JSC Nordea Bank

International Financial Reporting Standards Unconsolidated Financial Statements and Auditors' Report

31 December 2014

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Auditors' Report

To the Shareholders and Board of Directors

JSC Nordea Bank

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

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these unconsolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated financial statements.

Audited entity: JSC Nordea Bank

Registered by the Central Bank of the Russian Federation on 3 August 1994, License No 3016.

Entered in the Unified State Register of Legal Entities on 23 October 2002 by Moscow Inter-Regional Tax Inspectorate No 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739436955, Certificate series 77 No 005390677.

Address of the audited entity: 19/1, 3-ya ulitsa Yamskogo Polya, Moscow, 125040.

Independent auditor: JSC KPMG, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No 1027700125628, Certificate series 77 No 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No 10301000804.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these unconsolidated financial statements.

Opinion

In our opinion, the unconsolidated 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 2014 in accordance with International Financial Reporting Standards.

Report of findings from procedures performed in accordance with the requirements of Article 42 of the Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Bank's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of the Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Bank compliance with mandatory ratios as at 1 January 2015 as established by the Bank of Russia; and
- compliance of elements of the Bank's internal control and organisation of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Bank's compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2015 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank other than those which we considered necessary to enable us to express an opinion as to whether the Bank's unconsolidated 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 2014 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of the Bank's internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2014, the Bank's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;

- as at 31 December 2014, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2014, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2014, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2014 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Bank's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

Акционерное общество КПМГ ОГРН 1027700125628 * МОСКВА
КПМГ
KPMG

Marina Malyutina

Director

(power of attorney dated 16 March 2015 No 16/15)

JSC KPMG

Moscow, Russian Federation

17 March 2015

In millions of Russian Roubles	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	6	70 761	37 349
Mandatory cash balances with the CBR		3 694	2 459
Trading securities	7	5 553	10 006
Due from other banks	8	11 855	23 041
Loans and advances to customers	9	312 730	201 167
Derivative financial instruments	10	1 855	326
Premises and equipment and intangible assets		1 247	1 252
Deferred income tax asset	21	83	86
Other assets	11	770	1 006
TOTAL ASSETS		**408 548**	**276 692**
LIABILITIES			
Due to other banks	12	310 851	150 498
Customer accounts	13	50 849	87 375
Promissory notes issued	14	229	478
Derivative financial instruments	10	396	357
Other liabilities	15	1 329	1 277
Subordinated debt	16	12 076	7 378
TOTAL LIABILITIES		**375 730**	**247 363**
EQUITY			
Share capital	17	11 234	11 234
Retained earnings		21 584	18 095
TOTAL EQUITY		**32 818**	**29 329**
TOTAL LIABILITIES AND EQUITY		**408 548**	**276 692**

Approved for issue and signed on behalf of the Management Board on 17 March 2015.

I.V. Bulantsev
Chairman of the Management Board

АО «Нордеа Банк»

T.N. Sharova
Chief Accountant

In millions of Russian Roubles	Note	2014	2013
Interest income	18	14 159	11 884
Interest expense	18	(5 493)	(4 437)
Net interest income		**8 666**	**7 447**
Loan impairment (losses) recovery	9	(340)	280
Net interest income after loan impairment		**8 326**	**7 727**
Fee and commission income	19	759	709
Fee and commission expense	19	(1 082)	(1 059)
Losses net of gains arising from non-derivative financial instruments		(464)	(20)
Gains less losses from financial derivatives		1 848	475
Gains less losses from trading in foreign currencies		392	214
Foreign exchange translation (losses net of gains) gains less losses		(404)	242
Other operating income		9	23
Administrative and other operating expenses	20	(4 940)	(4 598)
Profit before tax		**4 444**	**3 713**
Income tax expense	21	(975)	(758)
Profit for the year		**3 469**	**2 955**
Other comprehensive income		-	-
Total comprehensive income for the year		**3 469**	**2 955**

I.V. Bulantsev
Chairman of the Management Board

T.N. Sharova
Chief Accountant

АО «Нордеа Банк»

In millions of Russian Roubles	Share capital	Retained earnings	Total equity
Balance at 1 January 2013	**11 234**	**15 125**	**26 359**
Profit for the year	-	2 955	2 955
Total comprehensive income for 2013	-	**2 955**	**2 955**
Employee share scheme	-	15	15
Balance at 31 December 2013	**11 234**	**18 095**	**29 329**
Profit for the year	-	3 469	3 469
Total comprehensive income for 2014	-	**3 469**	**3 469**
Employee share scheme	-	20	20
Balance at 31 December 2014	**11 234**	**21 584**	**32 818**

I.V. Bulantsev
Chairman of the Management Board

АО «Нордеа Банк»

T.N. Sharova
Chief Accountant

In millions of Russian Roubles	Note	2014	2013
Cash flows from operating activities			
Interest received		14 491	11 879
Interest paid		(5 406)	(4 607)
Fees and commissions received		765	694
Fees and commissions paid		(1 029)	(1 149)
Net payments from non-derivative financial instruments		(26)	(29)
Net payments from financial derivatives		(1 961)	(1 642)
Net receipts from trading in foreign currencies		392	214
Other operating income received		8	19
Administrative and other operating expenses paid		(4 440)	(4 349)
Income tax paid		(1 002)	(715)
Cash flows from operating activities before changes in operating assets and liabilities		**1 792**	**315**
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory cash balances with the CBR		(1 235)	1 660
Net decrease (increase) in trading securities		4 015	(224)
Net decrease in due from other banks		17 226	8 777
Net decrease (increase) in loans and advances to customers		8 651	(6 875)
Net increase in other assets		(1)	(106)
Net increase in due to other banks		36 616	12 342
Net decrease in customer accounts		(46 385)	(10 556)
Net (decrease) increase in promissory notes issued		(273)	305
Net decrease in other liabilities		(174)	(11)
Net cash from operating activities		**20 232**	**5 627**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(243)	(463)
Proceeds from disposal of premises and equipment and intangible assets		4	19
Net cash used in investing activities		**(239)**	**(444)**
Cash flows from financing activities			
Proceeds from subordinated debt		2 102	-
Repayments of subordinated debt		(2 318)	(2 250)
Net cash used in financing activities		**(216)**	**(2 250)**
Effect of exchange rate changes on cash and cash equivalents		**13 635**	**608**
Net increase in cash and cash equivalents		**33 412**	**3 541**
Cash and cash equivalents at the beginning of the year		37 349	33 808
Cash and cash equivalents at the end of the year	6	**70 761**	**37 349**

I.V. Bulantsev
Chairman of the Management Board

АО «Нордеа Банк»

T.N. Sharova
Chief Accountant

1 Introduction

These unconsolidated financial statements (the "financial statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2014 for Joint Stock Company Nordea Bank (the "Bank").

The Bank was established in 1994 and is domiciled in the Russian Federation. The Bank is a joint stock company and was set up in accordance with Russian regulations.

The Bank changed its full name to Joint Stock Corporation "Nordea Bank" to comply with requirements of Federal Law No 99-FZ dated 5 May 2014 *On Amendments to Chapter 4 of the Civil Code of the Russian Federation and Invalidating Certain Provisions of Legislative Acts of the Russian Federation*. The Bank registered a new edition of the Charter in the United State Register of Legal Entities on 2 December 2014 to reflect that change.

The Bank's sole shareholder is Nordea Bank AB. Nordea Bank AB is a public company and has no majority shareholders.

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank operates under general banking license No 3016 issued by the Central Bank of the Russian Federation (the "CBR") since 1994. The Bank participates in the state deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RUB 1 400 thousand per individual in case of a withdrawal of a bank's licence or moratorium on payments imposed by the CBR.

The Bank has 4 branches (2013: 4) and 18 additional offices (2013: 19).

As at 31 December 2014, the number of employees was 1 539 (2013: 1 585).

Registered address and place of business. The Bank's registered address and place of business is 19/1, 3-ya ulitsa Yamskogo Polya, Moscow, Russian Federation, 125040.

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

2 Operating environment of the Bank

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (refer to Note 24).

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. 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 actual level of potential impairment losses from financial assets could differ significantly from the current level of provisions (refer to Note 4).

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

2 Operating environment of the Bank (continued)

These financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. Management believes that all necessary steps have been made to ensure sustainability and growth of the Bank's business.

3 Summary of significant accounting policies

Basis of preparation. These unconsolidated financial statements are prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial assets and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these unconsolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated. Investments in subsidiaries are stated at historical costs in these unconsolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

The Bank as a parent company prepares consolidated financial statements in accordance with IFRS. The consolidated financial statements for the year ended 31 December 2014 were issued on 16 March 2015 and are available on the official web site of the Bank.

The unconsolidated financial statements meet the requirements of IFRS with respect to separate financial statements of the parent company.

Future preparation of the Bank's unconsolidated financial statements depends on the requirements of the CBR.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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.

3 Summary of significant accounting policies (continued)

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 unconsolidated statement of financial position.

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank deposits, except for overnight placements, are included in due from other banks. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBR. Mandatory cash balances with the CBR 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 unconsolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Financial assets other than loans and receivables are permitted to be reclassified out of at fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

3 Summary of significant accounting policies (continued)

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

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

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 losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment has been incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factor that the Bank considers in determining whether a financial asset is impaired is its overdue status.

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

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

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

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

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

3 Summary of significant accounting policies (continued)

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

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

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

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

Where repossessed collateral results in acquiring control or significant influence over a business, the Bank recognises acquisition of a subsidiary or associate with carrying value of the settled loan representing the cost of acquisition.

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

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

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

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the unconsolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the obligation to return the securities is recorded at fair value in other borrowed funds.

3 Summary of significant accounting policies (continued)

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

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

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

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

Depreciation. Depreciation of fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives in years
Premises	30-50
Leasehold improvements	7-10
Office equipment	2-7
Computers	3-5
Furniture and fittings	5
Motor vehicles	3-4

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

Intangible assets. The Bank’s intangible assets have definite useful lives and primarily include capitalised computer software and acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 7 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (as lease expenses) 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 individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued are stated at amortised cost. If the Bank purchases its own promissory notes issued, they are removed from the unconsolidated statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

3 Summary of significant accounting policies (continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Subordinated debt. Subordinated debt is recorded when money is advanced to the Bank by counterparty banks. Subordinated debt is carried at amortised cost.

Investments in unconsolidated subsidiaries. Investments in unconsolidated subsidiaries are carried at cost less impairment.

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

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

Deferred income tax is recognised 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 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.

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

Share capital. Ordinary shares that are not redeemable and with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3 Summary of significant accounting policies (continued)

Employee share scheme. Employees participating in Long Term Incentive Programmes are granted share-based and equity-settled rights, i.e. rights to receive shares for free or to acquire shares in Nordea Bank AB at a significant discount compared to the share price at grant date. The value of such rights is expensed. The expense is based on the estimated fair value of each right at grant date. The total fair value of these rights is determined based on the estimate of the number of rights that will eventually vest, which is reassessed at each reporting date, and is expensed on a straight – line basis over the vesting period. The vesting period is the period that the employees have to remain in service in the Bank in order for their rights to vest.

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.

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency and presentation currency is the national currency of the Russian Federation, Russian Roubles.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into roubles at the official exchange rates of the CBR at the transaction date are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

3 Summary of significant accounting policies (continued)

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the period in which the associated services are rendered by the employees.

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 unconsolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

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. 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 include:

Impairment losses 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 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. If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected 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.

