SOGAZ GROUP

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

31 December 2014

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Insurance Company of Gaz Industry SOGAZ

We have audited the accompanying consolidated financial statements of Insurance Company of Gaz Industry SOGAZ and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended on the reporting date, and also notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

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Opinion

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

ZAO PricewaterhouseCoopers Audit

21 April 2015
Moscow, Russian Federation

A. V. Efremov, Director (qualification certificate no. 01-000255),
ZAO PricewaterhouseCoopers Audit

Audited entity: Insurance Company of Gaz Industry SOGAZ

State registration certificate № 027.793, issued by the Moscow Registration Chamber on 22 March 1995

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 December 2002 under registration №1027739820921

10 Akademika Sakharova av., Moscow, Russian Federation, 107078

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

In thousands of Russian Roubles	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	5 094 494	3 899 000
Deposits with banks	8	71 228 685	66 851 684
Loans	9	3 277 806	535 057
Securities at fair value through profit or loss	10	13 271 773	18 979 420
Investment securities available for sale	11	16 689 887	11 917 364
Investments in associates	12	9 922 137	10 718 473
Receivables	14	24 801 029	20 530 186
Prepayments	15	8 483 122	5 495 831
Current income tax prepayment		328 376	471 289
Reinsurers' share of insurance provisions	20	52 171 854	20 298 246
Investment property	13	776 278	445 710
Deferred acquisition costs	27	4 347 868	4 059 861
Deferred income tax asset	29	133 306	104 489
Premises and equipment	16	12 161 917	9 423 340
Intangible assets	17	1 501 720	2 839 607
Goodwill	18	455 564	640 676
Other assets		109 742	144 253
Assets of a disposal group held for sale	19	12 715 739	-
TOTAL ASSETS		**237 471 297**	**177 354 486**
LIABILITIES			
Insurance provisions	20	138 260 625	97 671 233
Deferred commission income	27	1 161 593	858 243
Payables	22	20 711 243	20 478 236
Current income tax liability		474 732	108 000
Deferred income tax liability	29	1 692 754	2 724 157
Other financial liabilities	23	940 519	2 524 657
Other liabilities	23	7 110 635	2 890 474
Liabilities directly associated with assets of a disposal group held for sale	19	11 402 486	-
TOTAL LIABILITIES		**181 754 587**	**127 255 000**
Share capital	25	15 328 487	15 328 487
Share premium	25	2 610	2 610
Treasury shares	25	(770 001)	-
Fair value reserve for investment securities available for sale	25	(1 346 268)	109 428
Reserve for translation to presentation currency	25	129 394	92 190
Retained earnings		40 447 979	33 310 698
Accumulated gains less losses recognised in other comprehensive income relating to a disposal group held for sale		470 863	-
Net assets attributable to the Company's owners		**54 263 064**	**48 843 413**
Non-controlling interest	**24**	**1 453 646**	**1 256 073**
TOTAL EQUITY		**55 716 710**	**50 099 486**
TOTAL LIABILITIES AND EQUITY		**237 471 297**	**177 354 486**

Approved for issue and signed on 16 April 2015.

S.S. Ivanov
Chairman of the Board

O. B. Krymova
Deputy Chairman of the Board

The notes set out on pages 7 to 103 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Notes	2014		2013	
INSURANCE ACTIVITY					
Gross premiums written	31	122 419 446		94 231 620	
Premiums ceded		(27 321 563)		(19 435 390)	
			95 097 883		74 796 230
Change in provision for unearned premiums, gross	20	(10 527 947)		(3 099 310)	
Change in reinsurers' share of provision for unearned premiums	20	6 094 299		925 430	
			(4 433 648)		(2 173 880)
Changes in gross premiums written under prior years' contracts			(1 972 190)		(2 276 407)
Changes in premiums ceded under prior years' contracts			303 981		193 465
Net premiums earned			**88 996 026**		**70 539 408**
Gross claims paid	31	(52 280 331)		(46 133 251)	
Reimbursement of claims for risks ceded to reinsurers		3 291 373		4 672 988	
			(48 988 958)		(41 460 263)
Change in loss provision, gross	20	(36 357 422)		(7 748 311)	
Change in reinsurers' share of loss provision	20	26 673 114		3 060 106	
			(9 684 308)		(4 688 205)
Claims handling expenses			(3 918 908)		(2 307 171)
Net claims incurred			**(62 592 174)**		**(48 455 639)**
Acquisition costs net of related commission income from reinsurance ceded	27		(5 711 382)		(4 553 453)
Change in unexpired risk provision	20		207 140		(11 240)
Subrogation income			1 246 949		675 639
Change in provision for insurance and reinsurance receivables	14		(455 577)		(274 586)
Total results from insurance activity			**21 690 982**		**17 920 129**
INVESTMENT INCOME AND EXPENSES					
Unrealised (losses less gains) / gains less losses from securities at fair value through profit or loss			(1 170 971)		398 324
Realised gains less losses from securities at fair value through profit or loss			265 120		77 287
Realised gains from securities available for sale	11		12 114		59 092
Interest income	26		8 643 717		6 465 433
Interest expenses			(408 592)		(161 916)
Dividend income			110 353		114 252
Foreign exchange translation gains less losses			4 708 264		205 296
Other investment losses less gains			(25 523)		(12 816)
Investment income and expenses, net			**12 134 482**		**7 144 952**
Other operating income	28		3 491 750		2 734 136
Administrative and other operating expenses	28		(19 450 701)		(13 869 058)
Share of results of associates	12		688 083		18 524
Profit before tax			**18 554 596**		**13 948 683**
Income tax expense	29		(4 730 918)		(2 913 706)
Profit for the year			**13 823 678**		**11 034 977**

In thousands of Russian Roubles	Notes	2014	2013
OTHER COMPREHENSIVE (LOSS) / INCOME:			
Items that may be reclassified subsequently to profit or loss:			
(Losses) / gains arising from securities available for sale	11	(1 715 411)	53 730
Realised gains transferred to profit or loss	11	(12 114)	(59 092)
Change in reserve for translation to presentation currency	25	1 070 808	211 465
Income tax recognised directly in other comprehensive income	29	188 841	(54 554)
Items that will not be reclassified to profit or loss:			
Revaluation of pension obligations		(180 279)	-
Income tax recognised directly in other comprehensive income	29	54 084	-
Total other comprehensive (loss) / income for the year		**(594 071)**	**151 549**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13 229 607**	**11 186 526**
Profit / (loss) attributable to:			
Owners of the Company		13 981 660	11 242 003
Non-controlling interest	24	(157 982)	(207 026)
		13 823 678	11 034 977
Total comprehensive income / (loss) attributable to:			
Owners of the Company		13 034 031	11 344 030
Non-controlling interest	24	195 576	(157 504)
		13 229 607	11 186 526

		Attributable to owners of the Group									
In thousands of Russian Roubles	**Notes**	**Share capital**	**Share premium**	**Treasury shares**	**Reserve for translation to presentation currency**	**Fair value reserve for investment securities available for sale**	**Retained earnings***	**Accumulated gains less losses recognised in other comprehensive income relating to a disposal group held for sale**	**Total**	**Non-controlling interest (Note 24)**	**Total equity**
31 December 2012		**15 328 487**	**2 610**	**-**	**(24 839)**	**124 430**	**27 505 510**	**-**	**42 936 198**	**1 318 036**	**44 254 234**
Profit / (loss) for the year		-	-	-	-	-	11 242 003	-	11 242 003	(207 026)	11 034 977
Other comprehensive income / (loss)		-	-	-	117 029	(15 002)	-	-	102 027	49 522	151 549
Total comprehensive income / (loss) for the year		-	-	-	117 029	(15 002)	11 242 003	-	11 344 030	(157 504)	11 186 526
Acquisition of subsidiary	38	-	-	-	-	-	-	-	-	95 541	95 541
Dividends declared	30	-	-	-	-	-	(5 517 188)	-	(5 517 188)	-	(5 517 188)
Dividends returned	30	-	-	-	-	-	80 373	-	80 373	-	80 373
31 December 2013		**15 328 487**	**2 610**	**-**	**92 190**	**109 428**	**33 310 698**	**-**	**48 843 413**	**1 256 073**	**50 099 486**
Profit / (loss) for the year		-	-	-	-	-	13 981 660	-	13 981 660	(157 982)	13 823 678
Other comprehensive income / (loss)		-	-	-	521 298	(1 404 694)	(64 233)	-	(947 629)	353 558	(594 071)
Total comprehensive income / (loss) for the year		-	-	-	521 298	(1 404 694)	13 917 427	-	13 034 031	195 576	13 229 607
Transfer to accumulated gains less losses relating to a disposal group held for sale		-	-	-	(484 094)	(51 002)	64 233	470 863	-	-	-
Acquisition of subsidiary	38	-	-	-	-	-	-	-	-	1 998	1 998
Disposal of subsidiary	38	-	-	-	-	-	-	-	-	(1)	(1)
Dividends declared	30	-	-	-	-	-	(6 844 379)	-	(6 844 379)	-	(6 844 379)
Repurchase of own shares	25	-	-	(770 001)	-	-	-	-	(770 001)	-	(770 001)
31 December 2014		**15 328 487**	**2 610**	**(770 001)**	**129 394**	**(1 346 268)**	**40 447 979**	**470 863**	**54 263 064**	**1 453 646**	**55 716 710**

*Retained earnings at 31 December 2012 include preventive measures reserve.

In thousands of Russian Roubles	**Notes**	**2014**	**2013**
Cash flows from operating activities			
Gross premiums received		118 816 074	90 429 204
Ceded premiums paid		(21 311 486)	(14 787 646)
Gross claims paid		(52 203 029)	(46 325 244)
Reimbursement of claims ceded to reinsurers, received		2 526 851	4 498 411
Acquisition costs paid		(7 725 433)	(5 998 308)
Claims handling expenses paid		(3 869 174)	(2 226 891)
Subrogation income received		779 549	675 639
Interest received		8 751 143	4 786 001
Commission income from obligatory medical insurance program	28	1 808 483	1 394 312
Other operating income received		1 725 182	1 293 382
Administrative and other operating expenses paid		(15 238 139)	(12 491 665)
Income tax paid		(5 104 194)	(3 453 614)
Cash flows from operating activities before changes in operating assets and liabilities		**28 955 827**	**17 793 581**
Changes in operating assets and liabilities			
Net increase in deposits with banks		(603 666)	(6 455 738)
Net decrease in receivables		1 673 276	322 550
Net increase in prepayments		(2 861 797)	(1 464 173)
Net decrease in other assets		34 230	532 522
Net increase in obligatory medical insurance programme liabilities		3 587 604	740 348
Net (decrease) / increase in payables		(1 804 737)	891 280
Net (decrease) / increase in other liabilities		(1 069 361)	268 643
Net cash from operating activities		**27 911 376**	**12 629 013**

The notes set out on pages 7 to 103 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Notes	2014	2013
Cash flows from investing activities			
Cash received from realisation of securities at fair value through profit or loss		1 233 495	827 644
Acquisition of investment securities available for sale		(9 603 808)	(3 220 698)
Proceeds from realisation and redemption of investment securities available for sale	11	2 145 565	2 393 200
Cash outflow resulting from issue of loans		(2 725 389)	(454 370)
Acquisition of associates	12	(1 500 007)	(4 006 319)
Proceeds from disposal of associates		3 000 428	-
Repayment of debt for acquisition of subsidiaries		(6 295 460)	-
Cash outflow resulting from acquisition of subsidiaries net of cash paid	38	(577 803)	(527 521)
Acquisition of premises and equipment		(4 080 791)	(333 126)
Acquisition of intangible assets	17	(266 177)	(204 834)
Proceeds from disposal of premises and equipment		130 260	38 475
Dividend income received		110 353	114 252
Dividend income received from associates		-	181 217
Net cash used in investment activities		**(18 429 334)**	**(5 192 080)**
Cash flows from financing activities			
Dividends paid to owners of the Group	30	(6 844 379)	(5 436 815)
Repayment of finance lease		(514 777)	(696 393)
Repayment of interest on finance lease	16	(74 949)	(124 680)
Repurchase of own shares	25	(770 001)	-
Net cash used in financing activities		**(8 204 106)**	**(6 257 888)**
Effect of exchange rate changes on cash and cash equivalents		283 613	31 293
Net increase in cash and cash equivalents		**1 561 549**	**1 210 338**
Cash and cash equivalents at the beginning of the year	7	3 899 000	2 688 662
Cash and cash equivalents relating to assets of a disposal group held for sale	7, 19	(366 055)	-
Cash and cash equivalents at the end of the year	7	**5 094 494**	**3 899 000**

1 Introduction

These consolidated financial statements of Insurance Company of Gaz Industry SOGAZ (hereinafter – the "Company") and its subsidiaries (together referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014.

The Company was incorporated and is domiciled in the Russian Federation. The Company is an open joint stock company and was set up in accordance with Russian legislation.

Principal activity. The principal activity of the Group is provision of insurance services. The Group also renders non-insurance related services (Note 38). The Company operates under insurance licenses issued by the Ministry of Finance of the Russian Federation. Insurance business written by the Group includes property, liability, medical, personal accident, life insurance and reinsurance. The Group has also contracted with the Territorial funds for obligatory medical insurance (hereinafter - "TFOMI"), which carry out obligatory medical insurance (hereinafter - "OMI") programs to provide citizens of the Russian Federation with free of charge medical services through certain appointed insurers, including the Group. The Group has contracted with TFOMI to administer a portion of this program and receives commissions for providing this service.

At 31 December 2014, 32.30 % of the Company's shares are owned by LLC IK ABROS (31 December 2013: 51.02 %); 40.23 % (31 December 2013: 24.01 %) owned by OJSC Gazprom and its subsidiaries and associates, 12.50 % (31 December 2013: 12.50 %) owned by LLC Kordeks, 12.47 % (31 December 2013: 12.47 %) owned by LLC Akcept. The remaining 2.5 % shares of the Company are owned by the Group (31 December 2013: 0.00 %). At 31 December 2014 none of the parties had ultimate control over the Group.

At 31 December 2014, the Company had 78 active branches (31 December 2013: 76) in the Russian Federation. At 31 December 2014, the subsidiaries of the Group in their turn had 76 branches (31 December 2013: 76) in the Russian Federation and 3 branches in the European Union (31 December 2013: 4). The number of the Group's staff employees at 31 December 2014 was 11 959 (31 December 2013: 10 580). The list of principal consolidated subsidiaries and associates is disclosed in Notes 38 and 12 accordingly.

Registered address and place of business. The Company's registered address is: Akademika Sakharova av. 10, Moscow 107078, Russia. The Company's Head Office is located at the same address.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (hereinafter - "RR thousands").

2 Operating Environment

The Russian Federation. The Russian Federation economy displays certain characteristics of emerging markets. It is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 34).

The ongoing international sovereign debt crisis, stock market volatility, drop in crude oil prices and other risks had and could have an ongoing negative effect on Russian financial and corporate sectors, including weakening of the Russian Rouble, higher interest rates and reduced liquidity. A mixture of travel bans, asset freezing orders and the prohibition of business relations with a limited number of Russian citizens have been put in place by several countries in the beginning of the year ended 31 December 2014.

In September 2014, the United States, the European Union and some other countries imposed additional sanctions on certain sectors of Russian economy, including banking and energy. Under these sanctions, any US individuals and legal entities incorporated under US legislation (including their foreign branches) or any persons in the United States may not finance or otherwise deal in debt with longer than 90 days maturity for a number of Russian banking and energy companies. These sanctions are also applicable to any entities with 50 % or more interest in equity held, directly or indirectly, jointly or separately, by sanctioned entities or individuals.

2 Operating Environment (continued)

The European Union sanctions similarly prohibit export of goods and services to certain energy exploration and production companies included in the sanction list, as well as limit dealing in marketable securities and money market instruments with maturity exceeding (a) 90 days, if issued from 1 August 2014 to 12 September 2014, or (b) 30 days, if issued after 12 September 2014 by Russian companies.

Currently, neither the Company nor its subsidiaries are included in the list of sanctioned entities, and no sanctions directly affecting the insurance sector have been introduced. The Group has assessed the impact of sanctions introduced and does not believe they have a significant impact on the financial position and results of operations of the Group.

Management is unable to predict all developments which could have an impact on the insurance sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by companies operating in the Russian Federation.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS") under the historical cost convention, as modified by the revaluation of financial assets and liabilities designated at fair value through profit or loss and assets available for sale.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements, unless otherwise stated.

The preparation of these consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities at the date of the consolidated financial statements, and the amounts of income and expenses for the period recognised in these consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 4).

Consolidated financial statements. Subsidiaries are those investees that the Company controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

The Company may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Company from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Company, and are deconsolidated from the date on which control ceases.

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recognised as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as an equity transaction in the consolidated statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recognised in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) the Group's share in other changes of the carrying value of net assets of associates is recognised in the consolidated statement of profit or loss and other comprehensive income as the share of results of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the consolidated statement of changes in equity the Group's share of other comprehensive income of associates is recognised within the reserve to which other comprehensive income of associates is related.

3 Summary of Significant Accounting Policies (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group tests for impairment the entire carrying amount of the investment in associate as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases. Impairment loss and reversal of that impairment loss are both recognised in profit or loss for the period.

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the quoted price for the individual asset or liability multiplied by the quantity held by the Group. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity of assets and liabilities held by the Group and placing orders to sell the position in a single transaction might affect the quoted price. Within the bid-ask spread management considers the weighted average price at the reporting date equal to the fair value, as the most representative in the circumstances.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell an asset for a particular risk exposure or paid to transfer a liability for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if: (a) the Group manages the group of financial assets and financial liabilities on the basis of the Group’s net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group’s documented risk management or investment strategy; (b) the Group provides information on that basis about the group of assets and liabilities to the Group’s management; and (c) the market risks, including duration of the Group’s exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities, are substantially the same.

Valuation techniques such as discounted cash flow model or models based on similar arm’s length transactions or on the present value of the investee are used to measure fair value of certain financial instruments for which external market pricing information is not available (Note 35).

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

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 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 assets. Securities at fair value through profit or loss are initially recognised at fair value. All other investment financial assets are initially recognised 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 recognised if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions with the same instrument or by a valuation technique whose inputs include only data from observable markets.

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 recognised at transaction date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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

Derecognition of financial liabilities. The Group derecognises its financial liabilities when the obligation under the liability is discharged or transferred or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognised and the new liability is recognised, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

Cash and cash equivalents. Cash and cash equivalents are instruments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, settlement accounts with banks and overnight deposits. Funds restricted for a period of more than one banking day on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Deposits with banks. Deposits with banks are funds that the Group advances to counterparty banks on the basis of deposit contracts for a period of more than one banking day. Deposits with banks are carried at amortised cost.

Loans. Loans are unquoted non-derivative financial assets carried at amortised cost. The Group issues loans in the form of cash due on fixed or determinable dates.

3 Summary of Significant Accounting Policies (continued)

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

Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the period as interest income. Dividends are recognised as dividend income when the Group's right to receive the relevant income is established and it is probable that the dividends will be collected. All other components of changes in the fair value and gains or losses on derecognition are recognised accordingly as unrealised and realised gains less losses from securities at fair value through profit or loss in the period in which they arise.

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

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

Impairment losses are recognised in profit or loss for the period when incurred as a result of one or more events that occurred after the initial recognition of investment securities available for sale. A significant or ongoing decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the initial cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the period. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Receivables and prepayments. Receivables are accounted for on the accrual basis and are carried at amortised cost. Prepayments are recognised at the payment date and are charged to profit or loss for the period when the services or goods are provided.

Insurance and reinsurance receivables include settlements with agents, brokers, insured and reinsurers, and also subrogation and recourse settlements. Reinsurance receivables and payables are offset for a counterparty where the legal right for this offset exists.

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

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (continued)

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by counterparty's financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the debtor as a result of changes in the national or local economic conditions that impact the debtor; 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 relate to the estimation of future cash flows for groups of such assets and indicate the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows of a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of contractual cash flows of the assets and statistical information owned by the management about the extent and successful recovery of overdue receivables as a result of past events. Statistical information is adjusted for current observable data in order to provide for current conditions that did not affect prior periods and eliminate the impact of past events that are not applicable to the current period.

The Group applied methods of individual assessment of impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the debtor or issuer, impairment is assessed 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 risks and rewards of this asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are recognised through creating a provision necessary to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of 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 impairment loss provision through profit or loss for the period.

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both, and is not occupied by the Group. Investment property includes premises and land plots.

Earned rental income is recognised in profit or loss within other operating income.

Investment property is stated at cost including transaction costs less accumulated depreciation and provision for impairment, where required. Depreciation of investment property is recognised in profit or loss within administrative and other operating expenses and is calculated by applying methods similar to those applied for calculation of depreciation of premises and equipment.

3 Summary of Significant Accounting Policies (continued)

If any indication exists that investment property may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of investment property is written down to its recoverable amount through profit or loss for the period. Impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes occupied by the Group, it is reclassified to premises and equipment.

Premises and equipment. Premises and equipment are stated at cost, adjusted 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 provision for impairment, where required.

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

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

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

Depreciation. Land is not depreciated as well as construction in progress until the asset being constructed is available for use. Depreciation of other items of premises and equipment is calculated using the straight-line method to allocate their cost to residual values over the following estimated useful lives:

	Useful lives in years
Premises	30-50
Transport, office and computer equipment	3-7
Other premises and equipment	5-15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less estimated costs of disposal, if the asset would have already been 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 each reporting date.

Intangible assets. The Group's intangible assets have definite useful lives and primarily include computer software licenses obtained by the Group, computer software development costs and intangible assets acquired in business combinations, including client base obtained as a result of acquisition of subsidiaries. Amortisation is applied on a straight-line basis over their estimated useful lives, from 1 to 5 years (Note 17).

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications, is recognised as a capital improvement and added to the original cost of the software.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs, that are directly associated with identifiable software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

3 Summary of Significant Accounting Policies (continued)

Intangible assets acquired in business combinations are recognised at fair value at the moment of obtaining control over the operating activities of the acquired company. Intangible assets whose fair value can be reliably measured are recognised separately from goodwill. The Group determines fair value of acquired intangible assets even if they were not accounted for in financial statements of an acquiree. The Group tests intangible assets with definite useful lives whenever there are indicators that intangible assets may be impaired (Note 4).

Intangible assets received as a result of acquisition of SOVAG subsidiary in the amount of RR 594 831 thousand are represented by the difference between the value of insurance liabilities under the German law at the moment of acquisition and their fair value measured using actuarial methods. The amount of these intangible assets increases or decreases as a result of changes in the value of insurance liabilities under the German law. At 31 December 2014, the carrying value of these intangible assets is recognised within assets of a disposal group held for sale.

Goodwill. Goodwill arising on business acquisition is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill. Gains or losses on disposal of an asset from a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash generating unit which is retained.

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

Assets of a disposal group held for sale are a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Assets of a disposal group held for sale as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated or amortised.

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

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of minimum lease payments. Each lease payment is allocated between discharging liability and finance charges so as to achieve a constant rate on the finance lease liability outstanding.

3 Summary of Significant Accounting Policies (continued)

The corresponding rental obligations, net of future finance charges, are included in other liabilities of the consolidated statement of financial position. The interest expense is charged to profit or loss for the period over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful lives, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of lease term.

