VW Bank RUS (LLC)

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

31 December 2014

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Independent Auditor's Report

To the Participants and Board of Directors of LLC "VW Bank RUS"

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

31 March 2015
Moscow, Russian Federation

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VW Bank RUS (LLC)
Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	14 141 660	1 926 849
Mandatory cash balances with the Bank of Russia		148 522	101 251
Loans and advances to customers	8	27 118 469	28 200 104
Equipment	9	87 228	77 968
Intangible assets	9	135 782	73 078
Deferred income tax asset		175 618	-
Other financial assets	10	192 345	113 707
Other assets	11	105 018	28 687
TOTAL ASSETS		**42 104 642**	**30 521 644**
LIABILITIES			
Due to other banks	12	8 337 664	15 188 209
Customer accounts	13	182 333	751 775
Debt securities in issue	14	14 816 408	-
Other borrowed funds	15	6 651 124	5 066 671
Current income tax liability		92 984	-
Provisions for liabilities and charges	16	141 218	65 454
Derivative financial instruments	17	379 329	-
Other liabilities	18	834 071	413 210
TOTAL LIABILITIES		**31 435 131**	**21 485 319**
EQUITY			
Share capital	19	880 000	880 000
Share premium	19	9 880 000	8 680 000
Accumulated deficit		(90 489)	(523 675)
TOTAL EQUITY		**10 669 511**	**9 036 325**
TOTAL LIABILITIES AND EQUITY		**42 104 642**	**30 521 644**

31 March 2015

N.P. Korchagin
Chairman of the Management Board

"Фольксваген Банк РУС"
Volkswagen Bank RUS

O.E. Lebedeva
Chief Accountant

In thousands of Russian Roubles	**Note**	**2014**	**2013**
Interest income	20	4 272 593	2 197 689
Interest expense	20	(2 164 930)	(879 852)
Net interest income		**2 107 663**	**1 317 837**
Provision for loan impairment	8	(71 633)	(390 105)
Net interest income after provision for loan impairment		**2 036 030**	**927 732**
Fee and commission income	21	23 176	22 778
Fee and commission expense	21	(265 424)	(109 806)
Losses less gains from trading in foreign currencies		(313)	(29)
Foreign exchange translation losses less gains		(2 121)	-
Realised gains less losses from financial derivatives		7 295	-
Ineffectiveness from hedge accounting		31 556	-
Other operating income		10 064	5 391
Provisions for liabilities and charges	16	(75 864)	(65 454)
Administrative and other operating expenses	22	(1 312 281)	(828 562)
Profit/(loss) before tax		**452 118**	**(47 950)**
Income tax expense	23	(18 932)	-
Profit/(loss) for the year		**433 186**	**(47 950)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**433 186**	**(47 950)**

In thousands of Russian Roubles	Note	Share capital	Additional paid-in capital	Accumulated deficit	Total
Balance at 31 December 2012		**880 000**	**5 480 000**	**(475 725)**	**5 884 275**
Loss for the year		-	-	(47 950)	(47 950)
Total comprehensive loss for 2013		**-**	**-**	**(47 950)**	**(47 950)**
Contributions from the participants to the Bank's property	19	-	3 200 000	-	3 200 000
Balance at 31 December 2013		**880 000**	**8 680 000**	**(523 675)**	**9 036 325**
Profit for the year		-	-	433 186	433 186
Total comprehensive income for 2014		**-**	**-**	**433 186**	**433 186**
Contributions from the participants to the Bank's property	19	-	1 200 000	-	1 200 000
Balance at 31 December 2014		**880 000**	**9 880 000**	**(90 489)**	**10 669 511**

In thousands of Russian Roubles	**Note**	**2014**	**2013**
Cash flows from operating activities			
Interest received		4 292 028	2 062 137
Interest paid		(1 647 024)	(744 954)
Fees and commissions received		720 242	21 703
Fees and commissions paid		(538 204)	(31 367)
Losses from trading in foreign currencies		(313)	(29)
Other operating income received		9 964	5 391
Administrative and other operating expenses paid		(956 991)	(725 177)
Income tax paid		(101 566)	-
Cash flows from operating activities before changes in operating assets and liabilities		**1 778 136**	**587 704**
Net increase in mandatory cash balances with the Bank of Russia		(47 271)	(11 071)
Net decrease/(increase) in loans and advances to customers		698 113	(13 217 513)
Net increase in other assets		(141 512)	(18 488)
Net (decrease)/increase in due to other banks		(6 799 769)	7 849 997
Net (decrease)/increase in customer accounts		(569 442)	223 110
Net increase/(decrease) in other borrowings		1 283 650	(109 446)
Net (decrease)/increase in other liabilities		(37 974)	88 529
Net cash used in operating activities		**(3 836 069)**	**(4 607 178)**
Cash flows from investing activities			
Acquisition of premises and equipment	9	(43 425)	(64 871)
Acquisition of intangible assets	9	(105 695)	(23 224)
Net cash used in investing activities		**(149 120)**	**(88 095)**
Cash flows from financing activities			
Contribution from the participants to the Bank's property	19	1 200 000	3 200 000
Debt securities in issue	14	15 000 000	-
Net cash from financing activities		**16 200 000**	**3 200 000**
Net increase/(decrease) in cash and cash equivalents		**12 214 811**	**(1 495 273)**
Cash and cash equivalents at the beginning of the year		1 926 849	3 422 122
Cash and cash equivalents at the end of the year	7	**14 141 660**	**1 926 849**

The above data on cash flows relating to fees received (paid) includes fee and commission income (expense) being a part of the effective interest, classified within interest income in the statement of profit or loss and other comprehensive income.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for LLC VW Bank RUS (the "Bank").

The Bank was incorporated on 2 July 2010 and is domiciled in the Russian Federation. The Bank was set up in accordance with Russian regulations and is a limited liability company. This legal status means that the Bank is limited by shares of its participants.

At 31 December 2014 and 31 December 2013 the Bank's participants were:

(%)	**2014**	**2013**
VOLKSWAGEN FINANCIAL SERVICES AG (Germany)	99%	99%
VOLKSWAGEN BANK GMBH (Germany)	1%	1%

Principal activity. The Bank's principal business activity is commercial loans to individuals and legal entities and provision of other banking services within the Russian Federation. The Bank has operated under banking license No. 3500 for carrying out banking transactions in Russian Roubles and foreign currency (without the right for attraction of individual deposits) issued by the Central Bank of the Russian Federation ("CBRF") on 20 August 2012.

The Bank has no branches or representative offices. The Bank had 266 employees at 31 December 2014 (2013: 216 employees).

Registered address and place of business. The Bank's registered address is: Obrucheva st., 30/1, bld.1, 117485, Moscow, Russian Federation.

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

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is sensitive to oil and gas prices. The tax, currency and customs regulatory frameworks within the Russian Federation continue to develop and are subject to frequent changes and varying interpretations (Note 24). A fall in oil prices, continuing political tension in the region, as well as international sanctions against Russian companies and individuals have had a negative impact on the Russian economy in 2014. As a result, in 2014:

- the CBRF exchange rate increased from RR 32.73 to RR 56.26 per USD;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 10.5% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index went down from 1 445 to 791 points;
- access to international financial markets to raise funding was limited for certain entities;
- capital outflows increased compared to prior years.

2 Operating Environment of the Bank (Continued)

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate changed from RR 56.26 to RR 69.66 per USD at 23 March 2015;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+ in January 2015 and Moody's Investors Service cut it to Ba1 in February 2015;
- the RTS stock exchange index went up from 791 to 1 421 points at 23 March 2015;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates;
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14% p.a.

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

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

3 Summary of Significant Accounting Policies

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

Recognition and measurement of financial assets and liabilities. Financial assets and liabilities are recorded in the statement of financial position when the Bank becomes a party to a contract on a corresponding financial instrument. The Bank recognises regular acquisitions and disposal of financial assets and liabilities by settlement dates.

Financial assets and liabilities are initially recognised at their fair value. The cost of financial assets and liabilities which are not financial assets and liabilities at fair value through profit and loss is adjusted by the amount of transaction costs directly related to acquisition or recognition of a financial asset or issuance of financial liability.

After initial recognition of financial instruments the Bank uses the following measurement methods depending on their classification:

- at fair value
- at amortised cost.

