



# ANNUAL REPORT 2014



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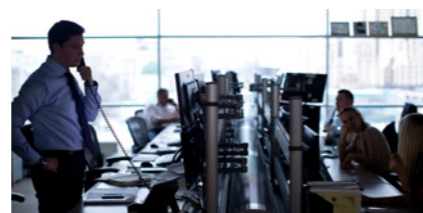
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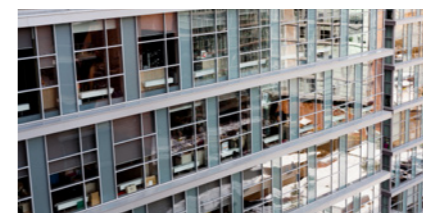
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## Otkritie Financial Corporation Banking Group at a Glance

Otkritie Financial Corporation Banking Group is the largest private banking group in Russia. It is ranked among the top 350 banking groups globally and among the top 15 banking groups in Eastern Europe<sup>1</sup>

The Group implements a universal business model focusing on four key segments: corporate banking, retail banking, small business and investment banking.

Otkritie Financial Corporation Bank and Khanty-Mansiysk Otkritie Bank are the two major banks of the Group.

Otkritie Financial Corporation Bank was formerly known as NOMOS-BANK; the rebranding was completed in June 2014.

**BB-** rating by S&P,  
**Ba3** by Moody's  
Otkritie Financial Corporation Bank ratings

**No. 1**  
by assets among Russian private banking groups<sup>2</sup>

**No. 4**  
by assets among Russia's largest banks<sup>2</sup>

Total number of clients

**19,760**  
in corporate banking

**3.2 mln**  
in retail banking

**139,126**  
in small business banking

Financial highlights<sup>3</sup> as of December 31, 2014 (billion roubles)

**2,595.9**  
Total assets

**1,784.8**  
Total loan portfolio net of provisions

**5.9**  
Net profit

Shareholders of Otkritie Financial Corporation Bank:

Ownership structure,  
as of March 1, 2015

Otkritie Holding	61.5% <sup>4</sup>
Free float	38.5% <sup>5</sup>
<b>Total</b>	<b>100.0%</b>

<sup>1</sup> Source: The Banker, as at the end of 2013.

<sup>2</sup> Based on Interfax CEA ranking in accordance with RAS data, as of December 31, 2014.

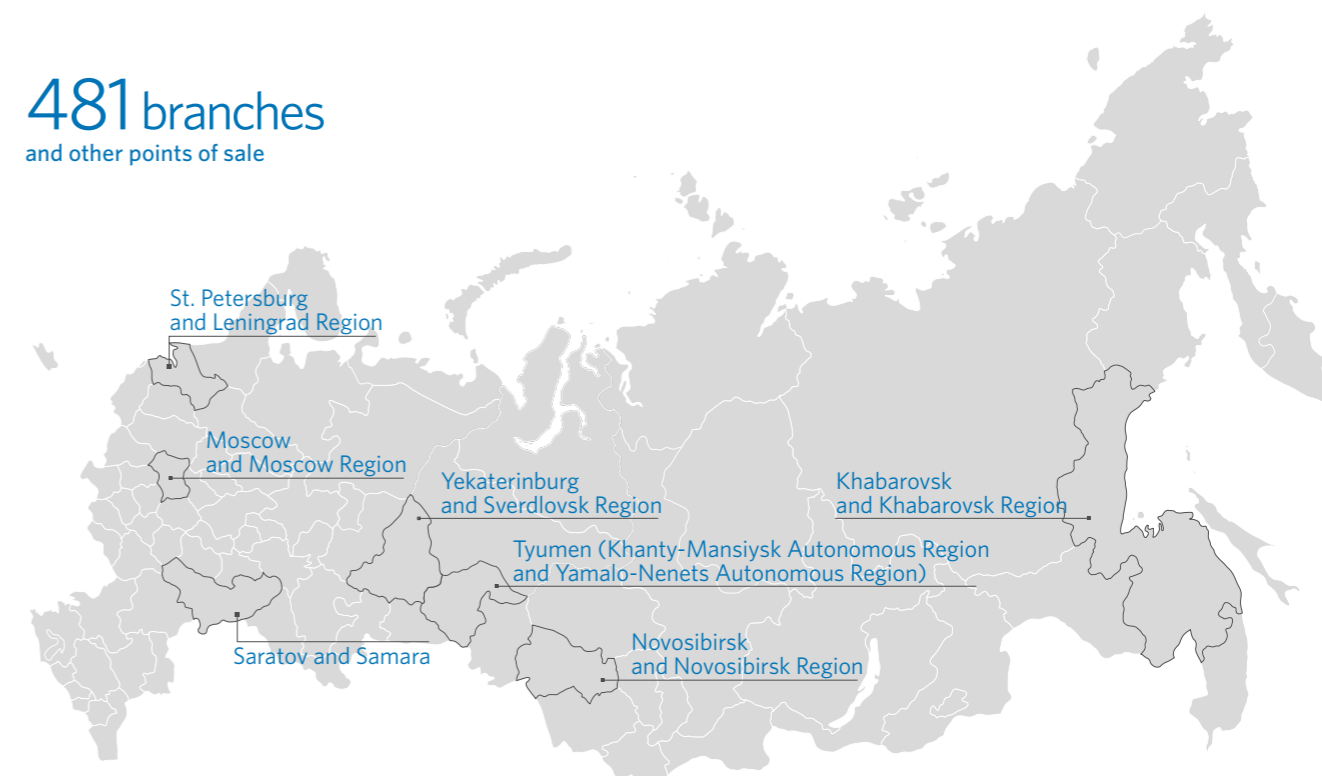
<sup>3</sup> Unless specified otherwise, all highlights referred to in this Report are based on consolidated financial statements audited by an independent auditor and prepared in accordance with IFRS.

<sup>4</sup> Including subsidiaries holding 4.5% interest.

<sup>5</sup> Including non-governmental pension funds, which hold 21.6% of ordinary shares, and other shareholders (16.9% of ordinary shares).

**58** Russian regions,  
with seven key regions

**481** branches  
and other points of sale



As of January 1, 2015	KhMOB	OFCB	Total
Moscow and Moscow Region	38	4	42
St. Petersburg and Leningrad Region	63	3	66
Tyumen (Khanty-Mansiysk Autonomous Region and Yamalo-Nenets Autonomous Region)	154	0	154
Khabarovsk and Khabarovsk Region	0	6	6
Novosibirsk and Novosibirsk Region	31	1	32
Yekaterinburg and Sverdlovsk Region	23	1	24
Saratov and Samara	10	2	12
<b>Total</b>	<b>319</b>	<b>17</b>	<b>336</b>

## Main Integration Results for 2014

In November 2014, Bank of Khanty-Mansiysk merged with Otkritie Bank and Novosibirsk Municipal Bank. The merged bank, named Khanty-Mansiysk Otkritie Bank, entered the top 15 ranking of the largest banks in Russia

### 2014 Integration Results of the Banking Group

#### May 2014

Otkritie FC Bank announced the upgrade of its banking business integration strategy and the introduction of a common brand platform across all the Group's businesses. These changes are part of a project to build Russia's largest full-service private financial group.

#### June 2014. Rebranding

The Group's parent company, Otkritie Financial Corporation, was renamed Otkritie Holding, while NOMOS-BANK became Otkritie Financial Corporation Bank.

#### November 2014

Khanty-Mansiysk Otkritie Bank — the reorganisation of the retail banking business was completed, resulting in the creation of one of the largest universal retail banks with a wide regional network. The universal nature of Khanty-Mansiysk Otkritie Bank not only made the Group's business more resilient and efficient, but also provided a platform for a potential increase in sales volumes by improving the quality of client services and making banking services more accessible.