Payables. Payables are non-derivative financial liabilities carried at amortised cost. Reinsurance receivables and payables are offset where the legal right for this offset exists.

Insurance and investment contracts – classification. The Group issues contracts that contain insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay a benefit on the occurrence of an insurance event that is at a certain percent more than the benefit payable if the insurance event did not occur.

Insurance risk exists when there is an uncertainty in respect of the following matters at inception of the contract: occurrence of the insurance event, date of occurrence of the insurance event, and the claim amount in respect of the occurred insurance event. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Description of insurance products. The Group offers insurance products covering all major insurance risks. The Group's main lines of insurance business are as follows:

- health / voluntary medical insurance (hereinafter - "VMI") and personal accident insurance;
- property insurance;
- motor insurance, including obligatory motor third party liability of motor vehicle owners (hereinafter - "OMTPL") and motor own damage insurance;
- voluntary liability insurance;
- obligatory insurance of third party liability of owners of hazardous production facilities (hereinafter - "OIHF");
- cargo insurance;
- aircraft insurance;
- hull and marine insurance;
- life insurance.

Short-term insurance contracts include property, motor, VMI, personal accident insurance, liability insurance and short-term life insurance contracts.

VMI is designed to provide the Group's customers with paid medical services. These services are considered as insurance only if the Group is unsure at inception of the contract of the probability, timeliness and amounts of cash outflows connected with this type of insurance.

Personal accident insurance – indemnification of customers that have suffered damage as a result of personal accidents.

Property insurance ensures that Group's customers receive compensation for the damage caused to their property or ensures their financial interests. Clients are also indemnified for income losses caused by their inability to use an insured property in their economic activities as a result of the occurrence of an insurance event (business interruption).

Motor own damage insurance – protection of risks of theft and damage of cars belonging to the insured. This line of business of the Group also includes obligatory insurance of motor third party liability executed under the German law.

3 Summary of Significant Accounting Policies (continued)

OMTPL protects the Group's customers against the risk of third party liability of motor vehicle owners which can occur as a result of causing harm to third parties' life, health or property during the use of motor vehicles.

Voluntary liability insurance protects the Group's clients against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for clients (individuals and legal entities) who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

OIHF – obligatory insurance for owners of hazardous facilities against damage resulting from an accident at a hazardous facility. The Group insures third party liability of owners of hazardous facilities against damage to persons affected.

Cargo insurance – the Group insures property interests of the insured related to possession, use and disposal of cargo as a result of its loss or damage.

Aircraft insurance – the Group insures property interests of the insured related to legal possession, use and disposal of an aircraft.

Hull and marine insurance – the Group insures property interests of the insured related to the possession, use and disposal of insured vessels, as well as the risk of loss or damage to the vessel or its parts at the construction site.

Short-term life insurance contracts protect the Group's clients from the consequences of events (such as death or disability) that would affect the ability of clients or their dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. Maturity or surrender benefits are not provided for by this type of contracts.

Long-term life insurance contracts with fixed and guaranteed terms insure events associated with human life (for example, death, or survival) over a long term.

Non-life insurance

- ***Premiums written.*** Upon inception of a liability under insurance contract, premiums are recognised as written and are earned on a pro-rata basis over the term of the related policy coverage. Under insurance contracts, for which the expected loss ratio is significantly affected by the seasonal factor, premiums are earned with consideration of this factor. Premiums that are not associated with significant insurance risk are not recognised as premiums written.
- ***Provision for unearned premiums.*** Provision for unearned premiums (hereinafter – "UPR") represents the proportion of premiums written that relate to unexpired term of policies in force at the end of the reporting period. For insurance products with a minor seasonality effect on claims paid UPR is calculated on a time apportionment basis. With respect to insurance products with a significant seasonality effect on claims paid, UPR is calculated in such a way so that premium earned for a period would change pro rata the seasonal risk factor (e.g. expected loss ratio).
- ***Claims.*** Claims are recognised in profit or loss for the period as incurred based on the evaluated liability for compensation payable to the insured or third parties suffered from occurrence of the insurance event.
- ***Claims handling expenses.*** Claims handling expenses are recognised in profit or loss for the period as incurred and include direct expenses related to negotiations and subsequent claims handling, as well as indirect expenses, including expenses of claims handling department and administrative expenses directly related to activities of this department.
- ***Loss provision.*** Loss provision represents the accumulation of estimates for ultimate losses and includes outstanding claims provision (hereinafter - "OCP") and provision for losses incurred but not yet reported (hereinafter - "IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR.

3 Summary of Significant Accounting Policies (continued)

- ***OCP*** is provided in respect of claims reported, but not settled at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance event, including information received after the reporting date.
- ***IBNR*** is determined by the Group by lines of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated (Note 21). Resulting adjustments are reflected in profit or loss for the period as they arise. Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.
- ***Subrogation asset.*** A subrogation asset is calculated using actuarial methods for individual types of insurance and represents the Group's estimation of future inflows from offenders on losses incurred under insurance contracts where the Group acts as an insurer, while an offender under the insurance contract is a party that is not a policyholder under insurance contracts signed by the Group.

Life insurance

- ***Premiums written.*** Premiums from traditional life insurance are recognised in profit or loss for the period when they become due from the policyholder. Premiums that are not associated with significant insurance risk are not recognised as premiums written.
- ***Claims.*** Claims including claims handling expenses are recognised in profit or loss for the period as incurred.
- ***Provisions for life insurance contracts.*** The methods of calculating provisions for life insurance contracts are disclosed in Note 21.
- ***Discretionary participation feature***. The Group has discretionary participation feature in relation to the policyholder / the insured embedded in some insurance contracts. The Group does not consider this feature separately from an insurance contract.

Liability adequacy test. At each reporting date, the Group assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the deficiency is recognised in the line item "Insurance provisions" of the consolidated statement of financial position. When unearned premiums are insufficient to cover claims and expenses, which may be incurred after the end of the reporting period, the Group recognises ***unexpired risk provision (URP)***. To estimate URP the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated considering events that have occurred prior to the reporting date. URP calculated at the reporting date is recognised in profit or loss initially by writing off deferred acquisition costs and then as change in unexpired risk provision.

Income and expenses related to changes in prior years' contracts. Income and expenses related to changes in prior year's contracts represent the reduction of insurance premiums on direct insurance operations and assumed reinsurance and premiums ceded under prior years' contracts, the insurance premium on which was recognised in prior years. The reduction of insurance premiums is caused by changes in terms of insurance contracts.

Income and expenses related to changes in prior years' contracts do not include changes in UPR and reinsurers' share in UPR under such contracts and are recognised in profit or loss of that reporting period where terms of insurance or reinsurance contract were changed. Related changes in UPR and reinsurers' share in UPR under prior years' contracts are included in lines "Change in provision for unearned premiums, gross" and "Change in reinsurers' share of provision for unearned premiums" of the consolidated statement of profit or loss and other comprehensive income, respectively.

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the term of each reinsurance contract.

3 Summary of Significant Accounting Policies (continued)

Reinsurance assets include balances due from reinsurance companies in respect of reimbursement for claims paid, including claims handling expenses, and premiums on assumed reinsurance. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers and obligations arising out of claims assumed.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is an objective evidence that a reinsurance asset is impaired, the Group reduces its carrying amount to recoverable amount and recognises the impairment loss in the consolidated statement of profit or loss and other comprehensive income. The Group gathers the evidence that a reinsurance asset is impaired using the same criteria adopted for financial assets carried at amortised cost. The impairment loss is also calculated following the same method used for the financial assets carried at amortised cost.

Subrogation income. The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to claims settlement process of the Group (recourses, subrogation). Subrogation reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties.

Deferred acquisition costs. Acquisition costs represent commissions, surveyor, obligatory payments to Russian association of motor insurers and policy printing expenses, that vary and depend on the volume of premiums on acquisition or renewal of insurance policies. Acquisition costs that could be directly allocated to insurance contracts, are deferred and amortised over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each insurance contract.

Obligatory Medical Insurance. The Federal fund for obligatory medical insurance carries out the OMI program to provide citizens of the Russian Federation with free of charge medical services via certain insurers, appointed under the Russian legislation, including the Group, that have contracted with TFOMI to administer a portion of this program. Insurance medical institutions carry out OMI activities based on OMI financial support contracts signed with TFOMI and contracts for provision and payment of OMI medical services with medical institutions (hereinafter - “MI”).

The Group incurs liabilities arising from contracts signed with TFOMI and MI in accordance with Russian legislation and terms stipulated by these contracts.

The Group does not assume any insurance risk under OMI program. The Group receives commission for these services. This commission is recognised in profit or loss for the period within other operating income.

The Group receives cash from TFOMI and makes payments to medical institutions for services provided by them within the territorial OMI program. Funds intended for payment for medical services and received by the Group from TFOMI are treated as special purpose funding.

Receipt of such funds is recognised as an increase of liabilities to TFOMI. The above special purpose funding directed to MI as advance payments is recognised as an increase in MI receivables, while the liabilities to the territorial fund are not decreased.

The fact of using special purpose funds is recognised as a decrease in OMI liabilities to TFOMI. An offset of advances earlier paid to MI in the amounts of invoice registers accepted from MI and invoices for payment of medical services (with consideration of medical review of medical and economic control, medical and economic expert examination, expert examination of the quality of medical services under such invoices) is recognised as a decrease in MI receivables and a decrease of OMI liabilities to TFOMI.

If an amount due under MI invoices exceeds an amount of available special purpose funds, the Group recognises a deficit of special purpose funding from TFOMI which is recognised as a reduction of OMI liabilities to TFOMI. The balance of special purpose funds after settlements for medical services provided to the insured is returned to the source of funding (TFOMI).

3 Summary of Significant Accounting Policies (continued)

Liabilities to TFOMI at the reporting date are calculated as a sum of liabilities to TFOMI at the beginning of the reporting period and special purpose funds received in the reporting period, reduced by the amount of special purpose funds used in the reporting period for the purpose intended and the amount of special purpose funds returned to the funding source. These liabilities are classified as non-financial liabilities as they are repaid through an offset of advances that were earlier made to MI.

Payables to MI under the invoices for medical services provided to the insured under OMI is a financial liability of the Group because it results in outflow of funds received within the scope of special purpose funding.

The Group controls the volume, dates, quality and conditions of medical services provided under OMI by conducting medical and economic control, medical and economic expert examination, expert examination of the quality of medical services and uses the results to bring sanctions against MI for the identified violations. Conduction of such expert examinations is an absolute obligation of the Group. A failure to perform this obligation may result in penalties imposed on the Group by TFOMI. The income of an insurance medical institution related to the funds received from MI as a result of sanctions for the violations identified in the course of control of the volume, dates, quality and conditions of medical services provided is calculated as a certain percentage of the amount of corresponding sanctions. Accordingly, the moment of revenue recognition is the moment when the amount of sanctions is agreed and determined between the insurance medical institution and MI. The Group uses a portion of the funds from these sanctions to form its own funds recognised in profit or loss for the year within other operating income.

The Group receives fee for fulfilment of terms provided in OMI funding contract and income due from TFOMI arising from saving funds as compared to the estimated annual amount of funding for insurance medical institution (hereinafter - “amount of special purpose funding saved”).

The amount of fee for fulfilment of terms provided in OMI funding contract and also the amount of special purpose funding saved due to insurance medical institution is communicated to the insurance medical institution by TFOMI. Even when the above amount can be determined by the institution itself the revenue is not recognised until the appropriate information (notification) arrives from TFOMI. The income in the form of contributions on administrative expenses, which is calculated as a percentage of the amount of funding for a reporting period is not recognised until two amounts determining the amount of this funding become known: differentiated norm per person and the number of the insured. The income due from legal entities or individuals who have caused damage to health of the insured persons in excess of the amounts spent for payment for medical services is recognised when it can be measured, i.e., when in case of such excess the exact amount spent for medical services payment becomes known.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian, Serbian and German legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period 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 taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax declarations. Taxes other than on income are recognised within administrative and other operating expenses.

Deferred income tax is calculated using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts according to the consolidated financial statements. In accordance with the initial recognition exemption, deferred income taxes are not recognised 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 recognised, affects neither accounting nor taxable profit.

3 Summary of Significant Accounting Policies (continued)

Deferred income tax liabilities are not recognised for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income 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 tax losses carried forward will be utilised. Deferred income tax assets and liabilities are offset only within the individual companies of the Group. Deferred income tax assets for deductible temporary differences and tax losses carried forward are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, cancelled or disposed of. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

Dividends. Dividends are recognised in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. Statutory financial statements of the Company are the basis for profit distribution and other appropriations.

Interest income and other income and expenses recognition. Interest income and expenses are recognised in profit or loss for the period 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.

Revenue from provision of medical services is recognised in the reporting period when these services were rendered based on the degree of completeness of the transaction assessed on the basis of the actual service rendered as a proportion of the total services to be provided under the contract. Revenue from provision of medical services is recognised net of VAT and discounts.

The revenue amount is measured at fair value of the consideration received or due to be received.

Administrative, operating and other expenses are generally recognised on an accrual basis when the product is received or the service is provided.

Commission income on reinsurance ceded. The Group receives commissions for ceding premiums to reinsurers. This type of commission is recognised within insurance activity result in profit or loss for the period. Commission income from ceded reinsurance premiums that represent the recovery of acquisition costs reduces the applicable unamortised acquisition costs in such a manner that net acquisition costs are capitalised and charged to expenses in proportion to net insurance income recognised.

Changes in deferred commission income on reinsurance ceded are disclosed in the consolidated statement of profit or loss and other comprehensive income within acquisition costs net of related commission income from reinsurance ceded.

3 Summary of Significant Accounting Policies (continued)

Pension obligations. A subsidiary of the Group provides pension support to its employees within private pension plans. They represent defined benefit plans for the subsidiary's management. Pensions are calculated using actuarial methods and recognised in the consolidated statement of profit or loss and other comprehensive income of the Group for the period during an employee's period of service using the projected unit method. Pension plan expenses are recognised in the consolidated statement of profit or loss and other comprehensive income within administrative and other operating expenses in the period in which they arise. At 31 December 2014 present value of pension plan obligations is recognised within liabilities directly associated with assets of a disposal group held for sale (31 December 2013: payables) in the consolidated statement of financial position.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its main subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles (hereinafter - "RR"). The Group also includes companies with euro and Serbian dinar as functional currencies.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the Central Bank of the Russian Federation, are recognised in profit or loss for the period (as foreign exchange translation gains less losses). Translation at period-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 instruments, are translated using 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 recognised as part of the fair value gain or loss.

The results and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at dates of transactions);
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign company is lost, previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the period as part of gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

Offsetting. Financial assets and liabilities are offset and the net amount is recognised in the consolidated statement of financial position only where 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 to settle the liability simultaneously. Such a right of offset 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

3 Summary of Significant Accounting Policies (continued)

Staff costs and related contributions. Wages, salaries, contributions to state pension and social insurance funds, paid annual leaves, sick leaves, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Changes in presentation. Where necessary, comparative figures have been adjusted to conform to the presentation of the current period.

Reclassifications in the consolidated financial statements after issue. Any changes in these consolidated financial statements after they have been approved for issue require approval of the Group's management who authorised these consolidated financial statements for issue.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in the order of their liquidity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period at 31 December 2014.

	Amounts expected to be recovered or settled	
RR thousands	**Within 12 months after the reporting period**	**After 12 months after the reporting period**
ASSETS		
Cash and cash equivalents	5 094 494	-
Deposits with banks	62 305 509	8 923 176
Loans	3 277 806	-
Securities at fair value through profit or loss	941 336	12 330 437
Investment securities available for sale	2 900 409	13 789 478
Investments in associates	-	9 922 137
Receivables	21 452 002	3 349 027
Prepayments	8 483 122	-
Current income tax prepayment	328 376	-
Reinsurers' share of insurance provisions	18 094 535	34 077 319
Investment property	-	776 278
Deferred acquisition costs	3 367 263	980 605
Deferred income tax asset	-	133 306
Premises and equipment	-	12 161 917
Intangible assets	-	1 501 720
Goodwill	-	455 564
Other assets	98 258	11 484
Assets of a disposal group held for sale	12 715 739	-
TOTAL ASSETS	**139 058 849**	**98 412 448**
LIABILITIES		
Insurance provisions	77 620 343	60 640 282
Deferred commission income	905 090	256 503
Payables	20 028 006	683 237
Current income tax liability	474 732	-
Deferred income tax liability	-	1 692 754
Other financial liabilities	873 474	67 045
Other liabilities	6 787 901	322 734
Liabilities directly associated with assets of a disposal group held for sale	11 402 486	-
TOTAL LIABILITIES	**118 092 032**	**63 662 555**

3 Summary of Significant Accounting Policies (continued)

The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period at 31 December 2013.

	Amounts expected to be recovered or settled	
RR thousands	**Within 12 months after the reporting period**	**After 12 months after the reporting period**
ASSETS		
Cash and cash equivalents	3 899 000	-
Deposits with banks	54 481 907	12 369 777
Loans	519 328	15 729
Securities at fair value through profit or loss	1 279 380	17 700 040
Investment securities available for sale	308 036	11 609 328
Investments in associates	2 984 426	7 734 047
Receivables	16 929 987	3 600 199
Prepayments	5 495 831	-
Current income tax prepayment	471 289	-
Reinsurers’ share of insurance provisions	13 876 513	6 421 733
Investment property	-	445 710
Deferred acquisition costs	3 050 319	1 009 542
Deferred income tax asset	-	104 489
Premises and equipment	-	9 423 340
Intangible assets	-	2 839 607
Goodwill	-	640 676
Other assets	92 298	51 955
TOTAL ASSETS	**103 388 314**	**73 966 172**
LIABILITIES		
Insurance provisions	65 257 563	32 413 670
Deferred commission income	591 400	266 843
Payables	18 224 484	2 253 752
Current income tax liability	108 000	-
Deferred income tax liability	-	2 724 157
Other financial liabilities	1 975 106	549 551
Other liabilities	2 890 474	-
TOTAL LIABILITIES	**89 047 027**	**38 207 973**

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next reporting period. 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.

Professional judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Estimation of liabilities under insurance contracts. Refer to Note 21. Based on the experience of prior reporting years, in the year ended 31 December 2013 the Group adjusted its approach to estimation of liabilities under long-term insurance contracts considering the risk of failure to ensure profitability on a portion of assets (for the portfolio of long-term pension insurance contracts). As a result the Group applied an estimate of future profitability at the level of not more than 5 %.

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

Impairment of available for sale equity investments. The Group considers available for sale equity investments impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share prices. In addition, impairment may be appropriate when there is evidence of changes in technology and a deterioration in the financial health of the investee, industry and sector performance and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not have suffered an additional significant loss from impairment, being a reclassification from other comprehensive income to profit or loss for the period.

Impairment of receivables and prepayments. The Group regularly reviews its receivables and prepayments to assess impairment. In determining whether an impairment loss should be recognised in profit or loss for the period, the Group makes judgments 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 assets before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors 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 assets in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10 % increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment losses of RR 84 046 thousand (31 December 2013: RR 49 126 thousand).

Tax legislation. Russian tax legislation is subject to varying interpretations (Note 34).

5 Adoption of New or Revised Standards and Interpretations

Adoption of new or revised standards and interpretations

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

"Offsetting financial assets and financial liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some net settlement systems may be considered equivalent to gross settlement. The standard clarified that a qualifying right of set-off 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amended standard did not have any material impact on the consolidated financial statements of the Group.

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

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

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not an income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy.

The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation.

The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have any material impact on the consolidated financial statements of the Group.

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

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

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.

- Classification of debt instruments is driven by the entity's business model for managing financial assets and by the structure of contractual cash flows, whether they represent solely payments of principal and interest or not. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the requirement of solely payments of principal and interest. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as financial assets designated at fair value through other comprehensive income. Financial assets that contain cash flows that are not solely payments of principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

6 New Accounting Pronouncements (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity is required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (hereinafter – "ECL") model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently considering the implications of the standard, the impact on the consolidated financial statements of the Group and the timing of its adoption by the Group.

Amendments to IAS 19 – "Defined benefit plans: employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendments allow entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

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

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

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

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

6 New Accounting Pronouncements (continued)

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

The Group is currently assessing the impact of the standard on its consolidated financial statements.

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

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

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

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

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

The Group is currently assessing the impact of the standard on its consolidated financial statements.

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

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

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

IFRS 15 "Revenue from contracts with customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

6 New Accounting Pronouncements (continued)

When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Agriculture: bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change accounting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as premises and equipment because their operation is similar to that of manufacturing.

Consequently, the amendments include bearer plants within the scope of IAS 16, instead of IAS 41. The harvest growing on bearer plants will remain within the scope of IAS 41. The Group's management does not expect the amendments to have any impact on the consolidated financial statements of the Group.

Equity method in separate financial statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group's management does not expect the amendments to have any impact on the consolidated financial statements of the Group.

Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the standard on its consolidated financial statements. ***Annual improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).*** The amendments impact four standards.

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 requires a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the standard on its consolidated financial statements.

Disclosures - Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements.

6 New Accounting Pronouncements (continued)

The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the standard on its consolidated financial statements.

Investment entities: applying the consolidation exception - Amendments to IFRS 10, IFRS 12 and IAS 28 (issued in August 2014 and effective for annual periods beginning on 1 January 2016). The Standards were amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's consolidated financial statements. The Group is currently assessing the impact of the standard on its consolidated financial statements.

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

7 Cash and Cash Equivalents

RR thousands	**31 December 2014**	**31 December 2013**
Cash on hand	2 329	8 476
Settlement accounts with banks		
- Russian Rouble denominated	4 674 658	3 332 650
- foreign currencies denominated	417 507	557 874
Total cash and cash equivalents	**5 094 494**	**3 899 000**
Cash and cash equivalents attributable to assets of a disposal group held for sale (Note 19)	366 055	-
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	**5 460 549**	**3 899 000**

7 Cash and Cash Equivalents (continued)

For placement of investments in cash and cash equivalents the Group considers ratings assigned to a specific bank by international rating agencies. Credit quality of cash and cash equivalents balances may be summarised as follows:

RR thousands	**Settlement accounts with banks**	
Moody's, S&P, Fitch	**31 December 2014**	**31 December 2013**
Aa3, AA-, AA-	-	13 504
A1, A+, A+	-	213 449
A2, A, A	-	47 454
Baa1, BBB+, BBB+	-	530 655
Baa2, BBB, BBB	12 467	2 637
Baa3, BBB-, BBB-	1 694 355	704 878
Ba1, BB+, BB+	8 873	2 941
Ba2, BB, BB	621	616
Ba3, BB-, BB-	3 712	576 143
B1, B+, B+	1 500 607	1 712 677
B2, B, B	-	42 455
B3, B-, B-	68 474	4 377
C, C, C	198	-
Unrated	1 802 858	38 738
Total	**5 092 165**	**3 890 524**

Most banks unrated by international rating agencies at 31 December 2014, where the Group placed its cash, had national long-term ratings assigned by national rating agencies from B++ to A++.

Cash and cash equivalents are neither past due nor impaired and not collateralised at 31 December 2014 and 31 December 2013.

Information on related party balances is disclosed in Note 37. The information on fair value is disclosed in Note 35.