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

5 New accounting pronouncements

The Bank has adopted the following amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Bank does not expect that these amendments will have an impact on its financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these unconsolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments*, published in July 2014, is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

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

6 Cash and cash equivalents

In millions of Russian Roubles	**2014**	**2013**
Cash on hand	6 903	1 160
Cash balances with the CBR and overnight placements (other than mandatory cash balances)	29 531	2 795
Correspondent accounts and overnight placements with other banks		
- the Russian Federation	1 241	890
- OECD countries	29 343	29 978
Settlements with trading systems	3 743	2 526
Total cash and cash equivalents	**70 761**	**37 349**

6 Cash and cash equivalents (continued)

Analysis by credit quality of cash and cash equivalents balances based on internal ratings at 31 December 2014 is as follows (refer to Note 22):

In millions of Russian Roubles	Cash on hand	Cash balances with the CBR and overnight placements	Correspondent accounts and overnight placements with other banks– the Russian Federation	Correspondent accounts and overnight placements with other banks – OECD countries	Settlements with trading systems	Total
Neither past due nor impaired						
- Cash on hand	6 903	-	-	-	-	6 903
- Nordea Group	-	-	-	28 974	-	28 974
- Central Bank of the Russian Federation	-	29 531	-	-	-	29 531
- 5 rated	-	-	-	369	-	369
- 4 rated	-	-	1 241		3 743	4 984
Total cash and cash equivalents	**6 903**	**29 531**	**1 241**	**29 343**	**3 743**	**70 761**

Analysis by credit quality of cash and cash equivalents based on internal ratings at 31 December 2013 is as follows:

In millions of Russian Roubles	Cash on hand	Cash balances with the CBR and overnight placements	Correspondent accounts and overnight placements with other banks - the Russian Federation	Correspondent accounts and overnight placements with other banks – OECD countries	Settlements with trading systems	Total
Neither past due nor impaired						
- Cash on hand	1 160	-	-	-	-	1 160
- Nordea Group	-	-	-	29 826	-	29 826
- Central Bank of the Russian Federation	-	2 795	-	-	-	2 795
- 6 rated	-	-	-	9	-	9
- 5 rated	-	-	-	143	-	143
- 4 rated	-	-	823	-	2 526	3 349
- unrated	-	-	67	-	-	67
Total cash and cash equivalents	**1 160**	**2 795**	**890**	**29 978**	**2 526**	**37 349**

Information on related party balances is disclosed in Note 27.

7 Trading securities

In millions of Russian Roubles	2014	2013
Corporate bonds	2 848	5 901
Municipal bonds	1 659	2 470
Federal loan bonds (OFZ)	1 046	1 635
Total trading securities	**5 553**	**10 006**

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities markets.

Trading securities are carried at fair value which also reflects credit risk.

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies and freely tradable in the Russian Federation. These bonds have maturity dates from April 2015 to November 2022 (2013: from February 2014 to September 2032), coupon rates ranging approximately from 6.8% to 11.6% (2013: from 6.8% to 15.0%) and yields to maturity from 13.4% to 19.2% (2013: from 5.1% to 9.4%).

Municipal bonds are interest bearing securities issued by city and local authorities denominated in Russian Roubles. These bonds have maturity dates from November 2015 to July 2021 (2013: from March 2014 to June 2017), coupon rates ranging approximately from 7.0% to 12.0% (2013: from 6.5% to 12.0%) and yields to maturity from 15.6% to 17.6% (2013: from 6.2% to 9.3%).

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from June 2015 to June 2017 (2013: from March 2014 to June 2017), coupon rates ranging approximately from 6.0% to 7.4% (2013: from 6.5% to 12.0%) and yields to maturity from 13.2% to 17.0% (2013: from 5.5% to 7.4%).

An analysis by credit quality of debt trading securities based on internal ratings at 31 December 2014 is as follows (refer to Note 22):

In millions of Russian Roubles	Corporate bonds	Municipal bonds	Federal loan bonds (OFZ)	Total
Neither past due nor impaired (at fair value)				
- S rated	-	1 659	1 046	2 705
- 5 rated	566	-	-	566
- 4 rated	2 179	-	-	2 179
- 3 rated	103	-	-	103
Total neither past due nor impaired	**2 848**	**1 659**	**1 046**	**5 553**
Total debt trading securities	**2 848**	**1 659**	**1 046**	**5 553**

7 Trading securities (continued)

Analysis by credit quality of debt trading securities based on internal ratings at 31 December 2013 is as follows:

In millions of Russian Roubles	Corporate bonds	Municipal bonds	Federal loan bonds (OFZ)	Total
Neither past due nor impaired (at fair value)				
- S rated	-	2 470	1 635	4 105
- 5 rated	612	-	-	612
- 4 rated	5 289	-	-	5 289
Total neither past due nor impaired	**5 901**	**2 470**	**1 635**	**10 006**
Total debt trading securities	**5 901**	**2 470**	**1 635**	**10 006**

8 Due from other banks

In millions of Russian Roubles	2014	2013
Term deposits with other banks	11 855	22 714
Receivables on documentary payments	-	327
Total due from other banks	**11 855**	**23 041**

Analysis by credit quality of amounts due from other banks based on internal ratings at 31 December 2014 is as follows (refer to Note 22):

In millions of Russian Roubles	Term deposits with other banks	Total
- Nordea Group	11 855	11 855
Total due from other banks	**11 855**	**11 855**

Analysis by credit quality of amounts due from other banks based on internal ratings at 31 December 2013 is as follows:

In millions of Russian Roubles	Term deposits with other banks	Receivables on documentary payments	Total
- Nordea Group	22 714	-	22 714
- 3 rated	-	327	327
Total due from other banks	**22 714**	**327**	**23 041**

As at 31 December 2014, the Bank had balances with 1 bank (2013: 1 bank) with aggregated amounts above RUB 1 000 million (2013: RUB 1 000 million). The total aggregate amount of these balances was RUB 11 855 million (2013: RUB 22 714 million) or 100% of the total amounts due from other banks (2013: 98.6%).

As at 31 December 2014 and 2013, the Bank did not have past due or impaired amounts due from other banks.

Interest rate analysis of due from other banks is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

9 Loans and advances to customers

In millions of Russian Roubles	**2014**	**2013**
Corporate loans above EUR 10 mln	286 438	177 211
Corporate loans under EUR 10 mln	3 100	3 077
Mortgage loans to individuals	23 353	20 331
Loans to individuals – auto	1 092	1 376
Loans to individuals – retail	454	503
Less impairment allowance	(1 707)	(1 331)
Total loans and advances to customers	**312 730**	**201 167**

Loan impairment losses are presented net of impairment losses reversal of RUB 1 million (2013: RUB 356 million) as a result of full repayment of a debt.

Movements in the loan impairment allowance during 2014 are as follows:

	Corporate loans	**Loans to individuals**			**Total**
In millions of Russian Roubles		**Mortgage loans**	**Auto**	**Retail**	
Loan impairment allowance at 1 January 2014	**946**	**32**	**175**	**178**	**1 331**
Loan impairment losses during the year	132	132	56	20	**340**
Amounts written off during the year as uncollectible	(262)	(3)	(35)	(52)	**(352)**
Exchange differences on translation	379	9	-	-	**388**
Loan impairment allowance at 31 December 2014	**1 195**	**170**	**196**	**146**	**1 707**

9 Loans and advances to customers (continued)

Movements in the loan impairment allowance during 2013 are as follows:

In millions of Russian Roubles	**Corporate loans**	**Loans to individuals**			**Total**
		Mortgage loans	**Auto**	**Retail**	
Loan impairment allowance at 1 January 2013	**1 260**	**32**	**173**	**181**	**1 646**
(Recovery) loan impairment losses during the year	(314)	4	16	14	(280)
Amounts written off during the year as uncollectible	-	(4)	(14)	(17)	(35)
Loan impairment allowance at 31 December 2013	**946**	**32**	**175**	**178**	**1 331**

The Bank applied the portfolio impairment assessment methodology prescribed by IAS 39 *Financial Instruments: Recognition and Measurement*, and recognised a portfolio impairment allowance for impairment losses that were incurred but have not been specifically identified by the end of the reporting period. 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.

When booking a collective impairment allowance for loans to corporate entities the Bank uses such information as the company's industry and the assigned internal rating of the borrower. When booking a collective impairment allowance for loans to individuals the Bank uses such information as the loan product category and historic information on defaults for the specific loan product type. The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan, assuming that migration rates are constant and can be estimated based on historical loss migration pattern for past the period up to 5 years. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in collective loan impairment losses of RUB 114 million (2013: RUB 84 million), respectively.

Impairment losses for individually assessed loans are based on estimates of discounted future cash flows of the loans, taking into account realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the loss estimates used would result in an increase or decrease in individually assessed loan impairment losses of RUB 57 million (2013: RUB 49 million), respectively.

9 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2014 based on internal ratings is as follows (refer to Note 22):

	Corporate loans		**Loans to individuals**			**Total**	**Out of which guaranteed by the Bank's principal shareholder**
In millions of Russian Roubles	**Above EUR 10 mln**	**Under EUR 10 mln**	**Mortgage loans**	**Auto**	**Retail**		
Current and not impaired							
6 rated	10 725	-	-	-	-	10 725	10 725
5 rated	148 773	712	-	-	-	149 485	127 115
4 rated	119 890	1 296	-	-	-	121 186	81 842
3 rated	5 375	572	-	-	-	5 947	6
2 rated	927	-	-	-	-	927	-
Unrated	-	501	22 723	902	305	24 431	-
Total current and not impaired	**285 690**	**3 081**	**22 723**	**902**	**305**	**312 701**	**219 688**
Past due collectively assessed for impairment							
- less than 30 days overdue	-	-	254	12	8	274	-
- 30 to 90 days overdue	-	-	116	6	5	127	-
- 90 to 180 days overdue	-	-	34	4	4	42	-
- 180 to 360 days overdue	-	-	57	7	8	72	-
- over 360 days overdue	-	-	88	161	124	373	-
Total past due collectively assessed for impairment	**-**	**-**	**549**	**190**	**149**	**888**	**-**
Individually determined to be impaired							
- not overdue	748	19	-	-	-	767	-
- over 360 days overdue	-	-	81	-	-	81	-
Total individually determined to be impaired	**748**	**19**	**81**	**-**	**-**	**848**	**-**
Less impairment allowance	**(1 078)**	**(117)**	**(170)**	**(196)**	**(146)**	**(1 707)**	**-**
Total loans and advances to customers	**285 360**	**2 983**	**23 183**	**896**	**308**	**312 730**	**219 688**

The Bank classifies loans issued to its subsidiaries including loans issued to LLC "Nordea Leasing" of RUB 501 million (2013: RUB 483 million) in the "Unrated" category.