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

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

3 Summary of Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 28.

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

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

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

Derecognition of financial assets and liabilities exception. The Bank derecognises financial assets when:

- the rights to cash flows from the assets have expired;
- the Bank has transferred the rights to the cash flows from the assets or retained the right to the cash flows from the assets, but assumed obligations to repay them to a third party without significant delay under a qualifying pass-through arrangement; while
- (a) either transferring substantially all the risks and rewards of ownership of the assets, or (b) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

3 Summary of Significant Accounting Policies (Continued)

The Bank derecognises the financial asset when the asset is transferred and derecognition requirements are met.

The Bank derecognises financial liabilities when they are extinguished, cancelled or terminated.

Cash and cash equivalents. Cash and cash equivalents are cash on hand and on the Bank's current accounts and also cash equivalents which represent short-term, highly liquid items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

Impairment of financial assets carried at amortised cost. Impairment of financial assets is the difference between the carrying amount of the assets and the present value of expected cash flows, including amounts recoverable from guarantees and collateral discounted at the original effective interest rate for this financial instrument, which is carried at amortised cost.

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

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

Principal criteria (loss events) used to determine whether there is any evidence that an impairment loss has occurred are as follows:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement system;
- the borrower experiences a significant financial difficulty;
- the borrower considers bankruptcy or a financial reorganisation;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

Credit related commitments. The Bank enters into credit related commitments, including undrawn credit lines. The Bank does not disclose these instruments with various inherent credit risks in its statement of financial position.

The Bank uses the same credit policies for credit related commitments as it does for balance sheet financial instruments.

The Bank creates provisions for credit related commitments if there is any probability of incurring losses on such instruments.

Equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

At each end of each reporting period the Bank assesses whether there is any indication of impairment of **equipment**. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised in statement of profit or loss and other comprehensive income as impairment loss to the extent it exceeds the recoverable amount.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income when the expenditure is incurred. Costs of replacing major parts or components of **equipment** items are capitalised, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised within other operating income or expenses in the statement of profit or loss and other comprehensive income.

Depreciation. Depreciation is applied on a straight-line basis over the following useful lives of assets:

	Useful lives in years
Office and computer equipment	
- head-end equipment and servers	5
- computer and other equipment	3
- furniture	5

Intangible assets. The Bank's intangible assets have definite useful life and are initially stated at cost. Upon initial recognition, intangible assets are stated at cost, less accumulated depreciation and impairment provision, where required.

Intangible assets are amortised on a straight line basis over expected useful lives of 5 years. The Bank reviews amortisation periods and procedures on an annual basis at the end of each reporting period.

Amortisation of intangible assets is recognised in the statement of profit or loss and other comprehensive income within administrative and other operating expenses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives using a 20% amortisation rate.

Operating leases. The Bank is a lessee under operating lease contracts. Total lease payments under operating lease contracts are recorded in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

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

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

Other borrowed funds. Other borrowed funds represent term borrowings from other companies and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank at the domestic market. Debt securities are stated at amortised cost.

3 Summary of Significant Accounting Policies

Derivative financial instruments and hedge accounting. Derivative financial instruments, including interest swaps, are carried at their fair value.

The fair values are based on quoted market prices in active markets, including recent transactions, and valuation techniques, including discounted cash flow models.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (unrealised gains less losses on financial derivatives), except for cases when financial derivatives are designated to the hedging category.

The Bank classifies certain financial derivatives as fair value hedging instruments associated with the interest rate risk arising from the bonds issued by the Bank. The Bank gets a fixed rate and pays a floating rate on interest swaps. The credit risk on the bonds in issue does not represent a part of hedging relations.

Hedge accounting is applied to derivatives and hedged items classified into these categories given that they meet certain hedge accounting criteria.

At the beginning of a transaction the Bank documents relations between hedged items and hedging instruments as well as its risk management objective and its strategy on hedging application. At the beginning of hedging relations and on a regular basis the Bank also documents its estimate whether the derivatives used in hedging transactions are highly effective upon offsetting of hedged risks.

To hedge fair value the Bank adjusts a hedged item subject to changes in fair value associated with a hedged risk and records the fair value changes in the statement of comprehensive income. Gains or losses related to a hedging instrument are offset in profit or loss for the year against gains or losses from fair value measurement of a hedged item to the extent the hedging is effective. The ineffective part of fair value changes is recorded in profit or loss for the year at inception. If a hedging instrument does not meet the hedge accounting criteria the Bank adjusts the carrying value of the hedged item, for which it no longer applies the effective interest method, and this item is amortised through profit or loss over the remaining maturity and recognised as net interest income.

To assess effectiveness of hedging the Bank regularly performs two types of tests: expected (perspective) - testing effectiveness (perspective testing of the assumption that hedging relations will be highly effective in future periods); as well as a retrospective assessment of effectiveness of hedging relations (testing whether the hedge relations were highly effective in the prior period). Hedge accounting is applied subject to performance of both tests at each reporting date and corresponding positive results.

Hedging is considered to be highly effective given the two following conditions are met:

- It is assumed that at inception of hedging and subsequently the hedge will be highly effective for offsetting changes in the discounted value of cash flows which relate to the hedged risk over the period of the hedging instrument classification - the perspective effectiveness test is performed within the range of effectiveness from 80% to 125%;
- Actual hedging results show that the necessary offsetting has been achieved - the retrospective effectiveness test is performed within the range of effectiveness from 80% to 125%.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3 Summary of Significant Accounting Policies

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

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

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

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

Tax legislation. Russian tax, currency, anti-monopoly and customs legislation is subject to varying interpretations. Refer to Notes 16 and 27.

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

Net assets attributable to participants. The Bank classified net assets attributable to participants in the Bank, which was created as a limited liability company, as equity instruments (equity components).

Share capital. Share capital is a total of contributions of the Bank's participants carried at cost.

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

Commission pertaining to the effective interest rate includes commission received or paid in connection with the generation or acquisition of a financial asset or issue of a financial liability.

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

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

3 Summary of Significant Accounting Policies

Recognition of income generated under programs of interest rate subsidies

Subvention from LLC VW Group RUS for retail loans – car loans. The subvention received by the Bank from LLC VW Group RUS is the compensation of the amount of short-received interest income of the Bank under the program of retail loans issued at reduced interest rates. The subvention received by the Bank is defined as a difference between the interest income received by the Bank for the loan issued to a customer at a reduced interest rate and the interest income which would have been received for a similar loan at a standard interest rate for the whole term of the loan agreement. This income is recognised during the term of the loan agreement proportionally to the share of interest income for the reporting period in the total amount of interest income for this loan and is stated within interest income from retail loans.

Subvention from LLC VW Group RUS for corporate loans. The subvention received by the Bank from LLC VW Group RUS is the compensation of the amount of short-received interest income of the Bank under the program of retail loans issued at reduced interest rates. The subvention received by the Bank is defined as a difference between the interest income received by the Bank for the loan issued to a customer at a special interest rate applied to the first 30 days from the date of loan issue and the interest income which would have been received for a similar loan at a standard interest rate. This income is stated on an accrual basis within interest income for corporate loans.

Governmental program of subsiding of interest rates for retail car loans. In the framework of participation in the governmental program of subsiding of interest rates for retail car loans, the Russian government subsidises issue of loans by the Bank to public at reduced interest rate. The amount of subsidy received is recorded within interest income for retail loans.

Foreign currency translation. The functional and presentation currency of the Bank is Russian Rouble (“RR”).

Monetary assets and liabilities denominated in foreign currency are translated into the currency of the Russian Federation at the official exchange rate of the CBRF at the end of the reporting period. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into the Bank’s functional currency at official exchange rates of the Bank of Russia are included in the statement of profit or loss and other comprehensive income within foreign exchange gains less losses.

At 31 December 2014, the principal rate of exchange used for translating foreign currency balances was Euro 1 = RR 68.3427 and USD 1 = RR 56.2584 (31 December 2013: Euro 1 = RR 44.9699 and USD 1 = RR 32.7292).

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

***Staff costs and related contributions*.** Wages, salaries, bonuses, paid annual leave, contributions to the Russian Federation state pension and social insurance funds are accrued in the year in which the associated services are rendered by the employees of the Bank. Sick leave benefits, child care allowances and non-monetary benefits are accrued upon their occurrence.