### Key Integration Results in Retail Banking

In line with the integration plan which included the development of retail banking by Khanty-Mansiysk Otkritie Bank, the following results were achieved:

- Otkritie FC Bank infrastructure was streamlined and transferred to Khanty-Mansiysk Otkritie Bank;
- the Group implemented the model for servicing and selling Khanty-Mansiysk Otkritie Bank's products through Otkritie FC Bank's offices;
- Otkritie FC Bank's retail loan portfolio was transferred to Khanty-Mansiysk Otkritie Bank;
- Otkritie FC Bank's payroll projects were moved to Khanty-Mansiysk Otkritie Bank;
- call centre and debt collection businesses were transferred to Khanty-Mansiysk Otkritie Bank.

The integrated ATM network exceeded

# 3,700

ATMs by the end of 2014

### Key Integration Results in Small Business Banking

As at the end of 2014, the small business loan portfolio transferred to Khanty-Mansiysk Otkritie Bank totalled RUB 2.6 billion. During 2014, Otkritie FC Bank completed the transfer of a RUB 10.5 billion loan portfolio, including RUB 1.8 billion in loans issued under the SME Bank programme, to Khanty-Mansiysk Otkritie Bank.

### Key Integration Results in Corporate Banking

By the end of 2014, the corporate clients of Khanty-Mansiysk Otkritie Bank were transferred over to Otkritie FC Bank. Otkritie FC Bank then consolidated its corporate client base and made its corporate services available to all its clients.

### Key Integration Results in Investment Banking and Treasury Business

During 2014, the investment banking and treasury business of Otkritie Bank and Bank of Khanty-Mansiysk were successfully integrated as well as their brokerage business, financial markets and FX desks. Liquidity management was centralised. Otkritie FC Bank's investment banking segment provides the Group's clients with state-of-the-art investment solutions, including repurchase transactions, debt financing, fixed income instruments and brokerage services.

### Integration results

2014 integration results were as follows:

- product mix was unified;
- small business and retail banking specialists were transferred from Otkritie FC Bank to Khanty-Mansiysk Otkritie Bank;
- the ATM networks of Otkritie FC Bank and Khanty-Mansiysk Otkritie Bank were combined. As at the end of 2014, the integrated ATM network included more than 3,700 ATMs in 58 Russian regions.

## Statement of the Chairman of the Supervisory Board



2014 was a difficult year for the Russian economy and the banking sector. The new challenges once again put the corporate governance system and the development strategy of Otkritie FC Banking Group to the test.

As the shareholders of Otkritie Financial Corporation Bank, we are pleased to say that the Banking Group successfully coped with the difficulties it faced in 2014 and that its financial indicators are among the best in the Russian banking market. The Group came close to being one of the top 3 largest banks in Russia by assets.

In 2014, Otkritie FC Banking Group earned RUB 5.9 billion in net profit. The Group's assets grew by 88.2 % to RUB 2,595.9 billion as at the end of 2014.

In November 2014, Otkritie FC Bank successfully completed its secondary public offering of shares (SPO) on the Moscow Exchange and raised RUB 21.4 billion of equity. Investor demand for the shares turned out to be higher than forecast and, as a result of the SPO, we not only received funds to expand our business but also attracted new shareholders as well. The main goal of the SPO was to ensure the growth of the Group businesses and strengthen the Group's position in the banking sector against the backdrop of such a challenging market.

In April 2015, the board of directors of the Deposit Insurance Agency (DIA) approved the participation of Otkritie FC Bank in the Russian recapitalisation program, demonstrating once again the systemic importance of the Group to Russia's banking system. As part of the program, the Group will increase its capital by RUB 55.6 billion in 2015.

We are confident about the future development of the Group. Our strong corporate governance structure, underpinned by experienced top managers with a solid track record of working together as a team, has enabled us to successfully implement our strategy to build the largest full-service private financial group in Russia. This approach continues to open new opportunities for the Group as well as our clients, business partners, and investors.

Ruben Aganbegyan  
Chairman of the Supervisory Board

## President's Statement



Last year brought many challenges for the banking industry and its clients.

Over the course of 2014, the Group remained focused on its client-centric approach, offering new tailored products and services to help our customers manage their lives and businesses during the difficult times that we find ourselves in. This strategy helped us not only to retain existing clients but also to attract new ones: the number of our corporate clients increased by 17.6 % to 19.8 thousand in 2014.

We continued to develop our technologies and business solutions, improve our service standards and expand the Group's geographical presence.

The Group's key performance indicators are a testament to our growth. The assets of the Group increased by 88.2 % to RUB 2,595.9 billion, cementing our position as the largest full-service private financial group in Russia.

In 2014 the Group earned RUB 67.1 billion of operating income<sup>1</sup>, with 26.1 % growth year-on-year. Net interest income and net fees and commissions income were the main drivers of operating income growth with increases of 61.1 % and 46.8 %, respectively.

Despite the tough conditions, the Group maintained its interest margin at 4.5 % (4.4 % in 2013).

We will continue the dynamic development of the Group both organically and through new mergers and acquisitions. In 2015, we will finalise the integration of Petrocommerce Bank into Otkritie FC Bank. We intend to set up a number of branches using the Petrocommerce Bank network and experience, in order to focus on continuing to serve LUKOIL and its employees.

We are confident and optimistic about the future. No matter what challenges lie ahead, we have every faith that with the support and commitment of our employees, partners, clients and investors, we will come through this period successfully.

**Dmitry Romaev**

President, Chairman of the Management Board,  
member of the Supervisory Board

A handwritten signature in blue ink, consisting of several fluid, overlapping loops and strokes, positioned to the right of the printed name and title.

<sup>1</sup> Operating income before provision for impairment losses.

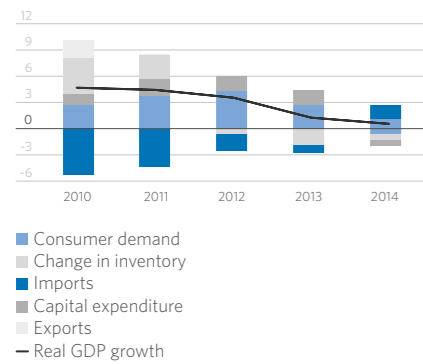


## MARKET REVIEW

# Russian Economy in 2014

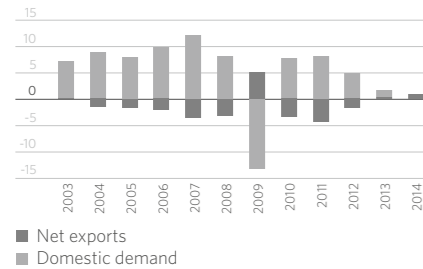
The negative influence of external factors on the Russian economy during 2014 was counterbalanced by some positive side factors, and despite structural restrictions, the Russian economy expanded by 0.6% in 2014

Economic Growth Breakdown;  
Annual GDP Growth Components  
in Comparable Prices, bps



Source: Rosstat; Otkritie Capital Research Department.

Domestic Demand and Net Exports;  
Effect on Annual GDP Growth  
in Comparable Prices, bps



Source: Rosstat; Otkritie Capital Research Department.

## Economy overview

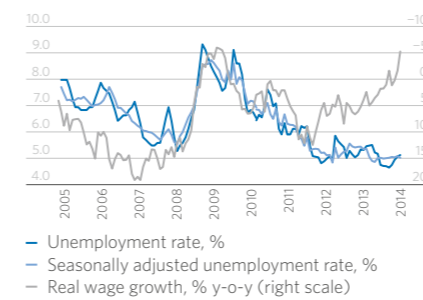
The Russian economy was already weak at the beginning of 2014 and worsened due to shrinking consumer demand as household real disposable income plummeted. A number of factors, including international capital outflow from emerging markets, the Ukraine crisis and related sanctions, as well as the drop in oil prices, pushed Russia deeper into the recession that started in 2012. The unfavourable external climate was, however, somewhat offset by accelerated import substitution, higher demand for rouble-denominated loans from corporates, which faced restricted access to international capital markets, and higher demand for real estate, cars and other durable goods influenced by the outflow from rouble-denominated assets. The economy also benefited from defence contracts and a record grain harvest (105.3 million tonnes, including corn). As a result, Russia's GDP managed to grow reaching 0.6% in comparable prices (against 1.3% in 2013 and an average of 4.1% in 2010-2012), with nominal GDP totalling RUB 71,406 billion (or USD 1,881 billion). Manufacturing output grew by 1.7% (against 0.4% in 2013).