9 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2013 based on internal ratings is as follows:

	Corporate loans		Loans to individuals			Total	Out of which guaranteed by the Bank's principal shareholder
In millions of Russian Roubles	Above EUR 10 mln	Under EUR 10 mln	Mortgage loans	Auto	Retail		
Current and not impaired							
6 rated	8 329	50	-	-	-	8 379	7 133
5 rated	99 936	441	-	-	-	100 377	51 137
4 rated	59 051	1 516	-	-	-	60 567	18 586
3 rated	8 671	902	-	-	-	9 573	106
Unrated	494	-	19 969	1 177	311	21 951	303
Total current and not impaired	**176 481**	**2 909**	**19 969**	**1 177**	**311**	**200 847**	**77 265**
Past due collectively assessed for impairment							
- less than 30 days overdue	-	18	137	20	18	193	-
- 30 to 90 days overdue	-	-	43	13	5	61	-
- 90 to 180 days overdue	-	-	17	5	5	27	-
- 180 to 360 days overdue	-	-	29	6	8	43	-
- over 360 days overdue	-	-	50	155	156	361	-
Total past due collectively assessed for impairment	**-**	**18**	**276**	**199**	**192**	**685**	**-**
Individually determined to be impaired							
- not overdue	730	-	-	-	-	730	-
- 180 to 360 days overdue	-	-	25	-	-	25	-
- over 360 days overdue	-	150	61	-	-	211	-
Total individually determined to be impaired	**730**	**150**	**86**	**-**	**-**	**966**	**-**
Less impairment allowance	**(808)**	**(138)**	**(32)**	**(175)**	**(178)**	**(1 331)**	**-**
Total loans and advances to customers	**176 403**	**2 939**	**20 299**	**1 201**	**325**	**201 167**	**77 265**

9 Loans and advances to customers (continued)

Information about collateral at 31 December 2014 is as follows:

	Corporate loans		Loans to individuals			Total
In millions of Russian Roubles	Above EUR 10 mln	Under EUR 10 mln	Mortgage loans	Auto	Retail	
Loans collateralised by:	**56 060**	**1 414**	**23 227**	**997**	**12**	**81 710**
- securities	2 904	-	-	-	-	2 904
- residential real estate	-	-	22 689	-	-	22 689
- other real estate	41 790	1 066	-	-	-	42 856
- machinery and equipment	4 723	-	-	-	-	4 723
- other assets	6 643	348	538	997	12	8 538
Loans guaranteed by the Bank's principal shareholder and other parties:	**205 995**	**1 162**	**44**	**13**	**101**	**207 315**
- loans guaranteed by the Bank's principal shareholder	190 342	262	-	-	-	190 604
- loans guaranteed by other parties (including sureties of individuals for loans to individuals)	15 653	900	44	13	101	16 711
Unsecured loans:	**24 383**	**524**	**82**	**82**	**341**	**25 412**
- syndicated loans	11 917	-	-	-	-	11 917
- other	12 466	524	82	82	341	13 495
Total loans and advances to customers (before impairment allowance)	**286 438**	**3 100**	**23 353**	**1 092**	**454**	**314 437**

The amounts shown in the table above represent the carrying value of a financial asset to the extent the asset is covered by collateral, using the fair value of collateral determined at inception date (except for past due loans collateral value in respect of which is estimated at each reporting date), and do not necessarily represent the fair value of collateral as at 31 December 2014. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

9 Loans and advances to customers (continued)

Information about collateral at 31 December 2013 is as follows:

In millions of Russian Roubles	Corporate loans		Loans to individuals			Total
	Above EUR 10 mln	Under EUR 10 mln	Mortgage loans	Auto	Retail	
Loans collateralised by:	**42 041**	**1 667**	**19 890**	**1 247**	**17**	**64 862**
- securities	1 986	50	-	-	-	2 036
- residential real estate	-	-	19 412	-	-	19 412
- other real estate	25 865	1 617	-	-	-	27 482
- machinery and equipment	8 193	-	-	-	1	8 194
- other assets	5 997	-	478	1 247	16	7 738
Loans guaranteed by Bank's principal shareholder and other parties:	**81 830**	**1 029**	**10**	**11**	**126**	**83 006**
- loans guaranteed by Bank's principal shareholder	70 056	622	-	-	-	70 678
- loans guaranteed by other parties (including sureties of individuals for loans to individuals)	11 774	407	10	11	126	12 328
Unsecured loans:	**53 340**	**381**	**431**	**118**	**360**	**54 630**
- syndicated loans	23 623	-	-	-	-	23 623
- other	29 717	381	431	118	360	31 007
Total loans and advances to customers (before impairment allowance)	**177 211**	**3 077**	**20 331**	**1 376**	**503**	**202 498**

The amounts shown in the table above represent the carrying value of a financial asset to the extent the asset is covered by collateral, using the fair value of collateral determined at inception date (except for past due loans collateral value in respect of which is estimated at each reporting date), and do not necessarily represent the fair value of collateral as at 31 December 2013. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

9 Loans and advances to customers (continued)

The primary factors that the Bank considers in determining whether a loan is impaired are: loan overdue status, results of debt monitoring and quality of related collateral, if any. As a part of debt monitoring procedures the Bank regularly checks the loan collateral, compliance with the loan agreement covenants, analyses financial information about the borrower's business.

The recoverability of loans without individual impairment indicators is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of collateral does not significantly impact the impairment assessment.

The estimated fair value of collateral (excluding overcollateralisation) in respect of past due loans at 31 December 2014 is as follows:

	Corporate loans above	**Loans to individuals**			**Total**
In millions of Russian Roubles	**EUR 10 mln**	**Mortgage loans**	**Auto**	**Retail**	
Estimated fair value of collateral – past due loans collectively assessed for impairment	**-**	**542**	**110**	**3**	**655**
- residential real estate	-	542	-	-	542
- other assets	-	-	110	3	113
Estimated fair value of collateral – loans individually determined to be impaired	**239**	**46**	-	-	**285**
- residential real estate	-	46	-	-	46
- other real estate	239	-	-	-	239
Total	**239**	**588**	**110**	**3**	**940**

9 Loans and advances to customers (continued)

The estimated fair value of collateral (excluding overcollateralisation) in respect of past due loans at 31 December 2013 is as follows:

In millions of Russian Roubles	Corporate loans above EUR 10 mln	Corporate loans under EUR 10 mln	Loans to individuals			Total
			Mortgage loans	Auto	Retail	
Estimated fair value of collateral – past due loans collectively assessed for impairment	**-**	**439**	**270**	**102**	**7**	**818**
- residential real estate	-	-	270	-	-	270
- other real estate	-	439	-	-	-	439
- other assets	-	-	-	102	7	109
Estimated fair value of collateral – loans individually determined to be impaired	**402**	**19**	**86**	**-**	**-**	**507**
- residential real estate	-	-	86	-	-	86
- other real estate	402	19	-	-	-	421
Total	**402**	**458**	**356**	**102**	**7**	**1 325**

Estimated fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Credit department at the time of the loan origination by the average change in residential real estate prices by city and region. The estimated value of other real estate and other assets was determined by the Credit department using internal guidelines.

During the year ended 31 December 2014, the Bank obtained certain assets by taking possession of collateral for loans to customers. As at 31 December 2014, the carrying amount of such assets was RUB 11 million (2013: RUB 103 million), which consisted of land and property.

As at 31 December 2014, the fair value of loans and advances to customers was RUB 306 911 million (2013: RUB 201 167 million) (refer to Note 25).

9 Loans and advances to customers (continued)

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

	2014		2013	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	158 987	50.6%	96 551	47.7%
Real estate activities	48 964	15.6%	29 935	14.8%
Mining and quarrying	45 653	14.5%	17 288	8.5%
Loans to individuals	24 899	7.9%	22 210	11.0%
Electricity, gas, steam and air conditioning	14 260	4.5%	15 927	7.9%
Transporting and storage	11 521	3.7%	8 649	4.3%
Information and communication	4 027	1.3%	2 757	1.3%
Administrative and support service activities	3 597	1.1%	4 395	2.1%
Wholesale and retail trade	2 520	0.8%	4 564	2.3%
Other	9	0.0%	222	0.1%
Total loans and advances to customers (before impairment allowance)	**314 437**	**100.0%**	**202 498**	**100.0%**

As at 31 December 2014, the Bank had 47 borrowers with aggregated loan amounts above RUB 1 000 million (2013: 38 borrowers with aggregated loan amounts above RUB 1 000 million). The total aggregate amount of these loans is RUB 278 392 million, or 88.5% of the gross loan portfolio (2013: RUB 162 652 million, or 80.3% of the gross loan portfolio).

As at 31 December 2014, the total amount of guarantees received from Nordea Bank AB amounted to RUB 253 299 million (2013: RUB 114 466 million) which is higher than carrying amount of the individual loans guaranteed as it covers the credit limit for the borrower.

As at 31 December 2014, the aggregated amount of syndicated loans where the Bank is a syndicated member was RUB 70 324 million, or 22.4% of the gross loan portfolio (2013: RUB 39 014 million, or 19.3% of the gross loan portfolio).

Interest rate analysis of loans and advances to customers is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

10 Derivative financial instruments

In millions of Russian Roubles	**2014**	**2013**
Foreign exchange forward contracts (assets)	178	102
Interest rate swaps (assets)	1 677	224
Foreign exchange forward contracts (liabilities)	(190)	(163)
Interest rate swaps (liabilities)	(206)	(194)
Total derivative financial instruments	**1 459**	**(31)**

These financial instruments are carried at fair value (refer to Note 25).

As at 31 December 2014, there were 4 large Russian and foreign banks (2013: 21) as counterparties on the currency forward contracts – assets. The aggregate amount of foreign currency forwards - assets with Nordea Group amounted to RUB 119 million (2013: RUB 34 million) or 66.9% (2013: 33.3%) of total currency forward contracts - assets. The aggregate amount of foreign currency forwards - liabilities with Nordea Group amounted to RUB 28 million (2013: RUB 125 million) or 14.7% (2013: 76.7%) of total currency forward contracts - liabilities.

As at 31 December 2014, there were 1 large Russian company and Nordea Group’s companies as counterparties on the interest rate swaps - assets (2013: 4 large Russian companies and Nordea Group’s companies). The aggregate amount of interest rate swaps - assets with Nordea Group amounted to RUB 1 556 million (2013: RUB 92 million) or 92.8% (2013: 41.1%) of total interest rate swaps - assets. The aggregate amount of interest rate swaps - liabilities with Nordea Group amounted to RUB 203 million (2013: RUB 191 million) or 98.5% (2013: 98.5%) of total interest rate swaps - liabilities.

10 Derivative financial instruments (continued)

The table below sets out fair values, at the end of the reporting period, of balances receivable or payable under foreign exchange forward contracts 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.

	2014		2013	
In millions of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair value, at the end of the reporting period, of				
- USD receivable on settlement (+)	930	1 190	24 089	3 735
- USD payable on settlement (-)	(1 693)	(4 665)	(30 512)	(19 926)
- EUR receivable on settlement (+)	579	3 615	1 880	14 270
- EUR payable on settlement (-)	(382)	(7)	(20 426)	(345)
- RUB receivable on settlement (+)	1 419	877	29 980	9 190
- RUB payable on settlement (-)	(678)	(1 238)	(4 909)	(7 154)
- Other currencies receivable on settlement (+)	3	38	-	67
Net fair value of foreign exchange forwards	**178**	**(190)**	**102**	**(163)**

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in 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.

Nominal value of interest swaps amounts to RUB 36 863 million as at 31 December 2014 (2013: RUB 31 830 million).

Information on related party balances is disclosed in Note 27.

11 Other assets

In millions of Russian Roubles	2014	2013
Accounts receivables	106	225
Receivables on securities settlement	-	5
Other	14	24
Total other financial assets	**120**	**254**
Investments in unconsolidated subsidiaries	582	612
Collateral received under loan agreements	11	103
Advances and prepayments	28	23
Other	29	14
Total other non-financial assets	**650**	**752**
Total other assets	**770**	**1 006**

As at 31 December 2014, no allowance for impairment of other financial assets was created by the Bank (2013: nil).