The Bank undertakes liabilities for unused annual leave payments to its employees. Such liabilities are recognised in the statement of financial position within other liabilities with their simultaneous recording in the statement of profit or loss and other comprehensive income for the part of annual leaves falling to the reporting period.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Summary of Significant Accounting Policies (Continued)

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

	31 December 2014			**31 December 2013**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Russian Roubles	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	14 141 660	-	**14 141 660**	1 926 849	-	**1 926 849**
Mandatory cash balances with the Bank of Russia	148 522	-	**148 522**	101 251	-	**101 251**
Loans and advances to customers	11 784 047	15 334 422	**27 118 469**	13 003 403	15 196 701	**28 200 104**
Equipment	28 229	58 999	**87 228**	1 124	76 844	**77 968**
Intangible assets	47 496	88 286	**135 782**	111	72 967	**73 078**
Deferred income tax asset	-	175 618	**175 618**	-	-	**-**
Other financial assets	192 345	-	**192 345**	113 707		**113 707**
Other assets	105 018	-	**105 018**	28 687	-	**28 687**
TOTAL ASSETS	**26 447 317**	**15 657 325**	**42 104 642**	**15 175 132**	**15 346 512**	**30 521 644**
LIABILITIES						
Due to other banks	4 764 162	3 573 502	**8 337 664**	9 884 954	5 303 255	**15 188 209**
Customer accounts	182 333	-	**182 333**	751 775	-	**751 775**
Debt securities in issue	260 171	14 556 237	**14 816 408**	-	-	**-**
Other borrowed funds	5 509 410	1 141 714	**6 651 124**	4 345 459	721 212	**5 066 671**
Current income tax liability	92 984	-	**92 984**	-	-	**-**
Provisions for liabilities and charges	141 218	-	**141 218**	65 454	-	**65 454**
Derivative financial instruments	-	379 329	**379 329**	-	-	**-**
Other liabilities	834 071	-	**834 071**	413 210	-	**413 210**
TOTAL LIABILITIES	**11 784 349**	**19 650 782**	**31 435 131**	**15 460 852**	**6 024 467**	**21 485 319**

3 Summary of Significant Accounting Policies (Continued)

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on the 2013 amounts:

In thousands of Russian Roubles	**As originally presented**	**Reclassification**	**As reclassified**
The effect on the statement of profit or loss and other comprehensive income is as follows:			
Fee and commission expense	49 685	60 121	109 806
Administrative and other operating expenses	888 683	(60 121)	828 562

The management believes that the above changes to the statement of profit or loss and other comprehensive income and the notes to the financial statements are immaterial.

Amendments of the financial statements after issue. The Bank's participants and management have the power to amend the financial statements after issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment loss on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on average historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at the reporting date the impairment loss on loans and advances was calculated based on the average of borrower's probability of default which was based on statistical data. If the actual probability of default is 10% higher/lower than the average used for impairment loss calculation, the provision would be approximately RR 1 136 709 thousand higher (2013: RR 1 190 246 thousand higher) or RR 423 916 thousand lower (2013: RR 517 954 thousand lower).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

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

Deferred income tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The business plan is based on the assumption concerning stable growth of the loan portfolio at the expense of existing products and launch of new products under stable macroeconomic circumstances.

Net assets attributable to participants in the Bank, which was created as a limited liability company. The Bank's management have analysed legislative requirements, the Bank's charter documents, nature of contributions made by the Bank's Participants and their intention on introduction of changes to the Bank's Charter to restrict the rights of the Participants to dispose of their shares in favour of the Bank in the near future. Considering that such changes can be initiated only by the Participants and that the Participants have the intention to introduce these changes, the management used their judgement and classified the shares in net assets attributable to the participants as equity components (capital).

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories:those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

The Bank is currently assessing the impact of the amendments on its financial statements.

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

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

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

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

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

The Bank is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

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

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

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

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

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank is currently assessing the impact of the amendments on its financial statements.

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

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

6 New Accounting Pronouncements (Continued)

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

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

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in August 2014 and effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Cash balances with the CBRF (other than mandatory reserve deposits)	2 938 262	1 110 925
Correspondent accounts and overnight placements with other banks	446 341	315 835
Placements with other banks with original maturities of less than three months	10 757 057	500 089
Total cash and cash equivalents	**14 141 660**	**1 926 849**

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents may be summarised based on Fitch Ratings where available or other international ratings converted to the nearest equivalent on the Fitch rating scale as at 31 December 2014:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	2 938 262	-	-	**2 938 262**
- BBB- rated	-	104 348	8 354 887	**8 459 235**
- Lower than BBB- rated	-	341 993	2 402 170	**2 744 163**
Total cash and cash equivalents	**2 938 262**	**446 341**	**10 757 057**	**14 141 660**

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2013:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	1 110 925	-	-	**1 110 925**
- BBB+ rated	-	8 734	500 089	**508 823**
- Lower than BBB+ rated	-	307 101	-	**307 101**
Total cash and cash equivalents	**1 110 925**	**315 835**	**500 089**	**1 926 849**

The Bank had seven counterparty banks at 31 December 2014 (2013: two counterparty banks). The total aggregate amount of these balances was RR 11 203 398 thousand (2013: RR 815 924 thousand) or 79.22% of cash and cash equivalents (2013: 42%).

Balances on correspondent accounts and overnight placements are not collateralised. Under the contractual terms, the Bank may not require the funds to be returned prior to the expiry of the deposit without preliminary approval of the counterparty bank, with interest on deposit being calculated at a lower rate in case of early demand of a deposit. Interest rate analysis of cash and cash equivalents is disclosed in Note 25.

8 Loans and Advances to Customers

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Corporate loans	2 288 587	12 599 058
Loans to individuals - car loans	25 636 488	16 336 019
Total loans and advances to customers before provision for loan impairment	**27 925 075**	**28 935 077**
Less: Provision for loan impairment	(806 606)	(734 973)
Total loans and advances to customers	**27 118 469**	**28 200 104**

8 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals – car loans	Total
Provision for loan impairment at 1 January 2014	**321 214**	**413 759**	**734 973**
(Reversal of provision)/ provision for impairment during the year	(124 347)	195 980	**71 633**
Provision for loan impairment at 31 December 2014	**196 867**	**609 739**	**806 606**

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

In thousands of Russian Roubles	Corporate loans	Loans to individuals – car loans	Total
Provision for loan impairment at 1 January 2013	**315 832**	**29 036**	**344 868**
Provision for loan impairment during the year	5 382	384 723	**390 105**
Provision for loan impairment at 31 December 2013	**321 214**	**413 759**	**734 973**

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

	31 December 2014		31 December 2013	
In thousands of Russian Roubles	Amount	%	Amount	%
Motor vehicle trading	1 332 041	4.77%	12 599 058	43.54%
Individuals	25 636 488	91.80%	16 336 019	56.46%
Leasing	956 546	3.43%	-	-
Total loans and advances to customers before provision for loan impairment	**27 925 075**	**100.00%**	**28 935 077**	**100.00%**

At 31 December 2014 the Bank had one borrower/group of related borrowers (2013: 10 borrowers/groups of related borrowers) with aggregated loan amounts above 5% of equity. The total aggregate amount of these loans was RR 956 546 thousand (2013: RR 5 695 795 thousand), or 3.43% of the gross loan portfolio (2013: 20%).