8 Deposits with Banks

RR thousands	**31 December 2014**	**31 December 2013**
Russian Rouble denominated	61 483 503	66 672 345
Foreign currencies denominated	9 745 182	179 339
Total deposits with banks	**71 228 685**	**66 851 684**

At 31 December 2014 deposits with banks include RR 37 929 673 thousand (31 December 2013: RR 12 306 783 thousand) placed with three Russian banks (31 December 2013: two Russian banks).

8 Deposits with Banks (continued)

For placement of deposits with banks the Group considers ratings assigned to a specific bank by international rating agencies. Analysis by credit quality of deposits with banks is as follows:

RR thousands	**Deposits with banks**	
Moody's, S&P, Fitch	**31 December 2014**	**31 December 2013**
A1, A+, A+	-	4 507
Baa1, BBB+, BBB+	-	7 196 339
Baa2, BBB, BBB	9 832 039	6 135 601
Baa3, BBB-, BBB-	32 884 085	22 673 023
Ba1, BB+, BB+	409 196	60 159
Ba2, BB, BB	1 567 134	4 137 119
Ba3, BB-, BB-	12 379 506	17 195 971
B1, B+, B+	1 655 057	4 083 826
B2, B, B	405 670	758 101
B3, B-, B-	-	4 355 468
Unrated	12 095 998	251 570
Total	**71 228 685**	**66 851 684**

Most banks unrated by international rating agencies at 31 December 2014, where the Group placed its deposits, had national long-term ratings assigned by national rating agencies from A to A++.

Portfolio diversification of deposits with banks is in accordance with the requirements of the Order of the Ministry of Finance of the Russian Federation № 100n of 2 July 2012 “On approving the Procedure for investment of insurance reserves by insurers” and the Order of the Ministry of Finance of the Russian Federation N 101n of 2 July 2012 “On approving the Requirements to the composition and structure of the assets accepted as coverage of insurer’s equity”.

At 31 December 2014 and 31 December 2013 deposits with banks are neither past due nor impaired.

At 31 December 2014 and 31 December 2013 the Group's deposits with banks are not collateralised.

Analysis of deposits interest rates is disclosed in Note 32. Information on related party balances is disclosed in Note 37. The information on fair value is disclosed in Note 35.

9 Loans

RR thousands	**31 December 2014**	**31 December 2013**
Loans of legal entities:		
- financial services	2 809 957	-
- transport	452 849	453 855
- leasing	15 000	65 473
Loans of individuals	-	15 729
Total loans	**3 277 806**	**535 057**

At 31 December 2014 86.00 % of loans are issued to the Company's shareholder at rates from 9.75 % to 23.00 %. The borrower has no long-term credit rating.

At 31 December 2014 and 31 December 2013 loans are neither past due nor impaired.

Maturity and interest rate analyses of loans are disclosed in Note 32. Information on related party balances is disclosed in Note 37. The information on fair value is disclosed in Note 35.

10 Securities at Fair Value through Profit or Loss

RR thousands	**31 December 2014**	**31 December 2013**
Corporate bonds	7 808 928	12 085 943
Municipal bonds	2 161 016	2 092 214
Corporate eurobonds	1 404 978	517 474
Federal loan bonds (OFZ)	970 137	453 355
Government eurobonds	73 077	165 448
Foreign government bonds	-	549 597
Promissory notes	-	9 878
Total debt securities	**12 418 136**	**15 873 909**
Corporate shares	853 561	1 917 380
Units in mutual investment funds	76	1 188 131
Total equity securities	**853 637**	**3 105 511**
Total securities at fair value through profit or loss	**13 271 773**	**18 979 420**

At 31 December 2014 units of mutual investment funds are represented by investments into open mutual investment funds operating within the Russian Federation (at 31 December 2013: investments in open mutual investment funds and banking mutual funds operating within the Russian Federation and Germany). In the year ended 31 December 2014 investments into banking mutual funds were sold, units in mutual investment funds operating in Germany were transferred to assets of a disposal group held for sale.

Underlying investments of mutual investment funds are mainly presented by municipal, government and corporate bonds and corporate shares which are high liquid securities and the Group does not have any doubt that these securities could be easily realised or converted into cash by the means of sale if required. Mutual investment funds, which the Group allocated its investments to, do not have ratings assigned by international rating agencies or national rating agencies. At 31 December 2014 and 31 December 2013 fair values of investments in units of mutual investment funds are based on fair value of net assets of these funds.

Interest rates and maturity of debt securities at 31 December 2014 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	7.50 - 11.60	2015 - 2045	-	-	-	-
Municipal bonds	7.00 - 11.50	2015 - 2021	-	-	-	-
Corporate eurobonds	7.00 - 8.70	2015 - 2018	4.95 - 7.50	2022 - 2037	-	-
Federal loan bonds (OFZ)	6.80 - 7.50	2015 - 2019	-	-	0.05 - 0.08	2015 - 2016
Government eurobonds	-	-	7.50	2030	-	2015 - 2016

10 Securities at Fair Value through Profit or Loss (continued)

Interest rates and maturity of debt securities at 31 December 2013 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	7.40 - 15.00	2014 - 2045	-	-	0.22 - 9.87	2014 - 2099
Municipal bonds	7.00 - 11.75	2014 - 2020	-	-	-	-
Foreign government bonds	-	-	-	-	1.75 - 5.85	2015 - 2037
Corporate eurobonds	5.25 - 7.87	2015 - 2016	3.00 - 7.50	2020 - 2037	-	-
Government eurobonds	6.00	2015	2.45 - 7.50	2022 - 2030	4.50 - 4.88	2015 - 2016
Federal loan bonds (OFZ)	7.00 - 7.85	2014 - 2018	-	-	-	-
Promissory notes	6.00	2014	-	-	-	-

At 31 December 2014 and 31 December 2013 debt securities are not collateralised.

At 31 December 2014 and 31 December 2013 investment portfolio of the Group recognised at fair value through profit or loss contains debt securities with long-term ratings of the following international rating agencies: Moody’s, Standard & Poor’s and Fitch Ratings. If a security has different ratings obtained from different rating agencies it is classified within the group with the highest rating.

10 Securities at Fair Value through Profit or Loss (continued)

Analysis of debt securities designated at fair value through profit or loss outstanding at 31 December 2014 by credit quality is as follows:

	31 December 2014					
RR thousands	**Corporate bonds**	**Municipal bonds**	**Corporate eurobonds**	**Federal loan bonds (OFZ)**	**Government eurobonds**	**Total**
Moody's, S&P, Fitch						
Baa1, BBB+, BBB+	17 598	-	-	-	-	**17 598**
Baa2, BBB, BBB	2 588 847	204 990	428 151	846 959	73 077	**4 142 024**
Baa3, BBB-, BBB-	914 923	246 702	679 557	-	-	**1 841 182**
Ba1, BB+, BB+	1 226 277	1 016 116	297 270	-	-	**2 539 663**
Ba2, BB, BB	1 607 711	499 456	-	-	-	**2 107 167**
Ba3, BB-, BB-	307 551	193 752	-	123 178	-	**624 481**
B1, B+, B+	260 222	-	-	-	-	**260 222**
Unrated	885 799	-	-	-	-	**885 799**
Total	**7 808 928**	**2 161 016**	**1 404 978**	**970 137**	**73 077**	**12 418 136**

10 Securities at Fair Value through Profit or Loss (continued)

Analysis of debt securities designated at fair value through profit or loss outstanding at 31 December 2013 by credit quality is as follows:

	31 December 2013							
RR thousands	**Corporate bonds**	**Municipal bonds**	**Foreign government bonds**	**Corporate eurobonds**	**Government eurobonds**	**Federal loan bonds (OFZ)**	**Promissory notes**	**Total**
Moody's, S&P, Fitch								
Aaa, AAA, AAA	187 309	-	90 264	12 540	19 897	-	-	**310 010**
Aa1, AA+, AA+	78 272	-	-	-	-	-	-	**78 272**
Aa2, AA, AA	22 777	-	46 242	-	-	-	-	**69 019**
Aa3, AA-, AA-	37 562	-	-	-	15 108	-	-	**52 670**
A1, A+, A+	145 825	-	-	-	15 611	-	-	**161 436**
A2, A, A	222 105	-	21 327	9 894	-	-	-	**253 326**
A3, A-, A-	251 647	-	59 920	-	17 434	-	-	**329 001**
Baa1, BBB+, BBB+	1 914 784	198 400	129 981	86 682	19 330	453 355	-	**2 802 532**
Baa2, BBB, BBB	1 896 582	134 320	13 985	30 832	9 570	-	-	**2 085 289**
Baa3, BBB-, BBB-	501 629	248 327	122 743	280 199	-	-	-	**1 152 898**
Ba1, BB+, BB+	2 323 638	882 712	-	-	-	-	-	**3 206 350**
Ba2, BB, BB	2 337 524	341 942	12 796	-	-	-	-	**2 692 262**
Ba3, BB-, BB-	766 994	286 513	8 494	97 327	68 498	-	-	**1 227 826**
B1, B+, B+	89 923	-	-	-	-	-	-	**89 923**
B2, B, B	51 489	-	-	-	-	-	-	**51 489**
B3, B-, B-	4 443	-	-	-	-	-	-	**4 443**
C, C, C	4 002	-	-	-	-	-	-	**4 002**
Unrated	1 249 438	-	43 845	-	-	-	9 878	**1 303 161**
Total	**12 085 943**	**2 092 214**	**549 597**	**517 474**	**165 448**	**453 355**	**9 878**	**15 873 909**

At 31 December 2014 most issuers of debt securities at fair value through profit or loss, that have no ratings assigned by international rating agencies, have national long-term ratings by national rating agencies ranging from A to A+ (31 December 2013: from BBB to AA).

10 Securities at Fair Value through Profit or Loss (continued)

Diversification of portfolio of securities at fair value through profit or loss resulted from the necessity to comply with the Order of the Ministry of Finance of the Russian Federation № 100n of 2 July 2012 "On approving the Procedure for investment of insurance reserves by insurers" and the Order of the Ministry of Finance of the Russian Federation N 101n of 2 July 2012 "On approving the Requirements to the composition and structure of the assets accepted as coverage of insurer's equity".

Interest rate analysis of debt securities is disclosed in Note 32. Information on fair value of securities at fair value through profit or loss is disclosed in Note 35. Information on related party balances is disclosed in Note 37.

11 Investment Securities Available for Sale

RR thousands	**31 December 2014**	**31 December 2013**
Corporate bonds	9 803 859	10 432 634
Corporate eurobonds	6 735 028	-
Promissory notes	-	1 116 864
Municipal bonds	-	101 940
Total debt securities	**16 538 887**	**11 651 438**
Corporate shares	151 000	222 239
Units in mutual investment funds	-	43 687
Total equity securities	**151 000**	**265 926**
Total investment securities available for sale	**16 689 887**	**11 917 364**

At 31 December 2014 corporate eurobonds are primarily represented by eurobonds of highly reliable issuers being members of such groups of companies as Gazprombank, Sberbank of Russia, Alfa-Bank, Russian Railways, VTB and others, with long-term ratings assigned by international rating agencies Moody's, Standard & Poors and Fitch Ratings from Baa2, BBB, BBB to Baa3, BBB-, BBB- with maturity dates from 2015 to 2073 and yield to maturity from 4.36 % to 8.63 %.

Movements in investment securities available for sale are as follows:

RR thousands	**2014**	**2013**
Carrying amount at 1 January	**11 917 364**	**1 632 132**
Fair value revaluation through other comprehensive income	(1 715 411)	53 730
Additions	9 603 808	3 220 698
Reclassification from investment securities held to maturity	-	9 181 606
Fair value gains reclassified from equity to profit and loss	(12 114)	(59 092)
Disposals	(2 133 451)	(2 334 108)
Interest income accrued (Note 26)	1 426 931	882 887
Interest income received	(1 319 322)	(797 233)
Acquisition of subsidiary (Note 38)	85 551	-
Reclassification to assets of a disposal group held for sale (Note 19)	(1 866 604)	-
Exchange differences	703 135	136 744
Carrying amount at 31 December	**16 689 887**	**11 917 364**

11 Investment Securities Available for Sale (continued)

The analysis of the issuers of equity investment securities within the investment securities available for sale portfolio is set out below:

Name	Nature of business	Country of incorporation	Fair value, RR thousands 31 December 2014	31 December 2013
OJSC Gazprom	gas production, transportation	The Russian Federation	-	57 606
CJSC GK Video International	Russian media advertising operator	The Russian Federation	151 000	151 000
Zinshaus Berlin GmbH & Co. KG	property management	Germany	-	13 633
Total			**151 000**	**222 239**

The Group believes that the fair value of investments into shares of CJSC GK Video International approximates their carrying value of RR 151 000 thousand (31 December 2013: RR 151 000 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2014 and 31 December 2013 the majority of issuers of debt securities available for sale have long-term ratings from international rating agencies Moody’s, Standard & Poor’s and Fitch Ratings. If a security has different ratings obtained from different rating agencies it is classified within the group with the highest rating.

Analysis of investment securities available for sale at 31 December 2014 by credit quality is as follows:

RR thousands	Corporate eurobonds	Corporate bonds	Total
Moody's, S&P, Fitch			
A3, A-, A-	-	337 154	**337 154**
Baa2, BBB, BBB	2 051 995	4 482 722	**6 534 717**
Baa3, BBB-, BBB-	4 683 033	439 550	**5 122 583**
Ba1, BB+, BB+	-	810 698	**810 698**
Ba2, BB, BB	-	723 763	**723 763**
Ba3, BB-, BB-	-	1 104 523	**1 104 523**
B1, B+, B+	-	434 009	**434 009**
B2, B, B	-	436 858	**436 858**
Unrated	-	1 034 582	**1 034 582**
Total	**6 735 028**	**9 803 859**	**16 538 887**

11 Investment Securities Available for Sale (continued)

Analysis of investment securities available for sale at 31 December 2013 by credit quality is as follows:

RR thousands	Corporate bonds	Promissory notes	Municipal bonds	Total
Moody's, S&P, Fitch				
Aa3, AA-, AA-	-	24 321	-	**24 321**
A1, A+, A+	-	293 348	-	**293 348**
A2, A, A	-	158 923	-	**158 923**
A3, A-, A-	342 383	263 404	-	**605 787**
Baa1, BBB+, BBB+	3 101 276	97 847	-	**3 199 123**
Baa2, BBB, BBB	2 025 930	132 837	-	**2 158 767**
Baa3, BBB-, BBB-	298 441	51 029	-	**349 470**
Ba1, BB+, BB+	1 203 900	-	-	**1 203 900**
Ba2, BB, BB	513 572	-	-	**513 572**
Ba3, BB-, BB-	750 174	-	-	**750 174**
B1, B+, B+	366 198	-	-	**366 198**
B2, B, B	742 266	-	-	**742 266**
B3, B-, B-	102 402	-	-	**102 402**
Unrated	986 092	95 155	101 940	**1 183 187**
Total	**10 432 634**	**1 116 864**	**101 940**	**11 651 438**

At 31 December 2014 and 31 December 2013 debt securities are not collateralised and are neither past due nor impaired.

At 31 December 2014 investment securities available for sale unrated by international rating agencies have national long-term ratings assigned by national rating agencies from A to AA+ (31 December 2013: from A to AAA).

Information on related party balances is disclosed in Note 37. Interest rate analysis of securities available for sale is disclosed in Note 32. The information on fair value is disclosed in Note 35.

12 Investments in Associates

NMG Group represents CJSC National Media Group and its subsidiaries and associates, including REN TV Group, Saint-Petersburg TV Broadcasting Company, OJSC Channel One, Izvestiya newspaper and other assets.

Tele 2 (Netherlands) B.V. (hereinafter - “Tele 2”) is a holding company for a group of companies which provides telecommunication services in the Russian Federation. Tele 2 was registered in the Netherlands, with principal activity carried out in the Russian Federation. The Group has significant influence over the company and its subsidiaries in accordance with the shareholders agreements.

At 27 February 2014, the Group sold its share in CJSC Leader. The gain from this sale equals to RR 16 002 thousand.

12 Investments in Associates (continued)

The table below summarises the movements in the carrying amount of the Group's investments in associates.

RR thousands	2014	2013
Carrying amount at 1 January	**10 718 473**	**6 874 847**
Share in (loss) / profit of associates	(278 052)	18 524
Share in other changes of net assets of associates	966 135	-
Disposal of associate	(2 984 426)	-
Acquisition of associate	-	4 006 319
Increase of share in associate	1 500 007	-
Distribution of profit of associate	-	(181 217)
Carrying amount at 31 December	**9 922 137**	**10 718 473**

The Group's share in its associates is as follows:

	2014		2013	
	% interest held	**Country of incorporation**	**% interest held**	**Country of incorporation**
NMG Group	*	The Russian Federation	21	The Russian Federation
CJSC Leader	-	-	35	The Russian Federation
Tele 2	5	The Netherlands	5	The Netherlands

* At 31 December 2014 investments in NMG Group represent 21.219 % share in CJSC NMG, 18 % share in LLC Akcept (REN TV channel) and 3.0002 % share in OJSC Saint-Petersburg TV Broadcasting Company.

The carrying value of investments in associates by investment is as follows:

	Tele 2	NMG Group	CJSC Leader	Total associates
Carrying amount at 31 December 2014	4 637 929	5 284 208	-	**9 922 137**
Carrying amount at 31 December 2013	3 842 333	3 891 714	2 984 426	**10 718 473**

Summarised financial information of each associate is as follows at 31 December 2014:

RR thousands	Tele 2	NMG Group
Total assets	296 129 244	25 825 167
Total liabilities	130 435 466	7 597 394
Revenue	87 359 000	13 855 695
Profit or loss	(8 006 290)	(173 073)
Total comprehensive loss	(8 006 290)	(173 073)

12 Investments in Associates (continued)

Summarised financial information of each associate is as follows at 31 December 2013:

RR thousands	CJSC Leader	Tele 2	NMG Group
Total assets	8 967 000	137 325 461	28 098 718
Total liabilities	404 000	60 184 105	9 321 180
Revenue	1 094 959	16 532 263	13 773 474
Profit or loss	670 607	502 638	(670 701)
Total comprehensive income / (loss)	670 607	502 638	(670 701)

Information on related party balances is disclosed in Note 37.

13 Investment Property

RR thousands	2014	2013
Investment property at carrying value at 1 January, including:	**445 710**	**834 586**
Cost	452 934	867 882
Accumulated depreciation	(7 224)	(33 296)
Disposals	-	(2 783)
Transfers from / (to) premises and equipment category during the year – cost	351 562	(412 165)
Transfers (from) / to premises and equipment category during the year – accumulated depreciation	(17 253)	27 389
Depreciation charge during the year	(3 741)	(1 317)
Investment property at carrying value at 31 December, including:	**776 278**	**445 710**
Cost	804 496	452 934
Accumulated depreciation	(28 218)	(7 224)

At 31 December 2014 and 31 December 2013 investment property was not collateralised.

During the year ended 31 December 2013 investment property in the amount of RR 384 776 thousand was transferred to premises and equipment because its function had changed.

Fair value of investment property is disclosed in Note 35.

14 Receivables

RR thousands	**31 December 2014**	**31 December 2013**
Receivables arising from direct insurance operations	22 061 428	18 169 417
Receivables arising from assumed reinsurance operations	1 643 137	1 625 674
Receivables arising from ceded reinsurance operations	1 569 585	742 592
Less: Provision for impairment	(828 705)	(427 301)
Total receivables arising out of insurance operations	**24 445 445**	**20 110 382**
Receivables arising from securities transactions	13 928	101 683
Other financial receivables	353 415	381 048
Less: Provision for impairment	(11 759)	(62 927)
Total other receivables	**355 584**	**419 804**
Total receivables	**24 801 029**	**20 530 186**

Information on related party balances and fair value is disclosed in Notes 37 and 35, respectively.

Overdue receivable arising out of direct insurance operations is not considered to be impaired until the Group receives evidence that the counterparty will not settle the receivable. Within the scope of dealing with overdue receivables the Group monitors cases when unearned premium is insufficient to cover overdue receivables and makes impairment provision if required.

In the analysis below insurance debtors are classified in accordance with the Group's internal categorisation of counterparties to insurance contracts. For reinsurance operation large clients include major Russian companies and all foreign companies, the remaining companies are classified as medium size clients. Non-insurance debtors are broken down into large, medium and small depending upon the balance of settlements at the end of the reporting period.

14 Receivables (continued)

Analysis of receivables arising from direct insurance by credit quality is as follows:

RR thousands	**31 December 2014**	**31 December 2013**
Current not impaired receivables	**19 323 638**	**16 516 790**
Large corporate clients	11 865 970	8 724 881
Other legal entities	6 626 744	6 827 352
Individuals	830 924	964 557
Past due but not impaired receivables	**1 946 272**	**1 270 073**
Delayed < 30 days	1 197 977	774 759
Delayed 30-60 days	248 120	92 049
Delayed 60-90 days	78 679	31 502
Delayed > 90 days	421 496	371 763
Impaired receivables	**791 518**	**382 554**
Total receivables before provision for impairment	**22 061 428**	**18 169 417**
Provision for impairment	**(790 911)**	**(382 554)**
Total receivables arising from direct insurance	**21 270 517**	**17 786 863**

Analysis of reinsurance and financial receivables by credit quality is as follows:

14 Receivables (continued)

At 31 December 2014:

RR thousands	Receivables arising from assumed reinsurance operations	Receivables arising from ceded reinsurance operations	Receivables arising from securities transactions	Other receivables	Total other receivables
Current not impaired receivables	**1 499 809**	**1 494 807**	**13 928**	**332 063**	**345 991**
Large counterparties	1 190 225	1 346 417	3 496	8 508	12 004
Medium counterparties	309 012	148 390	10 432	38 185	48 617
Small counterparties	572	-	-	218 111	218 111
Individuals	-	-	-	67 259	67 259
Past due but not impaired receivables	**105 851**	**74 461**	**-**	**9 593**	**9 593**
Delayed < 30 days	101 813	68 373	-	6 419	6 419
Delayed 30-60 days	1 440	4 668	-	1 524	1 524
Delayed 60-90 days	623	18	-	850	850
Delayed > 90 days	1 975	1 402	-	800	800
Impaired receivables	**37 477**	**317**	**-**	**11 759**	**11 759**
Total receivables before provision for impairment	**1 643 137**	**1 569 585**	**13 928**	**353 415**	**367 343**
Provision for impairment	**(37 477)**	**(317)**	**-**	**(11 759)**	**(11 759)**
Total receivables	**1 605 660**	**1 569 268**	**13 928**	**341 656**	**355 584**

14 Receivables (continued)

At 31 December 2013:

RR thousands	Receivables arising from assumed reinsurance operations	Receivables arising from ceded reinsurance operations	Receivables arising from securities transactions	Other receivables	Total other receivables
Current receivables	**1 504 811**	**714 693**	**101 683**	**311 809**	**413 492**
Large counterparties	1 410 340	593 137	98 890	-	98 890
Medium counterparties	94 397	116 224	772	57 685	58 457
Small counterparties	74	5 332	2 021	230 190	232 211
Individuals	-	-	-	23 934	23 934
Past due but not impaired receivables	**101 655**	**2 360**	**-**	**6 312**	**6 312**
Delayed < 30 days	80 659	-	-	3 655	3 655
Delayed 30-60 days	20 996	-	-	-	-
Delayed 60-90 days	-	-	-	2 657	2 657
Delayed > 90 days	-	2 360	-	-	-
Impaired receivables	**19 208**	**25 539**	**-**	**62 927**	**62 927**
Total receivables before provision for impairment	**1 625 674**	**742 592**	**101 683**	**381 048**	**482 731**
Provision for impairment	**(19 208)**	**(25 539)**	**-**	**(62 927)**	**(62 927)**
Total receivables	**1 606 466**	**717 053**	**101 683**	**318 121**	**419 804**

14 Receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	2014					
RR thousands	**Provision for impairment of receivables arising from direct insurance operations**	**Provision for impairment of receivables arising from assumed reinsurance operations**	**Provision for impairment of receivables arising from ceded reinsurance operations**	**Provision for impairment of receivables arising from overdue promissory notes**	**Provision for impairment of other financial receivables**	**Total provision for impairment of receivables**
Provision for impairment of receivables at 1 January	**382 554**	**19 208**	**25 539**	**-**	**62 927**	**490 228**
Provision for impairment of receivables during the year (Note 28)	436 789	18 571	217	-	74 279	529 856
Receivables written off as uncollectible during the year	(16 776)	(302)	(2)	-	(125 447)	(142 527)
Reclassification to assets of a disposal group held for sale	(11 656)	-	(25 437)	-	-	(37 093)
Provision for impairment of receivables at 31 December	**790 911**	**37 477**	**317**	**-**	**11 759**	**840 464**

	2013					
RR thousands	**Provision for impairment of receivables arising from direct insurance operations**	**Provision for impairment of receivables arising from assumed reinsurance operations**	**Provision for impairment of receivables arising from ceded reinsurance operations**	**Provision for impairment of receivables arising from overdue promissory notes**	**Provision for impairment of other financial receivables**	**Total provision for impairment of receivables**
Provision for impairment of receivables at 1 January	**180 146**	**10 605**	**-**	**6 614**	**21 591**	**218 956**
Provision for impairment of receivables during the year (Note 28)	240 265	8 603	25 718	-	51 763	326 349
Receivables written off as uncollectible during the year	(37 857)	-	(179)	(6 614)	(10 427)	(55 077)
Provision for impairment of receivables at 31 December	**382 554**	**19 208**	**25 539**	**-**	**62 927**	**490 228**

15 Prepayments

RR thousands	31 December 2014	31 December 2013
Prepayments for tendering	359 701	204 213
Total financial prepayments	**359 701**	**204 213**
Prepayments under obligatory medical insurance programs	6 643 328	4 516 866
Prepayments under voluntary medical insurance programs	403 877	264 048
Rental prepayments	96 744	64 403
Prepaid taxes other than income tax	62 695	59 276
Prepayments for software	43 102	48 339
Prepayments to state non-budget funds	4 717	5 346
Other prepayments	868 958	334 374
Less: Provision for impairment	-	(1 034)
Total non-financial prepayments	**8 123 421**	**5 291 618**
Total prepayments	**8 483 122**	**5 495 831**

Prepayments for tendering were returned back to the Group at the date of the consolidated financial statements due to finalisation of tenders.