The main driver of the slowdown in the growth of the Russian economy was the reduction of consumer demand and decline in volumes of oil export on the back of fluctuations in oil prices. Over recent years, high consumer spending was the key driver of Russian economic growth. In 2014, however, domestic consumer demand in the private sector slowed due to weaker real disposable income (which fell 0.8%, compared to 4.0% growth in 2013), lower purchasing power (due to a rapidly depreciating rouble and double-digit inflation), and a halt in retail lending (except for mortgages). As a result, in 2014, domestic consumer demand growth slowed to 1.3% in real terms in the private sector, the lowest level since 2009.

Investment activity, which was already suffering in 2013, remained weak amid turbulent markets, limited access to international capital markets, and the higher cost of rouble funding. 2014's cutback in investment was driven by a 2.5% decline in capital expenditure, the first time this indicator has fallen since 2009. In the meantime, shrinking imports (which fell by 7.9% in comparable prices year-on-year) supported GDP growth.

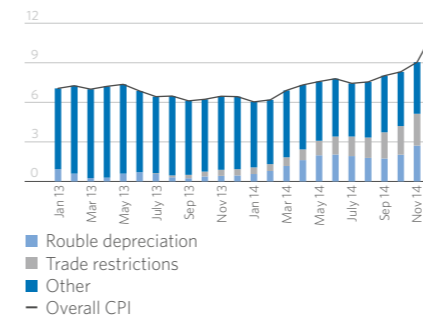
The internal demand (both consumer and investment) stopped being the dominant factor in economic growth and net export emerged as the main growth driver. This trend is expected to continue in 2015 as the slumping economy benefits from shrinking imports. The government expects GDP to decline by 2.8% in 2015, assuming an average oil price of USD 50 per barrel for the year.

Unemployment Rate as Percentage  
of Economically Active Population  
(at End of Period) and Real Wage  
Growth, % y-o-y



Source: Rosstat; Otkritie Capital Research Department.

Inflation Growth Structure;  
Effect of Consumer Price Index  
(at end of period, % y-o-y), bps



Source: Rosstat; Otkritie Capital Research Department.

## Unemployment

The unemployment rate remained low at 5.3% in 2014 as the market adjusted to worsening macroeconomic conditions primarily by diminishing wages and growing part time employment contracts.

## Inflation

Inflation reached 11.4% in 2014 (vs 6.5% in 2013). It was fuelled by foreign trade restrictions and a weaker rouble, which fell 72.0% against the U.S. dollar and 52.0% against the euro due to collapsing oil prices, restricted access to global capital markets and increasing geopolitical risks. According to Otkritie Capital estimates, the trade embargo and developments in the food market added roughly 2.4 bps to the overall inflation rate late in 2014, while the weaker rouble accounted for approximately 4.7 bps. Excluding external factors, the consumer price index (CPI) would have grown by less than 4.5%. Inflation picked up speed in early 2015, but the direct effect of the rouble depreciation has a time limit and is expected to wear off as early as the first half of 2015.

## Balance of payments

In 2014, the current account surplus widened to reach 3.2% of GDP, or USD 59.5 billion (against 1.6% of GDP, or USD 34.1 billion in 2013) due to a 14.8% decline in the investment income deficit (the largest decrease since 2001), a 9.8% fall in goods imports, and a 25% drop in the remittances account deficit.

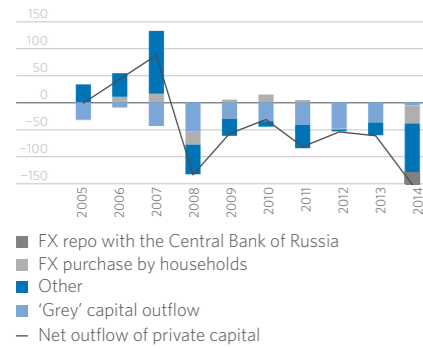
In 2014, net private capital outflow from Russia was approximately USD 154.1 billion (i.e. around 8.2% of GDP), including USD 30.4 billion in the form of foreign currency purchases by the private sector and USD 20 billion provided by the Central Bank of Russia (CBR) to the banking sector for refinancing purposes.

## Fiscal policy

Despite the economic downturn and the shrinking foreign trade, the Russian budget remains fairly resilient. According to the Russian Ministry of Finance, the significant rouble depreciation and the far more moderate decline in oil prices over the year brought approximately one trillion roubles into the budget. In 2014, the federal budget revenues and expenditures grew 0.9 bps of GDP to reach 20.4% and 20.9%, respectively, while the deficit remained just 0.5% of GDP, or RUB 328 billion. The budget deficit was ultimately driven by higher expenses and domestic government debt used to finance a 1 trillion rouble recapitalisation of the banking sector in December 2014. Excluding this measure, the federal budget would have posted a surplus of RUB 672 billion (or 0.9% of GDP).

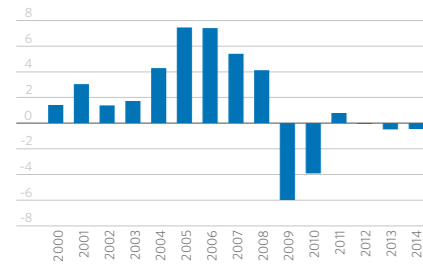
As of January 1, 2015, according to the Ministry of Finance, Russia's domestic government debt represented by rouble-denominated securities reached RUB 5.5 trillion, an increase of 23.5%, while the Central Bank of Russia reported foreign government debt on the same date at USD 41.5 billion. As a result, the debt burden of the Russian budget is still relatively low, at roughly 11% of GDP, giving Russia a competitive edge over most emerging countries and supporting its credit ratings.

### Capital Flight by Component, USD billion



Source: CBR; Otkritie Capital Research Department.

### Russian Budget Deficit, % of GDP



Source: Russian Ministry of Finance; Otkritie Capital Research Department.

Early in 2015, the Russian Reserve Fund and the Russian National Wealth Fund amounted in aggregate to USD 166 billion, or 8.9 % of GDP.

### Manageable Recession

During 2014, the measures taken by the Central Bank of Russia and the Government of Russia helped to prevent the catastrophic outflow of customer funds from banks, to stabilise rouble devaluation expectations and to underpin the financial sector's stability in late 2014. Among such urgent measures were: expanded access to U.S. dollar-denominated instruments used to inject liquidity, the switch to a fully floating rouble, a drastic increase in the CBR's rate to 17 %, an increase of the insured deposit amount from RUB 700,000 to RUB 1.4 million, a temporary moratorium on recognising the effects of negative securities revaluation, less stringent requirements for currency revaluation used for capital adequacy calculation purposes, and the permission not to downgrade the restructured loans service quality.

The currently rising oil prices, less imminent geopolitical risks, the revaluation of the rouble along with the Russian government and parliament's anti-crisis package, the streamlining of government spending and the implementation of a more relaxed fiscal policy (on January 30, 2015, the Central Bank of Russia started to reduce its rate and has already decreased it by 5.5 p.p. to 11.5 %) mean that an uncontrollable recession is highly unlikely in 2015.