8 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2014 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals - car loans**	**Total**
Unsecured portion of loans	1 399 599	1 406 075	**2 805 674**
Loans collateralised by:			
- motor vehicles	888 988	24 230 413	**25 119 401**
Total loans and advances to customers	**2 288 587**	**25 636 488**	**27 925 075**

Information about collateral at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals - car loans**	**Total**
Unsecured portion of loans	3 674 396	1 832 218	**5 506 614**
Loans collateralised by:			
- motor vehicles	8 924 662	14 503 801	**23 428 463**
Total loans and advances to customers	**12 599 058**	**16 336 019**	**28 935 077**

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

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals - car loans**	**Total**
Neither past due nor impaired			
- standard loan portfolio	1 905 880	25 032 147	**26 938 027**
- satisfactory loans	10 187	-	**10 187**
- loans requiring special attention	162 730	-	**162 730**
Total neither past due nor impaired	**2 078 797**	**25 032 147**	**27 110 944**
Past due but not impaired			
- less than 30 days overdue	-	348 317	**348 317**
- 31 to 60 days overdue	-	44 649	**44 649**
- 61 to 90 days overdue	-	38 904	**38 904**
- 91 to 180 days overdue	-	1 458	**1 458**
Total past due but not impaired	-	**433 328**	**433 328**
Individually impaired loans			
- less than 30 days overdue	209 790	8 267	**218 057**
- 61 to 90 days overdue	-	1 845	**1 845**
- 91 to 180 days overdue	-	69 359	**69 359**
- 181 to 364 days overdue	-	56 253	**56 253**
- over 365 days overdue	-	35 289	**35 289**
Total individually impaired loans	**209 790**	**171 013**	**380 803**
Less: Provision for impairment	(196 867)	(609 739)	**(806 606)**
Total loans and advances to customers	**2 091 720**	**25 026 749**	**27 118 469**

8 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals - car loans**	**Total**
Neither past due nor impaired			
- standard loan portfolio	11 021 695	15 988 508	**27 010 203**
- satisfactory loans	153 077	-	**153 077**
- loans requiring special attention	1 424 286	-	**1 424 286**
Total neither past due nor impaired	**12 599 058**	**15 988 508**	**28 587 566**
Past due but not impaired			
- less than 30 days overdue	-	306 129	**306 129**
- 31 to 60 days overdue	-	19 005	**19 005**
- 61 to 90 days overdue	-	7 426	**7 426**
- 91 to 180 days overdue	-	11 629	**11 629**
- 181 to 364 days overdue	-	1 772	**1 772**
Total past due but not impaired	-	**345 961**	**345 961**
Individually impaired loans			
- over 365 days overdue	-	1 550	**1 550**
Total individually impaired loans	-	**1 550**	**1 550**
Less: Provision for impairment	(321 214)	(413 759)	**(734 973)**
Total loans and advances to customers	**12 277 844**	**15 922 260**	**28 200 104**

In accordance with the Bank's internal policy the loan portfolio is divided into several risk categories depending on the borrower's rating class.

- Standard loan portfolio (above the average rating class);
- Satisfactory loans (average rating class);
- Loans requiring special attention (below the average rating class);
- Default loans (the lowest rating class).

The rating classes are assigned to all borrowers based on the comprehensive analysis of their performance. In order to book loan impairment provisions, the Bank makes provisions on collective and individual basis following the methodology of Volkswagen Financial Services AG parent company that was designed in compliance with IAS 39, Financial Instruments: Recognition and Measurement. Loan provisions on collective basis are booked based on the borrowers' default statistics for each rating class. Since the Bank has no statistical information, provisions are booked based on the average of the borrower's probability of default for each rating class determined using the default statistics of the parent company.

8 Loans and Advances to Customers (Continued)

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

As a result of this policy and the above impairment methodology, the impairment provisions were booked for neither past due nor impaired loans on the basis of collective model using default statistics of the parent company.

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

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	50 565	57 333	2 041 155	838 423
Loans to individuals - car loans	16 040 904	25 851 022	8 985 845	7 673 499

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	145 667	154 544	12 132 177	8 779 096
Loans to individuals - car loans	7 054 158	10 513 191	8 868 102	7 296 380

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

9 Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Office and computer equipment	Total equipment	Computer software licences	Total
Carrying amount at 31 December 2012		**27 525**	**27 525**	**72 179**	**99 704**
Additions		64 871	64 871	23 224	88 095
Depreciation and amortisation	22	(5 070)	(5 070)	(22 325)	(27 395)
Disposals	22	(9 358)	(9 358)	-	(9 358)
Carrying amount at 31 December 2013		**77 968**	**77 968**	**73 078**	**151 046**
Cost at 31 December 2013		98 400	98 400	131 786	230 186
Accumulated depreciation		(20 432)	(20 432)	(58 708)	(79 140)
Carrying amount at 31 December 2013		**77 968**	**77 968**	**73 078**	**151 046**
Additions		43 425	43 425	105 695	149 120
Depreciation and amortisation	22	(33 485)	(33 485)	(42 991)	(76 476)
Disposals	22	(680)	(680)	-	(680)
Carrying amount at 31 December 2014		**87 228**	**87 228**	**135 782**	**223 010**
Cost at 31 December 2014		141 145	141 145	237 481	378 626
Accumulated depreciation		(53 917)	(53 917)	(101 699)	(155 616)
Carrying amount at 31 December 2014		**87 228**	**87 228**	**135 782**	**223 010**

10 Other Financial Assets

In thousands of Russian Roubles	31 December 2014	31 December 2013
Trade receivables	192 345	113 707
Total other financial assets	**192 345**	**113 707**

At 31 December 2014, receivables were represented by the amounts due to the Bank under the governmental program of subsiding interest rates for retail car loans of RR 16 606 thousand (31 December 2013: RR 27 659 thousand) and subvention from LLC VW Group RUS for retail car loans of RR 175 739 thousand (31 December 2013: RR 86 048 thousand), respectively.

At 31 December 2014 and 2013 these receivables were neither past due nor impaired. Information on related party balances is disclosed in Note 30.

11 Other Assets

In thousands of Russian Roubles	31 December 2014	31 December 2013
Prepayments for services	63 091	26 903
Other	41 927	1 784
Total other assets	**105 018**	**28 687**

All of the above assets are expected to be recovered within twelve months after the year-end. Information on related party balances is disclosed in Note 30.

12 Due to Other Banks

In thousands of Russian Roubles	31 December 2014	31 December 2013
Correspondent accounts and overnight placements of other banks	301	70
Short-term placements of other banks	830 729	9 884 884
Long-term placements of other banks	7 506 634	5 303 255
Total due to other banks	**8 337 664**	**15 188 209**

Refer to Note 28 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to banks is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

13 Customer Accounts

In thousands of Russian Roubles	31 December 2014	31 December 2013
Other legal entities		
- Current/settlement accounts	182 333	751 775
Total customer accounts	**182 333**	**751 775**

Economic sector concentrations within customer accounts are as follows:

	31 December 2014		31 December 2013	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Finance and investments	82 843	45.43%	321 082	42.71%
Trade	59 177	32.46%	125 769	16.73%
Manufacturing	40 313	22.11%	304 924	40.56%
Total customer accounts	**182 333**	**100.00%**	**751 775**	**100.00%**

At 31 December 2014, the Bank had no customers (2013: one customer) with balances above RR 300 000 thousand (2013: RR 300 000 thousand). The aggregate balance of this customer was RR 0 thousand (2013: RR 304 924 thousand), or 0% (2013: 40.56%) of total customer accounts.

Refer to Note 288 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

14 Debt Securities in Issue

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Bonds issued on domestic market	14 816 408	-
Total debt securities issued	**14 816 408**	**-**

In June 2014, the Bank placed bonds in the amount of RR 5 000 million and interest rate 9.35% p.a. with maturity in June 2016.

In October 2014, the Bank placed bonds in the amount of RR 10 000 million and interest rate 11.30% p.a. with maturity in October 2016.

All issues of bonds are included in the Lombard List of the Bank of Russia.

Each bond has a par value of RR 1 000 and an embedded put option at par value of the bond exercisable at the moment of coupon income change.

The put option is regarded as closely related to the bonds issued and therefore is not accounted for as a separate derivative.

Issue	**ФолксвБ 07**	**ФолксвБ 08**	**ФолксвБ 09**
Par value, RR	1 000	1 000	1 000
Quantity	5 000 000	5 000 000	5 000 000
Initial placement date	June 2014	October 2014	October 2014
Maturity date	June 2019	October 2019	October 2019
Date of new coupon announcement	June 2016	October 2016	October 2016
at 31 December 2014			
Number of bonds in issue	5 000 000	5 000 000	5 000 000
Coupon rate, %	9.35	11.30	11.30
Bid price, RR	895	900	900

At 31 December 2014, the Bank's securities had the following ratings:

Rated security	**Rating**
Interest bearing documentary non-convertible bearer bonds of 07 series, state registration number 40703500B	Standard & Poor's: BBB-
Interest bearing documentary non-convertible bearer bonds of 07 series, state registration number 40703500B	Fitch Ratings: A-
Interest bearing documentary non-convertible bearer bonds of 08 series, state registration number 40803500B	Standard & Poor's: BBB-
Interest bearing documentary non-convertible bearer bonds of 08 series, state registration number 40803500B	Fitch Ratings: A-
Interest bearing documentary non-convertible bearer bonds of 09 series, state registration number 40903500B	Standard & Poor's: BBB-
Interest bearing documentary non-convertible bearer bonds of 09 series, state registration number 40903500B	Fitch Ratings: A-

Refer to Note 28 for the disclosure of the fair value of debt securities in issue.