Movements in the provision for impairment of prepayments are as follows:

RR thousands	2014	2013
Provision for impairment of prepayments at 1 January	**1 034**	**2 468**
Recovery of provision for impairment during the year	(1 034)	(1 434)
Provision for impairment of prepayments at 31 December	**-**	**1 034**

16 Premises and Equipment

RR thousands	Land and premises	Transport, office and computer equipment	Other premises and equipment	Construction in progress	Total
Carrying amount at 31 December 2012	**5 633 800**	**587 684**	**2 259 648**	**163 647**	**8 644 779**
Cost					
Balance at the beginning of the year	6 016 930	1 520 324	3 096 817	163 647	10 797 718
Additions	616 562	201 227	685 872	31 402	1 535 063
Acquisition of subsidiary (Note 38)	166 581	69 472	-	-	236 053
Transfers	128 042	167 900	-	(93 611)	202 331
Disposals	(57 097)	(402 416)	(1 369)	-	(460 882)
Balance at the end of the year	**6 871 018**	**1 556 507**	**3 781 320**	**101 438**	**12 310 283**
Accumulated depreciation					
Balance at the beginning of the year	383 130	932 640	837 169	-	2 152 939
Depreciation charge (Note 28)	192 471	222 082	277 254	-	691 807
Transfers	56 251	134 166	-	-	190 417
Disposals	(4 825)	(142 028)	(1 367)	-	(148 220)
Balance at the end of the year	**627 027**	**1 146 860**	**1 113 056**	**-**	**2 886 943**
Carrying amount at 31 December 2013	**6 243 991**	**409 647**	**2 668 264**	**101 438**	**9 423 340**
Cost					
Balance at the beginning of the year	6 871 018	1 556 507	3 781 320	101 438	12 310 283
Additions	3 281 989	336 707	499 607	102 098	4 220 401
Acquisition of subsidiary (Note 38)	188 910	2 539	-	-	191 449
Transfers	(98 383)	23 239	(145 903)	(101 402)	(322 449)
Disposals	(245 700)	(250 903)	(27 611)	-	(524 214)
Reclassification to assets of a disposal group held for sale (Note 19)	(408 137)	(49 793)	-	-	(457 930)
Balance at the end of the year	**9 589 697**	**1 618 296**	**4 107 413**	**102 134**	**15 417 540**
Accumulated depreciation					
Balance at the beginning of the year	627 027	1 146 860	1 113 056	-	2 886 943
Depreciation charge (Note 28)	173 689	240 909	321 740	-	736 338
Transfers	(17 190)	16 431	(8 478)	-	(9 237)
Disposals	(25 161)	(205 810)	(23 374)	-	(254 345)
Reclassification to assets of a disposal group held for sale (Note 19)	(69 774)	(34 302)	-	-	(104 076)
Balance at the end of the year	**688 591**	**1 164 088**	**1 402 944**	**-**	**3 255 623**
Carrying amount at 31 December 2014	**8 901 106**	**454 208**	**2 704 469**	**102 134**	**12 161 917**

16 Premises and Equipment (continued)

In September 2014 the Group acquired two non-residential buildings in Moscow for RR 3 000 985 thousand.

At 31 December 2014 construction in progress comprises the Group’s investments in reconstruction of a building located outside of Moscow in the amount of RR 95 052 thousand (31 December 2013: RR 101 402 thousand). The building is intended for office use by the Company’s branches.

At 31 December 2014 premises and equipment in the amount of RR 419 644 thousand are represented by medical equipment and other assets related to medical activities of LLC IMC SOGAZ and LLC SOGAZ-PROFMEDICINE (31 December 2013: RR 554 149 thousand).

In the year ended 31 December 2013 (31 December 2013: the year ended 31 December 2011) the Group acquired transport facilities under a finance lease. The maturity of the finance lease is the first half of the year ended 31 December 2017, the price that will be used by the Group to purchase these premises and equipment in the end of the lease term is RR 3 000 thousand. At 31 December 2014 the carrying amount of vehicles was RR 629 535 thousand (31 December 2013: RR 1 921 684 thousand). The assets are classified as other premises and equipment. At 31 December 2014 liabilities under the finance lease were RR 155 036 thousand (31 December 2013: RR 581 309 thousand) (Note 23). Interest expenses under finance lease are recognised within administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income in the amount of RR 74 949 thousand during the year ended 31 December 2014 (the year ended 31 December 2013: RR 124 680 thousand).

Management believes there were no indicators of impairment of premises and equipment during the years ended 31 December 2014 and 31 December 2013.

The information on fair value is disclosed in Note 35.

17 Intangible Assets

RR thousands	Computer software licences	Client base	Other intangible assets	Total
Carrying amount at 31 December 2012	**547 894**	**228 500**	**364 870**	**1 141 264**
Cost				
Balance at the beginning of the year	1 033 115	1 068 000	594 831	2 695 946
Acquisition of subsidiary (Note 38)	12 404	2 154 558	-	2 166 962
Additions	204 834	-	-	204 834
Disposals	(240 289)	-	-	(240 289)
Balance at the end of the year	**1 010 064**	**3 222 558**	**594 831**	**4 827 453**
Accumulated amortisation				
Balance at the beginning of the year	485 221	839 500	229 961	1 554 682
Amortisation charge (Note 28)	144 088	242 992	255 556	642 636
Disposals	(209 472)	-	-	(209 472)
Balance at the end of the year	**419 837**	**1 082 492**	**485 517**	**1 987 846**
Carrying amount at 31 December 2013	**590 227**	**2 140 066**	**109 314**	**2 839 607**
Cost				
Balance at the beginning of the year	1 010 064	3 222 558	594 831	4 827 453
Acquisition of subsidiary (Note 38)	690	37 133	-	37 823
Additions	266 177	-	-	266 177
Transfers	27 879	-	-	27 879
Disposals	(558 455)	-	-	(558 455)
Reclassification to assets of a disposal group held for sale (Note 19)	(452 511)	-	(594 831)	(1 047 342)
Balance at the end of the year	**293 844**	**3 259 691**	**-**	**3 553 535**
Accumulated amortisation				
Balance at the beginning of the year	419 837	1 082 492	485 517	1 987 846
Amortisation charge (Note 28)	266 783	899 355	72 294	1 238 432
Transfers	13 233	-	(327)	12 906
Disposals	(364 940)	-	-	(364 940)
Reclassification to assets of a disposal group held for sale (Note 19)	(264 945)	-	(557 484)	(822 429)
Balance at the end of the year	**69 968**	**1 981 847**	**-**	**2 051 815**
Carrying amount at 31 December 2014	**223 876**	**1 277 844**	**-**	**1 501 720**

The client base in the amount of RR 2 101 447 thousand was acquired as a result of acquisition of CJSC IC Transneft in the year ended 31 December 2013 (Note 38). At 31 December 2014 the remaining depreciation period for the client base of CJSC IC Transneft is 1.5 years (31 December 2013: 3 years).

Management believes there were no signs of impairment of intangible assets during the years ended 31 December 2014 and 31 December 2013.

18 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

RR thousands	Notes	2014	2013
Carrying amount at 1 January		**640 676**	**188 368**
Acquisition of subsidiary	38	-	452 308
Impairment	28	(185 112)	-
Carrying amount at 31 December		**455 564**	**640 676**

In November 2013 the Group acquired the majority of CJSC IC Transneft shares. The amount of goodwill arising from this acquisition is RR 452 308 thousand (Note 38).

19 Assets of a Disposal Group Held for Sale

At the end of the year 2014 a purchase agreement on 50.1 % share in the insurance company SOVAG being a part of the Group was signed with Gazprom Germania GmbH. At 31 December 2014 the purchase agreement is in the process of approval by the Federal financial supervision authority of Germany, therefore, the transaction has not taken effect. As soon as it takes effect, the Company's share in the insurance company SOVAG will decrease from 50.9 % to 25.1 %.

At 31 December 2014 net assets of the insurance company SOVAG were recognised in their carrying amount as assets of a disposal group held for sale. The following are main categories of assets of the disposal group held for sale and liabilities directly associated with assets of a disposal group.

RR thousands	31 December 2014
Cash and cash equivalents	366 055
Deposits with banks	9 352
Loans	36 416
Securities at fair value through profit or loss	5 385 642
Investment securities available for sale	1 866 604
Receivables	1 092 467
Prepayments	165 631
Current income tax prepayment	239 373
Reinsurers' share of insurance provisions	2 374 854
Deferred income tax asset	492 558
Deferred acquisition costs	108 020
Premises and equipment	353 854
Intangible assets	224 913
Assets of a disposal group held for sale	**12 715 739**
Insurance provisions	9 167 884
Deferred commission income	74 661
Payables	1 413 566
Current income tax liability	62 127
Deferred income tax liability	684 248
Liabilities directly associated with assets of a disposal group held for sale	**11 402 486**
Net assets of a disposal group held for sale	**1 313 253**

19 Assets of a Disposal Group Held for Sale (continued)

Analysis of financial assets by credit quality is as follows:

RR thousands	**Settlement accounts with banks**
Moody's, S&P, Fitch	**31 December 2014**
Aa3, AA-, AA-	4 924
A2, A, A	32 845
A3, A-, A-	179 259
Baa1, BBB+, BBB+	12 953
Baa2, BBB, BBB	202
Unrated	131 516
Total	**361 699**

RR thousands	**Deposits with banks**
Moody's, S&P, Fitch	**31 December 2014**
A3, A-, A-	9 352
Total	**9 352**

Securities at fair value through profit or loss

RR thousands	**Corporate bonds**	**Corporate eurobonds**	**Foreign government bonds**	**Government eurobonds**	**Total**
Moody's, S&P, Fitch					
Aaa, AAA, AAA	235 102	174 473	28 515	-	438 090
Aa1, AA+, AA+	-	-	74 417	-	74 417
Aa2, AA, AA	69 016	-	83 396	-	152 412
Aa3, AA-, AA-	149 791	-	-	27 885	177 676
A1, A+, A+	162 841	-	106 651	28 599	298 091
A2, A, A	122 607	14 643	41 707	-	178 957
A3, A-, A-	175 996	19 269	112 800	229 524	537 589
Baa1, BBB+, BBB+	320 040	138 777	172 483	17 255	648 555
Baa2, BBB, BBB	297 388	185 322	457 037	-	939 747
Baa3, BBB-, BBB-	197 888	81 055	-	81 766	360 709
Ba1, BB+, BB+	15 070	-	18 160	-	33 230
Ba2, BB, BB	7 207	-	-	-	7 207
Ba3, BB-, BB-	-	12 971	-	-	12 971
B1, B+, B+	-	-	20 135	-	20 135
Unrated	127 107	68 414	-	-	195 521
Total	**1 880 053**	**694 924**	**1 115 301**	**385 029**	**4 075 307**

19 Assets of a Disposal Group Held for Sale (continued)

Investment securities available for sale

RR thousands	**Promissory notes**	**Municipal bonds**	**Total**
Moody's, S&P, Fitch			
Aa3, AA-, AA-	36 721	-	36 721
A1, A+, A+	483 419	-	483 419
A2, A, A	246 876	-	246 876
A3, A-, A-	268 087	-	268 087
Baa1, BBB+, BBB+	156 834	-	156 834
Baa2, BBB, BBB	169 406	-	169 406
Baa3, BBB-, BBB-	88 285	-	88 285
Unrated	152 153	166 467	318 620
Total	**1 601 781**	**166 467**	**1 768 248**

RR thousands	**Receivables arising from direct insurance operations**	**Receivables arising from assumed reinsurance operations**	**Receivables arising from ceded reinsurance operations**	**Other receivables**	**Total receivables**
Current receivables	**109 560**	**-**	**-**	**-**	**109 560**
Other legal entities	109 560	-	-	-	109 560
Past due but not impaired receivables	**461 600**	**379 213**	**141 946**	**148**	**982 907**
Delayed < 30 days	149 738	-	-	-	149 738
Delayed 60-90 days	151 822	379 213	141 946	148	673 129
Delayed > 90 days	160 040	-	-	-	160 040
Impaired receivables	**25 285**	**2 360**	**25 437**	**-**	**53 082**
Total receivables before provision for impairment	**596 445**	**381 573**	**167 383**	**148**	**1 145 549**
Provision for impairment	**(25 285)**	**(2 360)**	**(25 437)**	**-**	**(53 082)**
Total receivables	**571 160**	**379 213**	**141 946**	**148**	**1 092 467**

The insurance company SOVAG applies a private defined benefit plan. According to this plan, the retirement age for men is 60-65 years.

19 Assets of a Disposal Group Held for Sale (continued)

The table below shows expenses on the defined benefit plan recognised within administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income:

RR thousands	**2014**	**2013**
Interest expenses	16 457	12 375
Current service cost	4 657	3 729
Past service cost	30 338	-
Effect of experience adjustments	-	19 714
Net actuarial loss	131 070	-
Total expenses recognised in the consolidated statement of profit or loss and other comprehensive income	**182 522**	**35 818**

Plan assets are not specifically segregated from assets of the insurance company SOVAG, as no contributions to pension fund are made. The insurance company SOVAG bears individual responsibility for paying pensions to its employees.

The reconciliation reflecting movements of the present value of pension obligations is presented below:

RR thousands	**2014**	**2013**
Present value of pension obligations at 1 January	**393 612**	**318 059**
Interest expense	16 457	12 375
Current service cost	4 657	3 729
Past service cost	30 338	-
Effect of experience adjustments	-	19 714
Net actuarial loss	131 070	-
Effect of foreign exchange rate changes	398 604	39 735
Present value of pension obligations at 31 December	**843 668**	**393 612**

At 31 December 2014 and 31 December 2013 pension obligations are long-term.

The assumptions applied to determine the present value of pension obligations are presented below:

%	**31 December 2014**	**31 December 2013**
Discount rate	2.3 %	3.7 %
Inflation rate	2.0 %	2.5 %
Future salary increase	2.5 %	2.0 %

19 Assets of a Disposal Group Held for Sale (continued)

The sensitivity of pension obligations present value at 31 December 2014 and 31 December 2013 is presented in the table below:

	Change of assumption	Effect on valuation of obligations at 31 December 2014	Effect on valuation of obligations at 31 December 2013
	0.5 % increase	(79 346)	(30 431)
Discount rate	0.5 % decrease	69 983	34 234
	0.25 % increase	820	1 936
Future salary increase	0.25 % decrease	(5 946)	(1 925)

The Group management believes that in the foreseeable future the insurance company SOVAG will not make considerable contributions to the defined benefit plan.

At 31 December 2014 recurring fair value measurements of securities at fair value through profit or loss are related to level 1 of fair value hierarchy, of investment securities available for sale - to level 2 of fair value hierarchy. The fair value of assets and liabilities not carried at fair value does not differ significantly from their carrying value at 31 December 2014 due to disposal of assets and liabilities within 12 months after the reporting date.

The description of valuation techniques and description of inputs used in fair value measurement for level 2 measurements at 31 December 2014 are as follows:

RR thousands	Fair value	Valuation technique	Inputs used
Investment securities available for sale			
- municipal bonds	166 467	Discounted cash flows method	Estimated future cash flows on observable yield curve
- promissory notes	1 601 781	Discounted cash flows method	Estimated future cash flows on observable yield curve
- corporate shares	20 719	Net assets value	Statement of financial position
- units in mutual investment funds	77 637	Discounted cash flows method	Estimated future cash flows on observable yield curve
Total recurring fair value measurements at level 2	**1 866 604**		

20 Insurance Provisions

	31 December 2014			31 December 2013		
RR thousands	Gross provision	Reinsurers' share of provision	Provisions, net of reinsurance	Gross provision	Reinsurers' share of provision	Provisions, net of reinsurance
Provisions for life insurance contracts	10 962 165	(3 102)	10 959 063	9 679 889	(3 778)	9 676 111
Provisions for non-life insurance contracts	127 298 460	(52 168 752)	75 129 708	87 991 344	(20 294 468)	67 696 876
Total insurance provisions	**138 260 625**	**(52 171 854)**	**86 088 771**	**97 671 233**	**(20 298 246)**	**77 372 987**

20 Insurance Provisions (continued)

a) Provisions for life insurance contracts:

RR thousands	31 December 2014 Gross provision	Reinsurer's share of provision	Provision, net of reinsurance	31 December 2013 Gross provision	Reinsurer's share of provision	Provision, net of reinsurance
Mathematical provision	10 473 532	(1 853)	10 471 679	9 095 289	(2 454)	9 092 835
Provision for additional payments (insurance bonuses)	214 042	-	214 042	276 402	-	276 402
OCP and IBNR	207 638	(1 249)	206 389	249 135	(1 324)	247 811
Provision for expenses on servicing insurance obligations	63 456	-	63 456	58 055	-	58 055
Equalisation provision	3 497	-	3 497	1 008	-	1 008
Total provision for life insurance contracts	**10 962 165**	**(3 102)**	**10 959 063**	**9 679 889**	**(3 778)**	**9 676 111**

Movements in mathematical provision, provision for expenses on servicing insurance obligations and equalisation provision (on a provisioning basis) are presented with the breakdown to main components, specifically: changes in actuarial current value of claims (Movements in provision due to claims, terminations or changes in insurance obligations) and actuarial current value of receipts of reserved net premiums (Movements in provision due to reserved net premium). Each component is calculated as a value at the end of the period under review, less value at the beginning of period and values at the beginning of inception of liability under new contracts signed in the period. Additionally, the aggregate change in liabilities is assessed related to changes in exchange rates (Effect of exchange differences). The above provisioning basis reflects actuarial assumptions used for provisioning and does not reflect historic realisation of these assumptions.

Movements in mathematical provision are presented below:

RR thousands	2014 Gross provision	Reinsurers' share of provision	Provision, net of reinsurance	2013 Gross provision	Reinsurers' share of provision	Provision, net of reinsurance
At 1 January	**9 095 289**	**(2 454)**	**9 092 835**	**9 005 111**	**(2 489)**	**9 002 622**
Movements in provision due to reserved net premium	1 850 948	(5 346)	1 845 602	2 305 288	(6 414)	2 298 874
Movements in provision due to claims, terminations or changes in insurance obligations	(794 427)	6 606	(787 821)	(2 398 032)	6 498	(2 391 534)
Movements in provision due to changes in actuarial assumptions	-	-	-	162 056	-	162 056
Effect of exchange differences	321 722	(659)	321 063	20 866	(49)	20 817
At 31 December	**10 473 532**	**(1 853)**	**10 471 679**	**9 095 289**	**(2 454)**	**9 092 835**

Movement of provision for additional payments (insurance bonuses) is presented as accrual of additional claims under agreements valid at the beginning of the period and signed in the period, but not including those terminated in the period, less provision released under contracts expired during the period due to occurrence of an insurance event. Additionally, the aggregate change in liabilities is assessed related to changes in exchange rates (Effect of exchange differences).