Unconsolidated subsidiaries comprise:

			Share		**Carrying amount, mln rubles**	
Name	**Registration country**	**Principal activity**	**2014**	**2013**	**2014**	**2013**
LLC “Nordea Leasing”	Russian Federation	Leasing	100%	100%	580	580
LLC “Lanvin”	Russian Federation	Services	100%	100%	1	1
LLC “Matis”	Russian Federation	Trade	100%	100%	1	1
LLC “Tiks”	Russian Federation	Real estate	-	100%	-	30

12 Due to other banks

In millions of Russian Roubles	2014	2013
Term deposits of other banks	310 793	150 143
Correspondent accounts of other banks	58	355
Total due to other banks	**310 851**	**150 498**

As at 31 December 2014, term deposits from other banks had maturity dates from January 2015 to December 2017 (2013: from January 2014 to December 2017) and effective interest rates from 0.6% to 16.0% (2013: from 0.1% to 6.7%).

As at 31 December 2014, term deposits from other banks included deposits from Nordea Group of RUB 310 463 million (2013: RUB 148 067 million) or 99.9% (2013: 98.4%) of total balances due to other banks.

Interest rate analysis of due to other banks is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

13 Customer accounts

In millions of Russian Roubles	2014	2013
Legal entities		
- Current/settlement accounts	26 529	21 729
- Term deposits	15 311	55 890
Individuals		
- Current/demand accounts	3 676	2 327
- Term deposits	5 333	7 429
Total customer accounts	**50 849**	**87 375**

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	9 009	17.7%	9 756	11.2%
Wholesale and retail trade	8 805	17.3%	11 805	13.5%
Manufacturing	6 519	12.8%	24 198	27.7%
Mining and quarrying	5 457	10.7%	6 015	6.9%
Transporting and storage	4 221	8.3%	4 606	5.3%
Information and communication	3 980	7.8%	10 806	12.4%
Construction	3 648	7.2%	2 559	2.9%
Real estate activities	3 410	6.7%	3 508	4.0%
Electricity, gas, steam and air conditioning	2 283	4.5%	8 016	9.2%
Professional, scientific and technical activities	1 441	2.8%	1 876	2.1%
Financial and insurance activities	1 162	2.3%	2 202	2.5%
Administrative and support service activities	331	0.7%	1 267	1.4%
Other	583	1.2%	761	0.9%
Total customer accounts	**50 849**	**100%**	**87 375**	**100%**

As at 31 December 2014, the Bank had 6 customers with balances above RUB 1 000 million (2013: 20 customers with balances above RUB 1 000 million). The aggregate balance of these customers was RUB 10 651 million or 20.9% of total customer accounts (2013: RUB 47 723 million or 54.6%).

Interest rate analysis of customer accounts is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

14 Promissory notes issued

In millions of Russian Roubles	2014	2013
Promissory notes	229	478
Total promissory notes issued	**229**	**478**

Interest rate analysis of promissory notes issued is disclosed in Note 22.

15 Other liabilities

Other liabilities comprise the following:

In millions of Russian Roubles	2014	2013
Commission payable on received guarantees	265	206
Liabilities on payment of commission on received letters of credit	6	-
Trade payables	3	12
Other	13	28
Total other financial liabilities	**287**	**246**
Accrued employee benefit costs	948	895
Current income tax liabilities	57	87
Prepaid interest income	34	37
Provision for restructuring costs	-	11
Other	3	1
Total other non-financial liabilities	**1 042**	**1 031**
Total other liabilities	**1 329**	**1 277**

16 Subordinated debt

In thousands	Start date	Maturity date	Amount	Currency	Interest rate
Nordea Bank AB	May 2014	13 May 2024	60 000	USD	LIBOR + 3.5%
Nordea Bank AB	December 2012	28 December 2022	50 000	USD	LIBOR + 3.45%
Nordea Bank AB	November 2008	12 November 2018	60 000	USD	LIBOR + 4.0%
Nordea Bank AB	November 2008	12 November 2018	36 000	EUR	EURIBOR + 4.0%

The Bank repaid the subordinated debt of USD 65 million with an interest at three-month LIBOR + 1.75% before contractual maturity (8 July 2015) in August 2014.

As at 31 December 2014, the carrying amount of the subordinated debt was RUB 12 076 million (2013: RUB 7 378 million). The debt ranks after all other creditors in case of liquidation.

Interest rate analysis of subordinated debt is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

17 Share capital

Authorised, issued and fully paid share capital of the Bank comprises:

In millions of Russian Roubles	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2013	**101 090**	**1 372**	**9 862**	**11 234**
At 31 December 2013	**101 090**	**1 372**	**9 862**	**11 234**
At 31 December 2014	**101 090**	**1 372**	**9 862**	**11 234**

All ordinary shares as at 31 December 2014 have nominal value of RUB 10 thousand per share (2013: RUB 10 thousand per share), rank equally and carry one vote. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general shareholders' meetings of the Bank. The amount of share capital presented above includes an adjustment for effects of past hyperinflation which was determined in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economy*.

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

As at 31 December 2014, all of the Bank's outstanding shares were authorised, issued and fully paid in.

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

At the reporting date no dividends were declared.

18 Interest income and expense

In millions of Russian Roubles	2014	2013
Interest income		
Loans and advances to customers	11 655	9 835
Due from other banks	1 892	1 354
Debt trading securities	612	695
Total interest income	**14 159**	**11 884**
Interest expense		
Term deposits of other banks	2 800	1 696
Term deposits of legal entities	1 773	1 901
Subordinated debt	340	264
Term deposits of individuals	294	436
Current/settlement accounts	275	126
Promissory notes issued	11	14
Total interest expense	**5 493**	**4 437**
Net interest income	**8 666**	**7 447**

19 Fee and commission income and expense

In millions of Russian Roubles	2014	2013
Fee and commission income		
Settlement transactions	226	208
Guarantees issued	158	154
Plastic cards	137	144
Customs clearance facilities	50	11
Opening and maintenance of deposit accounts	43	39
Agency commission from the sale of insurance contracts	34	-
Cash transactions	29	32
Letters of credit issued	20	22
Other	62	99
Total fee and commission income	**759**	**709**
Fee and commission expense		
Guarantees received	845	871
Plastic cards	78	77
Cash collection	56	59
Customs clearance facilities	32	7
Settlement transactions	26	12
Other	45	33
Total fee and commission expense	**1 082**	**1 059**
Net fee and commission expense	**(323)**	**(350)**

20 Administrative and other operating expenses

In millions of Russian Roubles	2014	2013
Staff costs	3 293	3 153
Rent expenses	423	380
Depreciation of premises and equipment	323	271
IT expenses	213	155
Maintenance of premises	157	123
Communication services	111	112
Security services	101	105
Advertising and marketing services	58	100
Professional services	41	27
Insurance	5	5
Other	215	167
Total administrative and other operating expenses	**4 940**	**4 598**

Included in staff costs are annual bonuses of RUB 447 million (2013: RUB 448 million) to employees and members of the Management Board for the year 2014.

Included in staff costs are statutory social security and pension contributions of RUB 487 million (2013: RUB 442 million).

21 Income tax

(a) Components of income tax expense

Income tax expense comprises the following:

In millions of Russian Roubles	**2014**	**2013**
Current tax expense	972	689
Deferred tax expense	3	69
Income tax expense for the year	**975**	**758**

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

The income tax rate applicable to the majority of 2014 income is 20% (2013: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	**2014**		**2013**	
Profit before tax	**4 444**	**100.0%**	**3 713**	**100.0%**
Theoretical tax charge at the applicable statutory rate	889	20.0%	743	20.0%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Income on government securities taxed at different rates	(12)	(0.3%)	(10)	(0.3%)
- Non-deductible expenses	98	2.2%	25	0.7%
Income tax expense for the year	**975**	**21.9%**	**758**	**20.4%**

(c) Deferred taxes analysed by types of temporary differences

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

In millions of Russian Roubles	**1 January 2013**	**Credited/ (charged) to profit or loss**	**31 December 2013**	**Credited/ (charged) to profit or loss**	**31 December 2014**
Tax effect of deductible (taxable) temporary differences					
Premises and equipment and intangible assets	(42)	(14)	(56)	(11)	(67)
Loan impairment allowance	(505)	64	(441)	153	(288)
Fair valuation of trading securities	61	21	82	78	160
Fair valuation of derivatives	163	(157)	6	(298)	(292)
Accrued staff costs	177	(5)	172	18	190
Amortisation of fee and commission income from loans	188	42	230	51	281
Accrued income and expenses	110	(17)	93	6	99
Other	3	(3)	-	-	-
Net deferred tax asset	**155**	**(69)**	**86**	**(3)**	**83**

22 Corporate governance, internal control and financial risk management

Corporate governance framework. The Bank is a joint stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions about the Bank's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

Russian legislation and the Charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

As at 31 December 2014, the Board of Directors includes:

- Casper von Koskull – Chairman of the Board of Directors
- Igor Vladimirovich Kogan – Deputy Chairman of the Board of Directors
- Igor Vladimirovich Bulantsev – Chairman of the Management Board, member of the Board of Directors
- Ari Antero Kaperi – member of the Board of Directors
- Olli-Petteri Lehtinen – member of the Board of Directors
- Klaus Asbjorn Ster – member of the Board of Directors.

According to the decision of the general shareholders' meeting Claus Asbjorn Stehr was elected to the Board of Directors on September 2014 as a member of the Board of Directors. Member of the Board of Directors Peter Nyegaard left the Board in 2014.

General activities of the Bank are managed by the sole executive body of the Bank (the Chairman of the Management Board) and collective executive body of the Bank (the Management Board). The general shareholders' meeting elects the Chairman of the Management Board and composition of the Management Board. The executive bodies of the Bank are responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors and to the general shareholders' meeting.

As at 31 December 2014, the Management Board includes:

- Igor Vladimirovich Bulantsev – Chairman
- Irina Vyacheslavovna Mamkhegova – The First Deputy Chairman
- Sergejs Babuskins – Chief Risk Officer, Deputy Chairman
- Mikhail Yurievich Genis – Deputy Chairman
- Aleksandr Evgenievich Kuznetsov – Deputy Chairman
- Petri Heiki Juhani Loikkanen – Chief Financial Officer, Deputy Chairman
- Andrey Anatolievich Maltsev – Deputy Chairman
- Mikhail Vyacheslavovich Polyakov – Deputy Chairman
- Tatiana Nikolaevna Sharova– Chief Accountant, Deputy Chairman
- Igor Vladimirovich Volkov – Deputy Chairman.

22 Corporate governance, internal control and financial risk management (continued)

Internal control policies and procedures

The Board of Directors and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and risk management
- proper business and accounting and financial reporting functions, including proper authorisation, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls, monitoring their effectiveness and for maintaining internal control and organising risk management systems in accordance with requirements established by the CBR. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorisation of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

The system of internal controls of the Bank consists of:

- Managerial bodies of the Bank, including permanent committees affiliated with the Board of Directors and the Management Board with the purpose of making internal control functions under the responsibility of the Board of Directors and the Management Board's responsibility more efficient. The competence of the managerial bodies of the Bank is determined by the Charter and relevant regulations on managerial bodies
- Audit Committee that controls financial and operational activities of the Bank and is elected on the basis of the Regulation on the Audit Committee, approved by the general shareholders' meeting

Chief Accountant**22 Corporate governance, internal control and financial risk management (continued)**

- The Internal control service
- The Internal audit service
- Directors and chief accountants of the branches of the Bank
- Divisions and employees who are in charge of internal control in accordance with the powers granted by the Bank's internal documents.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Provision of the Central Bank of Russia dated 16 December 2003 No 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the Internal audit service and the Internal control service.

The main functions of Internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping the Bank's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the Internal control service and the Risk unit.

The Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Bank.