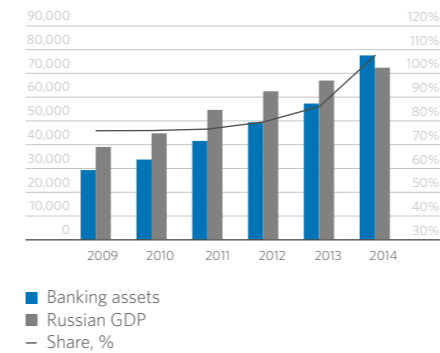
## Russian Banking Overview

In 2014, the banking sector continued to outpace the Russian economy significantly. Banking assets rose 35.2% (18.3% growth year-on-year net of rouble depreciation) compared to the 8.1% growth in nominal GDP. As at the end of 2014, Russian banks' aggregate loan portfolios expanded by 25.9% to RUB 40.9 trillion (12.9% net of rouble depreciation; compared to 17.1% in 2013) and corporate loans grew by 31.2% to RUB 29.5 trillion (13% net of rouble depreciation; compared to 12.7% in 2013)

The growth in retail loans continued its slowdown, up by just 13.9 % in 2014 (12.5 % growth year-on-year net of rouble depreciation, compared to 28.7 % in 2013)<sup>1</sup> with mortgages accounting for more than 60 % of the increase (RUB 872 billion). This slowdown was due to the noticeable reduction in consumer loans other than mortgages, as many Russian banks sought to pull back the risk profiles of their retail loan portfolios.

Customer accounts increased by 25.4 % in 2014 (15.7 % growth year-on-year net of rouble depreciation, compared to 16.0 % in 2013), slightly behind the increase in banks' loan portfolios. In contrast to previous years, this dynamic was mostly fuelled by corporate banking: corporate term deposits were up 57.0 % (24.0 % growth year-on-year net of rouble depreciation; compared to 12.7 % in 2013), while corporate current accounts were up 14.2 % (2.0 % growth year-on-year net of rouble depreciation; compared to 14.2 % in 2013). The increase in retail deposits slowed to 9.5 % (a net reduction of 2.5 % year-on-year net of rouble depreciation; compared to 19.0 % growth in 2013). The largest outflow of customer funds, totalling RUB 469 billion, occurred in November and December 2014, when the Russian rouble hit a record low level. Later in December 2014, this trend reversed against a backdrop of higher rates on deposits and higher limits for deposit insurance coverage, which was raised to RUB 1.4 million. As at the end of 2014, the funding from the Central Bank of Russia reached 12.0 % of the Russia's banking sector liabilities (7.7 % at the beginning of 2014).

### Banking Assets, billion roubles



Source: Ministry of Economic Development of the Russian Federation.

### Customer accounts increased by

**25.4%**  
in 2014

As at the end of 2014 Russian banks' total capital adequacy ratio comprised

**12.5%**

In 2014, the banking sector's RAS-based net profit slipped to RUB 589 billion against RUB 994 billion in 2013. This decline was due to higher loss provisions, which were up approximately RUB 1,203 billion, the deteriorating market environment and the growing cost of funding as the Central Bank of Russia raised the refinance interest rate. Russian banks' average ROE dropped from 15.9 % in 2013 to 8.7 % in 2014.

Russian banks' total capital adequacy ratio fell from 13.5 % as at the end of 2013 to 12.5 % as at the end of 2014. As of December 1, 2014, the total capital adequacy ratio was as low as 11.9 %; its rebound closer to the end of 2014 was driven by the CBR's revisions of the capital adequacy formula that excluded revaluation of securities and balance-sheet items denominated in foreign currencies from the capital adequacy ratio calculation effective from October 1, 2014.

Late in 2014, the Russian government, the Central Bank, and the Deposit Insurance Agency (DIA) embarked on a programme to support the Russian banking sector. Certain measures have already been launched in 2015:

- up to RUB 1 trillion recapitalisation of major federal and regional banks through an injection of government bonds;
- up to RUB 400 billion in cash transfers from the Russian National Wealth Fund to major banks, with the funds earmarked to finance investment projects;
- extension and/or conversion of subordinated loans extended under the 2008-2009 government bailout program into other instruments that would be included in the capital adequacy ratio calculation.

<sup>1</sup> Hereinafter data are sourced by the Central Bank of Russia at www.cbr.ru.



# OPERATION REVIEW

“We, as the shareholders of Otkritie Financial Corporation Bank, share the approach of the executive team towards business development and support the chosen strategy for the Group, which has proved its viability in a highly volatile market”

Ruben Aganbegyan

Chairman of the Supervisory Board

# Corporate Banking

## Overview



Irina Gordeeva  
Deputy President,  
member of the Managing Board,  
Head of Corporate Banking

Corporate banking is Otkritie FC Bank's largest business segment. It is diversified by region, industry and clientele base

The Bank provides the same outstanding level of service to major national companies as it does to small and medium-sized businesses.

In 2014, the product development strategy of Otkritie FC Bank focused on intense development of the remote banking, optimisation of existing business processes, improvement of the Bank's automated banking system and enhancing customer service. The objective was to extend the high quality client base, to increase the number of products per client, and consequently to boost the Bank's commission income.

During the recent years, the key players in the banking market have been concentrating on the development of the settlements and cash management services for clients, considering fees generated by these services to be a risk-free income driver. This trend continued in the volatile economic environment of 2014.

In the second half of 2014, Otkritie FC Bank revised its corporate business development priorities to shift its focus from expanding business volume and increasing its loan market share towards better credit risk control, loan portfolio quality management and building a highly liquid collateral base.

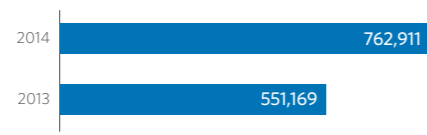
In 2014, the number of the Bank's corporate clients grew by 17.6 % to 19,760. New clients accounted for 27 % of the total number with the majority representing businesses with annual revenues of up to RUB 10 billion.

## Key Figures<sup>1</sup>

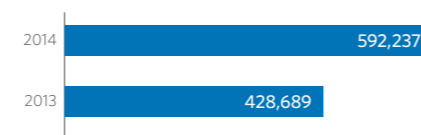
Number of corporate clients



Corporate net loan portfolio, million roubles

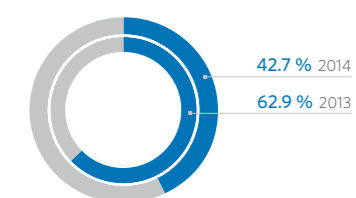


Corporate customer accounts, million roubles

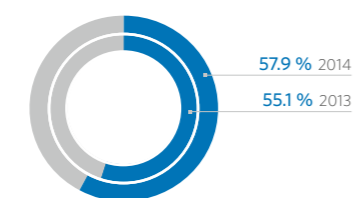


Corporate business share<sup>2</sup>, %

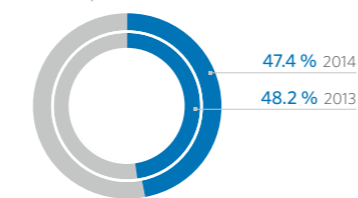
in the loan portfolio



in the deposit portfolio



in operating income (revenue) before provisions



<sup>1</sup> As at the year end.

<sup>2</sup> The amounts relating to Treasury, Asset and Liability management units and Unallocated balances are excluded from the calculation.