20 Insurance Provisions (continued)

Movement of provision for additional payments (insurance bonuses) is presented below:

RR thousands	2014 Gross provision	2014 Reinsurers' share of provision	2014 Provision, net of reinsurance	2013 Gross provision	2013 Reinsurers' share of provision	2013 Provision, net of reinsurance
At 1 January	**276 402**	**-**	**276 402**	**350 928**	**-**	**350 928**
Accrual of additional claims under contracts	12 245	-	12 245	158 807	-	158 807
Release of provision on expired contracts	(76 670)	-	(76 670)	(233 431)	-	(233 431)
Effect of exchange differences	2 065	-	2 065	98	-	98
At 31 December	**214 042**	-	**214 042**	**276 402**	-	**276 402**

Movements in OCP and IBNR are presented below:

RR thousands	2014 Gross provision	2014 Reinsurers' share of provision	2014 Provision, net of reinsurance	2013 Gross provision	2013 Reinsurers' share of provision	2013 Provision, net of reinsurance
At 1 January	**249 135**	**(1 324)**	**247 811**	**98 965**	**(1 408)**	**97 557**
Acquisition of subsidiary, gross provision (Note 38)	**-**	**-**	**-**	39	**-**	39
Losses incurred in the current reporting period	1 290 829	(943)	1 289 886	3 068 544	(1 605)	3 066 939
Changes in amounts of losses incurred in prior years	(4 036)	74	(3 962)	(474)	37	(437)
Claims during the reporting period	(1 329 136)	1 467	(1 327 669)	(2 918 753)	1 747	(2 917 006)
Effect of exchange differences	846	(523)	323	814	(95)	719
At 31 December	**207 638**	**(1 249)**	**206 389**	**249 135**	**(1 324)**	**247 811**

Movements in provision for expenses on servicing insurance obligations are presented below:

RR thousands	2014 Gross provision	2014 Reinsurers' share of provision	2014 Provision, net of reinsurance	2013 Gross provision	2013 Reinsurers' share of provision	2013 Provision, net of reinsurance
At 1 January	**58 055**	**-**	**58 055**	**8 383**	**-**	**8 383**
Movements in provision due to reserved net premium	19 547	-	19 547	2 230	-	2 230
Movements in provision due to claims, terminations or changes in insurance obligations	(17 712)	-	(17 712)	(1 526)	-	(1 526)
Movements in provision due to changes in actuarial assumptions	-	-	-	48 884	-	48 884
Effect of exchange differences	3 566	-	3 566	84	-	84
At 31 December	**63 456**	**-**	**63 456**	**58 055**	**-**	**58 055**

20 Insurance Provisions (continued)

Movements in equalisation provision are presented below:

	2014			2013		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**1 008**	**-**	**1 008**	**147**	**-**	**147**
Movements in provision due to new contracts	1 075	-	1 075	1 203	-	1 203
Movements in provision due to expiry and termination	(1)	-	(1)	(162)	-	(162)
Release of provision to cover deficit of reserved net premium	506	-	506	(180)	-	(180)
Effect of exchange differences	909	-	909	-	-	-
At 31 December	**3 497**	**-**	**3 497**	**1 008**	**-**	**1 008**

b) Provisions for non-life insurance contracts:

	31 December 2014		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
UPR	55 774 931	(14 822 428)	40 952 503
OCP and IBNR	72 447 229	(37 352 218)	35 095 011
URP	110 415	(680)	109 735
Subrogation asset	(1 034 115)	6 574	(1 027 541)
Total provisions for non-life insurance contracts	**127 298 460**	**(52 168 752)**	**75 129 708**

	31 December 2013		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
UPR	45 774 040	(8 726 021)	37 048 019
OCP and IBNR	42 707 910	(11 660 643)	31 047 267
URP	337 946	-	337 946
Subrogation asset	(828 552)	92 196	(736 356)
Total provisions for non-life insurance contracts	**87 991 344**	**(20 294 468)**	**67 696 876**

Information on related party balances is disclosed in Note 37.

20 Insurance Provisions (continued)

Movement of UPR is presented in the table below:

	2014			2013		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
Provision for unearned premiums at 1 January	**45 774 040**	**(8 726 021)**	**37 048 019**	**38 830 391**	**(7 268 381)**	**31 562 010**
Acquisition of subsidiary (Note 38)	192 504	(65 401)	127 103	3 786 890	(502 365)	3 284 525
Change in provision, gross	10 527 947	-	10 527 947	3 099 310	-	3 099 310
Change in reinsurers' share of provision	-	(6 094 299)	(6 094 299)	-	(925 430)	(925 430)
Reclassification to assets of a disposal group held for sale (Note 19)	(719 560)	63 293	(656 267)	-	-	-
Effect of exchange differences	-	-	-	57 449	(29 845)	27 604
Provision for unearned premiums at 31 December	**55 774 931**	**(14 822 428)**	**40 952 503**	**45 774 040**	**(8 726 021)**	**37 048 019**

Movement of OCP and IBNR is presented below:

	2014			2013		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**42 707 910**	**(11 660 643)**	**31 047 267**	**29 286 229**	**(6 829 392)**	**22 456 837**
Acquisition of subsidiary, gross provision (Note 38)	128 821	-	128 821	4 725 616	-	4 725 616
Acquisition of subsidiary, reinsurers' share of provision (Note 38)	-	(48 105)	(48 105)	-	(1 551 538)	(1 551 538)
Change in provision, gross	35 075 146	-	35 075 146	8 176 157	-	8 176 157
Change in reinsurers' share of provision	-	(26 673 790)	(26 673 790)	-	(3 060 225)	(3 060 225)
Reclassification to assets of a disposal group held for sale (Note 19)	(8 391 155)	2 311 561	(6 079 594)	-	-	-
Effect of exchange differences	2 926 507	(1 281 241)	1 645 266	519 908	(219 488)	300 420
At 31 December	**72 447 229**	**(37 352 218)**	**35 095 011**	**42 707 910**	**(11 660 643)**	**31 047 267**

20 Insurance Provisions (continued)

Movements in subrogation asset are as follows:

	2014			2013		
RR thousands	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**(828 552)**	**92 196**	**(736 356)**	**-**	**-**	**-**
Acquisition of subsidiary, gross provision (Note 38)	(12 254)	-	(12 254)	(184 390)	-	(184 390)
Acquisition of subsidiary, reinsurers' share of provision (Note 38)	-	6 574	6 574	-	92 196	92 196
Change in provision, gross	(193 309)	-	(193 309)	-	-	-
Change in evaluation of insurance liabilities due to recognition of subrogation asset	-	-	-	(644 162)	-	(644 162)
Change in reinsurers' share of provision	-	(92 196)	(92 196)	-	-	-
At 31 December	**(1 034 115)**	**6 574**	**(1 027 541)**	**(828 552)**	**92 196**	**(736 356)**

Changes in unexpired risk provision are presented below:

RR thousands	**31 December 2014**	**31 December 2013**
Provision, net of reinsurance, at 1 January	**337 946**	**224 193**
Acquisition of subsidiary, gross provision (Note 38)	3 496	53 586
Acquisition of subsidiary, reinsurers' share of provision (Note 38)	(646)	-
Change in provision, gross	(207 106)	11 240
Change in reinsurers' share of provision	(34)	-
Reclassification to assets of a disposal group held for sale (Note 19)	(57 169)	44 147
Effect of exchange differences	33 248	4 780
Provision, net of reinsurance, at 31 December	**109 735**	**337 946**

21 Evaluation of Insurance Liabilities

Liabilities under life insurance contracts

The Group calculates provisions under life insurance contracts on the basis of "Rules on life insurance provisions", approved by the Order of the Ministry of Finance of the Russian Federation № 32n of 9 April 2009 and "Regulations on life insurance provisions", approved by the Order of 17 July 2014 № 083 of subsidiary LLC IC SOGAZ-Life and submitted for approval to insurance supervising authorities in accordance with Russian legislation.

Calculation of insurance provisions (mathematical provision, provision for expenses on servicing insurance obligations, equalisation provision) is performed on the basis of reserved net premium (estimated amount) and provisioning basis, subject to terms and conditions of life insurance contracts. Values of provisioning basis parameters (mortality tables and profitability rates) coincide with values of rates basis, though profitability rates should not exceed 5 %. For valuation purposes, the prescribed prospective net method of insurance liabilities evaluation is used which is based on accounting for the current value of expected insurance claims / expenses on servicing insurance obligations / deficit of insurance premiums, less present value of expected insurance premiums.

21 Evaluation of Insurance Liabilities (continued)

The amount of outstanding claims provision at the date of calculation is determined as the aggregate amount of money payable to the insured (beneficiary) in relation to:

- insurance events reported to the insurer under the set procedure,
- survival until a certain age or date or other event provided by life insurance contract,
- early termination of life insurance contracts providing for payment of surrender benefits.

To calculate the final amount of outstanding claims provision, these amounts are increased by claims handling expenses. For the purpose of IFRS, the Group measures provision for claims handling expenses taking into account statistical data for prior reporting periods.

The amount of incurred but not yet reported loss reserve is calculated based on statistics of claims under insurance contracts not including the risk of survival until a certain age or date or other event, using the Chain Ladder method.

Provision for additional payments (insurance bonuses) at the date of calculation is determined as accumulated cost of accrued additional payments (insurance bonuses), the insured (policyholder, beneficiary) is entitled to under the insurance contract, less amount of additional payments (insurance bonuses) paid earlier.

Equalisation provision is calculated in case gross premium written is insufficient to set up a mathematical provision, when the reserved net premium (cilmerised net premium) exceeds 98 % of gross premium written under life insurance contract. The amount of equalisation provision at the date of insurance event is defined as the actuarial value of difference between the upcoming receipts of reserved net premiums and 98 % of gross premium written payments.

The Group conducts liability adequacy test to assess, whether its recognised insurance liabilities under life insurance contracts (mathematical provision, provision for additional payments (insurance bonuses), provision for expenses on servicing insurance obligations, equalisation provision) are adequate using current estimates of future cash flows. The test considers current estimates of all contractual cash flows, and of related cash flows.

The Group makes estimations and assumptions to project the amounts of assets and liabilities for future periods. Such estimations and assumptions include mortality rates, cancellation rates, expenses and investment income. Estimations and assumptions are based on the Group's expectations of future events which are believed to be reasonable under the circumstances.

The Group discloses results of sensitivity analysis that shows how its recognised liabilities would have been affected if changes in the relevant mortality and profitability rates that were reasonably possible at the end of the reporting period had occurred.

The table below represents sensitivity of values of recognised insurance liabilities under the endowment and pension contracts to changes of estimated mortality and discount rates. Changes in assumptions do not cause any change in the amount of liabilities, unless such changes are severe enough to trigger the need for the liability adequacy test adjustment. The tables below indicate levels of changes in the variables that trigger the need for liability adjustment as well as amounts of liability adjustments that will be required in case of further deteriorations of variables.

Sensitivity of life insurance contracts portfolio for the year ended 31 December 2014:

	Level of change in variable leading to origination / removal of deficit in provision	**Change in variable**	**Change in liabilities at the reporting date, RR thousands**	**Change in liabilities at the beginning of the year, RR thousands**
Change of mortality rate	-61.55 %	-1.00 %	5 295	4 344
Change of discount rate	-0.77 %	-1.00 %	423 371	378 006

21 Evaluation of Insurance Liabilities (continued)

Sensitivity of life insurance contracts portfolio for the year ended 31 December 2013:

	Level of change in variable leading to origination / removal of deficit in provision	Change in variable	Change in liabilities at the reporting date, RR thousands	Change in liabilities at the beginning of the year, RR thousands
Change of mortality rate	-100.59 %	-1.00 %	4 344	4 373
Change of discount rate	-1.16 %	-1.00 %	378 006	341 199

Liabilities under non-life insurance contracts

The Group uses a number of statistical methods to estimate ultimate claim costs for all types of risks. The Chain-Ladder method and the method based on independence of standard increments of losses from the occurrence period are most frequently used for this purpose.

The Chain-Ladder method can be applied to claims paid or to the amount of claims reported but not yet settled. The main approach implies analysis of claims development factors (coefficients) for past periods and selection of estimated development factors based on the previous experience. Afterwards, selected development factors are applied to aggregate loss data for each period within which an insurance event occurs for the purpose of estimation of ultimate claims for each period. The Chain Ladder method mostly fits developed lines of business with a relatively stable development model implying independence of mathematical expectation of individual development coefficients from the occurrence period. It is less useful when an insurer does not have a developed experience of claims in a specific line of business.

The method based on independence of standard increments of losses from occurrence period is based on the assumption that normalised (to the parameter of amount) increments of loss do not depend on the period of occurrence of the insurance event and have similar distributions. If no sufficiently homogeneous statistics is available, this method is preferable to the Chain Ladder method, as it is less exposed to the impact of inhomogenuity of claims statistics, therefore it may give a more smoothed estimation of loss provision in case of extremely high or extremely low values in the claims triangle.

If any assumptions of certain method are obviously not realised, however, some consistent pattern is observed (trend, periodicity, etc.), such methods may be used with some modifications (i.e. subject to selected coefficients).

The final estimation of loss provision for each period of loss in each line of business depends on how adequate each method or technique is to observable events over past periods. In some cases, different claims evaluation techniques or a combination of several techniques can be selected for certain insurance event periods within the same line of business.

Significant unusual claims, that can substantially distort results of computations, are excluded from the analysis.

OCP is established by experts. IBNR is calculated for each occurrence period as a difference between a projected ultimate cost of claims incurred within this period and an amount of reported, but not yet settled claims within the same period. IBNR for each period cannot be less than zero.

Loss provision is adjusted subject to subrogation component, which is calculated using actuarial methods based on historical data on cash inflows under subrogation and recourse claims. For calculation purposes the data is grouped by quarter of insurance event which claims are put in and by quarter of actual cash receipt. In relation to the resulting development triangles actuarial methods similar to those used for calculation of provisions are applied.

21 Evaluation of Insurance Liabilities (continued)

Voluntary medical insurance. VMI represents 26 % (the year ended 31 December 2013: 25 %) of non-life portfolio. In the year ended 31 December 2014, 92 % (the year ended 31 December 2013: 100 %) of gross premiums were underwritten by the Company. VMI was unprofitable in the years ended 31 December 2001 – 31 December 2014.

The Group calculates loss provision for VMI using the Chain-Ladder method.

The claims settlement trend indicates that VMI is not a "long tail" business. Thus the amount of IBNR is not materially sensitive to reasonable changes in assumptions on duration of claim settlement process.

The Group's claim settlement process is effectively a settlement of medical invoices, risk portfolio is well diversified and the Group does not anticipate a possibility of significant influence of claim inflation on liability for incurred claims.

Property insurance. Property insurance represents 45 % (the year ended 31 December 2013: 45 %) of non-life portfolio. In the year ended 31 December 2014, 94 % (the year ended 31 December 2013: 97 %) of property insurance of the Group was underwritten by the Company. Significant part of the business is represented by property and construction risks of large corporate clients such as OJSC Gazprom, OJSC Rosneft, OJSC Russian Railways, companies of nuclear industry, electricity and other.

Due to the nature of business there is a significant probability of large scale losses and the Group manages risks by means of obligatory reinsurance of property insurance portfolio, which includes obligatory excess of loss reinsurance as well as facultative reinsurance of individually large objects. The significant part of reinsurance risks falls on large European reinsurers with high international ratings. Therefore, the Group believes that the existing structure of reinsurance ensures an adequate protection from significant losses that could materially impact its financial position.

The Group calculates loss provision for property insurance primarily using the method based on independence of standard increments of losses from occurrence period. Subsidiaries of the Group apply other methods, however, the share of provisions of subsidiaries in the total amount of insurance provisions of the Group in this line of business is immaterial and amounts to 5 % (31 December 2013: 15 %).

The claims settlement trends indicates that property insurance is not a "long tail" business. However, claims settlement is not as intense as under VMI, especially regarding significant property claims. Thus the insurance liability amount is relatively sensitive to reasonable changes in assumptions on duration of claims settlement process. A 10 % or 20 % shift of all claims from the original period of settlement (quarter) to the following quarter will give an immaterial change in liabilities.

The Group's property claims settlement procedures are subject to claims inflation since the total claims payment amount is not finalised before the settlement process. The Group estimates the effect of inflation on some types of property insurance when such effect may be material. In particular, the effect of inflation on provisions of subsidiaries operating in developed countries with a stable low inflation is not estimated. An introduction of additional nominal claim inflation of 3 % per quarter will give rise to additional liabilities of RR 273 698 thousand (31 December 2013: RR 299 234 thousand). An inflation of 5 % will give rise to additional liabilities of RR 557 325 thousand (31 December 2013: RR 619 101 thousand), an inflation of 10 % – to additional liabilities of RR 2 732 362 thousand (31 December 2013: RR 1 955 863 thousand).

Motor own damage insurance. Motor own damage insurance represents 8 % (the year ended 31 December 2013: 9 %) of non-life portfolio. In the year ended 31 December 2014, more than 82 % (the year ended 31 December 2013: 98 %) of the Group's motor own damage insurance premiums were written by the Company. The amount of URP for motor own damage insurance at 31 December 2014 is RR 548 086 thousand (31 December 2013: no URP for motor own damage insurance was created). The amount is presented before offset with deferred acquisition costs. For the purpose of these consolidated financial statements, URP was partially offset with deferred acquisition costs (for the amount of deferred acquisition costs at the reporting date) (Note 27).

The Company calculates loss provision for motor own damage insurance using primarily the Chain-Ladder method based on claims incurred.

21 Evaluation of Insurance Liabilities (continued)

Provisions for subsidiaries and for assumed insurance are calculated based on other methods. The share of provisions for the above segments is insignificant and amounts to 6 % of total provisions of the Group under this line of business (31 December 2013: 33 %).

The claims settlement trend indicates that motor own damage insurance is not a “long tail” business. However, the claims settlement process is not as intense as under VMI. The insurance liability amount is relatively sensitive to reasonable changes in assumptions on duration of claims settlement process. A 10 % shift of all claims paid and reported from the original period of settlement (quarter) to the following quarter will give a rise to additional liabilities of RR 58 725 thousand (31 December 2013: RR 54 280 thousand). A 20 % shift will give a rise to additional liabilities of RR 116 496 thousand (31 December 2013: RR 74 994 thousand). The calculation techniques applied to calculate provisions for assumed insurance and for subsidiaries are not sensitive to assumptions related to shift of claims.

The Group does not anticipate any material effect of inflation of claims on its liability for paid claims.

Ultimate claims estimations. The table below represents the adequacy analysis of the Group’s gross loss provisions:

	Claim occurrence year				
RR thousands	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claims:					
- at the end of the claim occurrence year	32 948 518	43 002 849	55 503 083	91 952 715	
- one year later	29 485 958	41 777 342	55 094 752		
- two years later	27 904 284	40 869 510			
- three years later	27 584 500				
Current estimate of cumulative claims	27 584 500	40 869 510	55 094 752	91 952 715	215 501 477
Cumulative claims paid to date	26 761 418	37 336 417	39 899 186	37 163 270	141 160 291
Liabilities recognised in the consolidated statement of financial position	823 082	3 533 093	15 195 566	54 789 445	74 341 186
Prior years' claims occurred before the year ended 31 December 2010					258 616
Loss provision of subsidiaries under claims occurred before their acquisition date recognised in the consolidated statement of financial position	569 505	203 192	649 335	105 863	1 527 895
Provisions for prior years’ claims of acquired companies					2 704 091
Reclassification to assets of a disposal group held for sale					(8 010 283)
Total gross OCP and IBNR provision					**70 821 505**

22 Payables

RR thousands	31 December 2014	31 December 2013
Payables arising from reinsurance operations	8 887 847	5 490 862
Payables to agents	3 208 991	2 524 834
Payables arising from coinsurance operations	1 886 045	995 458
Payables arising from transactions with securities	82 806	6 051 772
Other payables	462 361	478 191
Total financial payables	**14 528 050**	**15 541 117**
Insurance premiums received in advance	4 152 130	3 111 412
Payables to employees and social funds	1 886 796	1 315 579
Pension obligations	-	393 612
Taxes payable other than on income	144 267	116 516
Total non-financial payables	**6 183 193**	**4 937 119**
Total payables	**20 711 243**	**20 478 236**

At 31 December 2014 payables arising from transactions with securities include deferred discounted payment arising from acquisition of CJSC IC Transneft shares in the amount of RR 81 590 thousand (31 December 2013: RR 6 006 569 thousand (Note 38).

Information on related party balances is disclosed in Note 37. The information on fair value is disclosed in Note 35.

23 Other Liabilities

RR thousands	31 December 2014	31 December 2013
Liabilities under non-insurance related services	785 483	1 943 348
Finance lease liabilities	155 036	581 309
Total financial liabilities	**940 519**	**2 524 657**
OMI liabilities	6 575 968	2 603 051
Other	534 667	287 423
Total non-financial liabilities	**7 110 635**	**2 890 474**

At 31 December 2014 liabilities under non-insurance related services include payables to medical centres in the amount of RR 785 483 thousand within the scope of obligatory medical insurance (31 December 2013: RR 1 943 348 thousand).

23 Other Liabilities (continued)

At 31 December 2014 the Company's finance lease liabilities equal to RR 155 036 thousand (31 December 2013: RR 577 438 thousand) out of the total of finance lease liabilities. The fair value of finance lease liabilities equals to RR 155 036 thousand (31 December 2013: RR 552 573 thousand). These liabilities were originated as a result of the finance lease of motor vehicles from a related party (Note 16).

Minimum lease payments of the Company under finance leases and their present values are as follows:

RR thousands	Due within 1 year	Due from 1 to 5 years	Total
Minimum lease payments at 31 December 2014	**117 827**	**77 816**	**195 643**
Less future finance charges	(29 915)	(10 692)	(40 607)
Present value of minimum lease payments at 31 December 2014	**87 912**	**67 124**	**155 036**
Minimum lease payments at 31 December 2013	**509 526**	**195 644**	**705 170**
Less future finance charges	(85 915)	(41 817)	(127 732)
Present value of minimum lease payments at 31 December 2013	**423 611**	**153 827**	**577 438**

Effective interest rate equals to 31.9 % (31 December 2013: 26.9 %).

The information on fair value is disclosed in Note 35. Information on related party balances is disclosed in Note 37.

24 Non-Controlling Interest

RR thousands	Notes	2014	2013
Non-controlling interest at 1 January		**1 256 073**	**1 318 036**
Acquisition of subsidiary	38	1 998	95 541
Share in net loss of subsidiaries		(157 982)	(207 026)
Share in other comprehensive income of subsidiaries		353 558	49 522
Disposal of subsidiary	38	(1)	-
Non-controlling interest at 31 December		**1 453 646**	**1 256 073**

At 20 November 2014 the Company acquired 99.74 % of LLC Insurance Company IC Alrosa. Non-controlling interest is 0.26 % or RR 1 998 thousand at the date of acquisition (Note 38).

At 29 November 2013 the Group acquired 98.9 % of CJSC IC Transneft. Non-controlling interest is 1.1 % or RR 95 540 thousand at the date of acquisition (Note 38).

24 Non-Controlling Interest (continued)

At 4 October 2013 the Group acquired 99.99 % in the share capital of LLC Vympel-Vostok. Non-controlling interest amounts to 0.01 % or RR 1 thousand. At 21 April 2014 the Group exited from LLC Vympel-Vostok (Note 38).

The following table provides information about each subsidiary that has non-controlling interest.

RR thousands	**Place of business and country of incorporation**	**Non-controlling interest**	**Acquisition / origination of subsidiary**	**Total comprehensive income / loss attributable to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**
Year ended 31 December 2014					
SOGAZ JSIC NOVI SAD	Serbia	49 %	-	11 845	112 570
SOVAG	Germany	49.1 %	-	159 939	1 218 597
CJSC IC Transneft	The Russian Federation	1.1 %	-	23 792	120 481
LLC Insurance Company IC Alrosa	The Russian Federation	0.26 %	1 998	-	1 998
Total			**1 998**	**195 576**	**1 453 646**
Year ended 31 December 2013					
SOGAZ JSIC NOVI SAD	Serbia	49 %	-	(2 946)	100 725
SOVAG	Germany	49.1 %	-	(155 707)	1 058 658
CJSC IC Transneft	The Russian Federation	1.1 %	95 540	1 149	96 689
LLC Vympel-Vostok	The Russian Federation	0.01 %	1	-	1
Total			**95 541**	**(157 504)**	**1 256 073**

In the years ended 31 December 2014 and 31 December 2013 no dividends were paid to non-controlling interest.