The main functions of the Internal control service include the following:

- identification of regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of their consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in developing of measures aimed to decrease regulatory risk
- monitoring of regulatory risk management efficiency
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients’ complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

22 Corporate governance, internal control and financial risk management (continued)

Compliance with Bank standards is supported by a program of periodic reviews undertaken by the Internal audit service. The Internal audit service is independent from management and reports directly to the Board of Directors. The results of the Internal audit service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and the Board of Directors and senior management of the Bank.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No 3223-U *On Requirement to Head of the Risk Management Service, Head of the Internal Control Service, Head of the Internal Audit Service of The Credit Organisation* establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, heads of the Internal audit service, the Internal control service and the Risk unit and other key management personnel. All members of the Bank's governing and management bodies comply with these requirements.

Management believes that the Bank complies with the CBR's requirements for a system of risk management and internal control system, including the requirements for the Internal audit service. Risk management system and the system of internal controls comply with the scale, nature and level of complexity of operations.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirements of the CBR. Management is responsible for the Bank's compliance with mandatory ratios. As at 31 December 2014 and 2013 the mandatory ratios were in compliance with limits set by the CBR.

Risk management structure. The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rates), operational risks and legal risks. 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.

The risk management system of the Bank includes development, implementation and control over risk management policies and procedures and subsequent update of policies and procedures following changes in economic, business and regulatory environment.

There were no significant changes in risk assessment in 2014.

The Bank's risk management policy aims to identify, analyse and manage risks faced by the Bank, to set risk limits and relevant controls, and to perform a continuous assessment of risk levels and adherence to limits. The risk management policy and procedures are revised on a regular basis in order to reflect changes in the market situation, banking products and services offered, and emerging best practice.

Bank's internal documentation establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR. The Bank maintains a system for reporting on the Bank's significant credit, operational, market, legal, liquidity and reputational risks, and on the Bank's capital.

The purpose of managing risks is to identify risks on timely basis, evaluate them and to develop and ensure proper functioning of internal processes and procedures providing control of the Bank's exposure to internal and external risk factors.

The risk and capital management system established in the Bank, as well as the internal control system, comply with the scale, nature and level of complexity of operations and composition of risks taken.

There is following hierarchy of authority in the Bank:

- The Board of Directors authorizes the Bank's general risk management policy, which states the general principles of risk management, the risk level acceptable for the Bank, strategic risk management goals, and development priorities of the risk management system
- The Management Board implements the risk management system, authorizes the powers and composition of collective risk management bodies, makes decisions on accepting certain types of risks, and establishes the Bank's credit policy and policy for other operations, approves the limits for the different types of risks

22 Corporate governance, internal control and financial risk management (continued)

- The Risk Management Committee ensures the development of the risk management system; approves the Bank's internal risk management draft documents, terms of standard products and programmes for the Bank's customers; monitors and controls elements of the risk management system; approves the acceptable risk level as a part of the established development strategy; controls the compliance of operations performed by the Bank with the general principles of the credit policy and policies for other operations; develops, implements and manages the authority system when making credit decisions
- The Bank's Credit Committee is responsible for optimising the Bank's credit risks and composition an efficient credit portfolio based on risk-return ratio, and controls risks both at the portfolio level and at the single transaction level.

Subdivisions manage risks as part of their functional responsibilities.

Considering the nature and scope of the Bank's activities and to centralise risk management function the Board of Directors decided to create the Risk unit acting as a risk management service in terms of Federal Law dated 2 July 2013 No 146-FZ *On Making Amendments to Certain Regulatory Acts of the Russian Federation* in December 2014.

The Risk unit comprises:

- Credit risk department
- Limits and position control department
- Operational risk service
- Credit control function.

The Risk unit is not subordinated to, and does not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia. The Chief Risk Officer is a member of the Management Board and reports directly to the Board of Directors.

Risk unit is responsible for the following:

- coordination and centralised management of Bank's risks
- developing methodologies for and conducting assessments of Bank's risks
- risk management training for employees
- risk management reporting
- preparation of proposals for risk management system improvements.

Management of the Bank established procedures for reports preparation by the Risk unit as a result of work performed, which cover the Bank's credit, operational, market, legal, liquidity and reputational risk management also as management of capital.

The Internal audit service performs independent audit of efficiency of risk assessment methodology and procedures of risk management implemented also as audit the Risk unit subdivisions for compliance with the Bank's internal documentation, prepares reports to the Board of Directors and senior management of the Bank on timely basis with deficiencies and failures identified and mitigation plans.

The frequency and consistency of reports prepared by Risk unit and Internal audit service are in compliance with the Bank's internal documentation, these reports include observation of the effectiveness of the Bank's procedures and methodologies of risk assessment, and recommendations for improvement.

The Board of Directors and the Management Board of the Bank have responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application the Board of Directors and the Management Board of the Bank periodically discuss reports prepared by the Internal audit service and Risk unit, and considered proposed corrective actions.

22 Corporate governance, internal control and financial risk management (continued)

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 excluding collateral and guarantees is generally reflected in the carrying amounts of financial assets in the unconsolidated statement of financial position. For guarantees and commitments to extend credits, the maximum exposure to credit risk is the amount of the commitment (refer to Note 24). The credit risk is mitigated by collateral and other credit enhancements.

Management monitors concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

The Bank manages its exposure to credit risk by placing limits on the amount of credit risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits are established and are approved regularly by the appropriate credit committee. Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The Bank established a number of credit committees, which are responsible for approving credit limits for borrowers within the scope of their authority. These limits depend upon the borrower's type, borrower's rating, collateral and other conditions:

- Senior Credit Committee
- Retail Credit Committee
- Committee on impaired retail loans

The committees hold their meetings on a weekly basis or as necessary.

The senior credit committee's decisions on limits above EUR 10 million are agreed with Nordea Bank AB. The credit committee of Nordea Bank AB issues recommendations on parameters of the approved limit. Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The credit risk management system includes a model for assessing expected losses on the credit portfolio (the "expected loss model") by using (i) the "probability of default" by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the "exposure at default"; and (iii) the likely recovery ratio on the defaulted obligations (the "loss given default"). By calculating these measures the Bank determines a risk premium for covering expected losses on the credit portfolio.

This model takes into consideration parameters such as the financial position of a counterparty, credit risk exposure, lending period, collateral and other factors that adjust the final risk premium. However, the expected loss model used for internal credit risk management can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the end of the reporting period (the "incurred loss model") rather than expected losses as reflected in these financial statements (refer to Note 3).

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

The Credit Committee, which determines the Bank's credit policy, assesses the creditworthiness of borrowers by reviewing documents defining their financial and operating activities and other publicly available information. The Committee also receives details of recent payment history and the status of any ongoing negotiations between the Bank and third parties. Individual operating units keep records of the payment history for all customers with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as guarantees from Nordea Bank AB. Management information reported to the credit committee includes details of impairment allowances. The Internal audit service makes regular reviews to assess the degree of compliance with the internal procedures on credit. In evaluating a lending transaction or in evaluating risks associated with a problem borrower, the Bank uses the results of a financial review performed based on the methodology developed by Nordea Bank AB and adapted to the Russian business environment.

22 Corporate governance, internal control and financial risk management (continued)

In order to monitor credit risk exposures, credit department officers produce regular reports with a structured analysis of the exposure focusing on the customer's business and financial performance. All information on significant exposures against customers with deteriorating creditworthiness is reported to and reviewed by the Credit Committee.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital) (refer to Note 23). As at 31 December 2014 and 2013, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank as at 31 December 2014 was 15.1% (2013: 19.9%) and was in compliance with limits set by the CBR.

The Bank manages credit risk with regards to interbank loans and trading securities on the basis of internal ratings according to the methodology developed by Nordea Bank AB.

The Bank assigns the rating to financial institutions and issuers, taking into consideration current business environment, outlook for the future, ownership structure, likelihood of government assistance and support from owners, market share and development strategy, reputation and availability of financial information, assets structure and quality.

Based on the results of analysis the internal integrated rating is assigned. The rating scale ranges from "0-" to "6", where rating 6 defines the highest credit quality under the rating model. Rating 5 is assigned to borrowers with strong capacity to meet their financial obligations. Rating 4 is assigned to borrowers with good capacity to meet their financial obligations. Rating 3 is assigned to borrowers with acceptable capacity to meet their financial obligations. Rating 2 is assigned to borrowers with low quality of assets, poor market position, restricted access to capital market and likelihood of government assistance and support from owners and dependence of future developments upon certain risk factors. Rating 1 is assigned to borrowers which are currently vulnerable to non-payment and are dependent upon favourable financial, economic and business conditions to meet their financial obligations. Rating 0 is assigned to the troubled, non-operating borrowers. Rating 0- is assigned to borrowers which became bankrupt. Rating S is assigned to state and municipal organisations. A rating is not assigned to counterparties which do not have credit balances at the reporting date.

The limits are set on transactions with financial institutions and issuers in accordance with ratings assigned: limit on direct lending operations, limit on documentary operations, limit on operations with securities and derivative financial instruments.

The Bank usually takes collateral as security for all loans and credit facilities granted to its customers. The loan collateral value usually exceeds the loan amount. The main types of collateral or credit support taken are guarantees, Russian Government securities, shares of blue-chip companies, actively traded promissory notes, real estate, goods, wares and merchandise and similar assets.

Offsetting financial assets and financial liabilities. The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's unconsolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the unconsolidated statement of financial position.

A part of Bank's derivative transactions is entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owned by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the unconsolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

22 Corporate governance, internal control and financial risk management (continued)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

In millions of Russian Roubles	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the unconsolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the unconsolidated statement of financial position**	**Related amounts subject to offset in the event of default**		**Net amount**
				Financial instruments	**Cash collateral received**	
Derivative financial assets	1 855	-	1 855	(231)	-	1 624
Derivative financial liabilities	396	-	396	(231)	-	165

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

In millions of Russian Roubles	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the unconsolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the unconsolidated statement of financial position**	**Related amounts subject to offset in the event of default**		**Net amount**
				Financial instruments	**Cash collateral received**	
Derivative financial assets	326	-	326	(125)	-	201
Derivative financial liabilities	357	-	357	(125)	-	232

Market risk. The Bank takes on exposure to market risks. Market risks arise from (a) currency, (b) interest rate and (c) market quotes, all of which are exposed to general and specific market movements. The Management Board sets limits on the level of exposure and Limits and position control department monitors them on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

For the purpose of management and control over the acceptable level of market risk the Bank sets different limits on the value of risk weighted assets related to interest rate and currency risks, sublimits for open currency positions of head office and branches of the Bank, limits for investments into financial instruments traded on a stock exchange and in an over-the-counter market (position limits) and on the maximum acceptable loss from transactions with these instruments (“stop-loss” limits).

22 Corporate governance, internal control and financial risk management (continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

In respect of open currency positions the Bank daily calculates the limits and monitors their compliance with the CBR requirements regarding:

- the amount of any long (short) open currency position in individual foreign currencies and the difference between aggregate amount of all long positions and the aggregate amount of all short positions in Russian Rouble equivalent daily shall not exceed 10% of equity. The Bank calculates amount of capital in accordance with Provision of the CBR dated 10 February 2003 No 215-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations* (”Provision of the CBR No 215-P”) and Provision of the CBR dated 28 December 2012 No 395-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)* (”Provision of the CBR No 395-P”)
- the aggregate of all long (short) open currency positions in individual foreign currencies daily shall not exceed 20% of equity.

The Bank sets limits according to the CBR requirements and based on business activity of the Bank, which are monitored daily.

