Credit-related commitments			
Undrawn loan commitments		–	500,000
		–	**500,000**
Operating lease commitments			
Up to1 year	17	107,827	92,357
		107,827	**92,357**
Commitments and contingencies		**107,827**	**592,357**

In 2006, the Bank entered into an office sublease agreement with a related party. The agreement had a term of one year renewable upon mutual consent of the parties. The agreement was renewed for one year in November 2007 and in the subsequent years including November 2013. In 2014, pursuant to the assignment agreement, the Bank was given a lease agreement for office premises. Pursuant to the assignment agreement, the Bank transferred cash as a collateral designated to ensure that the Bank will fulfill its obligations under the lease agreement, this cash is subject to refund upon the expiration of the agreement. Lease payments and other amounts due pursuant to the agreement may be withheld from the collateral.

In 2014, the Bank recognized lease expenses in the amount of RUB 113,828 thousand within other operating expenses in the statement of profit or loss and other comprehensive income (2013: RUB 79,969 thousand).

15. Net fee and commission income/expense

Net fee and commission income/expense comprises:

	2014	*2013*
Depository	1,033	3,110
Execution of transaction passports	719	1,640
Settlement operations	189	231
Securities operations	107,579	–
Fee and commission income	**109,520**	**4,981**
Foreign currency operations	(2,290)	(10,172)
Settlement operations	(1,920)	(7,967)
Depository	(614)	(658)
Other	(67)	(191)
Fee and commission expense	**(4,891)**	**(18,988)**
Net fee and commission income/(expense)	**104,629**	**(14,007)**

(In thousands of Russian rubles, unless otherwise indicated)

16. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	2014	*2013*
Salaries and bonuses	1,215,154	706,052
Social security costs	158,890	73,853
Other	13,550	28,266
Salaries and other benefits	**1,387,594**	**808,171**
Occupancy and rent	131,696	94,034
Outsourcing	60,432	37,269
Operating taxes	49,180	37,002
Business travel and related expenses	26,837	15,721
Losses on initial recognition on guarantee deposit	18,824	–
Computer software	14,527	7,102
Recruitment	18,556	4,161
Information services	15,410	12,557
Office appliances repair and maintenance	15,181	8,308
Communications	10,112	8,044
Entertainment	9,137	8,909
Audit services	5,462	2,957
Transportation expenses	4,769	4,854
Office supplies	4,218	3,299
Lease, repair, insurance and maintenance of vehicles	3,923	2,201
Translation and interpreting	2,848	3,199
Legal and consultancy	2,602	752
Periodicals	730	743
Post and courier services	433	468
Penalties	399	93
Charity	–	710
Other	12,140	9,050
Other operating expenses	**407,416**	**261,433**

17. Risk management

Introduction

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

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board is responsible for monitoring the overall risk process within the Bank.

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Introduction (continued)

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk management issues and monitors relevant risk decisions.

Risk controlling

The Risk Controlling Unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Risk Controlling Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using models which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from past experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed on the basis of limits established by the Bank. These limits reflect the business strategy and market environment of the Bank. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks early. This information is presented and explained to the Management Board, Credit Risk Department and heads of business units concerned. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. Reporting of industry risks takes place on a regular basis. Senior management regularly assesses the appropriateness of the allowance for credit losses. The Management Board receives a risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies.

Excessive risk concentration

Concentrations occur when a number of counterparties are engaged in similar business activities, or their activities in the same geographic region, or have similar economic characteristics, and as a result of changes in economic, political or other conditions have a similar effect on the ability to meet contractual obligations. Concentrations indicate the relative sensitivity of the Bank to changes in conditions which affect to a particular industry or geographic region.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on diversification of asset allocation. Identified concentrations of risks are managed accordingly.

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank continuously monitors credit risks and limits on risks set for different counterparties.

The Bank has traditionally been utterly prudent in setting its risk management policy. Credit risk accepted by the Bank in transactions arises primarily from interbank loans and placements on nostro accounts. The Bank takes a conservative position when placing temporarily available funds and chooses the CBR for placements in Russian rubles and UBS AG for placements in foreign currencies as correspondent banks.