15 Other Borrowed Funds

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Term borrowings from other companies	6 651 124	5 066 671
Total other borrowed funds	**6 651 124**	**5 066 671**

Other borrowed funds represent borrowings from companies under common control. Refer to Note 28 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

16 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of Russian Roubles	**Tax risks**	**Legal risks**	**Total**
Carrying amount at 31 December 2013	**23 737**	**41 717**	**65 454**
Provision for impairment of liabilities and charges during the year	51 690	24 174	75 864
Utilisation of provision during the year	-	(100)	(100)
Carrying amount at 31 December 2014	**75 427**	**65 791**	**141 218**

Provision for uncertain tax positions and related penalties and interest. In 2014, the Bank recorded additional tax provisions of RR 51 690 thousand in respect of uncertain tax liabilities and related penalties and interest. The balance at 31 December 2014 is expected to be either fully utilised or released when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

Provision for legal claims. At 31 December 2014, the Bank set up a provision for legal claims amounting to RR 65 791 thousand (2013: RR 41 717 thousand) for current and potential legal proceedings with the Federal Anti-Monopoly Service of the Russian Federation (FAS). In management's opinion, after taking appropriate legal advice, the outcome of these proceedings will not give rise to any material loss beyond the accrued amounts. Refer to Note 27.

17 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of receivables under swap contract entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are long term in nature:

	Note	2014		2013	
In thousands of Russian Roubles		**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Swap contracts: fair values, at the end of the reporting period, of					
- RR receivable on settlement (+)		-	933 824	-	-
- RR payable on settlement (-)		-	(1 313 153)	-	-
Net fair value of swap contracts		**-**	**(379 329)**	**-**	**-**

Swap contract is entered into by the Bank in order to hedge the risk of the change of the fair value of bonds with coupon payable at fixed rate as a result of changes in market rates.

Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

18 Other Liabilities

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Trade payables	381 738	205 079
Payables to dealers	308 293	107 866
Accrued liabilities to the personnel	104 198	67 423
Taxation payable other than on income	39 842	32 842
Total other liabilities	**834 071**	**413 210**

19 Share Capital

The Bank's share capital was funded by contributions of participants in Roubles. The participants transferred cash to fund the Bank's share capital at the end of July 2010 and the Central Bank of the Russian Federation credited this cash to a special transit account up to the moment of issuance of license to the Bank as follows:

In thousands of Russian Roubles	**2 July 2010**
VOLKSWAGEN FINANCIAL SERVICES AG	1 742 400
VOLKSWAGEN BANK GMBH	17 600

The Bank's charter sets the amount of the share capital equal to RR 880 000 thousand. The amount of the participants' contributions in excess of the set amount of share capital and contributions from the participants to the Bank's property were recognised within additional paid-in capital.

In thousands of Russian Roubles	**Share capital**	**Additional paid-in capital**	**Total**
At 31 December 2012	**880 000**	**5 480 000**	**6 360 000**
Contributions from the participants to the Bank's property	-	3 200 000	**3 200 000**
At 31 December 2013	**880 000**	**8 680 000**	**9 560 000**
Contributions from the participants to the Bank's property	-	1 200 000	**1 200 000**
At 31 December 2014	**880 000**	**9 880 000**	**10 760 000**

20 Interest Income and Expense

In thousands of Russian Roubles	**2014**	**2013**
Interest income		
Loans to individuals – car loans	2 709 301	715 140
Corporate loans	1 247 953	1 410 198
Due from other banks	315 339	72 351
Total interest income	**4 272 593**	**2 197 689**
Interest expense		
Term placements of other banks	1 169 603	578 691
Debt securities in issue	502 279	-
Other borrowed funds	493 048	301 161
Total interest expense	**2 164 930**	**879 852**
Net interest income	**2 107 663**	**1 317 837**

Interest income includes RR 123 849 thousand (2013: RR 49 thousand) interest income, recognised on impaired loans to customers.

21 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2014**	**2013**
Fee and commission income		
Commission for storage of Vehicle Certificate of Title	21 907	20 004
Commission on settlement transactions	1 269	2 774
Total fee and commission income	**23 176**	**22 778**
Fee and commission expense		
Commission to dealers	118 386	28 234
Commission for promotion of financial services	90 215	60 121
Commission on settlement transactions	51 670	10 281
Surety fee	5 103	6 534
Other	50	4 636
Total fee and commission expense	**265 424**	**109 806**
Net fee and commission expense	**(242 248)**	**(87 028)**

22 Administrative and Other Operating Expenses

In thousands of Russian Roubles		**2014**	**2013**
Staff costs		532 541	388 659
Expenses related to equipment and intangible assets		253 212	66 431
Taxes other than on income		172 719	86 790
Professional services		97 371	120 078
Operating lease expenses		79 482	51 789
Depreciation of equipment and amortisation of intangible assets, including disposals	9	77 156	36 753
Advertising and marketing services		48 744	13 874
Communication, telecommunication and information system services		6 861	10 718
Audit fees		6 187	3 698
Security		4 557	3 655
Transport expenses		603	269
Other expenses		32 848	45 848
Total administrative and other operating expenses		**1 312 281**	**828 562**

Included in staff costs are statutory pension and social security contributions and contributions to the obligatory medical insurance fund of RR 68 905 thousand (2013: RR 52 789 thousand).

23 Income Taxes

(a) Components of income tax benefit

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Current income tax	194 550	-
Deferred tax	(175 618)	-
Income tax expense for the year	**18 932**	**-**

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

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

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2014**	**2013**
Profit/(loss) before tax	**452 118**	**(47 950)**
Theoretical tax credit at statutory rate (2014: 20%; 2013: 20%)	90 424	(9 590)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	-	8 470
Other non-temporary differences	(774)	12 346
Recognition of previously unrecognised other deferred tax assets	(70 718)	
Unrecognised potential deferred tax assets	-	(11 226)
Income tax expense for the year	**18 932**	**-**

(c) Tax loss carry forwards

The Bank had unrecognised deferred tax assets in respect of unused tax loss carry forwards. The amount of unrecognised tax asset was RR 121 371 thousand as at 31 December 2013. In 2014, tax losses were fully utilised.

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Tax loss carry-forwards expiring:		
- after 31 December 2018	-	606 853
Total tax loss carry forwards	**-**	**606 853**

23 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

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

In thousands of Russian Roubles	**1 January 2014**	**Credited/ (charged) to profit or loss**	**31 December 2014**
Tax effect of deductible/(taxable) temporary differences			
Equipment	(3 615)	1 287	(2 328)
Intangible assets	6 705	1 622	8 327
Provision for loan impairment	(87 072)	155 033	67 961
Other assets	-	(15 313)	(15 313)
Debt securities in issue		(5 117)	(5 117)
Accruals	33 329	88 759	122 088
Tax loss carry forwards	121 371	(121 371)	-
Total net deferred tax asset	**70 718**	**104 900**	**175 618**
Recognised deferred tax asset	-	198 376	198 376
Recognised deferred tax liability	-	(22 758)	(22 758)

In thousands of Russian Roubles	**1 January 2013**	**Credited/ (charged) to profit or loss**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences			
Equipment	(3 252)	(363)	(3 615)
Intangible assets	3 323	3 382	6 705
Provision for loan impairment	(125 310)	38 238	(87 072)
Accrued expenses	4 536	28 793	33 329
Tax loss carry forwards	202 647	(81 276)	121 371
Total net deferred tax asset/(liability)	**81 944**	**(11 226)**	**70 718**
Recognised deferred tax asset	-	-	-
Recognised deferred tax liability	-	-	-
Net deferred tax asset/(liability)	**-**	**-**	**-**

24 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank. Management establishes segments in accordance with the Bank's lines of business. All significant segments operate in the Russian Federation in similar economic environment.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of the following main business segments:

- Retail banking – representing car loans to individuals.
- Corporate banking – representing settlement and current accounts of entities, deposits, lending to legal entities
- Bank's own operations – representing the Bank's operations in the debt capital market, transactions with financial instruments and other operations.

(b) Factors that management used to identify the reportable segments

The Bank’s segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

Accounting policies, on the basis of which segment information is provided are generally the same as the policies described in Summary of Significant Accounting Policies, except for classification of certain income and expense items.