24 Non-Controlling Interest (continued)

The summarised financial information of these subsidiaries for the year or from the time of their acquisition is presented in the table below:

RR thousands	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit / (loss)	Total compre-hensive income / (loss)	Cash flows
Year ended 31 December 2014								
SOGAZ JSIC NOVI SAD	369 947	128 823	113 654	10 703	274 504	17 939	132 960	2 379
SOVAG	12 715 739	-	11 402 486	-	6 037 159	(519 993)	199 584	57 792
CJSC IC Transneft	14 802 972	1 435 404	5 007 890	1 676 359	8 540 078	2 583 448	2 549 202	(470 807)
LLC Insurance Company IC Alrosa	936 313	180 321	269 059	25 937	-	-	-	99 908
Total	**28 824 971**	**1 744 548**	**16 793 089**	**1 712 999**	**14 851 741**	**2 081 394**	**2 881 746**	**(310 728)**
Year ended 31 December 2013								
SOGAZ JSIC NOVI SAD	216 715	76 154	51 417	-	152 037	13 218	38 159	(83 028)
SOVAG	2 680 344	7 234 477	2 898 413	4 860 276	4 717 457	(258 508)	(218 952)	(120 558)
CJSC IC Transneft	14 434 040	4 235 620	7 359 576	2 315 660	502 229	152 119	152 119	(410 637)
LLC Vympel-Vostok	565 752	165 236	486 933	13 637	33 103	2 144	2 144	18 668
Total	**17 896 851**	**11 711 487**	**10 796 339**	**7 189 573**	**5 404 826**	**(91 027)**	**(26 530)**	**(595 555)**

25 Share Capital and Reserves

RR thousands	31 December 2014			31 December 2013		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	9 351 165	15 111 483	15 328 487	9 351 165	15 111 483	15 328 487
Total share capital	**9 351 165**	**15 111 483**	**15 328 487**	**9 351 165**	**15 111 483**	**15 328 487**

All ordinary shares have a nominal value of RR 1 616 per share at 31 December 2014 (31 December 2013: RR 1 616). Each share carries one vote. At 31 December 2014 and 31 December 2013 all shares were paid.

In March 2014 LLC SOGAZ-Realty acquired 2.5 % of the Company's shares from LLC IK ABROS. Consequently, at 31 December 2014 the Group recognised treasury shares of RR 770 001 thousand within its equity.

25 Share Capital and Reserves (continued)

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

Reserves in the amount of RR 872 804 thousand (31 December 2013: RR 872 804 thousand) represent reserve fund established in accordance with legislation of the Russian Federation to cover general economic risks, including potential losses and other unforeseen risks or contingencies. This fund was set up in accordance with the Company's charter, which provides for setting up a fund for the above purposes in the amount of at least 15 % of the Company's share capital recognised in statutory financial statements.

At 31 May 2013 the Company declared dividends for the year ended 31 December 2012 in the total amount of RR 5 517 188 thousand, or RR 590 per ordinary share, and paid them out in the first half of the year ended 31 December 2013 (Note 30).

At 25 April 2014 the Company declared dividends for the year ended 31 December 2013 in the total amount of RR 6 844 329 thousand, or RR 732 per ordinary share, and paid them out in the first half of the year ended 31 December 2014 (Note 30).

Movements in the Group's reserves are as follows:

	Attributable to owners of the Group				
RR thousands	**Revaluation reserve for securities available for sale**	**Reserve for translation to presentation currency**	**Total**	**Non-controlling interest**	**Total**
At 1 January 2013	**124 430**	**(24 839)**	**99 591**	**12 234**	**111 825**
Revaluation	68 724	-	68 724	(14 994)	53 730
Income tax effect	(24 634)	(17 519)	(42 153)	(12 401)	(54 554)
Transfer to profit and loss	(59 092)	-	(59 092)	-	(59 092)
Change in the reserve for translation to presentation currency	-	134 548	134 548	76 917	211 465
At 31 December 2013	**109 428**	**92 190**	**201 618**	**61 756**	**263 374**
Revaluation	(1 747 736)	-	(1 747 736)	32 325	(1 715 411)
Income tax effect	355 156	10 388	365 544	(176 703)	188 841
Transfer to profit and loss	(12 114)	-	(12 114)	-	(12 114)
Change in the reserve for translation to presentation currency	-	510 910	510 910	559 898	1 070 808
Revaluation of pension obligations	-	-	-	(61 962)	(61 962)
Reclassification to assets of a disposal group held for sale	(51 002)	(484 094)	(535 096)	-	(535 096)
At 31 December 2014	**(1 346 268)**	**129 394**	**(1 216 874)**	**415 314**	**(801 560)**

26 Interest Income

RR thousands	**2014**	**2013**
Deposits with banks	5 943 565	4 639 223
Debt securities at fair value through profit or loss	1 180 167	909 978
Debt securities available for sale	1 426 931	882 887
Interest income on reverse REPO transactions	-	9 758
Other	93 054	23 587
Total interest income	**8 643 717**	**6 465 433**

Information on related party transactions is disclosed in Note 37.

27 Acquisition Costs Net of Related Commission Income from Reinsurance Ceded

RR thousands	**2014**	**2013**
Brokerage and agent commissions	7 354 522	5 656 130
Commissions paid for assumed reinsurance	670 555	667 014
Surveyor expenses	76 161	111 065
Other	306 314	197 560
Total acquisition costs	**8 407 552**	**6 631 769**
Less: Commission income on ceded reinsurance	(2 675 563)	(1 963 791)
Change in deferred acquisition costs	(771 653)	(410 566)
Change in deferred commission income on ceded reinsurance	373 100	253 173
Offset with unexpired risk provision	377 946	42 868
Total acquisition costs net of related commission income from premiums ceded to reinsurers	**5 711 382**	**4 553 453**

27 Acquisition Costs Net of Related Commission Income from Reinsurance Ceded (continued)

RR thousands	**2014**	**2013**
Deferred acquisition costs at 1 January	**4 059 861**	**3 557 205**
Change in deferred acquisition costs	771 653	410 566
Offset with unexpired risk provision	(377 946)	(42 868)
Acquisition of subsidiaries (Note 38)	2 320	134 958
Reclassification to assets of a disposal group held for sale (Note 19)	(108 020)	-
Deferred acquisition costs at 31 December	**4 347 868**	**4 059 861**
Deferred commission income at 1 January	**858 243**	**543 059**
Change in deferred commission income on ceded reinsurance	373 100	253 173
Acquisition of subsidiaries (Note 38)	4 911	62 011
Reclassification to assets of a disposal group held for sale (Note 19)	(74 661)	-
Deferred commission income at 31 December	**1 161 593**	**858 243**

Information on related party transactions is disclosed in Note 37.

28 Other Operating Income and Administrative and Other Operating Expenses

RR thousands	**2014**	**2013**
Commission income from OMI program	1 808 483	1 394 312
Income from provision of medical services	553 222	524 775
Income from penalties related to OMI	436 480	324 699
Gain from acquisition of subsidiaries (Note 38)	146 405	-
Rental income	132 156	95 203
Changes in provision for legal cases	51 168	-
Gain from disposal of associates (Note 12)	16 002	-
Other income	347 834	395 147
Total other operating income	**3 491 750**	**2 734 136**

28 Other Operating Income and Administrative and Other Operating Expenses (continued)

Administrative and other operating expenses comprise the following:

RR thousands	**2014**	**2013**
Salaries and bonuses	7 206 279	5 337 010
Social security expenses	2 164 163	1 319 434
Provision for unused vacations	690 483	429 577
Other staff costs	591 597	355 140
Total staff costs	**10 652 522**	**7 441 161**
Depreciation and amortisation (Notes 13, 16, 17)	1 978 511	1 335 760
Advertising and marketing services	1 274 962	1 410 754
Information and consulting services	1 379 623	837 491
Operating lease expenses	966 043	704 317
Other expenses related to premises and equipment	784 633	458 295
Provision for legal cases	325 526	135 162
Materials	376 803	572 265
Provision for impairment of other receivables and prepayments (Note 14)	74 824	50 329
Impairment of goodwill (Note 18)	185 112	-
Other expenses	1 452 142	923 524
Total administrative and other operating expenses	**19 450 701**	**13 869 058**

Staff costs for the year ended 31 December 2014 of RR 2 352 654 thousand (the year ended 31 December 2013: RR 1 258 126 thousand) are included in the consolidated statement of profit or loss and other comprehensive income within claims handling expenses as they relate to claims handling activity.

Pension contributions for the year ended 31 December 2014 of RR 1 375 112 thousand (the year ended 31 December 2013: RR 1 247 571 thousand) to state pension fund are included in the consolidated statement of profit or loss and other comprehensive income within staff costs.

Information on related party transactions is disclosed in Note 37.

29 Income Tax

Income tax expense comprises the following:

RR thousands	**2014**	**2013**
Current income tax	5 373 492	3 543 893
Deferred income tax	(642 574)	(630 187)
Income tax expense for the year	**4 730 918**	**2 913 706**

29 Income Taxes (continued)

Income tax rate applicable to the majority of the Group's income is 20 % (the year ended 31 December 2013: 20 %). Income tax rates applicable to subsidiaries located in Cyprus, Serbia and Germany are 10 %, 15 % and 30 % respectively (the year ended 31 December 2013: 10 %, 10 % and 30 %). Reconciliation between theoretical and actual taxation charge is provided below.

RR thousands	**2014**	**2013**
Profit before tax	**18 554 596**	**13 948 683**
Theoretical tax charge at statutory rate of 20 %	3 710 919	2 789 737
Tax effect of items that are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	427 931	225 451
- Income taxed at different rates	(13 227)	(31 445)
- Loss incurred in other tax jurisdictions taxed at 10 %, 15 % and 30 % (the year ended 31 December 2013: 10 %, 10 % and 30 %)	(45 935)	(39 967)
- Other	660 272	(54 939)
Unrecognised deferred tax asset	(9 042)	24 869
Income tax expense for the year	**4 730 918**	**2 913 706**

In the year ended 31 December 2014 income tax charge of RR 242 925 thousand (the year ended 31 December 2013: RR 54 554 thousand) was recognised directly in other comprehensive income due to fair valuation of investment securities available for sale, translation of assets and liabilities to the presentation currency and revaluation of pension obligations.

Differences between IFRS and respective statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial statements purposes and their tax bases. Tax effect of movements in these temporary differences is detailed below and is recognised at 20 % (the year ended 31 December 2013: 20 %), except for income on state securities that is taxed at 15 % (the year ended 31 December 2013: 15 %) and income / (loss) earned / incurred by subsidiaries located in Cyprus, Serbia and Germany that are taxed at 10 %, 15 % and 30 % respectively (the year ended 31 December 2013: 10 %, 10 % and 30 %).

29 Income Taxes (continued)

RR thousands	1 January 2014	Acquisition and disposal of subsidiary (Note 38)	Credited / (charged) to profit or loss	Credited / (charged) to other comprehensive income	Reclassification to assets of a disposal group held for sale (Note 19)	31 December 2014
Tax effect of deductible temporary differences:						
UPR	381 701	(904)	(187 640)	-	-	193 157
Accrued expenses	1 026 338	5 371	964 833	41 089	(143 157)	1 894 474
Unrealised revaluation of securities at fair value through profit or loss	-	-	176 893	(19 360)	66 290	223 823
Unrealised revaluation of investment securities available for sale	-	-	(40 024)	320 552	55 946	336 474
Tax losses carried forward	384 742	241	(104 661)	-	-	280 322
Other	207	1 397	150 019	41 866	(53 238)	140 251
Gross deferred tax asset	1 792 988	6 105	959 420	384 147	(74 159)	3 068 501
Less: Unrecognised deferred tax asset	(302 408)	-	9 042	-	-	(293 366)
Net deferred tax asset prior to offset with deferred tax liabilities	**1 490 580**	**6 105**	**968 462**	**384 147**	**(74 159)**	**2 775 135**
Recognised deferred tax asset	**104 489**	**-**	**9 844**	**18 973**	**-**	**133 306**
Tax effect of taxable temporary differences						
Unrealised revaluation of securities at fair value through profit or loss	(68 320)	-	68 320	-	-	-
Unrealised revaluation of investment securities available for sale	(40 024)	-	40 024	-	-	-
Associates	(42 260)	-	(137 616)	-	-	(179 876)
Other insurance provisions	(3 092 207)	(9 902)	132 378	(91 934)	114 101	(2 947 564)
Receivables	98 045	79	(289 197)	-	-	(191 073)
Deferred acquisition costs	(640 325)	518	(15 398)	105	-	(655 100)
Intangible assets	(240 039)	(6 189)	(17 384)	(4 611)	21 749	(246 474)
Premises and equipment	(64 724)	(7 580)	(127 409)	(44 782)	129 999	(114 496)
Other	(20 394)	-	20 394	-	-	-
Gross deferred tax liability	**(4 110 248)**	**(23 074)**	**(325 888)**	**(141 222)**	**265 849**	**(4 334 583)**
Recognised deferred tax liability	**(2 724 157)**	**(16 969)**	**632 730**	**223 952**	**191 690**	**(1 692 754)**

29 Income Taxes (continued)

RR thousands	1 January 2013	Acquisition and disposal of subsidiary (Note 38)	Charged / (credited) to profit or loss	Charged / (credited) to other comprehensive income	31 December 2013
Tax effect of deductible temporary differences:					
UPR	365 403	(8 204)	24 502	-	381 701
Receivables	43 791	-	54 254	-	98 045
Prepayments	494	-	(287)	-	207
Accrued expenses	602 549	86 493	331 917	5 379	1 026 338
Tax losses carried forward	482 020	-	(98 791)	1 513	384 742
Unrealised revaluation of securities at fair value through profit or loss	14 617	-	(14 617)	-	-
Unrealised revaluation of investment securities available for sale	7 290	-	-	(7 290)	-
Intangible assets	167 022	-	(167 022)	-	-
Loss arising from impairment of investments in associates	28 513	-	-	-	28 513
Other	22 776	-	(22 776)	-	-
Gross deferred tax asset	1 734 475	78 289	107 180	(398)	1 919 546
Less: Unrecognised deferred tax asset	(277 539)	-	(24 869)	-	(302 408)
Net deferred tax asset prior to offset with deferred tax liabilities	**1 456 936**	**78 289**	**82 311**	**(398)**	**1 617 138**
Recognised deferred tax asset	**228 787**	**-**	**(124 298)**	**-**	**104 489**
Tax effect of taxable temporary differences					
Life insurance provision	(30 839)	-	30 839	-	-
Other insurance provisions	(3 274 675)	(130 891)	341 158	(27 799)	(3 092 207)
Unrealised revaluation of securities at fair value through profit or loss	(28 243)	-	(37 480)	(2 597)	(68 320)
Unrealised revaluation of investment securities available for sale	(27 178)	-	-	(12 846)	(40 024)
Deferred acquisition costs	(602 829)	(7 824)	(29 672)	-	(640 325)
Intangible assets	(110 250)	(420 289)	291 117	(617)	(240 039)
Premises and equipment	-	(3 264)	(52 046)	(9 414)	(64 724)
Share of movement in post-acquisition reserves of associate	(67 069)	-	(3 704)	-	(70 773)
Other	-	(27 175)	7 664	(883)	(20 394)
Gross deferred tax liability	**(4 141 083)**	**(589 443)**	**547 876**	**(54 156)**	**(4 236 806)**
Recognised deferred tax liability	**(2 912 934)**	**(511 154)**	**754 485**	**(54 554)**	**(2 724 157)**

29 Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity. At 31 December 2014 the Group recognised a deferred income tax liability of RR 1 692 754 thousand (31 December 2013: RR 2 724 157 thousand) and deferred income tax asset of RR 133 306 thousand (31 December 2013: RR 104 489 thousand).

At 31 December 2014 the Group did not record deferred income tax liability in respect of temporary differences related to investments in subsidiaries of RR 747 165 thousand (31 December 2013: RR 1 507 867 thousand), as the Group is able to control the timing of those temporary differences reversal and does not intend to reverse them in the foreseeable future.

Tax losses carried forward in the amount of RR 280 322 thousand at 31 December 2014 (31 December 2013: RR 59 944 thousand) relate to tax loses of individual companies of the Group. The Group expects to utilize tax losses carried forward before 31 December 2019 (31 December 2013: before 31 December 2019). The remaining part of tax losses carried forward may be realised before 31 December 2024 (31 December 2013: before 31 December 2023).

30 Dividends

RR thousands	**2014**	**2013**
Dividends payable at 1 January	-	-
Dividends declared during the year	6 844 379	5 517 188
Dividends returned during the year	-	(80 373)
Dividends paid less dividends returned during the year	(6 844 379)	(5 436 815)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (RR per share)	**732**	**590**

At 31 December 2014 retained earnings according to the Company's Russian statutory accounts, amounted to RR 27 042 140 thousand (31 December 2013: RR 20 718 767 thousand).

In the year ended 31 December 2013 unclaimed dividends for the year ended 31 December 2009 were returned. Dividends are declared and paid in Russian Roubles.

31 Analysis of Premiums and Claims

Premiums and claims information for the main lines of business of the Group for the years ended 31 December 2014 and 31 December 2013 is set out below.

	2014		2013	
RR thousands	**Gross premiums written**	**Gross claims paid**	**Gross premiums written**	**Gross claims paid**
Property insurance	54 760 360	(9 150 497)	42 738 165	(10 653 222)
VMI	31 791 426	(28 579 141)	23 954 635	(23 312 048)
Motor own damage insurance	9 733 888	(6 017 706)	8 273 162	(4 355 004)
OMTPL	5 895 229	(2 419 380)	3 375 190	(1 330 722)
Voluntary third party liability insurance	5 633 047	(485 978)	3 404 787	(260 172)
Cargo insurance	2 889 079	(376 169)	2 399 320	(463 281)
OIHF	1 589 589	(64 868)	2 472 539	(167 777)
Personal accident insurance	4 495 113	(2 566 523)	2 388 425	(1 063 147)
Aircraft insurance	1 945 331	(796 241)	1 541 151	(1 009 333)
Hull and marine insurance	1 093 972	(268 288)	683 020	(350 178)
Other non-life insurance	638 902	(226 403)	564 223	(249 614)
Life insurance	1 953 510	(1 329 137)	2 437 003	(2 918 753)
Total	**122 419 446**	**(52 280 331)**	**94 231 620**	**(46 133 251)**

Information on related party transactions is disclosed in Note 37.

32 Financial and Insurance Risk Management

Risk management function within the Group is carried out in respect of financial risks (insurance, credit, market and liquidity risks), operational risks (including legal risk) and strategic risks. The purpose of financial risk management system is to protect the Group's interests.

The primary objective of financial risk management is to ensure the optimal relation between the expected income and risks. At the same time, the general level of risk is limited by the amount of available capital. Additional limitations are imposed by the Russian legislation in respect of requirements to assets accepted as coverage of insurance reserves and equity and the ratio between actual and regulatory solvency margin of insurance companies included in the Group.

For financial risk management purposes the Group has formulated internal financial risk management policy where, along with Russian regulations and generally accepted risk management principles, own valuation techniques, indicators and management tools are used. Based on the above, the Group has developed a system of parameters for assigning operations to certain risk groups and their qualitative and quantitative assessment.

The Group's risk management strategy is based on compliance with risk appetite – an aggregate level of risk the Group considers acceptable for implementation of its business strategy. Risk appetite is set by the Declaration of risk appetite approved by the Company's Board of Directors. The risk management strategy provides for:

- compliance of the Group's operations with legislation and state regulatory and monitoring agencies' requirements;
- application of Solvency II principles and methodology to design the risk management system;
- maintenance of the leading position in the Russian insurance market in terms of reliability and solvency;
- protection of the Group's long-term competitive advantages: reputation and brand;

32 Financial and Insurance Risk Management (continued)

- appointment of risk owners responsible for managing individual types of risks within their competencies;
- delegation of risk management processes to the level which ensures their most efficient application;
- generation of regular reports on risks submitted to the Group management.

Risk management process in the Group includes systematic address of the following tasks:

- risk identification – identification and initial analysis of risks arising in the process of the Group's activities. Risks are identified on a regular basis due to dynamic changes in external and internal environment;
- determining approaches to different types of risk and definition of risk management criterion which is performed subjects to maximum compliance with state regulations and control and according to the Group’s strategy. Risks which the Group is unwilling to accept are entirely eliminated. The Group determines the maximum level of risks that the Group is ready to accept;
- performing qualitative and/or quantitative evaluation (measurement) of certain types of risks and total risk valuation;
- establishing relationships between separate types of risk for the purpose of evaluation of impact of events, planned for restricting one type of risk, on decrease or increase in other risks;
- evaluating acceptability and reasonableness of aggregate risks assumed by the Group and optimising risks on the basis of established risk management criteria;
- making decisions on risk management measures to bring risks to optimal level;
- controlling efficiency of measures taken.

In implementing various types of financial risk management for the purpose of risk minimization, the Group uses the following procedures and instruments:

- monitoring – calculating the level of risk, studying its dynamics over time and preparing change reasons analysis. Monitoring precedes the use of other procedures and is carried out on a regular basis;
- diversification – reducing the level of aggregate risk by means of acceptance of a high number of individual risks with weak correlation between themselves. Diversification often allows to reduce the level of risk without considerable reduction of income;
- limiting operations – setting limits on risk levels and subsequent compliance follow-up. The limit level reflects the Group’s readiness to take on certain risk. The limiting operations procedure is aimed to set the maximum allowable risk level for each area of activity and to clearly allocate responsibility and functions;
- scenario analysis and stress testing. Scenario analysis or modelling is used in forecasting possible development trends. During scenario analysis the Group develops ways of responding to unfavourable external changes. Especially unfavourable scenarios are analysed with stress testing which is carried out on a regular basis.

The primary approach to financial risk management is to establish risk limits, and then to ensure that exposure to risks stays within these limits. Within its insurance risk management, the Group determines its own retention limits by lines of business. Risks exceeding the set limits are ceded for reinsurance. For market risks, limits are set by types of assets, industries and issuers. For credit risks, limits are set by individual counterparties, depending on level of their solvency.

32 Financial and Insurance Risk Management (continued)

The amounts of limits are defined based on internal regulations of the Group. Limits are approved by collective management bodies – Risk committee, Investment committee and Reinsurance committee. The limit level is subject to review at least once a year, unless otherwise stated on approval, and as required.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a contract or a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's investment operations on insurance reserves placement, insurance, reinsurance and other transactions with counterparties, giving rise to financial assets and liabilities.

The risk is associated with counterparties' potential insolvency and changes in their credit rating. The Group undertakes actions to monitor its counterparties' solvency and reputation and to ensure that they meet their obligations in order to minimise this risk.

The Group's maximum exposure to credit risk is reflected in carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible offset of assets and liabilities to reduce potential credit exposure is not significant.

Expected losses estimated as part of credit risk analysis are the function of probability of default, exposure at default and losses given default (subject to partial or full repayment of liabilities after the default). Probability of default is estimated using international and national ratings and internal mechanisms of risk assessment based on internal techniques designed for various categories of counterparties and industries / sectors. The techniques are developed and based on statistical analysis with application of integral expert valuation (judgement) including collection of general information on the counterparty's nature of business based on review of its financial statements and changes in key financial indicators.

To reduce credit risks on ceded reinsurance, the Group selects reinsurers to which risks are ceded. The main criterion is availability and level of rating by an international rating agency (Standard & Poor's, Moody's, Fitch, A.M.Best). Risks may be ceded to reinsurers with ratings below BBB+ in terms of Standard & Poor's (or equivalent rating of other agencies) only if they are included in security list and limits on the amount of risk are set. The procedure of regular review of the security list is set by the Group's internal regulations.

Under investment operations, credit risks are primarily related to the following types of transactions:

- cash placement on deposits with credit institutions and issue of loans;
- investments in debt securities (including promissory notes and bonds).