When participating in the interbank lending market, the Bank is to strictly comply with the limits set and approved by the credit risk department of UBS AG Group and the Bank's Credit Committee. The Bank set the limits for counterparty banks, either representing subsidiaries of foreign financial organizations or having strong individual credit ratings affirmed by international rating agencies. Besides, the Bank has set limits for many counterparties under reverse repo agreements and foreign exchange transactions for a period of up to one year. The Bank may not enter into transactions (unless fully prepaid) with counterparties (except for UBS AG) for which no limits have been set. In addition to concentration risks, the Bank limits portfolio risks by monitoring sensitivity of change in aggregate position to interest rates on assets and liabilities.

Conversion transactions and foreign currency transactions are conducted mainly at MICEX and with UBS AG. Transactions with other counterparties are conducted only if there is a corresponding limit available and strictly within such limit. The Bank does not accept currency risk arising from foreign currencies other than US dollar − all conversion transactions involving other currencies are fully hedged via UBS AG. The Bank limits aggregate currency risk exposure by monitoring sensitivity of change in position to volatility of currency pairs in which assets and liabilities are denominated.

Derivative financial instruments

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

Credit quality per class of financial assets

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

In the table below due from credit institutions with high ratings represents funds with minimal credit risk, generally having a credit rating close to the sovereign. Other borrowers with good financial position and good debt service are included in loans with standard rating. Rating below standard implies a lower than standard credit quality, but loans are included in this category are not individually impaired.

		Neither past due nor impaired			
	Notes	***High rating 31 December 2014***	***Standard rating 31 December 2014***	***Sub-standard rating 31 December 2014***	***Total 2014***
Cash and cash equivalents	5	3,992,442	–	–	**3,992,442**
Obligatory reserves with the Central Bank of the Russian Federation		77,049	–	–	**77,049**
Amounts due from clearing institutions	6	304,217			**304,217**
Loans to customers	7	–	–	–	**–**
Other assets	10	110,005	112,673	–	**222,678**
Total		**4,473,713**	**112,673**	**–**	**4,596,386**

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Credit risk (continued)

		Neither past due nor impaired			
	Notes	***High rating 31 December 2013***	***Standard rating 31 December 2013***	***Sub-standard rating 31 December 2013***	***Total 31 December 2013***
Cash and cash equivalents	5	4,746,189	–	–	**4,746,189**
Obligatory reserves with the Central Bank of the Russian Federation		97,565	–	–	**97,565**
Amounts due from clearing institutions	6	12,889			**12,889**
Loans to customers	7	450,080	–	–	**450,080**
Other assets	10	153,503	14,993	–	**168,496**
Total		**5,460,226**	**14,993**	**–**	**5,475,219**

According to its policy, the Bank must carefully and consistently assign risk ratings to counterparties. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics methods, combined with processed market information, to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are determined in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Geographical concentration

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	31 December 2014			
	Russia	***OECD***	***Other countries***	***Total***
Assets				
Cash and cash equivalents	2,545	3,990,427	–	**3,992,972**
Obligatory reserves with the Central Bank of the Russian Federation	77,049	–	–	**77,049**
Amounts due from clearing institutions	304,217	–	–	**304,217**
Current income tax assets	90,507	–	–	**90,507**
Other assets	9,933	110,823	101,922	**222,678**
	484,251	**4,101,250**	**101,922**	**4,687,423**
Liabilities				
Amounts due to credit institutions	1,856	22,504	–	**24,360**
Amounts due to customers	5,712	660,685	23,673	**690,070**
Other liabilities	769,023	–	–	**769,023**
	776,591	**683,189**	**23,673**	**1,483,453**
Net position	**(292,340)**	**3,418,061**	**78,249**	**3,203,970**