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Assets and liabilities of the Bank's segments are as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Corporate banking	1 173 595	12 269 229
Retail banking	25 219 094	16 033 820
Bank's own operations	15 711 953	2 218 595
Total assets of business segments	**42 104 642**	**30 521 644**
Corporate banking	59 177	125 768
Retail banking	402 814	178 809
Bank's own operations	30 973 140	21 180 742
Total liabilities of business segments	**31 435 131**	**21 485 319**

24 Segment Analysis (Continued)

The Bank's business segments for year ended 31 December 2014 are as follows:

In thousands of Russian Roubles	**Corporate banking**	**Retail banking**	**Bank's own operations**	**Total**
Interest income	1 241 407	2 951 390	321 885	**4 514 682**
Interest expense	-	-	(2 172 809)	**(2 172 809)**
Intersegment (expenses)/income	(1 249 712)	(914 046)	2 163 758	**-**
Net interest income/(expense)	**(8 305)**	**2 037 344**	**312 834**	**2 341 873**
Recovery of provision/(provision) for loan impairment	162 769	(195 981)	(38 421)	**(71 633)**
Net interest income after provision for loan impairment	**154 464**	**1 841 363**	**274 413**	**2 270 240**
Fee and commission income	21 907	29 714	1 269	**52 890**
Fee and commission expense	(4 762)	(516 654)	(637)	**(522 053)**
Losses less gains from trading in foreign currencies	-	-	(313)	**(313)**
Losses less gains from foreign exchange translation	-	-	(2 121)	**(2 121)**
Ineffectiveness from hedge accounting	-	-	31 556	**31 556**
Other operating income	-	-	10 064	**10 064**
Provisions for liabilities and charges	-	-	(75 864)	**(75 864)**
Administrative and other operating expenses	(334 494)	(778 422)	(199 365)	**(1 312 281)**
Profit/(loss) before tax (segment result)	**(162 885)**	**576 001**	**39 002**	**452 118**

The Bank's business segments for year ended 31 December 2013 are as follows:

In thousands of Russian Roubles	**Corporate banking**	**Retail banking**	**Bank's own operations**	**Total**
Interest income	1 410 197	758 697	72 351	**2 241 245**
Interest expense	-	-	(879 852)	**(879 852)**
Intersegment (expenses)/income	(723 660)	(158 791)	882 451	**-**
Net interest income/(expense)	**686 537**	**599 906**	**74 950**	**1 361 393**
Provision for loan impairment	(5 382)	(384 723)	-	**(390 105)**
Net interest income after provision for loan impairment	**681 155**	**215 183**	**74 950**	**971 288**
Fee and commission income	21 375	-	1 403	**22 778**
Fee and commission expense	(6 677)	(145 669)	(1 016)	**(153 362)**
Losses less gains from trading in foreign currencies	-	-	(29)	**(29)**
Other operating income	-		5 391	**5 391**
Provisions for liabilities and charges	-	-	(65 454)	**(65 454)**
Administrative and other operating expenses	(277 773)	(515 865)	(34 924)	**(828 562)**
Profit/(loss) before tax (segment result)	**418 080**	**(446 351)**	**(19 679)**	**(47 950)**

The Bank does not have customers with the revenues exceeding 10% of the total revenue of the Bank.

25 Financial Risk Management

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

Risk management procedures include the procedures for identification, classification, measurement, stress testing, limit setting, control over the use of limits, provision of reporting to management and mitigation of risk impact.

The following methods are used in order to mitigate the accepted risks:

- assessment of aggregate risk appetite with account for the entity's capacities;
- use of the system of limits by division with account for the types of material risks;
- use of stress testing;
- implementation of the procedures for setting limits for individual borrowers and types of financial instruments using VaR methodology ((Value–at-Risk).

Internal reporting on risk-related matters is provided to the Management and the Supervisory Board on a quarterly and annual basis. These reports include the information about the volume of accepted risks by risk type, information about capital requirements and projected capital requirements for the foreseeable period.

According to results of risk inspection of the Bank (within materiality analysis), the following types of risks were considered material for the Bank:

- Credit risk;
- Market price risk;
- Operational risk;
- Liquidity risk;
- Reputational risk;
- Strategic risk.

The most significant measurable risk is credit risk, which is in line with the specifics of banking operations.

Risk management cycle includes the following elements:

- Risk management strategy;
- Risk assessment, including identification and documentation of risks;
- Risk monitoring;
- Risk control;
- Communication of risks, including submission of reports.

The matters of risk management strategy, financial stability, corporate governance of the Bank are included in the competence of the *Supervisory Board*.

25 Financial Risk Management (Continued)

The Bank's Management Board:

- ensures the Bank's compliance with the business strategy, risk appetite and internal regulations of the Bank;
- controls timely and adequate identification, assessment, monitoring and mitigation of risks;
- ensures operation of risk management systems and efficient internal control system;
- ensures allocation of duties among business units and employees responsible for specific internal control areas.

Department of Management of Credit, Operating, Market Risks and Methodology of the Bank is the unit responsible for the Bank's risk management.

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The credit risk is mitigated by collateral and other credit enhancements (guarantees).

The Bank discloses the information about collateral and other loan security forms in the notes to financial statements.

The Bank's borrowers are the dealers of automotive companies that are funded for the purpose of car purchase and individuals acquiring motor vehicles. The Credit Check Department performs the analysis of the borrowers' performance. The information on the borrower and the potential deal is included in the loan application and submitted to the Credit Committee, which considers the application and takes a decision.

In order to monitor credit risk exposures, regular reports are produced by Credit Check Department and Department of Credit, Operational, Market Risk Management and Methodology staff based on the analysis of the customer's business and financial performance and the existing customer portfolio. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board and the Supervisory Board.

Analysis of risks by maturities and control of overdue balances is carried out by the Department for Relations with Counterparties and Corporate Clients along with the Department of Credit, Operational, Market Risk Management and Methodology.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank's Supervisory Board is responsible for overall supervision over the risk management process and for establishing the policy and procedures in the area of market risk, as well as for ensuring compliance with the policy and for the review of the quality of market risk management.

25 Financial Risk Management (Continued)

The Management Board of the Bank controls the level of market risk, gives instructions on market risk management to the heads of the Bank's business units, makes proposals on the changes to the Bank's internal regulations on market risk management, establishes the system of market risk management, sets limits and ensures availability of reports on the matters related to market risk management, establishes the system of internal control over market risk management, and identifies the Bank's executives participating in interest rate risk management.

Currency risk. The Bank monitors compliance with the CBRF requirements to open currency position limits set by CBRF Instruction No. 124-I of 15 July 2005 "On Establishing Amounts (Limits) of Open Currency Positions, Calculation Methodology and Specifics of Oversight over Their Compliance by Credit Institutions" on a regular basis.

At the end of 31 December 2014 and 2013, the Bank had no foreign currency financial assets or liabilities.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Changes in interest rates can result in the situation where the Bank's liabilities bear non-proportionally high interest rates as compared to interest rates of assets, and vice versa. One of the objectives of the Bank is to minimise losses from unexpected adverse changes in interest margin. In order to hedge interest rate risk the Bank uses interest rate swaps alongside with other instruments.

Treasury Department of the Bank monitors interest rate risk within the scope of the Asset-Liability Management (ALM) procedure on a monthly basis. Regular ALM procedure is aimed at mitigation of interest rate risks and ensures compliance with the internally set limits for assets and liabilities interest rate gap by dates. Monitoring of compliance with internal limits is the responsibility of ALCO.

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

In thousands of Russian Roubles	**Demand and less than 1 day**	**From 1 day to 3 months**	**3 months to 1 year**	**From 1 to 5 years**	**Total**
31 December 2014					
Total financial assets	10 954 775	2 831 189	8 947 485	15 334 422	**38 067871**
Total financial liabilities	-	5 302 579	5 231 164	19 650 782	**30 184 525**
Net interest sensitivity gap at 31 December 2014	**10 954 775**	**(2 471 390)**	**3 716 321**	**(4 316 360)**	**7 883 346**
31 December 2013					
Total financial assets	864 121	4 340 657	14 333 254	9 275 868	**28 813 900**
Total financial liabilities	70	6 485 158	7 745 185	6 024 467	**20 254 880**
Net interest sensitivity gap at 31 December 2013	**864 051**	**(2 144 501)**	**6 588 069**	**3 251 401**	**8 559 020**

25 Financial Risk Management (Continued)

Some of the Bank's standard credit products have complex interest rate structure, which is reviewed on a monthly basis.