The main method of credit risk reduction is setting of limits on such transactions. Setting a limit restricts volume of losses from conducting transactions exposed to credit risk with each counterparty.

Limits are opened for counterparty banks and issuers of debt securities. Limits are set for the aggregate amount of transactions between the Group and the counterparty. The Group has set a number of conditions for opening limits, including the size of bank's capital and assets, availability of any negative information and duration of their operations in the financial market.

Determining maximum acceptable amount of operations with counterparties proportionate to credit risk exposure depends on five main factors:

- counterparty's financial position;
- counterparty's credit history;
- type of transaction performed;
- term of transaction;
- existence of collateral reducing credit risk.

32 Financial and Insurance Risk Management (continued)

The main purpose of the comprehensive review of the counterparty's financial position is obtaining objective evaluation of its solvency, financial stability, business and investment activity. Technologies used ensure comprehensive evaluation of counterparty's financial position and include an algorithm of actions for setting a limit on conducting transactions which implies four stages:

- preparing primary data and collecting information;
- carrying out a comprehensive review and evaluating the counterparty's financial position;
- calculating the limit;
- setting and monitoring limits.

During the whole period for which a limit on conducting transactions with counterparty is set the Group monitors its solvency, financial stability, business and investment activity (qualitative and quantitative valuation parameters). To ensure regular evaluation of risks associated with counterparties, reports are monitored and limits are reviewed with frequency depending on the reliability pool to which this counterparty is assigned.

If any operational information showing the worsening of counterparty's financial position, and increased risk of interaction with such counterparty is identified, or if other negative information on the counterparty is obtained, the Group makes decision to improve control over transactions with this counterparty or to terminate relations with it.

In the ordinary course of insurance activities the Group is exposed to accounts receivable balances. Management of the Group performs the following procedures to control the level of accounts receivable:

- the Budget Committee sets up accounts receivable level in budgeting process for individual subdivisions and companies of the Group;
- the total amount of accounts receivable is analysed weekly by financial director together with insurance directors;
- information about delay in payments is analysed based on terms of insurance contract. Overdue payments are weekly reported to financial director;
- clients are analysed on a quarterly basis. Findings of such analysis are disclosed in corporate reports submitted to management and shareholders;
- bad debt provisions are set up based on available information and written off on an individual basis. The amount of debts written off is not material for the Group.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currency assets and liabilities, (b) interest rates and (c) equity instruments, exposed to general and specific market volatility. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, use of this approach does not prevent losses outside of these limits in the event of more significant market volatility.

In carrying out market risk evaluation, the focus should be placed on quantitative evaluation; i.e. evaluation of probable losses from appropriate financial instruments used during a particular investment horizon. It allows reflecting risk of each position and portfolio risk in general and to arrange classification by risk level.

Price risk. The Group has exposure to equity price risk. If equity prices at 31 December 2014 had been 4.63 % (31 December 2013: 1.99 %) lower, with all other variables held constant, profit for the year ended 31 December 2014 would have been RR 31 622 thousand (the year ended 31 December 2013: RR 49 462 thousand) lower, mainly as a result of revaluation of corporate shares at fair value through profit or loss, and other components of equity would have been RR 5 594 thousand (the year ended 31 December 2013: RR 4 235 thousand) lower, mainly as a result of a decrease in fair value of corporate shares classified as available for sale. The percent of changes of equities price used is an annual mean of absolute monthly changes of MICEX index and assessed by management as volatility of equity market.

32 Financial and Insurance Risk Management (continued)

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. At the yearend, the Group had balances in Russian Roubles and other currencies, primarily US dollars and euro. The balances are disclosed in the table below. In addition, part of the losses incurred under insurance contracts is fixed in US dollars or euro at the date of recognition of loss. Furthermore, a part of premiums is fixed in US dollars or euro at the date of insurance agreement. The Group is exposed to currency risk on these losses and premiums if foreign exchange rates fluctuate. The Group manages currency risk by maintaining its assets denominated in US dollars and euro at the level required to meet its obligations. Management sets and controls limits on the value of risk that may be accepted by currencies and in general, on a regular basis.

The analysis of the Group's monetary financial and insurance assets and liabilities by currency at 31 December 2014 is as follows:

	31 December 2014				
RR thousands	**Russian Roubles**	**US dollars**	**Euro**	**Other currencies**	**Total**
Monetary financial and insurance assets					
Cash and cash equivalents	4 676 987	160 752	251 566	5 189	**5 094 494**
Deposits with banks	61 483 503	4 282 134	5 419 389	43 659	**71 228 685**
Loans	3 277 806	-	-	-	**3 277 806**
Securities at fair value through profit or loss	11 747 975	546 983	102 864	20 314	**12 418 136**
Investment securities available for sale	16 522 012	10 730	6 145	-	**16 538 887**
Receivables	16 981 125	5 493 989	2 117 309	208 606	**24 801 029**
Prepayments for tendering	359 701	-	-	-	**359 701**
Reinsurers' share of insurance provisions	35 850 655	1 427 111	70 340	640	**37 348 746**
Assets of a disposal group held for sale	73 460	1 359 225	8 188 049	38 672	**9 659 406**
Total monetary financial and insurance assets at 31 December 2014	**150 973 224**	**13 280 924**	**16 155 662**	**317 080**	**180 726 890**
Monetary financial and insurance liabilities					
Insurance provisions	77 956 725	3 374 214	965 007	79 333	**82 375 279**
Payables and other insurance and financial liabilities	10 965 924	3 215 897	1 089 075	197 673	**15 468 569**
Liabilities directly associated with assets of a disposal group held for sale	41 881	1 205 270	7 230 210	21 485	**8 498 846**
Total monetary financial and insurance liabilities at 31 December 2014	**88 964 530**	**7 795 381**	**9 284 292**	**298 491**	**106 342 694**
Net balance sheet position	**62 008 694**	**5 485 543**	**6 871 370**	**18 589**	**74 384 196**

32 Financial and Insurance Risk Management (continued)

The analysis of the Group's monetary financial and insurance assets and liabilities by currency at 31 December 2013 is as follows:

	31 December 2013				
RR thousands	**Russian Roubles**	**US dollars**	**Euro**	**Other currencies**	**Total**
Monetary financial and insurance assets					
Cash and cash equivalents	3 337 109	181 078	375 375	5 438	**3 899 000**
Deposits with banks	66 672 345	-	154 828	24 511	**66 851 684**
Loans	519 328	2 623	13 106	-	**535 057**
Securities at fair value through profit or loss	12 766 243	542 802	2 556 370	8 494	**15 873 909**
Investment securities available for sale	10 432 634	-	1 218 804	-	**11 651 438**
Receivables	16 024 062	2 202 468	2 254 997	37 853	**20 519 380**
Prepayments for tendering	204 213	-	-	-	**204 213**
Reinsurers' share of insurance provisions	8 930 378	689 279	1 940 955	11 613	**11 572 225**
Total monetary financial and insurance assets at 31 December 2013	**118 886 312**	**3 618 250**	**8 514 435**	**87 909**	**131 106 906**
Monetary financial and insurance liabilities					
Insurance provisions	44 812 202	2 252 581	4 210 729	283 735	**51 559 247**
Payables and other insurance and financial liabilities	14 381 006	1 909 827	1 747 479	18 301	**18 056 613**
Total monetary financial and insurance liabilities at 31 December 2013	**59 193 208**	**4 162 408**	**5 958 208**	**302 036**	**69 615 860**
Net balance sheet position	**59 693 104**	**(544 158)**	**2 556 227**	**(214 127)**	**61 491 046**

The above analysis includes only monetary assets and liabilities. Investments in equity securities and non-financial assets are not considered to give rise to any material currency risk.

32 Financial and Insurance Risk Management (continued)

The table below presents sensitivities of net profit or loss to reasonably possible changes in exchange rates assessed by management as applied at the reporting date, with all other variables held constant:

	The effect on profit before tax and remeasurement of net assets attributable to owners	
RR thousands	**31 December 2014**	**31 December 2013**
US dollar strengthening by 20 % (31 December 2013: strengthening by 15 %)	877 687	(65 299)
US dollar weakening by 20 % (31 December 2013: weakening by 15 %)	(877 687)	65 299
Euro strengthening by 20 % (31 December 2013: strengthening by 15 %)	1 099 419	306 747
Euro weakening by 20 % (31 December 2013: weakening by 15 %)	(1 099 419)	(306 747)
Other currencies strengthening by 20 % (31 December 2013: strengthening by 15 %)	2 974	(25 695)
Other currencies weakening by 20 % (31 December 2013: weakening by 15 %)	(2 974)	25 695

The exposure was calculated only for monetary balances denominated in currencies other than functional currencies of respective entities of the Group. Based on the analysis above currency risk is insignificant for the Group, as transactions volume in foreign currency is not significant, therefore, no specific procedures (other than disclosed above) are applied by the Group to manage currency risk.

Interest rate risk. Interest rate risk arises as a result of possible impact of changes in market interest rates on fair value of financial instruments or future cash flows from them. The management regularly monitors and sets limits on the level of interest rate repricing mismatch that may be undertaken.

The analysis of sensitivity of profit or loss and equity to changes in fair value of financial assets at fair value due to fluctuations of interest rates, based on positions at 31 December 2014 and 31 December 2013 and in case of reasonably possible changes of 481 b.p. (31 December 2013: 250 b.p.), representing symmetric drop or growth of all yield curves, is presented below:

	2014		2013	
RR thousands	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
Parallel growth of 481 b.p. (31 December 2013: 250 b.p.)	(2 765 677)	(795 204)	(1 722 531)	(516 652)
Parallel drop of 481 b.p. (31 December 2013: 250 b.p.)	3 400 590	943 604	1 913 123	601 123

Management of the Group considers 481 b.p. (31 December 2013: 250 b.p.) change as enough accurate estimate of interest rates volatility in current market conditions.

32 Financial and Insurance Risk Management (continued)

The Group monitors interest rates for financial instruments. The table below summarises effective weighted average interest rates by types of financial instruments.

	2014			2013		
% p.a.	**Russian Roubles**	**US dollars**	**Euro**	**Russian Roubles**	**US dollars**	**Euro**
Assets						
Cash and cash equivalents	17.7	-	-	0.1	-	0.2
Deposits with banks	11.5	5.2	2.9	8.4	-	3.1
Loans	11.0	-	-	9.8	-	-
Investment securities at fair value through profit or loss	13.1	11.3	-	8.3	6.5	2.6
Investment securities available for sale	18.0	11.5	6.6	8.5	4.2	4.4
Liabilities						
Finance lease liabilities	31.9	-	-	26.9	-	-

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

Liquidity risk. Liquidity risk is defined when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from claims to be paid.

At 31 December 2014 and 31 December 2013 the management does not believe the current maturity profile of the Group's financial assets and liabilities leads to material liquidity risk, taking into account the level of cash and deposits at yearend as well as the nature of its securities portfolio which is realisable at short notice if required.

32 Financial and Insurance Risk Management (continued)

The table below shows financial and insurance assets and liabilities for the purpose of liquidity risk evaluation at 31 December 2014 by their remaining expected maturity for insurance provisions and reinsurers' share of insurance provisions and contractual maturity for all other categories.

RR thousands	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Not stated maturity**	**Total**
Assets						
Cash and cash equivalents	5 094 494	-	-	-	-	**5 094 494**
Deposits with banks	7 824 402	26 566 679	27 914 428	8 891 176	32 000	**71 228 685**
Loans	-	2 801 834	475 972	-	-	**3 277 806**
Securities at fair value through profit or loss	53 439	177 224	710 673	11 476 796	853 641	**13 271 773**
Investment securities available for sale	-	374 856	2 525 553	13 627 748	161 730	**16 689 887**
Receivables	6 372 515	11 033 206	4 046 281	3 349 027	-	**24 801 029**
Prepayments for tendering	174 538	185 163	-	-	-	**359 701**
Reinsurers' share of insurance provisions	998 348	3 442 283	2 103 889	30 804 226	-	**37 348 746**
Assets of a disposal group held for sale	-	-	9 659 406	-	-	**9 659 406**
Total financial and insurance assets	**20 517 736**	**44 581 245**	**47 436 202**	**68 148 973**	**1 047 371**	**181 731 527**
Liabilities						
Insurance provisions	5 228 636	17 399 649	11 686 021	48 060 973	-	**82 375 279**
Payables and other insurance and financial liabilities	2 386 491	9 970 713	2 361 083	750 282	-	**15 468 569**
Liabilities directly associated with assets of a disposal group held for sale	-	-	8 498 846	-	-	**8 498 846**
Total financial and insurance liabilities	**7 615 127**	**27 370 362**	**22 545 950**	**48 811 255**	**-**	**106 342 694**
Net position in financial and insurance obligations	**12 902 609**	**17 210 883**	**24 890 252**	**19 337 718**	**1 047 371**	**75 388 833**
Cumulative net position	**12 902 609**	**30 113 492**	**55 003 744**	**74 341 462**	**75 388 833**	

32 Financial and Insurance Risk Management (continued)

The table below shows financial and insurance assets and liabilities for the purpose of liquidity risk evaluation at 31 December 2013 by their remaining expected maturity for insurance provisions and reinsurers' share of insurance provisions and contractual maturity for all other categories.

RR thousands	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Not stated maturity	Total
Assets						
Cash and cash equivalents	3 899 000	-	-	-	-	**3 899 000**
Deposits with banks	4 951 668	19 943 203	29 587 036	12 369 777	-	**66 851 684**
Loans	-	50 000	469 328	15 729	-	**535 057**
Securities at fair value through profit or loss	-	664 939	614 441	14 603 944	3 096 096	**18 979 420**
Investment securities available for sale	-	-	308 036	11 387 089	222 239	**11 917 364**
Receivables	5 122 982	8 633 691	3 173 314	3 600 199	-	**20 530 186**
Prepayments for tendering	19 439	184 376	-	398	-	**204 213**
Reinsurers' share of insurance provisions	926 940	3 875 932	3 060 698	3 708 655	-	**11 572 225**
Total financial and insurance assets	**14 920 029**	**33 352 141**	**37 212 853**	**45 685 791**	**3 318 335**	**134 489 149**
Liabilities						
Insurance provisions	4 722 434	15 593 411	10 296 420	20 946 982	-	**51 559 247**
Payables and other insurance and financial liabilities	2 623 791	8 772 010	4 262 527	2 407 446	-	**18 065 774**
Total financial and insurance liabilities	**7 346 225**	**24 365 421**	**14 558 947**	**23 354 428**	**-**	**69 625 021**
Net position in financial and insurance obligations	**7 573 804**	**8 986 720**	**22 653 906**	**22 331 363**	**3 318 335**	**64 864 128**
Cumulative net position	**7 573 804**	**16 560 524**	**39 214 430**	**61 545 793**	**64 864 128**	

Insurance risk. An insurance risk is a risk associated with any insurance contract concluded for a possibility of occurrence of an insurance event and uncertainty of the amount of loss incurred. The very nature of an insurance contract implies that such a risk is random and, therefore, unpredictable, and means the possibility that the insurance event occurs and the uncertainty of the amount of the resulting claim.

Insurance risk is the most significant financial risk for the Group. Possible accumulation of large claims in such lines as property insurance, marine insurance, liability insurance and others is the major factor that could have a significant impact on the Group's financial position and performance indicators. Therefore, the Group chooses risk management policy and, first and foremost, reinsurance protection management policy, in order to minimize the impact of this factor.

The process of insurance risk management is implemented at stages from insurance tariffs development to insurance portfolio formation.

32 Financial and Insurance Risk Management (continued)

The system of insurance products development and implementation enables the Group to minimise the following risks associated with possible unsuccessful implementations:

- implementation of a product on the basis of unjustified insurance tariffs;
- implementation of a product not meeting market requirements;
- implementation of a product through inefficient sales channels.

The basic principle of insurance risk diversification is managing risks on the basis of a regulated tariff policy. The tariff policy is regulated on the basis of review of current portfolio structure, allocation of losses by various ranges of insurance sums, collection of market data on other insurers' loss experience and modelling various loss realisation projections in future.

Insurance tariffs are set on the basis of analysis of the following factors:

- expected loss ratio based on the analysis of own insurance portfolio and similar market products;
- commission rates based on information about commissions on similar market products;
- review of average market insurance tariff.

Reinsurance. Depending on the size of insurance sum and types of insurance risks, the insurance contract may be self-retained by the Group or reinsured. Most insurance contracts are reinsured on the basis of obligatory reinsurance treaties. If a contract requires facultative reinsurance, the Group places risks in the market, among companies approved by the Reinsurance committee.

In case of extension of obligatory treaties, the Reinsurance committee approves limits on the basis of which the Group reinsures risks with one company or another. These limits are determined on the basis of the balance of assumed and ceded business, review of reinsurer's protection and also on the basis of review of the reinsurer's financial stability and claims handling experience.

Claims settlement. Under the insurance contract a policyholder should notify the insurer of the loss event within the specified period. The responsibility for setting claims rests with special divisions of the Group, other than sales divisions. Claims are generally paid only after the Group receives all necessary documents confirming that the loss event has actually occurred. If necessary, claims settlement documents are also reviewed by the economic security department, the legal department and the financial department.

If at the moment of claim payment the policyholder had an outstanding premium payable, such outstanding amount is deducted from the amount of claim.

If the insurance contract has been reinsured, upon receipt of claim notification the Group notifies the reinsurer of the reported claim. During the entire period of claim settlement, the reinsurer receives information on the progress of settlement and additional expenses associated with claim settlement. After the Group pays the claim, settlement documents are sent to the reinsurer. Loss reimbursements from reinsurers are generally received by the Group within 10 - 90 days after the date of direct claim payment.

Diversification of insurance portfolio. For reduction of insurance risk, the Group also uses diversification of its insurance portfolio by underwriting large volume of medium and small risks together with large risks. This, in particular, is achieved by means of developed branches network of the Group on the Russian Federation territory.

33 Management of Capital

The Group's objectives when managing capital are: (i) to comply with capital requirements set by the Russian law and the insurance regulator, and (ii) to safeguard the Group's ability to continue as a going concern.

33 Management of Capital (continued)

Insurance companies of the Group are subject to the following capital regulatory requirements (that are calculated on the basis of accounting reports prepared in accordance with the Russian statutory requirements):

- excess of actual solvency margin by at least 30 % over the amount of regulatory solvency margin (set by the Order of the Ministry of Finance of the Russian Federation № 90n dated 2 November 2001 "On approving Regulations on the procedures for calculation of regulatory ratio of assets to accepted insurance liabilities by insurers");
- excess of net assets over share capital (set by the Federal law № 208-FZ dated 26 December 1995 "On joint stock companies" and the Federal law № 14-FZ dated 8 February 1998 "On limited liability companies" and the Order of the Ministry of Finance of the Russian Federation № 7n dated 1 February 2007 "On approving the method of net assets valuation of insurance joint stock companies");
- compliance with requirements to composition and structure of assets accepted as coverage of insurer's equity (set by the Order of the Ministry of Finance of the Russian Federation № 101n dated 2 July 2012 "On approving the requirements to the composition and structure of the assets accepted as coverage of insurer's equity");
- compliance with the requirements to the minimal share capital (set by the Law № 4015-1 dated 27 November 1992 "On organisation of insurance business in the Russian Federation").

Compliance with capital adequacy ratios set by the Ministry of Finance of the Russian Federation and the Federal service for financial markets (starting from September 2013, this function has been allocated to the Division of the Bank of Russia for financial markets) is monitored quarterly or semiannually (OJSC IC SOGAZ-Med) with reports outlining their calculation reviewed and signed by the Group companies management. The Group maintains its capital to assets ratio at a level higher than the obligatory minimal value. Calculation of the Company's solvency margin on the basis of reports prepared in accordance with the Russian legislation is provided in the table below:

RR thousands	**31 December 2014**	**31 December 2013**
Share capital formed by ordinary shares in accordance with Russian statutory requirements	15 111 483	15 111 483
Additional paid-in capital, including property revaluation in accordance with Russian statutory requirements	2 041 675	343 351
Reserve capital in accordance with Russian statutory requirements	872 804	872 804
Retained earnings of the reporting year and previous years in accordance with Russian statutory requirements	27 042 140	20 718 767
Less: Intangible assets	(1 152)	(2 213)
Less: Impaired receivables	(115 173)	(15 663)
Total actual solvency margin	**44 951 777**	**37 028 529**
Regulatory solvency margin	**10 739 664**	**11 190 650**
Excess of the actual solvency margin over the regulatory solvency margin, %	318.56	230.89

The companies of the Group complied with all externally imposed capital and solvency margin requirements during the years ended 31 December 2014 and 31 December 2013.

The minimal level of share capital of entities engaged exclusively in obligatory medical insurance is set at RR 60 000 thousand, for non-life insurance companies - at RR 120 000 thousand, at RR 240 000 thousand for life insurance companies and at RR 480 000 thousand for companies holding a license for assumed reinsurance. At 31 December 2014 and 31 December 2013 all Group entities meet the above requirements.

34 Contingent Assets and Liabilities

Legal proceedings. From time to time in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal and external professional advice the management believes that no material losses will be incurred by the Group.

At 31 December 2014 the Group was engaged as plaintiff in litigation proceedings in relation to various issues, such as collecting receivables under an insurance agreement, recognising an insurance agreement void pursuant to the non-payment of premiums by insurer, claims recourse and other issues related to activities of the Group. The Group was also involved in court proceedings as a defendant to claims mainly related to the denial of insurance claims payments. The Group divides proceedings based on probability of losses. For legal proceedings with high probability of losses, based on the opinion of internal experts, a loss provision amounting to RR 471 931 thousand was set up at 31 December 2014 (31 December 2013: RR 197 573 thousand). This provision is recognised within other liabilities in the consolidated statement of financial position (Note 23).

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

Russian transfer pricing legislation introduces significant requirements to reporting and documentation. Transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20 %. Controllable transactions include transactions with interdependent parties, as determined under the Russian tax code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20 % from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decision may provide guidance, but is not legally binding for decisions by other, or higher level, courts in the future.

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

As Russian tax legislation does not provide explicit guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. Management currently believes that there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and / or the overall operations of the Group.

In addition to the above matters, management estimates that the Group has no other possible obligations from exposure to other than remote tax risks (the year ended 31 December 2013: no potential tax obligations). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements.

The Group includes companies incorporated outside of the Russian Federation (Note 38). Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian income tax, because they do not have a permanent establishment in the Russian Federation. Russian tax legislation does not provide detailed rules on taxation of foreign companies. It is possible that with evolution of interpretation of these rules and changes in the approach of the Russian tax authorities, non-taxable status of some or all of the foreign companies of the Group may be challenged. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and / or the overall operations of the Group.

34 Contingent Assets and Liabilities (continued)

Operating lease commitments. Where the Group acts as a lessee, future lease payments under non-cancellable operating leases are as follows:

RR thousands	**2014**	**2013**
Due within 1 year	545 981	474 504
Due from 1 to 5 years	162 337	144 128
Due over 5 years	177 093	872
Total operating lease commitments	**885 411**	**619 504**

Operating lease income. Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, are as follows:

RR thousands	**2014**	**2013**
Due within 1 year	33 052	26 517
Due from 1 to 5 years	1 147	5 448
Total operating lease payments receivable	**34 199**	**31 965**

Guarantee commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties under loan agreements and carry credit risk. At 31 December 2014 outstanding guarantee commitments of the Group with maturity up to 21 October 2019 amounted to RR 1 037 083 thousand (31 December 2013: no outstanding guarantee commitments). At 31 December 2014 all outstanding guarantee commitments are denominated in Russian Roubles.