	31 December 2013			
	Russia	***OECD***	***Other countries***	***Total***
Assets				
Cash and cash equivalents	1,409,617	3,336,683	–	**4,746,300**
Obligatory reserves with the Central Bank of the Russian Federation	97,565	–	–	**97,565**
Amounts due from clearing institutions	12,889			**12,889**
Loans to customers	450,080			**450,080**
Current income tax assets	90,507	–	–	**90,507**
Other assets	7,574	160,922	–	**168,496**
	2,068,232	**3,497,605**	**–**	**5,565,837**
Liabilities				
Amounts due to credit institutions	1,296	1,309,168	–	**1,310,464**
Amounts due to customers	279,316	6,722	29,394	**315,432**
Other liabilities	320,503	–	–	**320,503**
	601,115	**1,315,890**	**29,394**	**1,946,399**
Net position	**1,467,117**	**2,181,715**	**(29,394)**	**3,619,438**

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The Bank maintains a portfolio of diverse marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed an additional overdraft limit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

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

	In accordance with the CBR requirements, %	*2014, %*	*2013, %*
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand)	Min. 15	932.1	440.7
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	Min. 50	805.6	1,153.6
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year/sum of capital and liabilities repayable in more than one year)	Max. 120	0.0	0.0

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities as of 31 December 2014	***Less than 3 months***	***Total***
Amounts due to credit institutions	24,360	**24,360**
Amounts due to customers	690,070	**690,070**
Other liabilities	769,023	**769,023**
Total undiscounted financial liabilities	**1,483,453**	**1,483,453**

Financial liabilities as of 31 December 2013	***Less than 3 months***	***Total***
Amounts due to credit institutions	1,310,551	**1,310,551**
Amounts due to customers	315,432	**315,432**
Other liabilities	320,503	**320,503**
Total undiscounted financial liabilities	**1,946,486**	**1,946,486**

The table below analyzes the contractual expiry by maturity of the Bank's lease commitments (including commitments related to maintenance of the leased premises).

	Less than 3 months	***3 to 12 months***	***Total***
31 December 2014	24,428	79,399	**107,827**
31 December 2013	27,707	64,650	**92,357**

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Liquidity risk and funding management (continued)

The following tables provide an analysis of monetary assets and liabilities grouped on the basis of the remaining period from the reporting date to the expected maturity date.

	31 December 2014		
	On demand and less than 1 month	*1 to 3 months*	*Total*
Assets			
Cash and cash equivalents	3,992,972	–	**3,992,972**
Obligatory reserves with the Central Bank of the Russian Federation	77,049	–	**77,049**
Amounts due from clearing institutions	304,217		**304,217**
Current income tax assets	90,507	–	**90,507**
Other assets	222,678	–	**222,678**
Total	**4,687,423**	**–**	**4,687,423**
Liabilities			
Amounts due to credit institutions	24,360	–	**24,360**
Amounts due to customers	690,070	–	**690,070**
Other liabilities	93,257	675,766	**769,023**
Total	**807,687**	**675,766**	**1,483,453**
Net position	**3,879,736**	**(675,766)**	**3,203,970**
Cumulative gap	**3,879,736**	**3,203,970**	

	31 December 2013		
	On demand and less than 1 month	*1 to 3 months*	*Total*
Assets			
Cash and cash equivalents	4,746,300	–	**4,746,300**
Obligatory reserves with the Central Bank of the Russian Federation	97,565	–	**97,565**
Amounts due from clearing institutions	12,889		**12,889**
Loans to customers	450,080		**450,080**
Current income tax assets	90,507	–	**90,507**
Other assets	168,496	–	**168,496**
Total	**5,565,837**	**–**	**5,565,837**
Liabilities			
Amounts due to credit institutions	1,310,464	–	**1,310,464**
Amounts due to customers	315,432	–	**315,432**
Other liabilities	57,390	263,113	**320,503**
Total	**1,683,286**	**263,113**	**1,946,399**
Net position	**3,882,551**	**(263,113)**	**3,619,438**
Cumulative gap	**3,882,551**	**3,619,438**	