With regard to transactions the Bank sets position limits on investments and “stop-loss” limits to limit the maximum negative revaluation of positions, also as limits on the value of risk weighted assets and sublimits for open currency position. If limits on the maximum negative revaluation of positions (“stop-loss” limits) are exceeded the transaction is stopped. Currency risk limits are monitored on-line for both intra-day positions and at the end of each trading day by the responsible staff in Limits and position control department.

The exposure to foreign currency exchange rate risk at the end of the reporting period is as follows:

	At 31 December 2014				At 31 December 2013			
In millions of Russian Roubles	**Monetary assets**	**Monetary liabilities**	**Derivatives**	**Net position**	**Monetary assets**	**Monetary liabilities**	**Deriva-tives**	**Net position**
Russian Roubles	66 549	36 510	380	30 419	70 128	69 260	27 107	27 975
USD	296 173	292 884	(4 238)	(949)	187 000	165 031	(22 614)	(645)
EUR	41 820	45 657	3 805	(32)	17 014	12 485	(4 621)	(92)
Other	171	208	41	4	134	181	67	20
Total	**404 713**	**375 259**	**(12)**	**29 442**	**274 276**	**246 957**	**(61)**	**27 258**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the gross exposure.

Amounts disclosed in respect of derivatives represent their fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 10. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets and liabilities are not considered to give rise to any material currency risk.

22 Corporate governance, internal control and financial risk management (continued)

The following table presents sensitivity of profit and loss and equity (net of taxes) to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2014	**At 31 December 2013**
In millions of Russian Roubles	**Impact on profit or loss**	**Impact on profit or loss**
50% appreciation of USD against RUB	(380)	(258)
50% depreciation of USD against RUB	380	258
50% appreciation of EUR against RUB	(13)	(37)
50% depreciation of EUR against RUB	13	37
50% appreciation of all other currencies against RUB	2	8
50% depreciation of all other currencies against RUB	(2)	(8)
50% appreciation of all currencies against RUB	**(391)**	**(287)**
50% depreciation of all currencies against RUB	**391**	**287**

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

Interest rate risk. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

In order to control the level of interest rate risk, the Bank regularly monitors interest rate risk gaps by currency and maturity. The Bank manages the level of risk by matching fixed rate deposits with similar maturities and fixed rate loans.

The Management Board of the Bank sets limits on the level of interest rate risk weighted assets, which are monitored daily by Limits and position control department.

The Bank uses transfer pricing to establish minimum acceptable interest margin levels with regard to the funding costs and to monitor net interest income from each lending and deposit transaction.

In addition Nordea Group performs the control over market risk of the Bank (concerning interest rate risk of the banking book) using calculated value of Expected Shortfall and sensitivity analysis to parallel shift of interest rates.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2014. Included in the table are financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**More than 5 years**	**Total**
Financial assets subject to interest rate risk	182 766	123 544	8 534	25 864	9 284	**349 992**
Financial liabilities subject to interest rate risk	197 738	129 704	13 103	10 204	-	**350 749**
Effect of derivatives	9 836	7 802	(1 603)	(12 768)	(3 267)	**-**
Net interest sensitivity gap	**(5 136)**	**(1 642)**	**(6 172)**	**2 892**	**6 017**	**(757)**

22 Corporate governance, internal control and financial risk management (continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2013.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**More than 5 years**	**Total**
Financial assets subject to interest rate risk	179 099	41 750	5 010	19 385	18 294	**263 538**
Financial liabilities subject to interest rate risk	175 274	36 743	11 947	6 366	-	**230 330**
Effect of derivatives	6 741	5 877	-	(10 130)	(2 488)	-
Net interest sensitivity gap	**10 566**	**10 884**	**(6 937)**	**2 889**	**15 806**	**33 208**

In order to evaluate the impact of a 2% increase/decrease in interest rates, the Bank calculates a net interest income risk indicator SIIR (Structural interest income risk) shows how net interest income changes in case of a 2% increase in interest rates, on condition that they remain stable during one year. SIIR is calculated only with consideration of term resources with maturity from 1 to 365 days inclusively.

As at 31 December 2014, a decrease/increase in interest rates by 200 basis points (2013: 200 basis points), with all other variables held constant, would increase/decrease profit and equity by RUB 94 million (2013: decrease/increase by RUB 266 million).

The Bank also performs sensitivity analysis of changes in discounted value of assets and liabilities as a result of increase or decrease in interest rates.

The sensitivity analysis of profit or loss and equity due to changes in fair values of debt trading securities and derivative financial instruments as a result of shifts in interest rates during the next year with all other variables held constant is as follows:

In millions of Russian Roubles	**2014**	**2013**
increase by 200 b.p.	996	624
Decrease by 200 b.p.	(996)	(624)

22 Corporate governance, internal control and financial risk management (continued)

The table below displays ranges of interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013.

	2014	2013
Due from other banks		
Term deposits with other banks	0.1%-20.2%	6.3%-6.9%
Loans and advances to customers		
Corporate loans	1.9%-35.2%	1.7%-20.0%
Loans to individuals	5.5%-38.9%	3.7%-35.0%
Due to other banks		
Term deposits from other banks	0.6%-16.0%	0.1%-6.7%
Correspondent accounts of other banks	-	0.1%-2.1%
Customer accounts		
Current/settlement accounts	0.1%-13.3%	0.1%-7.7%
Term deposits	0.1%-25.0%	0.1%-10.5%
Promissory notes issued		
Promissory notes	0.2%-11.0%	0.1%-4.5%
Subordinated debt		
Subordinated debt	3.7%-4.2%	2.0%-4.2%

Other price risk. The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans.

22 Corporate governance, internal control and financial risk management (continued)

Geographical risk. The geographical concentration of financial assets and liabilities at 31 December 2014 is as follows:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	41 418	29 343	-	70 761
Mandatory cash balances with the CBR	3 694	-	-	3 694
Trading securities	5 553	-	-	5 553
Due from other banks	-	11 855	-	11 855
Loans and advances to customers	292 213	18 827	1 690	312 730
Derivative financial instruments	180	1 675	-	1 855
Other financial assets	101	19	-	120
Total financial assets	**343 159**	**61 719**	**1 690**	**406 568**
Financial liabilities				
Due to other banks	336	310 515	-	310 851
Customer accounts	49 870	884	95	50 849
Promissory notes issued	229	-	-	229
Derivative financial instruments	163	233	-	396
Other financial liabilities	15	272	-	287
Subordinated debt	-	12 076	-	12 076
Total financial liabilities	**50 613**	**323 980**	**95**	**374 688**
Net position in recognised financial instruments	**292 546**	**(262 261)**	**1 595**	**31 880**
Credit related commitments (Note 24)	**27 270**	**3 009**	**252**	**30 531**

Assets, liabilities and credit related commitments are generally based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand balances are allocated based on the country in which they are physically held.

22 Corporate governance, internal control and financial risk management (continued)

The geographical concentration of financial assets and liabilities at 31 December 2013 is as follows:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	7 371	29 978	-	37 349
Mandatory cash balances with the CBR	2 459	-	-	2 459
Trading securities	10 006	-	-	10 006
Due from other banks	327	22 714	-	23 041
Loans and advances to customers	193 995	5 941	1 231	201 167
Derivative financial instruments	198	128	-	326
Other financial assets	235	18	1	254
Total financial assets	**214 591**	**58 779**	**1 232**	**274 602**
Financial liabilities				
Due to other banks	2 080	148 418	-	150 498
Customer accounts	87 064	309	2	87 375
Promissory notes issued	424	54	-	478
Derivative financial instruments	36	321	-	357
Other financial liabilities	39	207	-	246
Subordinated debt	-	7 378	-	7 378
Total financial liabilities	**89 643**	**156 687**	**2**	**246 332**
Net position in recognised financial instruments	**124 948**	**(97 908)**	**1 230**	**28 270**
Credit related commitments (Note 24)	**27 260**	**3 595**	**10**	**30 865**

Liquidity risk. The Bank's liquidity is the ability of the Bank to meet its obligations related to financial liabilities:

- through cash available, or
- through sale of assets, or
- by attracting additional funding from external sources at a reasonable price.

Liquidity risk is the risk of losses due to Bank's inability to meet its obligations related to financial liabilities. Liquidity risk arises as a result of a mismatch between maturities and interest rates of Bank's financial assets and financial liabilities or a failure of Bank's counterparties to meet their financial obligations to the Bank and/or unexpected liquidity needs.

As part of liquidity risk management the Bank developed a system of procedures that set out objectives, principles and methods for managing and controlling liquidity risk. Treasury and Limits and position control department are responsible for developing and implementing measures, procedures, mechanisms and technologies to limitation and/or reducing the liquidity risk, and for monitoring the ability of the Bank to meet its obligations associated with financial liabilities.

The objective of liquidity management is to establish and maintain such assets and liability structure by types of products and maturity that enables the Bank to timely fulfil its obligations to creditors and to satisfy the demand of customers for cash borrowings.

22 Corporate governance, internal control and financial risk management (continued)hierarchy

The main goals, objectives, principles and methods for managing and controlling the liquidity position are set out in the Liquidity Policy of the Bank approved by the Board of Directors. The Liquidity Policy comprises:

- the goals and objectives of the liquidity management process
- main principles of the liquidity management process and for monitoring the liquidity position
- a hierarchy of the powers of employees and managerial bodies of the Bank
- a liquidity control system
- an information system designed to meet liquidity risk management and liquidity control objectives
- an overview of anti-crisis measures.

The liquidity control system in the Bank comprises three levels:

- heads of business departments are responsible for ensuring that the volume and terms of transactions/operations comply with the limits established by the managerial bodies of the Bank
- the Head of Treasury ensures that operations comply with the limits established by the managerial bodies of the Bank, ensures that mandatory liquidity ratios comply with Russian legislation and with the CBR regulations, prevents liquidity excess or deficiency, controls the Bank 's liquidity position on an operational basis and ensures that anti-crisis measures are implemented.
- the Head of Limits and position control department performs operational control over mandatory liquidity ratios, and ensures that operations comply with the limits established by the managerial bodies of the Bank. The Internal audit service performs an audit of the completeness of the application and efficiency of risk assessment methodology and liquidity management procedures and compliance with established limits.

Treasury is responsible for liquidity risk management in the Bank within established limits. The main objectives and functions of Treasury and its subdivisions in relation to liquidity risk management are:

- the Bank's liquidity management including standard procedures for liquidity management and procedures in the event of identifying liquidity excess or deficiency
- the Bank's funding by operations on interbank and money markets including derivatives, collateralised funding and operations with own debt instruments
- liquid security portfolio management
- ensuring compliance between mandatory liquidity ratios and limits set by the CBR
- analysis of the liquidity position including funding gaps and liquidity buffers
- establishing internal limits for required funding
- income generation from asset and liability management within risk limits and risk appetite.

Limits and position control department is responsible for operational control and analysis of the Bank's liquidity risk. The main objectives and functions of this department and its subordinated Liquidity risk unit are:

- monitoring compliance between mandatory liquidity ratios and the CBR Instruction dated 3 December 2012 No 139-I *On Mandatory Ratios of Banks* including the daily monitoring of liquidity ratios
- monitoring compliance between the internal liquidity ratios and liquidity limits of the Bank and internal limits
- analysis of the Bank's current liquidity position

22 Corporate governance, internal control and financial risk management (continued)hierarchy

- liquidity gap analysis
- scenario analysis of liquidity risk including cash flow forecasts and stress testing
- analysis of the warning indicators system and monitoring its operation
- using the ratio method for liquidity risk analysis and monitoring
- analysis and evaluation of the liquidity structure of assets and liabilities
- preparing internal liquidity reports with a frequency set by the Head of Treasury.