At 31 December 2014, if interest rates had been 300 basis points lower (2013: 300 basis points lower), with all other variables held constant, profit before tax would have been RR 305 578 thousand (2013: net loss RR 43 744 thousand higher) lower, mainly as a result of lower interest income on loans issued to legal entities and individuals.

If interest rates had been 300 basis points higher (2013: 300 basis points higher), with all other variables held constant, profit before tax would have been RR 305 578 thousand (2013: net loss RR 43 744 thousand lower) higher, mainly as a result of higher interest income on loans issued to legal entities and individuals.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel:

	2014			2013		
In % p.a.	**RR**	**US Dollars**	**Euro**	**RR**	**US Dollars**	**Euro**
Assets						
Cash and cash equivalents	13.76%	-	-	6.5%	-	-
Loans and advances to customers						
- corporate customers	18.66%	-	-	10%	-	-
- loans to individuals - car loans	12.43%	-	-	11%	-	-
Liabilities						
Due to other banks	8.76%	-	-	8%	-	-
Customer accounts	0%	-	-	0%	-	-
Debt securities in issue	10.65%	-	-	-	-	-
Other borrowed funds	9.96%	-	-	7%	-	-

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

Other price risk. The Bank is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to repay the loans early. The Bank’s current year financial result and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to the amortised cost of the loans and advances to customers.

25 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Russia**	**OECD**	**Total**
Financial assets			
Cash and cash equivalents	14 141 660	-	**14 141 660**
Mandatory cash balances with the Bank of Russia	148 522	-	**148 522**
Loans and advances to customers	27 118 469	-	**27 118 469**
Other financial assets	192 345	-	**192 345**
Total financial assets	**41 600 996**	**-**	**41 600 996**
Financial liabilities			
Due to banks	4 518 270	3 819 394	**8 337 664**
Customer accounts	182 333	-	**182 333**
Debt securities in issue	14 816 408	-	**14 816 408**
Other borrowed funds	-	6 651 124	**6 651 124**
Derivative financial instruments	379 329	-	**379 329**
Total financial liabilities	**19 896 340**	**10 470 518**	**30 366 858**
Net balance sheet position	**21 704 656**	**(10 470 518)**	**11 234 138**
Credit related commitments	**20 929 158**	**-**	**20 929 158**

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

In thousands of Russian Roubles	**Russia**	**OECD**	**Total**
Financial assets			
Cash and cash equivalents	1 926 849	-	1 926 849
Mandatory cash balances with the Bank of Russia	101 251	-	101 251
Loans and advances to customers	28 200 104	-	28 200 104
Other financial assets	113 707	-	113 707
		-	
Total financial assets	**30 341 911**	**-**	**30 341 911**
Financial liabilities			
Due to banks	11 196 091	3 992 118	15 188 209
Customer accounts	751 775	-	751 775
Other borrowed funds	-	5 066 671	5 066 671
Total financial liabilities	**11 947 866**	**9 058 789**	**21 006 655**
Net balance sheet position	**18 394 045**	**(9 058 789)**	**9 335 256**
Credit related commitments	**20 409 965**	**-**	**20 409 965**

25 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 5% of net assets. Refer to Notes 8 and 11.

Liquidity risk. Liquidity risk is the risk that the Bank will lose its ability to timely and fully fulfil its monetary and other obligations arising from the Bank's current activities, including settlements on overnight deposits, accounts on demand, maturing deposits, loan draw-downs.

Liquidity risk management is the responsibility of ALCO. The Committee analyses on a regular basis the current and projected liquidity of the Bank, develops the strategy for the use of money market instruments and funding sources, establishes internal liquidity ratios.

For the purposes of liquidity risk management the Bank's Treasury projects cash flows and ensures availability of sufficient funds to meet the Bank's cash flow requirements. The Bank's liquidity is managed and forecasted on the basis of cash flow management model implemented by Treasury and agreed with the Assets and Liabilities Management Committee (ALCO). Cash flow management model is based on the principles of effective communication between business units, back-testing, regular adjustment of projected values to business requirements. Within the scope of this model the Treasury Department regularly stress tests the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The Bank has developed a Contingency plan of actions to be taken in order to support liquidity. This plan defines the liquidity deficit event, the measures aimed at its prevention and actions required for its avoidance.

On the basis of actual and projected data the Treasury establishes the portfolio of short-term liquid assets, mainly comprising balances on correspondent accounts (including the correspondent account with the CBRF), deposits with banks and other interbank instruments, which is sufficient for meeting the Bank's obligations set by the CBRF in accordance with CBRF Instruction No. 139-I of 3 December 2012 “On Obligatory Ratios for Banks”.

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 1 733.6% at 31 December 2014 (2013: 153.0%).
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 2 332.4% at 31 December 2014 (2013: 91.3%).
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 56.9% at 31 December 2014 (2013: 90.9%).

The table below shows maturity analysis of assets and liabilities at 31 December 2014 and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

25 Financial Risk Management (Continued)

The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

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

In thousands of Russian Roubles	**Demand and less than 1 day**	**From 1 day to 3 months**	**3 months to 1 year**	**From 1 to 5 years**	**Total**
Financial assets					
Cash and cash equivalents	12 158 411	2 035 764	-	-	**14 194 175**
Mandatory cash balances with the Bank of Russia	148 522	-	-	-	**148 522**
Loans and advances to customers	301 726	4 067 067	10 593 161	18 698 573	**33 660 527**
Other financial assets	-	192 345	-	-	**192 345**
Total	**12 608 659**	**6 295 176**	**10 593 161**	**18 698 573**	**48 195 569**
Financial liabilities					
Due to banks	301	1 280 682	3 685 824	4 068 874	**9 035 681**
Customer accounts	182 333	-	-	-	**182 333**
Debt securities in issue	-	-	1 601 800	16 367 400	**17 969 200**
Other borrowed funds	-	4 138 493	1 548 187	1 350 220	**7 036 900**
Derivative financial instruments	-	140 485	206 750	13 313	**360 548**
Total potential future payments for financial obligations	**182 634**	**5 559 660**	**7 042 561**	**21 799 807**	**34 584 662**
Liquidity gap arising from financial instruments	**12 426 025**	**735 516**	**3 550 600**	**(3 101 234)**	**13 610 907**
Credit related commitments	**20 929 158**	**-**	**-**	**-**	**20 929 158**

25 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Demand and less than 1 day**	**From 1 day to 3 months**	**3 months to 1 year**	**From 1 to 5 years**	**Total**
Financial assets					
Cash and cash equivalents	1 927 650	-	-	-	**1 927 650**
Mandatory cash balances with the Bank of Russia	101 251	-	-	-	**101 251**
Loans and advances to customers	113 474	4 261 943	14 844 995	13 387 762	**32 608 174**
Other financial assets	-	113 707	-	-	**113 707**
Total	**2 142 375**	**4 375 650**	**14 844 995**	**13 387 762**	**34 750 782**
Financial liabilities					
Due to banks	70	5 136 571	5 025 395	6 128 486	**16 290 522**
Customer accounts	751 775	-	-	-	**751 775**
Other borrowed funds	-	1 407 881	3 038 974	785 745	**5 232 600**
Total potential future payments for financial obligations	**751 845**	**6 544 452**	**8 064 369**	**6 914 231**	**22 274 897**
Liquidity gap arising from financial instruments	**1 390 530**	**(2 168 802)**	**6 780 626**	**6 473 531**	**12 475 885**
Credit related commitments	**20 409 965**	**-**	**-**	**-**	**20 409 965**

26 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed at 31 December 2014 was RR 10 669 511 thousand (2013: RR 9 036 325 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of Board and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Net assets under Russian GAAP	7 836 967	6 112 702
Total regulatory capital	**7 836 967**	**6 112 702**

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

27 Contingencies and Commitments

***Legal proceedings*.** On 17 July 2012, the Federal Antimonopoly Service of Russia ("FAS") filed a case against OAO BANK URALSIB and LLC VW Bank RUS for violation of part 4 of Article 11 of Federal Law No. 135-FZ of 26.07.2006 "On Protection of Competition". On 23 October 2013, the joint commission of FAS and CB RF concluded that OAO BANK URALSIB and LLC VW Bank RUS violated part 4 of Article 11 of Federal Law "On Protection of Competition".