Market risk

Market risk is the risk of financial loss which the Bank may suffer due to unfavorable changes in market parameters. The Bank distinguishes two main groups of market parameters which include general and specific factors. General factors of the market risk are the parameters which depend on macroeconomic, geopolitical and other market conditions unrelated to any individual instruments or issuers. The indicators of general market risk factors include the level of interest rates and market indices, foreign exchange rates, prices for energy, metals and commodities and overall credit spread which is the excess of the effective loan interest rate over the interest rate on risk-free securities. Interdependence among the market risk indicators is taken into the account as well. Specific components are factors which cannot be attributed to general changes in market conditions. These components comprise quotes of debt and equity instruments, derivative financial instruments (including imbedded derivatives) linked to these debt and equity instruments.

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Market risk (continued)

The Bank discloses details of possible financial loss calculated using the Value-at-Risk (VaR) model. For the purpose of internal control, management also uses the worst scenarios data or stress-testing, risk concentration analysis, monitoring of qualitative and quantitative parameters.

All activities related to assessment and monitoring of the market risk level and control over compliance with the set risk limitations, are performed by the Bank's functions independent from front-office functions (commercial units) that enter into transactions involving acceptance of market risk. Such segregation of the risk acceptance and risk assessment powers between the Bank's functions complies with the standards of UBS AG, existing international practice and is designed to eliminate any potential conflict of interests.

In securities transactions, the Bank does not invest in equity financial investments, confining itself to debt instruments only. The Bank cautiously chooses issuers of securities and tries to ensure a reasonable balance between the yield and risk levels attributable both to the whole portfolio and its segments.

Limits on the nominal value and limits in the form of credit delta serve as instruments of hands-on management of the portfolio structure. Credit delta shows the maximum change in the market value of the portfolio if the risk-free yield rate changes (risk-free yield curve shifts) by 1 basis point. Thus, the use of credit delta helps control the volatility of the portfolio and makes its behavior predictable. Moreover, even with low volatility, the aggregate limit of the portfolio cannot exceed the nominal value of USD 200 million. The maximum credit delta of the whole portfolio is limited to USD 75 thousand; within this limit, the Bank also sets individual limits on credit delta by issuer and issuer category (as a rule, at or below USD 25 thousand and USD 50 thousand, respectively) and this rules out excessive concentration of investment in debt instruments of one issuer (these limits, in turn, may further be narrowed by the maximum risk per borrower or a group of related borrowers set by the CBR).

UBS AG Chief Risk Officer is responsible for developing control procedures over market risk and for independent control over implementation of these procedures. The market risk assessment unit of UBS Investment Bank provides support to all business units within the UBS AG Group in assessing and reporting market risks.

Risk assessment

The Bank applies two main methods of assessing market risk – the VaR model and stress-testing. These assessment methods are supplemented by risk concentration analysis and additional controls. Where standard limits do not meet the complex control criteria, the Bank sets limits on the level of risk exposure and for the purposes of regulating the level of specific risks. When the standard limits do not meet the complex control criteria, the Bank sets additional limits for individual securities portfolios, portfolio segments, classes of assets and financial products.

Value-at-Risk (VaR) methodology

The Bank applies VaR methodology to assess the market risk positions held and to estimate a potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a statistical method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio under the influence of general and specific risk factors, at a given confidence level and over a specified time horizon.

The Bank estimates VaR with a 10-day horizon for the purpose of internal control and with a 1-day horizon for additional analysis. VaR is a hypothetical loss attributable to a portfolio, which may be incurred as a result of changes in market factors during a given time period subject to a certain confidence level (99%). Thus, there is a statistical probability of 1% that the actual loss, which the Bank may theoretically suffer, will exceed the amount derived by applying the VaR model.

VaR models are based on the historical simulation method and assume that market fluctuations in the next 10 days or 1 day will meet the scenario of market fluctuations over the previous 10 days or 1 day, respectively. For the general market risk, the Bank applies historical data for the past 5 years. This period usually corresponds to a market cycle and contains maximum and minimum levels of market indicators. Historical information for the period is applied to an existing securities portfolio. This method is known as a Historical Simulation Method.