Corporate Loan Portfolio Breakdown by Industry as at the year end

	2013		2014	
	million roubles	%	million roubles	%
Operations with real estate	54,882	9.6	128,353	16.4
Services	87,637	15.3	109,050	13.9
Mining	35,842	6.3	97,581	12.5
Industrial manufacturing	75,552	13.2	81,201	10.4
Construction of industrial and commercial real estate	82,897	14.5	72,215	9.2
Wholesale trade	71,457	12.5	62,875	8.0
Housing construction	37,766	6.6	53,587	6.8
Leasing	33,536	5.9	44,259	5.7
Transport and communication	23,767	4.2	26,867	3.4
Operations with securities	122	0.0	23,767	3.0
Retail trade	20,719	3.6	21,673	2.8
Agriculture	2,544	0.4	3,014	0.4
Other	45,411	7.9	58,120	7.5
<b>Gross corporate loans</b>	<b>572,132</b>	<b>100.0</b>	<b>782,562</b>	<b>100.0</b>

## Key Corporate Banking Objectives for 2014

Target	Key results/achievements
Cost reduction	<ul style="list-style-type: none"> <li>optimising the organisational structure and improving business processes;</li> <li>reducing operating expenses per client.</li> </ul>
Focus on risk management	<ul style="list-style-type: none"> <li>enhancing credit risk control;</li> <li>maintaining loan portfolio quality (NPL90+ accounted for 1.4 % of the total loan portfolio as at the end of 2014, compared to 1.9 % as at the end of 2013);</li> <li>improving liquidity of loan portfolio collateral — the credit policy is designed to favour secured loans with focus on collateral liquidity.</li> </ul>
Expanding the client base	<ul style="list-style-type: none"> <li>higher growth rates for new corporate clients;</li> <li>client base diversification.</li> </ul>
New technologies and business processes	<ul style="list-style-type: none"> <li>technologies streamlining: according to clients' reviews, the remote system of the Bank is one of the most advanced and convenient in the market;</li> <li>improving remote client service channels.</li> </ul>
Enhancing client management efficiency	<ul style="list-style-type: none"> <li>total number of corporate clients grew by 17.6 % in 2014;</li> <li>higher profit level per corporate client;</li> <li>implementation of a focused sales model taking into account potential needs of each client.</li> </ul>

## International Business

Despite the sanctions imposed in 2014 by the United States, the European Union and some other countries, Otkritie Financial Corporation Bank and its counterparty banks continued their international trade finance transactions as usual over the year. Due to Otkritie FC Bank's significant and longstanding business experience with leading international banks, the sanctions did not affect the volume, geography or the timing of trade deals. Throughout 2014 the Bank managed to maintain its prices at 2013 levels.

There were neither negative developments for nostro accounts, nor for the international settlements business. All terms, including the cut-off time and fees for account maintenance and transactions, remained unchanged.

## Financial Highlights (IFRS)

million roubles	2013	2014	Y-o-y, %
<b>Key balance sheet figures</b>			
Total assets of the segment	571,099	782,689	37.0
including net loans to clients	551,169	762,911	38.4
Total liabilities of the segment	488,483	669,300	37.0
including customer accounts	428,689	592,237	38.2
<b>Key profit &amp; loss figures<sup>1</sup></b>			
Net interest income <sup>2</sup>	18,876	25,882	37.1
Net fee & comission income	3,713	4,507	21.4
Operating income before provision for impairment	18,761	25,065	33.6
Operating expenses	5,827	6,462	10.9
Profit before income tax	13,189	17,900	35.7

<sup>1</sup> Income statement of Otkritie Bank for the year 2013 was not recognised as the Group gained control in late 2013.

<sup>2</sup> Net interest income before provision for impairment losses on interest bearing assets.

Note: The financial highlights are shown as of December 31, 2014, for the year ended on December 31, 2014; and as of December 31, 2013, for the year ended on December 31, 2013.

Otkritie FC Banking Group's corporate loan portfolio was up 38.4% in 2014 to

**RUB 762.9 billion**

Corporate banking pre-tax profit generated

**RUB 17.9 billion**

(up by 35.7% year-on-year)

## Comment on Financial Highlights (IFRS)

Otkritie FC Banking Group's corporate loan portfolio was up 38.4% in 2014 (compared to 30.6% in 2013) to RUB 762.9 billion in line with the client base diversification.

In 2014, corporate deposits also grew significantly — by 38.2% (compared to 60.2% in 2013) to RUB 592.2 billion, driven mainly by an increase in the number of clients, improved service and a diversified product line.

Corporate banking posted pre-tax profit of RUB 17.9 billion (up by 35.7% year-on-year).

The key profit drivers in 2014 were net interest income, net fee and commission income, and tight control of operating expenses, which only rose by 10.9% (below the 2014 inflation rate of 11.4%).

Net fee and commission income dominated the structure of non-interest income generated by the corporate segment in 2014, totalling 78.4%, or RUB 4.5 billion. A 21.4% increase in net fee and commission income in 2014 was due to growth in commissions from settlements (up 39.7%) and documentary transactions (up 10.6%).

In a volatile economic environment, the Bank paid close attention to credit risk management so that loan portfolio quality remained stable throughout 2014, with non-performing loans accounting for 1.4% (compared to 1.9% as at the end of 2013). Please see Section Risk Management and Control, p. 66, for corporate loan portfolio quality.

## Remote Banking

In 2014, developing and enhancing remote customer service channels was one of the highest priorities

The Bank participates in annual independent remote banking ratings, in which a number of agencies evaluate systems based on their functionality, visual appeal and usability

### 2014 Results

Due to the development and enhancement of remote customer services:

- the number of remote customer interaction channels increased with the release of a new mobile portal (on iOS and Android platforms) for corporate client executives;
- the internet banking service has become more client-focused following delivery of a refreshed design and regular updates to the system's functionality improving usability;
- in February 2014, Conversion ONLINE (a currency conversion system) was launched, enabling clients to buy and sell currency at the spot market rates through remote banking channels. This service is unique in the Russian banking market in terms of the ease of use and the speed of execution.

According to independent experts, Otkritie FC Bank's remote banking system is among the top performers in the market by functionality. The Bank continues to improve its remote banking capability to meet client business objectives, to stay ahead of industry trends and to remain a leader in remote services.

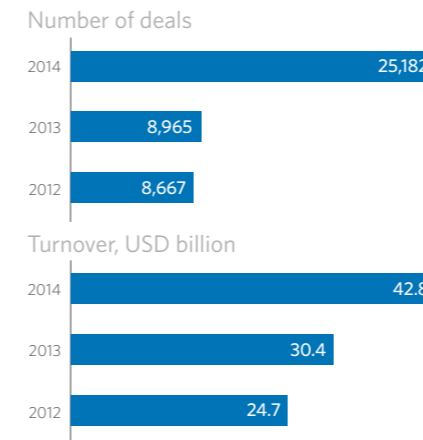
### Key Results

The functionality of Otkritie FC Bank's Client-Bank system was expanded significantly in 2014:

- the Group introduced the Deposit ONLINE service, which helps clients to place spare cash funds in Otkritie FC Bank's deposits online;
- the implementation of the new product Budget control, which helps clients to control spending within client-approved budget item limits;
- the improvement of the Bank-Client system design, which received the new name Business Link;
- the improvement in the remote banking service with focus on simplification of operations for clients;
- the introduction of a new mobile application for corporate clients of Otkritie FC Bank, which helped the clients to receive all necessary information regarding accounts' balances, cash withdrawals and accruals, Bank contact details, information about offices and ATMs using their mobile phones and tablets;
- documents can now be routed directly between 1C software and the automated banking system;
- the payment acceptance and monitoring function was updated with criteria for selecting payments to be accepted, while the range of documents was extended.

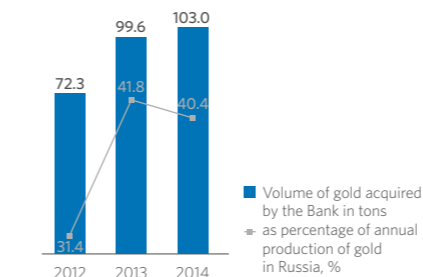
## Precious Metals Market

### Precious metals transactions<sup>1</sup>



<sup>1</sup>including internet-based precious metals trading service.

### Volume of gold acquired by the Bank in tons and as percentage of annual production of gold in Russia, %



Source: Reuters.

### Leading Positions in Precious Metals Market

Year after year, Otkritie FC Bank reaffirms its leadership position in the precious metals market. Otkritie FC Bank was recognised as the Best Russian Bank in the precious metals market in 2014, earning this award for the eighth time in a row.

The major Russian gold miners are among Otkritie FC Bank's clients. In 2014, the Bank acquired 103 tons of gold bullion (up by 3 % from 2013) and 232 tons of silver bullion, purchasing a total of USD 42.8 billion in precious metals, up by 40.8 % from 2013.