Monitoring of the current and projected current liquidity position is performed daily on the basis of a payment schedule and a forecast of short term resource requirements. Monitoring of the structural liquidity position is done by means of the regular preparation of current and projected assets and liabilities gap reports.

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

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

The table below shows assets and liabilities at 31 December 2014 by the earliest date of their remaining contractual maturity excluding trading securities at fair value through profit and loss which are presented in “Demand and less than 1 months” category as they can be realised on the securities market within one month. The amounts disclosed in the table are contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the unconsolidated statement of financial position because the amounts in the unconsolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included in the net amounts expected to be paid.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table below in the category of “Demand and less than 1 month”.

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

22 Corporate governance, internal control and financial risk management (continued)

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

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
Assets							
Cash and cash equivalents	70 761	-	-	-	-	70 761	70 761
Mandatory cash balances with the CBR	453	349	658	2 173	61	3 694	3 694
Trading securities	5 553	-	-	-	-	5 553	5 553
Due from other banks	11 866	-	-	-	-	11 866	11 855
Loans and advances to customers	4 525	12 145	66 568	254 394	36 374	374 006	312 730
Gross settled derivatives							
- inflows	2 799	19	-	-	-	2 818	2 818
- outflows	(2 736)	(16)	-	-	-	(2 752)	(2 752)
Net settled derivatives	1	3	119	1 569	97	1 789	1 789
Other financial assets	-	-	120	-	-	120	120
Total	**93 222**	**12 500**	**67 465**	**258 136**	**36 532**	**467 855**	**406 568**
Liabilities							
Due to other banks	3 526	32 147	65 977	214 358	-	316 008	310 851
Customer accounts	47 392	3 346	186	56	-	50 980	50 849
Promissory notes issued	175	-	55	1	-	231	229
Gross settled derivatives							
- inflows	(5 702)	(18)	-	-	-	(5 720)	(5 720)
- outflows	5 778	21	-	-	-	5 799	5 799
Net settled derivatives	-	-	-	244	73	317	317
Other financial liabilities	-	-	287	-	-	287	287
Subordinated debt	-	121	360	7 516	7 084	15 081	12 076
Total	**51 169**	**35 617**	**66 865**	**222 175**	**7 157**	**382 983**	**374 688**
Liquidity gap arising from recognised financial instruments	**42 053**	**(23 117)**	**600**	**35 961**	**29 375**	**84 872**	**31 880**
Liquidity gap arising from recognised financial instruments, cumulatively	**42 053**	**18 936**	**19 536**	**55 497**	**84 872**	**-**	**-**
Credit related commitments	**30 531**	**-**	**-**	**-**	**-**	**30 531**	**30 531**

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

22 Corporate governance, internal control and financial risk management (continued)

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

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
Assets							
Cash and cash equivalents	37 349	-	-	-	-	37 349	37 349
Mandatory cash balances with the CBR	815	69	182	1 377	16	2 459	2 459
Trading securities	10 006	-	-	-	-	10 006	10 006
Due from other banks	23 091	-	-	-	-	23 091	23 041
Loans and advances to customers	1 427	7 809	19 664	184 651	50 545	264 096	201 167
Gross settled derivatives							
- inflows	55 692	255	-	-	-	55 947	55 947
- outflows	(55 599)	(249)	-	-	-	(55 848)	(55 848)
Net settled derivatives	-	-	26	124	77	227	227
Other financial assets	-	-	254	-	-	254	254
Total	**72 781**	**7 884**	**20 126**	**186 152**	**50 638**	**337 581**	**274 602**
Liabilities							
Due to other banks	2 878	2 973	15 581	132 148	-	153 580	150 498
Customer accounts	84 641	2 012	852	-	-	87 505	87 375
Promissory notes issued	262	80	2	145	-	489	478
Gross settled derivatives							
- inflows	(25 794)	(250)	(1 218)	-	-	(27 262)	(27 262)
- outflows	25 837	255	1 331	-	-	27 423	27 423
Net settled derivatives	-	-	16	178	2	196	196
Other financial liabilities	246	-	-	-	-	246	246
Subordinated debt	10	52	188	6 590	1 883	8 723	7 378
Total	**88 080**	**5 122**	**16 752**	**139 061**	**1 885**	**250 900**	**246 332**
Liquidity gap arising from recognised financial instruments	**(15 299)**	**2 762**	**3 374**	**47 091**	**48 753**	**86 681**	**28 270**
Liquidity gap arising from recognised financial instruments, cumulatively	**(15 299)**	**(12 537)**	**(9 163)**	**37 928**	**86 681**	**-**	**-**
Credit related commitments	**30 865**	**-**	**-**	**-**	**-**	**30 865**	**30 865**

22 Corporate governance, internal control and financial risk management (continued)

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The table below shows an analysis, by expected maturities, of the amounts recognised in the unconsolidated statement of financial position as at 31 December 2014:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	70 761	-	-	-	-	70 761
Mandatory cash balances with the CBR	453	349	658	2 173	61	3 694
Trading securities	5 553	-	-	-	-	5 553
Due from other banks	11 855	-	-	-	-	11 855
Loans and advances to customers	2 166	983	26 517	258 383	24 681	312 730
Gross settled derivatives						
- inflows	2 799	19	-	-	-	2 818
- outflows	(2 736)	(16)	-	-	-	(2 752)
Net settled derivatives	1	3	119	1 569	97	1 789
Other financial assets	-	-	120	-	-	120
Total	**90 852**	**1 338**	**27 414**	**262 125**	**24 839**	**406 568**
Liabilities						
Due to other banks	3 302	31 557	63 965	212 027	-	310 851
Customer accounts	42 414	3 693	2 608	2 134	-	50 849
Promissory notes issued	175	-	53	1	-	229
Gross settled swaps and forwards						
- inflows	(5 702)	(18)	-	-	-	(5 720)
- outflows	5 778	21	-	-	-	5 799
Net settled derivatives	-	-	-	244	73	317
Other financial liabilities	-	-	287	-	-	287
Subordinated debt	-	52	-	5 836	6 188	12 076
Total	**45 967**	**35 305**	**66 913**	**220 242**	**6 261**	**374 688**
Liquidity gap arising from recognised financial instruments	**44 885**	**(33 967)**	**(39 499)**	**41 883**	**18 578**	**31 880**

As at 31 December 2014, contractual maturity of trading securities may be presented as follows: RUB 1 911 million in “From 3 to 12 months” category, RUB 2 860 million in “From 12 months to 5 years” category and RUB 782 million in “Over 5 years”.

As at 31 December 2013, contractual maturity of trading securities may be presented as follows: RUB 549 million in “From 1 to 3 months” category, RUB 2 647 million in “From 3 to 12 months” category, RUB 6 542 million in “From 12 months to 5 years” category and RUB 268 million in “Over 5 years” category.

22 Corporate governance, internal control and financial risk management (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the unconsolidated statement of financial position as at 31 December 2013:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	37 349	-	-	-	-	37 349
Mandatory cash balances with the CBR	815	69	182	1 377	16	2 459
Trading securities	10 006	-	-	-	-	10 006
Due from other banks	23 041	-	-	-	-	23 041
Loans and advances to customers	106	6 260	12 798	160 775	21 228	201 167
Gross settled derivatives						
- inflows	55 694	255	-	-	-	55 949
- outflows	(55 598)	(249)	-	-	-	(55 847)
Net settled derivatives	-	-	26	124	74	224
Other financial assets	-	-	254	-	-	254
Total	**71 413**	**6 335**	**13 260**	**162 276**	**21 318**	**274 602**
Liabilities						
Due to other banks	2 759	2 666	14 385	130 688	-	150 498
Customer accounts	78 428	4 123	3 834	990	-	87 375
Promissory notes issued	262	79	2	135	-	478
Gross settled swaps and forwards						
- inflows	(25 794)	(250)	(1 218)	-	-	(27 262)
- outflows	25 839	255	1 331	-	-	27 425
Net settled derivatives	-	-	16	176	2	194
Other financial liabilities	246	-	-	-	-	246
Subordinated debt	10	11	9	5 710	1 638	7 378
Total	**81 750**	**6 884**	**18 359**	**137 699**	**1 640**	**246 332**
Liquidity gap arising from recognised financial instruments	**(10 337)**	**(549)**	**(5 099)**	**24 577**	**19 678**	**28 270**

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

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

22 Corporate governance, internal control and financial risk management (continued)

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR.

Limits and position control department calculates and monitors the projected value of liquidity ratios. In case any ratio approaches its critical value, Limits and position control department informs the Head of Treasury and the supervising Deputy Chairman of the Board and works out proposals to prevent breach of the set ratios.

Planning and reporting department is responsible for the calculation of ratios.

These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The following table shows the mandatory liquidity ratios calculated as at 31 December 2014 and 2013.

	Requirement	**2014**	**2013**
Instant liquidity ratio (N2)	Not less than 15%	249.1%	185.1%
Current liquidity ratio (N3)	Not less than 50%	254.8%	96.9%
Long-term liquidity ratio (N4)	Not more than 120%	105.1%	103.0%

23 Management of capital

The objectives when managing capital are (i) to comply with capital requirements set by the CBR, and (ii) to safeguard the ability to continue as a going concern. The amount of capital as at 31 December 2014 was RUB 32 818 million (2013: RUB 29 329 million).

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. The Bank calculates amount of capital in accordance with Provision of the CBR No 215-P and Provision of the CBR No 395-P. Amount of capital calculated in accordance with Provision of the CBR No 215-P was used for prudential purposes till 31 December 2013. The amount of capital calculated in accordance with Provision of the CBR No 395-P is used for prudential purposes starting from 1 January 2014 and was used for information purposes during the period starting from 1 April 2013 till 31 December 2013.

As at 31 December 2013, the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 10%. As at 31 December 2014, minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 5.0%, 5.5% and 10.0%, accordingly. Starting from 1 January 2015 minimum level of ratio N1.2 is 6.0%.

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Bank provides the territorial CBR that supervises the Bank with information on mandatory ratios in accordance with set form. The Planning and reporting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR, the Bank’s internal policy is that this information is communicated to the Management Board and the Board of Directors. The Bank is in compliance with the statutory capital ratios as at 31 December 2014 and 2013.

23 Management of capital (continued)

The calculation of capital adequacy based on requirements set by the CBR as at 31 December is as follows:

In millions of Russian Roubles	**2014**	**2013**
Base capital	26 558	23 645
Additional capital	-	-
Main capital	*26 558*	*23 645*
Supplementary capital	12 661	7 262
Own funds (capital)	**39 219**	**30 907**
Risk-weighted assets	**207 271**	**225 457**
Ratio N1.1 (%)	**12.8**	**10.5**
Ratio N1.2 (%)	**12.8**	**10.5**
Ratio N1.0 (%)	**18.9**	**13.7**

24 Contingencies and commitments

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

At 31 December 2014, the Bank was engaged in litigation proceedings in relation to collection of overdue amounts under loan agreements or guarantee contracts.

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market interval or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

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 in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged.

Given the short period since the current Russian transfer pricing rules became effective, 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.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under increased scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

24 Contingencies and commitments (continued)

Nevertheless, management believes that its interpretation of the relevant legislation is appropriate and the Bank has no additional tax liabilities. The most recent tax inspections of the Bank took place in June 2013 – January 2014 when tax authorities checked for compliance with the Russian tax legislation for the years 2010 - 2011. Based on the results of these tax inspections no significant issues have been raised and no significant tax penalties or additional tax charges have been accrued. Therefore, as at 31 December 2014 management has not created any provision for potential tax liabilities (2013: nil).