To evaluate the adequacy of the calculation model applied, the market risk assessment unit of UBS Investment Bank performs back-testing on a regular basis by comparing simulated and actual losses.

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Market risk (continued)

Although VaR helps to assess the risk, it is necessary to consider disadvantages of this method, such as:

- Applying past changes in prices to assess future changes does not help to assess the full extent of possible future price fluctuations;
- Estimation of changes in financial market indicators for a 10-day period assumes that during this period all of the Bank's positions may be closed (or hedged). This estimate may inaccurately reflect the exact amount of market risk during the periods of lower market liquidity when the period of closing (hedging) the Bank's positions may increase;
- Applying the 99% confidence level does permit assessing the losses whose probability is below 1%; and
- VaR calculation is based on the Bank's positions exposed to market risk as of the end of the day and may not reflect the Bank's intraday risk.

Taking into account the disadvantages of the VaR method and for the purpose of obtaining more detailed information on market risk, the Bank uses, in addition to VaR calculation, market risk assessment based on scenario analysis and stress-testing.

Stress-testing is an imitation (scenario) modeling method designed to assess portfolio stability against irregular, sudden and highly adverse market fluctuations and obtain more detailed picture of the risk. This method is a supplement to the VaR models as it helps to obtain scenario assessment of losses which remain beyond VaR calculated based on the stated probability and historical data. By applying stress-testing, the Bank seeks to define a broad range of possible scenarios, assess portfolio sensitivity to sudden market fluctuations and determine control environment which enables total, transparent and timely control over changes in market conditions.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework, and monitoring and responding to potential risks the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Currency risk

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

The Bank's exposure to currency risk on monetary assets and liabilities is as follows:

	31 December 2014					
	RUB	***USD***	***EUR***	***CHF***	***GBP***	***Total***
Assets						
Cash and cash equivalents	3,843,553	148,441	687	229	62	**3,992,972**
Obligatory reserves with the Central Bank of the Russian Federation	77,049	–	–	–	–	**77,049**
Amounts due from clearing institutions	79,109	225,108				**304,217**
Current income tax assets	90,507	–	–	–	–	**90,507**
Other assets	90,616	132,062	–	–	–	**222,678**
Total monetary assets	**4,180,834**	**505,611**	**687**	**229**	**62**	**4,687,423**
Liabilities						
Amounts due to credit institutions	1,856	22,504	–	–	–	**24,360**
Amounts due to customers	436,085	253,985	–	–	–	**690,070**
Other liabilities	769,023	–	–	–	–	**769,023**
Total monetary liabilities	**1,206,964**	**276,489**	**–**	**–**	**–**	**1,483,453**
Net monetary assets and liabilities	**2,973,870**	**229,122**	**687**	**229**	**62**	**3,203,970**

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Currency risk (continued)

	31 December 2013					
	RUB	***USD***	***EUR***	***CHF***	***GBP***	***Total***
Assets						
Cash and cash equivalents	3,312,456	1,432,743	446	602	53	**4,746,300**
Obligatory reserves with the Central Bank of the Russian Federation	97,565	–	–	–	–	**97,565**
Amounts due from clearing institutions	12,889					**12,889**
Loans to customers	450,080					**450,080**
Current income tax assets	90,507	–	–	–	–	**90,507**
Other assets	15,862	152,634	–	–	–	**168,496**
Total monetary assets	**3,979,359**	**1,585,377**	**446**	**602**	**53**	**5,565,837**
Liabilities						
Amounts due to credit institutions	1,296	1,309,168	–	–	–	**1,310,464**
Amounts due to customers	30,866	284,566	–	–	–	**315,432**
Other liabilities	320,503	–	–	–	–	**320,503**
Total monetary liabilities	**352,665**	**1,593,734**	**–**	**–**	**–**	**1,946,399**
Net monetary assets and liabilities	**3,626,694**	**(8,357)**	**446**	**602**	**53**	**3,619,438**