Otkritie FC Bank has set up a full financing system cycle for companies in the precious metals industry, from exploration and mining of precious metals to processing and sales in the international markets. Using its well-established trade relations with foreign partners, including top class foreign banks, the Bank supplies precious metals to European countries, India, UAE, China and CIS countries. In 2014, the Bank sold 38 tons of gold and 90 tons of silver in the international markets. The Bank also offers products to hedge against fluctuations in precious metals prices.

Since 2011, Otkritie FC Bank has been a member of the London Bullion Market Association (LBMA).

## Strategic Objectives of Corporate Banking for 2015

Key objectives of the corporate banking segment for 2015 include:

- focusing on risk management;
- optimising business processes and technologies to reduce costs and enhance customer service;
- expanding the client base while maintaining its diversified structure, with an emphasis on medium-sized businesses;
- boosting fee and commission income and settlement volumes.

# Retail Banking

## Overview



Elena Budnik  
Deputy Chairman of the Management Board, Head of Retail Banking

In 2014, the Retail Banking division focused on improving efficiency and reducing risk appetite

### 2014 Priorities

The objective was to switch from the growing business volume strategy to one focused on improving the client base, with an emphasis on payroll projects. Another priority of the retail banking segment was to facilitate the integration processes. Both objectives were successfully accomplished.

During 2014 the retail banking business was transferred from Otkritie FC Bank to Khanty-Mansiysk Otkritie Bank, significantly strengthening the Group's competitive opportunities in this segment. The Group's retail clients gained access to the entire range of its banking products. The day-to-day retail operations were used to leverage research data about emerging client priorities and focus on offering the lowest-risk products, including card and payroll projects.

### Key Retail Banking Objectives for 2014

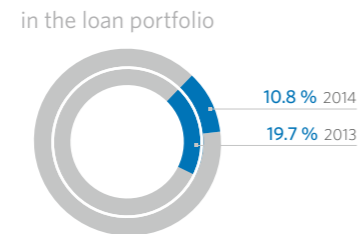
Target	Key results/achievements
Launching new products	<ul style="list-style-type: none"> <li>launch and development of new card projects (Gladiator and Mnogo.ru co-branded cards, Travel MasterCard World PayPass and Avtokarta MasterCard World PayPass);</li> <li>integration of 3,719 ATMs into a unified network across the covered area;</li> <li>stepping-up products and services for payroll customers.</li> </ul>
Optimising the distribution network and expanding geographic reach, beyond Moscow thereof	<ul style="list-style-type: none"> <li>the network includes 481 branches and other points of sale across 58 Russian regions;</li> <li>the Group has a significant market share in Moscow and the Moscow Region, St. Petersburg and the Leningrad Region, Tyumen and the Khanty-Mansiysk Autonomous District, Yekaterinburg, Saratov, Novosibirsk and Khabarovsk;</li> <li>four flagship new-format branches were opened: three in Moscow and one in St. Petersburg.</li> </ul>
Improving quality of service with state-of-the-art technologies and higher customer service standards	<ul style="list-style-type: none"> <li>ATM functioning improved, plastic card issuance and delivery process optimised;</li> <li>branch and Call Centre services enhanced;</li> <li>the number of clients that use the internet banking services increased to 494,000 by the end of 2014 (up by 43 % from 346,000 at the beginning of the year);</li> <li>iOS and Android apps released.</li> </ul>
Cross-selling and promoting payroll projects	<ul style="list-style-type: none"> <li>the Group attracted 58,459 new payroll clients. Thus, as at the end of 2014, the overall number of the Group's active payroll clients reached 649,032;</li> <li>the Bank joined the United Settlement System giving payroll card holders favourable conditions on cash withdrawals in more than 20,000 ATMs all over Russia.</li> </ul>
Reducing risk appetite	<ul style="list-style-type: none"> <li>focus on attracting high quality borrowers from payroll clients and borrowers from accredited companies.</li> </ul>

## Key Figures<sup>1</sup>

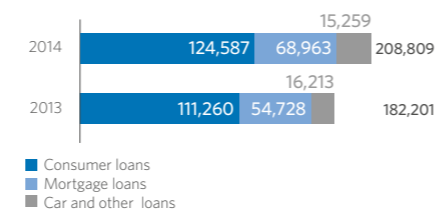
Number of retail clients, million



Retail business share<sup>2</sup>, %



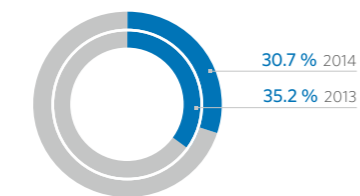
Gross retail loan portfolio breakdown by type, million roubles



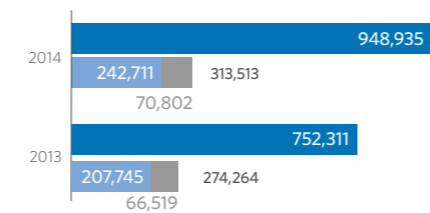
Retail net loan portfolio, million roubles



in the deposit portfolio



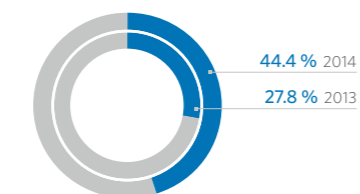
Customer funds, million roubles



Retail customer accounts, million roubles



in operating income (revenue) before provisions



<sup>1</sup> As at the year end.

<sup>2</sup> The amounts relating to Treasury, Asset and Liability management units and Unallocated balances are excluded from the calculation.

## Integration

The following objectives set for 2014 were met while integrating Otkritie FC Bank's retail banking with Khanty-Mansiysk Otkritie Bank:

- the retail business infrastructure transfer from Otkritie FC Bank to Khanty-Mansiysk Otkritie Bank and its optimisation across the network;
- a model for servicing and selling Khanty-Mansiysk Otkritie Bank's banking products through Otkritie FC Bank's branches was fine-tuned;
- Otkritie FC Bank's retail loan portfolio was assigned to Khanty-Mansiysk Otkritie Bank;
- the Call Centre and retail loan collection business were transferred over to Khanty-Mansiysk Otkritie Bank.

In November 2014, Otkritie Bank and Novosibirsk Municipal Bank merged with Bank of Khanty-Mansiysk. The reorganised Bank, Khanty-Mansiysk Otkritie Bank, is among the top 15 largest banks in Russia.

In 2014, retail loan portfolio  
grew by 10.9% to

**RUB 191.9 billion**

In 2014, retail deposits increased  
14.3% to

**RUB 313.5 billion**

### Financial Highlights (IFRS)

million roubles	2013	2014	Y-o-y, %
<b>Key balance sheet figures</b>			
Total assets of the segment	226,711	252,972	11.6
including net loans to clients	173,056	191,864	10.9
Total liabilities of the segment	291,706	332,826	14.1
including customer accounts	274,264	313,513	14.3
<b>Key profit &amp; loss figures<sup>1</sup></b>			
Net interest income <sup>2</sup>	9,985	21,806	118.4
Net fee & commission income	3,769	6,115	62.2
Operating income before provision for impairment	12,397	16,292	31.4
Operating expenses	9,340	16,029	71.6
Profit before income tax	2,981	131	-95.6

<sup>1</sup> Income statement of Otkritie Bank for the year 2013 was not recognised as the Group gained control in late 2013.

<sup>2</sup> Net interest income before provision for impairment losses on interest bearing assets.

Note: The financial highlights are shown as of December 31, 2014, for the year ended on December 31, 2014; and as of December 31, 2013, for the year ended on December 31, 2013.

### Comment on Financial Highlights (IFRS)

In order to improve the quality of the retail portfolio, in late 2013, the Group revised its retail business growth strategy focusing on providing loans to customers, who are employees of the Group's corporate clients on payroll projects and mortgage loans.