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may both expire and terminate without being funded. Fair value of guarantee commitments is nil at 31 December 2014 (31 December 2013: no outstanding guarantee commitments).

35 Fair Value of Financial Instruments

Fair value measurements are analysed by levels of fair value hierarchy as follows: (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If fair value measurement uses observable inputs that require significant adjustment, that measurement is Level 3 measurement. Significance of valuation input is assessed against the fair value measurement in its entirety.

<u>(a) Recurring fair value measurements</u>

Recurring fair value measurements are those that other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. Levels of fair value hierarchy which recurring fair value measurements are categorised into are as follows:

35 Fair Value of Financial Instruments (continued)

	31 December 2014			31 December 2013		
RR thousands	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- corporate bonds	7 400 195	233 527	175 206	11 783 695	302 248	-
- municipal bonds	2 046 948	114 068	-	2 092 214	-	-
- corporate shares	846 797	6 764	-	1 917 380	-	-
- units in mutual investment funds	-	76	-	-	1 188 131	-
- foreign government bonds	-	-	-	549 597	-	-
- corporate eurobonds	1 404 978	-	-	517 474	-	-
- federal loan bonds (OFZ)	970 137	-	-	453 355	-	-
- government eurobonds	73 077	-	-	165 448	-	-
- promissory notes	-	-	-	9 878	-	-
Investment securities available for sale						
- corporate bonds	8 959 520	347 728	496 611	9 136 723	798 920	496 991
- corporate eurobonds	6 735 028	-	-	-	-	-
- promissory notes	-	-	-	-	1 116 864	-
- corporate shares	-	-	151 000	57 605	-	164 634
- units in mutual investment funds	-	-	-	-	43 687	-
- municipal bonds	-	-	-	101 940	-	-

Description of valuation techniques and description of inputs used in fair value measurement for level 2 measurements at 31 December 2014 are set out in the table below:

RR thousands	**Fair value**	**Valuation technique**	**Inputs used**
Financial assets at fair value			
Securities at fair value through profit or loss			
- corporate bonds	233 527	Market data of comparable companies	"Average weighted price" quote at Moscow stock exchange
- municipal bonds	114 068	Market data of comparable companies	"Average weighted price" quote at Moscow stock exchange
- corporate shares	6 764	Market data of comparable companies	"Average weighted price" quote at Moscow stock exchange
- units in mutual investment funds	76	Multiplier of net assets	Fair value of net assets
Investment securities available for sale			
- corporate bonds	347 728	Market data of comparable companies	"Average weighted price" quote at Moscow stock exchange
Total recurring fair value measurements at level 2	**702 163**		

There were no changes in valuation techniques for level 2 recurring fair value measurements during the years ended 31 December 2014 and 31 December 2013.

35 Fair Value of Financial Instruments (continued)

The valuation technique inputs used in fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

RR thousands	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable changes	Sensitivity of fair value measurements
Financial assets at fair value						
Securities at fair value through profit or loss						
- corporate bonds	175 206	Discounted cash flows model	Effective yield to purchase	8.6 %	+ 2.5 % - 2.5 %	(16 167) 19 370
Investment securities available for sale						
- corporate bonds	496 611	Discounted cash flows model	Effective yield to purchase	7.3 % - 10.5 %	+ 2.5 % - 2.5 %	(56 213) 68 655
- corporate shares	151 000	Value of net assets	Statement of financial position	-	-	-
Total recurring fair value measurements at Level 3	**822 817**					

The above table discloses sensitivity to valuation inputs for financial assets, if changing one or more of unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation techniques for level 3 recurring fair value measurements during the years ended 31 December 2014 and 31 December 2013.

35 Fair Value of Financial Instruments (continued)

Transfers between levels of fair value hierarchy are deemed to have occurred at the end of the reporting period. A reconciliation of movements in level 3 of fair value hierarchy by class of instruments is as follows:

	Securities at fair value through profit or loss		**Investment securities available for sale**			
	Corporate bonds		**Corporate bonds**		**Corporate shares**	
RR thousands	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Fair value at 1 January	**-**	**-**	**496 991**	**-**	**164 634**	**-**
Additions	-	-	-	484 020	-	13 492
Interest income received	-	-	(48 053)	(17 652)	-	-
Interest income accrued	2 943	-	44 837	26 771	-	-
Revaluation	(29 120)	-	2 836	3 852	-	142
Transfers into level 3	201 383	-	-	-	(13 634)	151 000
Fair value at 31 December	**175 206**	**-**	**496 611**	**496 991**	**151 000**	**164 634**

Corporate shares were transferred from level 2 into level 3 due to lack of similar quoted instruments at 31 December 2013.

<u>(b) Valuation processes for recurring level 3 fair value measurements</u>

Level 3 fair value measurements are analysed on a monthly basis. The Group considers appropriateness of valuation model inputs, as well as valuation results using various valuation methods generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the Group considers which model's results have aligned most closely to actual market transactions. In order to value level 3 equity investments, the Group utilises net assets method. Level 3 debt instruments are valued at net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

35 Fair Value of Financial Instruments (continued)

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

Fair values analysed by levels of fair value hierarchy and carrying values of assets and liabilities not measured at fair value are as follows:

	31 December 2014				**31 December 2013**			
RR thousands	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
INSURANCE AND FINANCIAL ASSETS								
Cash and cash equivalents	5 094 494	-	-	5 094 494	3 899 000	-	-	3 899 000
Deposits with banks	-	70 268 039	-	71 228 685	-	67 049 607	-	66 851 684
Loans	-	-	3 230 622	3 277 806	-	-	550 399	535 057
Receivables	-	-	23 406 450	24 801 029	-	-	19 717 325	20 530 186
Prepayments for tendering	-	-	349 561	359 701	-	-	198 781	204 213
NON-FINANCIAL ASSETS								
Premises and equipment (premises)	-	-	11 678 738	8 820 996	-	-	6 777 997	6 178 256
Investment property (premises)	-	-	538 208	467 528	-	-	277 144	145 710
Total	**5 094 494**	**70 268 039**	**39 203 579**	**114 050 239**	**3 899 000**	**67 049 607**	**27 521 646**	**98 344 106**
FINANCIAL LIABILITIES								
Payables	-	-	13 792 655	14 528 050	-	-	15 364 584	15 541 117
Other financial liabilities	-	-	921 464	940 519	-	-	2 531 058	2 524 657
Total	**-**	**-**	**14 714 119**	**15 468 569**	**-**	**-**	**17 895 642**	**18 065 774**

35 Fair Value of Financial Instruments (continued)

Fair values in level 2 and level 3 of fair value hierarchy were estimated using discounted cash flows method. Fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value of investment property and premises and equipment was determined based on reports of independent appraisers and market data on similar premises.

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

36 Presentation of Financial Instruments by Measurement Category

In accordance with IAS 39 "Financial instruments: recognition and measurement", the Group classifies / allocates financial assets into the following categories: (a) loans and receivables; (b) financial assets held to maturity; (c) financial assets available for sale; and (d) financial assets at fair value through profit or loss. The following table provides a reconciliation of classes of financial assets with measurement categories at 31 December 2014:

RR thousands	**Loans and receivables**	**Available for sale assets**	**Assets at fair value through profit or loss**	**Total**
ASSETS				
Cash and cash equivalents	5 094 494	-	-	**5 094 494**
Deposits with banks	71 228 685	-	-	**71 228 685**
Loans	3 277 806	-	-	**3 277 806**
Securities at fair value through profit or loss	-	-	13 271 773	**13 271 773**
Investment securities available for sale	-	16 689 887	-	**16 689 887**
Receivables	355 584	-	-	**355 584**
Prepayments for tendering	359 701	-	-	**359 701**
TOTAL FINANCIAL ASSETS	**80 316 270**	**16 689 887**	**13 271 773**	**110 277 930**

The following table provides a reconciliation of classes of financial, non-financial and insurance assets with measurement categories at 31 December 2013:

RR thousands	**Loans and receivables**	**Available for sale assets**	**Assets at fair value through profit or loss**	**Total**
ASSETS				
Cash and cash equivalents	3 899 000	-	-	**3 899 000**
Deposits with banks	66 851 684	-	-	**66 851 684**
Loans	535 057	-	-	**535 057**
Securities at fair value through profit or loss	-	-	18 979 420	**18 979 420**
Investment securities available for sale	-	11 917 364	-	**11 917 364**
Receivables	419 804	-	-	**419 804**
Prepayments for tendering	204 213	-	-	**204 213**
TOTAL FINANCIAL ASSETS	**71 909 758**	**11 917 364**	**18 979 420**	**102 806 542**

At 31 December 2014 and 31 December 2013 all financial liabilities of the Group are recognised at amortised cost.

37 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party 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.

The Group is under significant influence of the Russian Government and in the course of its ordinary operations interacts with various companies controlled by the state. The Group has applied exemption described in paragraph 25 of IAS 24 in relation to disclosure of operations with companies under control or significant influence of the state or companies under joint state control.

Outstanding balances at the end of the period, as well as income and expenses for the period with related parties are as follows:

	31 December 2014		31 December 2013	
RR thousands	**Shareholders and their subsidiaries**	**Associates**	**Shareholders and their subsidiaries**	**Associates**
Cash and cash equivalents	1 309 842	-	579 520	-
Deposits with banks	15 337 233	-	16 508 503	-
Loans	2 801 957	-		-
Securities at fair value through profit or loss	1 244 587	-	891 028	-
Investment securities available for sale	4 897 685	-	585 289	-
Investments in associates	-	9 922 137	-	10 718 473
Receivables	3 261 115	29 346	2 709 106	7 087
Insurance provisions	18 514 927	-	22 780 671	-
Payables	478 028	369	283 247	119
Other financial liabilities	6 651	133	577 437	-

	2014		2013	
RR thousands	**Shareholders and their subsidiaries**	**Associates**	**Shareholders and their subsidiaries**	**Associates**
Gross premiums written	36 202 732	165 321	28 988 920	58 148
Changes in the prior years' contracts	(159 240)	(1 003)	-	-
Gross claims paid	(4 906 065)	(495)	(16 243 084)	-
Acquisition costs	(197 419)	-	-	-
Changes in fair value reserve for investment securities available for sale	(858 989)	-	(2 029)	-
Realised and unrealised gains less losses from transactions with securities at fair value through profit or loss	375 257	-	(6 333)	-
Interest income	1 019 926	-	422 951	-
Interest expenses	-	-	(120 088)	-
Dividend income	-	-	20 698	-
Administrative and other operating expenses	(121 865)	(37 037)	(146 723)	(44 626)
Other operating income	18 645	-	-	-

37 Related Party Transactions (continued)

In the year ended 31 December 2014 the Company's key management personnel total remuneration, consisting of basic salary, bonuses and compensations, amounted to RR 1 006 336 thousand (the year ended 31 December 2013: RR 754 416 thousand).

In the year ended 31 December 2014 total remuneration of the Group's subsidiaries management, consisting of basic salary and bonuses, amounted to RR 294 221 thousand (the year ended 31 December 2013: RR 162 871 thousand).

All remuneration to key management personnel is short-term. Short-term bonuses fall due within twelve months after the end of the period in which management rendered related services.

38 Main Subsidiaries and Business Combinations

At 31 December 2014 the following subsidiaries of the Group have been included into these consolidated financial statements for the year ended 31 December 2014:

Name	Country of incorporation	Effective percentage of equity controlled	Principal activity
JSC IC SOGAZ-Med	The Russian Federation	100 %	OMI
OJSC MSK Dalmedstrakh	The Russian Federation	100 %	OMI
LLC IC Medika-Tomsk	The Russian Federation	100 %	OMI
LLC IC SOGAZ-Agro	The Russian Federation	100 %	Insurance
LLC SOGAZ-Medservice	The Russian Federation	100 %	Intermediary services provider
LLC IC SOGAZ-Life	The Russian Federation	100 %	Life insurance
LLC International Medical Centre SOGAZ	The Russian Federation	100 %	Medical activity
LLC SOGAZ-PROFMEDICINE	The Russian Federation	100 %	Medical activity
LLC SOGAZ-Finance	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
JSC SOGAZ Tower	The Russian Federation	100 %	Property management
LLC SOGAZ-Realty	The Russian Federation	100 %	Finance, loans, pensions, support to business process in the area of insurance services
LLC Valdaiskoye Podvorje	The Russian Federation	100 %	Specialised tourist services
LLC SOGAZ-Broker	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
Lenachan Trading Limited	Cyprus	100 %	Dormant
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
SOVAG	Germany	50.9 %	Insurance
Schwarzmeer und Ostsee Beteiligungsgesellschaft GmbH	Germany	50.9 %	Investing activities
OLH Ost Lagerhaus Bralitz GmbH & Co. KG (Kommanditeinlage)	Germany	50.9 %	Property management
OLH Ost Lagerhaus Geschaftsfuhrung Bralitz GmbH	Germany	50.9 %	Dormant
CJSC IC Transneft	The Russian Federation	98.9 %	Insurance
LLC Pipeline Insurance Company	The Russian Federation	98.9 %	Insurance
LLC Insurance Company IC Alrosa	The Russian Federation	99.74 %	Insurance
LLC Parex	The Russian Federation	60 %	Dormant

38 Main Subsidiaries and Business Combinations (continued)

At 20 November 2014 the Group acquired 99.74 % in the share capital of LLC Insurance Company IC Alrosa. LLC Insurance Company IC Alrosa provides non-life insurance services in corporate and retail segments. The acquired subsidiary will increase the Group's presence in the insurance market. The transaction price was RR 620 000 thousand.

Information on acquired assets and liabilities is disclosed in the table below:

RR thousands	**Fair value at acquisition date**
Cash and cash equivalents	80 068
Deposits with banks	618 890
Investments available for sale	85 551
Receivables	140 553
Prepayments	8 824
Reinsurers’ share of provision for unearned premiums	65 401
Reinsurers’ share of loss provisions	41 531
Reinsurers’ share of URP	646
Deferred acquisition costs	2 320
Premises and equipment	179 631
Intangible assets	690
Other assets	107
Provision for unearned premiums	(192 504)
Loss provision	(116 567)
URP	(3 496)
Payables	(117 141)
Current income tax liability	(6 983)
Deferred commission income	(4 911)
Deferred income tax liability	(14 207)
Fair value of identifiable net assets of subsidiary	**768 403**
Less: non-controlling interest	(1 998)
Gain on acquisition of subsidiary	(146 405)
Total purchase consideration	**620 000**
Less: cash and cash equivalents of subsidiary acquired	(80 068)
Outflow of cash and cash equivalents on acquisition	**539 932**

38 Main Subsidiaries and Business Combinations (continued)

In January 2014 the process of scheduled reorganisation in the form of a merge between OJSC MSK AVE and OJSC MSK Dalmedstrakh was completed. At 21 April 2014 JSC Insurance Company SOGAZ-Med exited from LLC Vympel-Vostok. Effective value of the interest of JSC Insurance Company SOGAZ-Med of 99.99 % was paid by 100 % of shares in OJSC MSK Dalmedstrakh. As a result of this transaction, 100 % of OJSC Dalmedstrakh is held by the Group.

At 13 and 14 January 2014 the Group acquired 4.72 % and 14.61 % interest in the share capital of LLC IC Medika-Tomsk respectively. In September 2014 the remaining interest in LLC IC Medika-Tomsk of 80.67 % was acquired by the Group. Therefore, at 31 December 2014 100 % of LLC IC Medika-Tomsk is owned by the Group.

Information on acquired assets and liabilities is disclosed in the table below:

RR thousands	**Fair value at acquisition date**
Cash and cash equivalents	3 422
Prepayments	379 029
Premises and equipment	11 818
Intangible assets	37 133
Deferred income tax asset	1 616
Obligatory medical insurance liabilities	(378 914)
Current income tax liability	(223)
Deferred income tax liability	(6 189)
Other liabilities	(6 399)
Fair value of identifiable net assets of subsidiary	**41 293**
Goodwill arising from the acquisition	-
Total purchase consideration	**41 293**
Less: cash and cash equivalents of subsidiary acquired	(3 422)
Outflow of cash and cash equivalents on acquisition	**37 871**

38 Main Subsidiaries and Business Combinations (continued)

Comparative information for the year ended 31 December 2013

At 31 December 2013 the following subsidiaries of the Group have been included into these consolidated financial statements for the year ended 31 December 2013:

Name	Country of incorporation	Effective percentage of equity controlled	Principal activity
JSC IC SOGAZ-Med	The Russian Federation	100 %	OMI
LLC Vympel-Vostok	The Russian Federation	99.99 %	Financial intermediary activities
OJSC MSK Dalmedstrakh	The Russian Federation	99.99 %	OMI
OJSC MSK AVE	The Russian Federation	99.99 %	OMI
LLC IC SOGAZ-Agro	The Russian Federation	100 %	Insurance
LLC SOGAZ-Medservice	The Russian Federation	100 %	Intermediary services provider
LLC IC SOGAZ-Life	The Russian Federation	100 %	Life insurance
LLC International Medical Centre SOGAZ	The Russian Federation	100 %	Medical activity
LLC SOGAZ-PROFMEDICINE	The Russian Federation	100 %	Medical activity
LLC SOGAZ-Finance	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
JSC SOGAZ Tower	The Russian Federation	100 %	Property management
LLC SOGAZ-Realty	The Russian Federation	100 %	Finance, loans, pensions, support to business process in the area of insurance services
CJSC Valdaiskoye Podvorje	The Russian Federation	100 %	Specialised tourist services
LLC SOGAZ-Broker	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
Lenachan Trading Limited	Cyprus	100 %	Dormant
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
SOVAG	Germany	50.9 %	Insurance
Schwarzmeer und Ostsee Beteiligungsgesellschaft GmbH	Germany	50,9 %	Investing activities
OLH Ost Lagerhaus Bralitz GmbH & Co. KG (Kommanditeinlage)	Germany	50.9 %	Property management
OLH Ost Lagerhaus Geschaftsfuhrung Bralitz GmbH	Germany	50.9 %	Dormant
CJSC IC Transneft	The Russian Federation	98.9 %	Insurance
LLC Pipeline Insurance Company	The Russian Federation	98.9 %	Insurance

In November 2013, the Group completed acquisition of the controlling share of CJSC IC Transneft amounting to 98.9 % and obtained control based on the ability to have the majority of votes at the general shareholders meeting. The acquired subsidiary will increase the Group's presence in the insurance market. The total amount of this transaction, including transaction costs, determined by external appraiser, was RR 9 425 116 thousand. CJSC IC Transneft provides non-life insurance services in corporate and retail segments. The contracts for purchase and sale of CJSC IC Transneft shares, provide for a possible increase of the purchase price of the shares before the contracts mature.

38 Main Subsidiaries and Business Combinations (continued)

The companies controlled by CJSC IC Transneft are listed below:

Name	Country of incorporation	Share of capital under control	Principal activity
LLC Pipeline Insurance Company	The Russian Federation	100 %	Insurance

Information on acquired assets and liabilities is disclosed in the table below:

RR thousands	Fair value at acquisition date
Cash and cash equivalents	2 744 061
Deposits with banks	10 811 634
Receivables	777 973
Prepayments	152 041
Reinsurers' share of provision for unearned premiums	502 365
Reinsurers' share of loss provisions	1 459 342
Deferred acquisition costs	134 958
Deferred income tax asset	8 685
Premises and equipment and intangible assets	81 876
Intangible assets	2 101 447
Other assets	12 742
Deferred income tax liability	(497 200)
Provision for unearned premiums	(3 786 890)
Loss provision	(4 541 226)
Unexpired risk provision	(53 586)
Life insurance provision	(39)
Deferred commission income	(62 011)
Payables	(927 059)
Other liabilities (deferred commission)	(233 618)
Fair value of identifiable net assets of subsidiary	**8 685 495**
Less: non-controlling interest (Note 24)	(95 540)
Goodwill arising on acquisition of subsidiary (Note 18)	452 308
Total purchase consideration	**9 042 263**
Less: cash and cash equivalents of subsidiary acquired	(2 744 061)
Outflow of cash and cash equivalents on acquisition	**291 633**
Revenue of the acquired company from the acquisition date, included in the consolidated financial statements	502 229
Profit of the acquired company from the acquisition date, included in the consolidated financial statements	152 119
Revenue of the acquired company from the beginning of the reporting period to the acquisition date	6 846 960
Profit of the acquired company from the beginning of the reporting period to the acquisition date	1 351 917

Non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

38 Main Subsidiaries and Business Combinations (continued)

Fair values of assets and liabilities acquired are based on discounted cash flow model. Valuation of identifiable intangible assets was performed by an independent professional appraiser. When allocating the purchase price based on valuation reports, the client base for insurance agreements with the value of RR 2 101 447 thousand was identified (Note 17).

The goodwill is primarily attributable to the profitability of the acquired business, significant synergies and combined cost savings expected to arise. The goodwill is not deductible for tax purposes in future periods.

At 4 October 2013 the Group acquired control over 99.99 % shares in LLC Vympel-Vostok. The acquired subsidiary will increase the Group's presence in OMI market. The consideration provided for the purchase was based on the result of valuation of the business. The companies controlled by LLC Vympel-Vostok are listed below:

Name	Country of incorporation	Share of capital under control	Principal activity
OJSC MSK Dalmedstrakh	The Russian Federation	100 %	OMI
OJSC MSK AVE	The Russian Federation	100 %	OMI

Fair value of acquired assets and liabilities is provided below:

RR thousands	**Fair value at acquisition date**
Cash and cash equivalents	61 582
Deposits with banks	47 000
Prepayments	441 559
Current income tax asset	6 693
Deferred income tax asset	35
Premises and equipment	166 581
Intangible assets, including:	53 955
Client base for obligatory medical insurance	53 111
Computer software licences	844
Other assets	92 616
Obligatory medical insurance liabilities	(158 805)
Payables on obligatory medical insurance	(370 231)
Other liabilities	(20 840)
Deferred income tax liability	(22 674)
Fair value of identifiable net assets of subsidiary	**297 471**
Less: non-controlling interest (Note 24)	(1)
Total purchase consideration	**297 470**
Less cash and cash equivalents of acquired subsidiary	(61 582)
Outflow of cash and cash equivalents on acquisition	**235 888**
Revenue of the acquired company from the acquisition date, included in the consolidated financial statements	33 103
Profit of the acquired company from the acquisition date, included in the consolidated financial statements	2 144
Revenue of the acquired company from the beginning of the reporting period to the acquisition date	108 927
Profit of the acquired company from the beginning of the reporting period to the acquisition date	25 607

38 Main Subsidiaries and Business Combinations (continued)

Fair values of assets and liabilities acquired are based on discounted cash flow model. The valuation of identifiable intangible assets was performed by an independent professional appraiser. When allocating the purchase price based on valuation reports, the client base for OMI with the value of RR 53 111 thousand was identified.

39 Events After the Reporting Date

At the date of authorising these consolidated financial statements for issue, no approval of the Federal financial supervision authority of Germany on sale of a part of the insurance company SOVAG shares has been obtained.

At 2 April 2015 the Group acquired the remaining 0.26 % in the share capital of LLC Insurance Company IC Alrosa.

A. V. Efremov, Director,
ZAO PricewaterhouseCoopers Audit

21 April 2015

108 (one hundred eight) pages are numbered, bound and sealed.