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

In millions of Russian Roubles	**2014**	**2013**
Not later than 1 year	592	395
Due between 1 and 5 years	1 557	694
Total operating lease commitments	**2 149**	**1 089**

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

Commitments to extend credits represent undrawn amounts for approved loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credits, the Bank is potentially exposed to a loss in the amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of a loss is less than the total unused commitments since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Bank monitors the 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 millions of Russian Roubles	**2014**	**2013**
Undrawn credit lines	12 791	19 838
Guarantees issued	15 210	10 865
Import letters of credit	2 530	162
Total credit related commitments	**30 531**	**30 865**

Undrawn credit lines represent commitments that are irrevocable or are revocable only in response to a material adverse change.

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

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2014**	**2013**
Russian Roubles	15 097	14 889
USD	9 854	14 757
EUR	5 340	1 072
Other	240	147
Total	**30 531**	**30 865**

24 Contingencies and commitments (continued)

Assets pledged and restricted. As at 31 December 2014, mandatory cash balances with the CBR of RUB 3 694 million (2013: RUB 2 459 million) represent mandatory reserve deposits which are not available to finance the day to day operations as disclosed in Note 3.

25 Fair value of financial instruments

The Bank performed an assessment of fair value of its financial instruments as required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under the current market conditions. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The Bank calculates fair value of financial instruments using available market data (for the instruments which are traded on corresponding market) or calculates estimated fair value for financial instruments (for the rest financial instruments such as over-the-counter derivatives).

Where quoted market prices are not available, the Bank uses valuation techniques. 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 financial 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, or based on market risk-free interest rates and current market credit spreads.

Estimated fair value of unquoted financial instruments was calculated by the Bank using available market data, if any, and appropriate valuation methods. The Bank uses widely recognised valuation models for determining the fair value of financial instruments, like interest rate and currency swaps that use only observable market data.

The Bank measures fair values for financial instruments recorded in the unconsolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has a control framework with respect to the measurement of fair values. Limits and position control department is responsible for independently performing below stated control procedures:

- verification of input data
- a review and approval process for new models and changes to models
- analysis and investigation of significant valuation movements.

25 Fair value of financial instruments (continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorised are as follows:

In millions of Russian Roubles	2014 Quoted price in an active market (Level 1)	2014 Valuation technique with inputs observable in markets (Level 2)	2013 Quoted price in an active market (Level 1)	2013 Valuation technique with inputs observable in markets (Level 2)
Financial assets				
Trading securities	**1 046**	**4 507**	**10 006**	**-**
- Corporate bonds	-	2 848	5 901	-
- Municipal bonds	-	1 659	2 470	-
- Federal loan bonds (OFZ)	1 046	-	1 635	-
Other financial assets	**-**	**1 855**	-	**326**
Derivative financial instruments	-	1 855	-	326
Total financial assets carried at fair value	**1 046**	**6 362**	**10 006**	**326**
Financial liabilities				
Other financial liabilities	**-**	**396**	**-**	**357**
Derivative financial instruments	-	396	-	357
Total financial liabilities carried at fair value	**-**	**396**	**-**	**357**

Management applies judgement in categorising financial instruments using the fair value hierarchy. Significance of a valuation input is assessed against the fair value measurement in its entirety.

At the end of 2014, due to changes in market conditions for certain trading securities, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure the fair value of these securities, based on observable market inputs. Hence, these securities, with a carrying amount of RUB 4 507 million, were transferred from Level 1 to Level 2 of the fair value hierarchy as at 31 December 2014.

As at 31 December 2014, the discount rates used by the Bank for assessing fair value of Level 2 financial instruments are as follows:

	Russian Roubles	USD	EUR
Financial assets			
Trading securities			
- Corporate bonds	15.3%-16.8%	-	-
- Municipal bonds	15.3%-17.8%	-	-
Derivative financial instruments	11.6%-22.9%	0.1%-2.6%	(0.1)%-0.0%
Financial liabilities			
Derivative financial instruments	11.9%-23.0%	0.1%-2.6%	(0.1)%-0.1%

25 Fair value of financial instruments (continued)

As at 31 December 2013, the discount rates used by the Bank for assessing fair value of Level 2 financial instruments are as follows:

	Russian Roubles	USD	EUR
Financial assets			
Derivative financial instruments	6.1%-6.9%	0.1%-0.8%	0.1%-0.2%
Financial liabilities			
Derivative financial instruments	6.1%-6.9%	0.1%-0.8%	0.1%-0.6%

Gains and losses on derivatives are included in gains less losses from financial derivatives within profit or loss for the year.

The following table analyses the fair value of certain financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

In millions of Russian Roubles	Level 1	Level 2	Level 3	Fair value	Carrying amount
Financial assets					
Loans and advances to customers	-	-	306 911	306 911	312 730

The estimated fair value of all other financial instruments carried at amortised cost approximates their carrying values. As at 31 December 2013, the estimated fair value of all financial instruments carried at amortised cost approximates their carrying values.

The following assumptions are used by management to estimate the fair values of discounting future cash flows from loans and advances to customers. As at 31 December 2014, the following discount rates are used for discounting future cash flows from loans and advances to customers:

	Russian Roubles	USD	EUR
Corporate loans	22.0%-35.2%	1.9%-7.3%	2.0%-6.2%
Loans to individuals			
- retail	34%	9.0%-18.0%	9.0%-20.0%
- auto	29%	9.0%-18.0%	9.0%-16.0%
- mortgage loans	21%	4.4%-15.5%	5.1%-15.0%

Interest rates used for discounting of financial instruments not at fair value except for loans and advances to customers are not significantly different from interest rates disclosed in Note 22, so management believes that fair value of financial instruments not at fair value except for loan and advances to customers approximates their carrying amount.

26 Presentation of financial instruments by measurement category

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement* the Bank classifies its financial assets into the following categories: (a) loans and receivables; (b) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

A reconciliation of aggregated classes of financial assets with these measurement categories at 31 December 2014 is as follows:

In millions of Russian Roubles	**Loans and receivables**	**Trading assets**	**Total**
Assets			
Cash and cash equivalents	70 761	-	70 761
Mandatory cash balances with the CBR	3 694	-	3 694
Trading securities	-	5 553	5 553
Due from other banks	11 855	-	11 855
Loans and advances to customers	312 730	-	312 730
Derivative financial instruments	-	1 855	1 855
Other financial assets	120	-	120
Total financial assets	**399 160**	**7 408**	**406 568**

A reconciliation of classes of financial assets with these measurement categories at 31 December 2013 is as follows:

In millions of Russian Roubles	**Loans and receivables**	**Trading assets**	**Total**
Assets			
Cash and cash equivalents	37 349	-	37 349
Mandatory cash balances with the CBR	2 459	-	2 459
Trading securities	-	10 006	10 006
Due from other banks	23 041	-	23 041
Loans and advances to customers	201 167	-	201 167
Derivative financial instruments	-	326	326
Other financial assets	254	-	254
Total financial assets	**264 270**	**10 332**	**274 602**

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

27 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.

In the normal course of business the Bank enters into transactions with its related parties. These transactions include settlements, loans, deposit taking, guarantees and foreign currency transactions.

The table below represents balances and results of operations with parent company and other fellow entities in Nordea Group, unconsolidated subsidiaries and other related parties.

27 Related party transactions (continued)

The outstanding balances with related parties at 31 December 2014 and 2013 are as follows:

	2014			2013		
In millions of Russian Roubles	**Parent company and other fellow entities in Nordea Group**	**Unconsoli-dated subsidiaries**	**Other**	**Parent company and other fellow entities in Nordea Group**	**Unconsoli-dated subsidiaries**	**Other**
Cash and cash equivalents	28 974	-	-	29 826	-	-
Due from other banks (contractual interest rate: 2014: 0.1%-20.2%; 2013: 6.3%-6.9%)	11 855	-	-	22 714	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2014: 2.0%-11.6%; 2013: 2.0%-15.0%)	-	520	-	-	716	6
Impairment provisions for loans and advances to customers	-	(19)	-	-	(201)	-
Derivative financial instruments assets	1 675	-	-	126	-	-
Other assets	-	582	-	-	612	-
Due to other banks	310 515	-	-	148 411	-	-
- current accounts	52	-	-	344	-	-
- term deposits outstanding (contractual interest rate: 2014: 0.6%-16.0%; 2013: 0.8%-6.7%)	310 463	-	-	148 067	-	-
Customer accounts	13	64	119	14	37	1 185
- current accounts (contractual interest rate: 2014: 0.1%-12.8%; 2013: 0.1%-1.0%)	-	64	41	1	37	8
- term deposits (contractual interest rate: 2014: 1.0%-12.6%; 2013: 1.0%-8.1%)	13	-	78	13	-	1 177
Derivative financial instruments liabilities	231	-	-	316	-	-
Other financial liabilities	260	-	-	207	-	-
Subordinated debt (contractual interest rate: 2014: 3.7%-4.23%; 2013: 2.0%-4.2%)	12 076	-	-	7 378	-	-
Guarantees issued by the Bank at the year end	161	-	-	99	-	-
Guarantees received by the Bank at the year end (contractual interest rate: 2014: 0.1%-2.3%; 2013: 0.1%-6.2%)	253 299	-	-	114 466	-	7
Other contingent liabilities	2 500	-	-	2 500	-	-

27 Related party transactions (continued)

The income and expense items with related parties at 31 December 2014 and 2013 are as follows:

In millions of Russian Roubles	2014 Parent company and other fellow entities in Nordea Group	2014 Unconsoli-dated subsidiaries	2014 Other	2013 Parent company and other fellow entities in Nordea Group	2013 Unconsoli-dated subsidiaries	2013 Other
Interest income	527	31	-	1 166	54	1
Interest expense	(3 070)	-	(22)	(1 889)	-	(48)
- due to other banks	(2 729)	-	-	(1 624)	-	-
- subordinated debt	(340)	-	-	(264)	-	-
- customer accounts	(1)	-	(22)	(1)	-	(48)
Loan impairment losses	-	(7)	-	-	26	-
Fee and commission income	-	-	-	-	1	1
Fee and commission expense	(847)	-	-	(864)	-	-
Losses less gains arrising from non-derivative financial instruments	(54)	-	-	-	-	-
Gains less losses from financial derivatives	1 500	-	-	31	-	-
Gains less losses (losses less gains) from trading in foreign currencies	-	2	(1)	-	1	1
Administrative and other operating expenses	-	-	(384)	-	-	(330)

Key management compensation is presented below:

In millions of Russian Roubles	2014 Expense	2014 Accrued liability	2014 Equity	2013 Expense	2013 Accrued liability	2013 Equity
Short-term benefits:	**297**	**107**	-	**264**	**94**	-
- Salaries	189	-	-	169	-	-
- Short-term bonuses	107	107	-	94	94	-
- Benefits in-kind	1	-	-	1	-	-
Long term benefits:	**21**	**51**	-	**16**	**39**	-
- Long-term bonus scheme	21	51	-	16	39	-
Post-employment benefits:	**39**	**25**	-	**28**	**10**	-
- State pension and social security costs	39	25	-	28	10	-
Share-based compensation:	**20**	-	**20**	**15**	-	**15**
- Non-cash-settled share-based compensation	20	-	20	15	-	15
Total	**377**	**183**	**20**	**323**	**143**	**15**

Short-term bonuses are paid within twelve months after the end of the period in which management rendered the related services.

I.V. Bulantsev
Chairman of the Management Board

T.N. Sharova
Chief Accountant

АО «Нордеа Банк»