As of December 31, 2014, the Group's gross retail loan portfolio was up 14.6 % to RUB 208.8 billion. The growth was mostly driven by consumer loans (up 12.0 % to RUB 124.6 billion) and mortgage loans (up 26.0 % to RUB 69.0 billion). Mortgage loans accounted for 33.0 % of the retail loan portfolio, compared with 30.0 % as at the end of 2013.

Net interest income in retail banking  
for 2014 totalled

**RUB 21.8 billion**

In 2014, net fee and commission  
income in retail banking comprised

**RUB 6.1 billion**

Customer deposits were up 14.3 % in 2014 and reached RUB 313.5 billion as of December 31, 2014. The retail deposits' positive performance over the period characterised by volatile markets proves the clients' trust. As of December 31, 2014, deposits accounted for 77.4 % of the total retail customer funds. At the same time, the Group continued to increase current and on demand retail customer funds that reached RUB 70.8 billion, as of December 31, 2014, a 6.4 % increase year-on-year.

In 2014, net interest income of the retail segment doubled compared to 2013 results. This growth was fuelled by:

- the integration within the Banking Group and, in particular, the consolidation of Otkritie Bank by the Group in 2013;
- retail loan portfolio increase accompanied by the higher average effective rate on retail loan portfolio (16.3 % in 2014 against 15.0 % in 2013);
- low average cost of funding in the retail segment (5.9 %) due to the notable share of current accounts in the segment funding structure.

Net fee and commission income earned by the retail segment grew 62.2 %. In 2014, the key sources of fees and commission income were credit risk insurance, currency conversions, and payment transfers via the Rapida system.

In 2014, the retail segment's profit was affected by the general economy slowdown, a plummeting Russian rouble followed by skyrocketing interest rates. All these factors contributed to a higher cost of risk in the retail segment. Please see Section Risk Management and Control, p. 66, for retail loan portfolio quality.

In 2014, the amount of cards issued by the Group's banks increased by 24% compared to 2013 and reached

**2 million cards**

by the end of 2014

## Cards

The following new card products were introduced in 2014:

- the Gladiator card, co-branded with Spartak football club, was launched for its team fans. The home stadium, Otkritie Arena, became a cash-free zone where only card payments are accepted. Gladiator cards can be used to acquire season or single game tickets to access the Otkritie Arena stadium. Fans can use the co-branded cards to pay for their purchases at the stadium. The card also provides a 3 % cash-back on all purchases at gas stations, cafes, or supermarkets. Up to 1 % of each transaction goes to the Fedor Cherenkov Spartak Academy. The Gladiator project was launched in September 2014. More than 40,000 fan cards were issued (holders can use cards to access the Otkritie Arena on the day of the game during the season, benefit from a full-function banking app, and pay with the cards), along with approximately 7,500 prepaid stadium cards;
- prepaid cards were launched in cooperation with Mnogo.ru club. Each new club member receives a prepaid bank card that earns them more reward points on each purchase. A prepaid original design gift card was launched in a range of denominations, including RUB 1,000, RUB 3,000, and RUB 5,000. While there is no cash withdrawal option with these gift cards, they can be used to pay for goods and services;
- Travel MasterCard World PayPass and Avtokarta MasterCard World PayPass became more attractive to clients in 2014, both earning up to 7 % per annum on the balance, while in addition Travel MasterCard World PayPass offers 3 % cash back on tickets, hotel bookings and other travel-related purchases.

## Payroll Projects

The Bank intensively developed its payroll project services:

- in April 2014, the Bank joined the United Settlement System, allowing Otkritie Bank card holders to use other banks' ATMs at reduced rates or at Otkritie Bank rates;
- OTA personalisation technology was launched. Now, clients can obtain or recover PINs from the Bank's Call Centre;
- Plastic Protection — a new insurance product covering the risks of unauthorised remote debiting, a card loss or a theft — was introduced. The programme also covers keys and personal documents (if lost together with the bank card);
- personalised payroll card designs were launched.

## ATMs

The ATM networks of Khanty-Mansiysk Otkritie Bank and Otkritie FC Bank were combined in April 2014, providing their cardholders access to unified services offered through a joint network of more than 3,700 ATMs across 58 regions of Russia, as at the end of 2014.

As at the end of 2014, the number of the Bank's branches and other points of sale was

**481 units**

## Service Network

The Group improved its network's efficiency. Loss-making sales outlets were closed, service levels improved and unified client service standards were introduced. Approximately 300 mini-branches and 70 outlets were closed after the risk strategy was revised. The number of branches and outlets reached 481 as at the end of 2014. In 2014, the Group opened another flagship office in St. Petersburg, the fourth in Russia, in cooperation with Starbucks, the largest global chain of coffee shops. The project of the new office was designed in accordance with growing customer demands and modern common space standards.

## Service

### SLA enhancement

A number of actions were undertaken during 2014 in order to improve the standard of service. The analysis of clients' reviews revealed a number of process drawbacks that resulted in slower and impaired quality customer service.

Following this analysis, the Group implemented measures to improve ATM functioning as well as ATM card retrieval, card issuance and delivery processes. As a result, cash refunds for failed ATM transactions are now faster, retained cards can be retrieved immediately and replacement cards are issued and delivered to a Bank branch within five days.

### Higher customer service standards at the Bank's branches

Khanty-Mansiysk Otkritie Bank declared 2014 the year of customer service.

The conducted measures resulted in positive customer service performance, with an average annual increase of 5 %.

## Technology

In 2014, Khanty-Mansiysk Otkritie Bank improved the service quality by implementing modern technology and improving service standards, in particular:

- most measures implemented in 2014 were aimed at improving services provided via the remote banking channel;
- a new website of Khanty-Mansiysk Otkritie Bank was introduced. The new website gives clients faster access to key pages, a user-friendly menu, visible promotional messages, and an updated, visually appealing interface;
- Internet banking for retail clients. A streamlined navigation and simplified interface were introduced. Among the new functions, there are options to pay taxes and fines online, the ability to log in via Facebook/Vkontakte social networks. A considerable amount of work went in to improve the system's reliability and fault tolerance;
- the number of active Internet banking users reached 109,000 (compared to 80,000 as at the end of 2013);
- mobile applications. An iOS application was launched in October 2014. An Android application followed in December 2014.

## Premium Banking

The premium segment of Otkritie FC Group's banks developed actively in 2014:

- the number of premium segment clients reached 29,000 by the end of 2014;
- in order to boost fee and commission income long-term cooperation agreements were signed with insurance companies Otkritie Life Insurance and Renaissance Life. The insurance companies will be investing in the Bank's liabilities products for the next three years as well;
- the number of personal managers in the premium segment increased 1.5x, expanding coverage to 33 cities across Russia;
- the banks focused on high-margin investment and investment insurance products and bank card sales.

The Group's mortgage loan portfolio totalled

**RUB 69.0 billion**

by the end of 2014 (compared to RUB 54.7 billion as at the end of 2013)

## Mortgage Lending

In 2014, the Group completed the transfer of its mortgage lending business to Khanty-Mansiysk Otkritie Bank. Despite the challenges presented by the integration process, the Bank successfully built a new mortgage lending business model dispensing RUB 17.9 billion in new mortgage loans, established relations with core construction companies, and occupied a clear market niche among major banking peers. The mortgage lending peaked at RUB 7.5 billion in the fourth quarter of 2014.

In September 2014, the Bank started developing and implementing a new automated credit solution system with mortgage lending being the pilot project. In December 2014, the system developers received the Bank's approved business requirements for the new mortgage lending IT platform, which is scheduled for testing and pilot implementation in 2015.

The new automated mortgage credit conveyor will:

- reduce the time for processing loan applications to 1.5 days;
- improve customer service;
- minimise operational risks;
- apply a complex approach covering all product offerings.

Plans for 2015:

- to concentrate the Group's mortgage lending business at Khanty-Mansiysk Otkritie Bank;
- to continue optimisation of business processes;
- to enhance customer service.