The table shows the analysis which calculates the effect of a reasonably possible movement in a currency rate against the Russian ruble on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	***Change in currency rate 2014***	***Effect on pre-tax profit and equity 2014***	***Change in currency rate 2013***	***Effect on pre-tax profit and equity 2013***
Stronger USD	28.74%	23,891	20.00%	(1,671)
Weaker USD	28.74%	(23,891)	10.21%	853
Stronger CHF	29.78%	68	20.00%	120
Weaker CHF	29.78%	(68)	13.07%	(120)
Stronger GBP	29.35%	18	20.00%	11
Weaker GBP	29.35%	(18)	9.18%	(11)
Stronger EUR	29.58%	203	20.00%	89
Weaker EUR	29.58%	(203)	98.63%	(89)

Interest rate risk

The Bank takes on exposure in relation to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods which differ from those of term borrowings secured at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken and controls the compliance with the set limits on a daily basis. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions.

(In thousands of Russian rubles, unless otherwise indicated)

17. Risk management (continued)

Interest rate risk (continued)

The results of calculating interest rate risk on debt securities by applying the VaR method as of 31 December 2014 are presented in the table below (including comparative information as of 31 December 2013).

	Minimum for 2014	*Maximum for 2014*	*Average for 2014*	*As of 31 December 2014*	*Minimum for 2013*	*Maximum for 2013*	*Average for 2013*	*As of 31 December 2013*
Type of risk								
Interest rate risk on debt securities	–	–	–	–	–	272,578	58,457	–

According to the Bank, market risks related to non-traded assets are minimal.

18. Fair value of financial instruments

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

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

As of 31 December 2014 and 31 December 2013, the Bank had no financial instruments recorded at fair value requiring disclosure of analysis by level of the fair value hierarchy.

Financial instruments carried at fair value

Trading securities, other assets, the movement in fair value of which is designated at fair value through profit or loss. All derivative financial instruments are carried at fair value as assets when their fair value is positive and as liabilities when their fair value is negative.

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

Loans and receivables carried at amortized cost

Interest rates on loans issued shortly before the reporting date do not differ materially from interest rates applicable to new instruments with similar credit risk and maturity. If the Bank determines that interest rates on previously issued loans differ materially from those applicable to similar instruments at the reporting date, the Bank estimates the fair value of these loans. The estimate is based on the discounted cash flow method and uses interest rates applicable to new instruments with similar credit risk and maturity. The use of interest rates is subject to instrument currency and maturity and credit risk of the counterparty.

Liabilities carried at amortized cost

The estimated fair value of these liabilities is based on market prices, if available. The estimated fair value of fixed-rate and maturity financial instruments that do not have quoted market prices is based on expected cash flows discounted at interest rates for new instruments with similar credit risk and maturity.

As of 31 December 2014 and 2013, the Bank's financial assets and financial liabilities are liquid or have a short-term maturity (less than three months), which results in their fair value being approximately equal to their carrying amount recorded in the statement of financial position.

19. Related party transactions

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

(In thousands of Russian rubles, unless otherwise indicated)