On 12 February 2014, FAS issued a ruling stating that LLC VW Bank RUS was found guilty of administrative violation, provided for in part 1 of Article 14.32 of the Code of Administrative Offences, and imposed an administrative penalty of RR 100 thousand. The Bank filed an appeal against this ruling to the Arbitration Court of Moscow. The Arbitration Court of Moscow sustained the ruling. The Bank paid penalty of RR 100 thousand. These expenses were covered by the earlier booked provision. Refer to Note 16.

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

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

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

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

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

In addition to the above matters, management estimates that the Bank has other possible obligations from exposure to other than remote tax risks of RR 75 427 thousand (2013: RR 23 737 thousand). Refer to Note 14. These exposures primarily relate to the contract on promotion of financial services. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Bank's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

27 Contingencies and Commitments (Continued)

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

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Not later than 1 year	68 831	38 401
Later than 1 year and not later than 5 years	93 507	6 046
Total operating lease commitments	**162 338**	**44 447**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**31 December 2014**	**31 December 2013**
Undrawn credit lines	20 929 158	20 409 965

The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

All credit related commitments are denominated in Russian roubles.

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 148 522 thousand (2013: RR 101 251 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

28 Fair Value of Financial Instruments

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

(a) Recurring fair value measurements

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

	31 December 2014				**31 December 2013**			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
LIABILITIES CARRIED AT FAIR VALUE								
- Derivative financial instruments	-	-	379 329	379 329	-	-	-	-
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**379 329**	**379 329**	**-**	**-**	**-**	**-**

28 Fair Value of Financial Instruments (Continued)

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

In thousands of Russian Roubles	**Fair value**	**Valuation technique**	**Inputs used**
LIABILITIES CARRIED AT FAIR VALUE			
FINANCIAL LIABILITIES			
- Derivative financial instruments	379 329	Discounted cash flows	Instrument yield curve RUBZ=R in ThomsonReuters system and interest rate swap (Mid price)
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**379 329**		

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

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

	31 December 2014				**31 December 2013**			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
ASSETS								
Cash and cash equivalents								
- Cash balances with CBRF	2 938 262	-	-	2 938 262	1 110 925	-	-	1 110 925
- Correspondent accounts and overnight placements	446 341	-	-	446 341	315 835	-	-	315 835
- Placements with other banks with original maturities of less than three months	10 757 057	-	-	10 757 057	500 089	-	-	500 089
Mandatory cash balances with CBRF	148 522	-	-	148 522	101 251	-	-	101 251
Loans and advances to customers								
- Corporate loans	-	-	2 091 720	2 091 720	-	-	12 277 844	12 277 844
- Loans to individuals - car loans	-	-	21 127 214	25 026 749	-	-	15 585 065	15 922 260
Other financial assets	192 345	-	-	192 345	113 707	-	-	113 707
Total	**14 482 527**	**-**	**23 218 934**	**41 600 996**	**2 141 807**	**-**	**27 862 909**	**30 341 911**

28 Fair Value of Financial Instruments (Continued)

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

	31 December 2014				31 December 2013			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	301	-	-	301	70	-	-	70
- Short-term placements of other banks	830 729	-	-	830 729	9 884 884	-	-	9 884 884
- Long- term placements of other banks	-	-	6 784 760	7 506 634	-	-	5 226 143	5 303 255
Customer accounts								
- Current/settlement accounts of other legal entities	182 333	-	-	182 333	751 775	-	-	751 775
Debt securities in issue	13 719 550	-	-	14 816 408	-	-	-	-
Other borrowed funds								
- Term borrowings from companies	-	-	6 407 639	6 651 124	-	-	5 061 398	5 066 671
Total	**14 732 913**	**-**	**13 192 399**	**29 987 529**	**10 636 729**	**-**	**10 287 541**	**21 006 655**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

29 Presentation of Financial Instruments by Measurement Category

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

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2014:

In thousands of Russian Roubles	**Loans and receivables**
ASSETS	
Cash and cash equivalents	14 141 660
Mandatory cash balances with the Bank of Russia	148 522
Other financial assets	192 345
Loans and advances to customers	
- Corporate loans	2 091 720
- Loans to individuals – car loans	25 026 749
TOTAL FINANCIAL ASSETS	**41 600 996**

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

In thousands of Russian Roubles	**Loans and receivables**
ASSETS	
Cash and cash equivalents	1 926 849
Mandatory cash balances with the Bank of Russia	101 251
Other financial assets	113 707
Loans and advances to customers	
- Corporate loans	12 277 844
- Loans to individuals – car loans	15 922 260
TOTAL FINANCIAL ASSETS	**30 341 911**

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

30 Related Party Transactions

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

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

In thousands of Russian Roubles	**Participants of the Bank**	**Entities under common control**	**Total**
Loans and advances to customers (contractual interest rate: 14.66% - 15.15%)	-	956 546	**956 546**
Other financial assets	-	175 739	**175 739**
Other assets	-	11 962	**11 962**
Due to other banks (contractual interest rate: 7.69-8.24% p.a.)	(3 819 394)	-	**(3 819 394)**
Customer accounts (contractual interest rate: 0%)	-	(123 156)	**(123 156)**
Other borrowed funds (contractual interest rate: 7.52%-10.70% p.a.)	-	(6 651 124)	**(6 651 124)**
Other liabilities	(22 266)	(129 798)	**(152 064)**

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

In thousands of Russian Roubles	**Participants of the Bank**	**Entities under common control**	**Total**
Interest income	-	224 706	**224 706**
Interest expense	(312 521)	(493 048)	**(805 569)**
Fee and commission income	-	21 907	**21 907**
Fee and commission expense	(5 103)	(90 215)	**(95 318)**
Other operating income	-	4 985	**4 985**
Administrative and other operating expenses	(22 013)	(89 360)	**(111 373)**

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

In thousands of Russian Roubles	**Entities under common control**
Amounts lent to related parties during the year	950 000
Amounts repaid by related parties during the period	-

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

In thousands of Russian Roubles	**Participants of the Bank**	**Entities under common control**	**Total**
Other financial assets	-	92 496	**92 496**
Other assets		17 641	**17 641**
Due to other banks (contractual interest rate: 7.60-8.24% p.a.)	(3 992 118)	-	**(3 992 118)**
Customer accounts (contractual interest rate: 0%)	-	(626 006)	**(626 006)**
Other borrowed funds (contractual interest rate: 7.04%-7.52% p.a.)	-	(5 066 671)	**(5 066 671)**
Other liabilities	(554)	(86 142)	**(86 696)**

30 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	Participants of the Bank	Entities under common control	Total
Interest income	-	198 425	**198 425**
Interest expense	(112 840)	(301 161)	**(414 001)**
Provision for loan impairment	-	1 697	**1 697**
Fee and commission income	-	20 004	**20 004**
Fee and commission expense	(6 534)	(60 121)	**(66 655)**
Other operating income	-	4 983	**4 983**
Administrative and other operating expenses	-	(93 790)	**(93 790)**

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

In thousands of Russian Roubles	Entities under common control
Amounts lent to related parties during the year	**-**
Amounts repaid by related parties during the period	150 000

The ultimate beneficiary and ultimate controlling party of the Bank is Volkswagen AG (Germany).

Key management compensation is presented below:

	2014		2013	
In thousands of Russian Roubles	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	9 356	**-**	21 031	**-**
- Short-term bonuses	2 521	2 048	13 940	8 966
Total	**11 877**	**2 048**	**34 971**	**8 966**

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

In 2014, the amount of statutory pension and social security contributions and contributions to the obligatory medical insurance fund was RR 1 538 thousand (2013: RR 3 521 thousand).

31 Events After the Reporting Date

On 16 January 2015, long-term rating of the Bank's interest-bearing documentary non-convertible bearer bonds of series 07, 08 and 09 was changed from A- to BBB+ according to Fitch Ratings.

On 09 February 2015, long-term rating of the Bank's interest-bearing documentary non-convertible bearer bonds of series 07, 08 and 09 was changed from BBB- to BB+ according to Standard & Poor’s.

32 Publication of Financial Statements

The Management took a decision to disclose the Bank's financial statements at the Bank's official website at www.vwbank.ru