19. Related party transactions (continued)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	31 December 2014		*31 December 2013*	
	Parent bank	*Entities under common control*	*Parent bank*	*Entities under common control*
Cash and cash equivalents as of 31 December	**3,990,427**	**–**	**3,336,683**	**–**
Contractual interest rate on cash and cash equivalents: (2014: 0.08%-22%; 2013: 0.0%-5.75%)				
Amounts due from credit institutions as of 1 January	**–**	**–**	**–**	**–**
Issued during the year	–	–	259,214	–
Repaid during the year	–	–	(259,214)	–
Amounts due from credit institutions as of 31 December	**–**	**–**	**–**	**–**
Loans to customers as of 1 January	**–**	**450,080**	**–**	**–**
Issued during the year	–	–	–	1,450,249
Repaid during the year	–	(450,080)	–	(1,000,169)
Loans to customers as of 31 December (2014: 6.5%)	**–**	**–**	**–**	**450,080**
Other assets as of 31 December	**12,936**	**97,887**	**153,349**	**40**
Amounts due to credit institutions as of 1 January	**1,309,168**	**–**	**–**	**–**
Received during the year	40,167,979	–	73,678,895	–
Repaid during the year	(41,454,644)	–	(72,369,727)	–
Amounts due to credit institutions as of 31 December	**22,503**	**–**	**1,309,168**	**–**
Contractual interest rate on amounts due to credit institutions: (2014: 0.247%-0.3%)				
Amounts due to customers as of 31 December	**5,712**	**683,193**	**194**	**308,032**
Contractual interest rate on amounts due to customers: (2014: 0.0%; 2013: 0.0%)				
Credit institution's irrevocable liabilities as of 31 December				**500,000**

Income and expenses arising from related party transactions are as follows:

	For the year ended 31 December			
	2014		*2013*	
	Parent bank	*Entities under common control*	*Parent bank*	*Entities under common control*
Interest income on amounts due to customers	–	730	–	249
Interest expense on amounts due to credit institutions	(482)	–	(696)	–
Fee and commission income	–	109,486	343	4,637
Net gains/(losses) from dealing in foreign currencies	(210,660)	429,278	390,580	(10,016)
Income from consulting services and other income	290,201	440,284	326,764	–
Rent and maintenance expenses	–	(125,323)	–	(90,499)
Other expenses	(620)	–	(373)	–

Since 1 November 2009 the rate under a sublease agreement with a related party was increased to USD 1,000 per 1 sq. m. In December 2014, a sublease agreement was renewed between the Bank and its unrelated party.

(In thousands of Russian rubles, unless otherwise indicated)

19. Related party transactions (continued)

Compensation to key management personnel comprised the following:

	2014	***2013***
Salaries	117,816	55,900
Bonuses	171,785	44,817
Social security contributions	11,838	1,853
Other social charges	471	427
Compensation to key management personnel	**301,910**	**102,997**

This amount of compensation represents short-term compensation only.

In 2014, the Bank received pecuniary aid from the parent bank in the amount of RUB 337,608 thousand (2013: RUB 478,659 thousand).

20. Capital adequacy

The objectives of the Bank's capital management are to ensure: (i) that the Bank complies with regulatory capital requirements established by the CBR and (ii) that the Bank is able to continue as a going concern. The compliance with the capital adequacy ratio established by the CBR is controlled through monthly reports with respective calculations submitted to the CBR.

According to effective capital requirements established by the CBR, banks should maintain a ratio of capital to risk-weighted assets ('capital adequacy ratio') at a level exceeding the mandatory minimum ratio. The CBR requires that banks should maintain an equity (capital) adequacy ratio of at least 10%. As of 31 December 2014, the Bank's regulatory capital adequacy ratio was 117.7% (2013: 115.7%). Regulatory capital is shown per the Bank's reports prepared under RAL and as of 31 December 2014 amounted to RUB 3,886,965 thousand (2013: RUB 3,914,474 thousand).

21. Events after the reporting period

In February and March 2015, the Bank paid year-end bonuses for 2014 to its employees in the amount of RUB 589,456 thousand (including personal income taxes and excluding payroll taxes). Year-end bonuses for 2013 were paid in February 2014 in the amount of RUB 238,456 thousand (including personal income taxes and excluding payroll taxes).

After 31 December 2014 financial markets continue to be unstable. The country's economy is highly sensitive to changes in prices for oil and gas. The official RUB exchange rate set by the CBR ranged from RUB 56.2584 to 1 USD to RUB 69.6640 to 1 USD. In January 2015, Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. The CBR key interest rate decreased from 17% to 14% p.a. Management monitors current developments and takes appropriate measures. The current situation in Ukraine and its potential development may have a negative impact on the Bank's financial position and results, which at present is hardly determinable.