## Strategic Objectives of Retail Banking for 2015

The key objectives of retail banking for 2015 include:

- to proceed with the retail business integration at Khanty-Mansiysk Otkritie Bank;
- to develop the card and transactional businesses with an emphasis on retirees;
- to improve remote banking to increase the number of users and expand the range of services offered;
- to develop more products and services for payroll clients;
- to develop partner programmes, including prepaid cards;
- to focus on the development of premium retail banking: new products/packages, chain restyling;
- to improve efficiency by optimising business processes, expanding remote banking and updating card service technologies;
- to increase the total number of clients;
- to provide better service standards through day-to-day improvements.

# Small Business Banking

## Overview



Victor Okopny  
Senior Vice President,  
Head of Small Business Lending

In 2014, the small business banking of the Group focused on expanding transaction banking and commission-based businesses with small companies and individual entrepreneurs with a view to winning new clients and cross-selling to existing ones.

During 2014 Otkritie FC Bank continued to transfer the small business from Otkritie FC Bank to Khanty-Mansiysk Otkritie Bank as part of the Group reorganisation and consolidation strategy. The key objective to retain clients was successfully achieved. The total number of small business clients totalled 139,126, demonstrating only a slight decline from 141,500 in 2013.

Throughout 2014, the Group remained focused on sustaining its portfolio's quality and keeping its risks under control.

In line with its conservative risk management approach, in 2014, the Group increased its allocations to loss provisions in the small business segment to RUB 3.8 billion (up from RUB 2.7 billion in 2013), which pushed down the segment's profit to RUB 0.8 billion as at the end of 2014. Please see Section Risk Management and Control, p. 66, for small business loan portfolio quality.

The Group continues its cooperation with governmental and public organisations supporting small businesses, including foundations that support small business financing by issuing guarantees if collateral is not sufficient. As at the end of 2014, such guarantees for loans issued by the Bank to small businesses totalled RUB 1.8 billion (compared with RUB 2.5 billion in 2013).

In 2014, Khanty-Mansiysk Otkritie Bank used financing obtained from the Russian Bank for Support of Small and Medium Enterprises (Vnesheconombank Group) to refinance 143 loans to small businesses in the non-trade sector worth RUB 900 million under the SME-Non-trade Sector programme's refinancing option, at an annual interest rate up to 15%.

### Key Small Business Banking Objectives for 2014

Target	Key results/achievements
Sustaining a diversified loan portfolio	<ul style="list-style-type: none"> <li>diversification by industry;</li> <li>diversification by geography.</li> </ul>
Improving service quality	<ul style="list-style-type: none"> <li>new account conveyor, a loan factory.</li> </ul>
Increasing client activity	<ul style="list-style-type: none"> <li>promotional events;</li> <li>increasing the number of active clients.</li> </ul>
Introducing new technologies	<ul style="list-style-type: none"> <li>Tochka project<sup>1</sup>.</li> </ul>

<sup>1</sup> Please see p. 36 for Tochka project details.

## Key Figures<sup>1</sup>

### Number of small business clients



### Small business net loan portfolio, million roubles

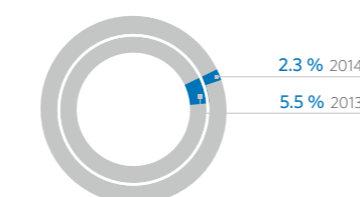


### Small business customer accounts, million roubles

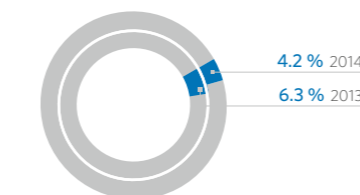


### Small business share<sup>2</sup>

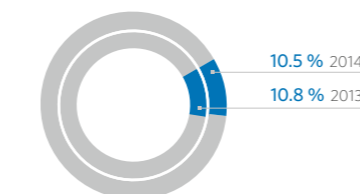
in the loan portfolio



in the deposit portfolio



in operating income (revenue) before provisions



### Small Business Loan Portfolio by Industry as at the year end

	2013		2014	
	million roubles	%	million roubles	%
Retail trade	11,432	22.4	10,906	24.5
Services	8,013	15.7	7,860	17.7
Wholesale trade	10,390	20.4	7,254	16.3
Transport and communication	4,086	8.0	3,926	8.8
Industrial manufacturing	5,207	10.2	3,621	8.1
Operations with real estate	4,205	8.2	3,501	7.9
Construction of industrial and commercial real estate	2,544	5.0	1,807	4.1
Leasing	400	0.8	580	1.3
Agriculture	809	1.6	494	1.1
Housing construction	673	1.3	251	0.6
Mining	86	0.2	89	0.2
Other	3,195	6.2	4,152	9.4
<b>Gross small business loans</b>	<b>51,040</b>	<b>100.0</b>	<b>44,441</b>	<b>100.0</b>

<sup>1</sup> As at the year end.

<sup>2</sup> The amounts relating to Treasury, Asset and Liability management units and Unallocated balances are excluded from the calculation.

Small business loan portfolio reached  
**RUB 40.6 billion**  
as at the year end 2014

The customer accounts of the small  
business segment totalled

**RUB 43.2 billion**  
as at the year end 2014

## Financial Highlights (IFRS)

million roubles	2013	2014	Y-o-y, %
<b>Key balance sheet figures</b>			
Total assets of the segment	54,358	48,929	-10.0
including net loans to clients	48,309	40,637	-15.9
Total liabilities of the segment	54,455	44,135	-19.0
including customer accounts	49,358	43,185	-12.5
<b>Key profit &amp; loss figures<sup>1</sup></b>			
Net interest income <sup>2</sup>	4,223	4,550	7.7
Net fee & comission income	1,312	2,310	76.1
Operating income before provision for impairment	4,819	5,113	6.1
Operating expenses	2,999	4,198	40.0
Profit before income tax	1,768	833	-52.9

<sup>1</sup> Income statement of Otkritie Bank for the year 2013 was not recognised as the Group gained control in late 2013.

<sup>2</sup> Net interest income before provision for impairment losses on interest bearing assets.

Note: The financial highlights are shown as of December 31, 2014, for the year ended on December 31, 2014; and as of December 31, 2013, for the year ended on December 31, 2013.

## Comment on Financial Highlights (IFRS)

The integration process of the Group and the overall market turbulence stimulated the main developments in the small business banking in 2014.

As a part of the Group's reorganisation program some of the small business clients, which are more close to the corporate clients according to their business profiles, were reclassified to corporate business clients. This reclassification resulted in a technical reduction of the number of small business clients and the reduction of the loan and deposit portfolios of the small business banking as at the end of 2014.

The customer accounts of the small business segment totalled RUB 43.2 billion, a 12.5 % increase year-on-year.

Operating income of the small business banking segment increased in 2014 in line with the rising net interest income and net fees and commission income due to higher volumes of cash and settlements transactions in the segment during 2014.



Larisa Shvetsova  
Senior Vice President,  
Head of Small Business Banking  
Development

## Transaction Banking

In order to develop the transaction banking business in 2014, Khanty-Mansiysk Otkritie Bank designed and launched a new account conveyor system in order to attract new clients and to offer the full set of transactions to come with client accounts. A new distribution system was developed and introduced across the Bank's network. Dedicated client relationship managers were appointed to promote account management services and sell related products, providing a personalised service. Each client is now assigned its own account manager. During 2014 the Bank opened more than 30,000 accounts to businesses and individual entrepreneurs, growing its active client base more than 20 %. The purpose of the new account conveyor system was also to reduce the time required to open an account and improve the level of service. As a result, approximately 40 % of all accounts were opened within 1 day, and more than 90 % of clients whose accounts were opened in 2014 were satisfied with the new account opening procedure and the quality of their interaction with the Bank.

“For the implementation of the Tochka project we hired specialists, who were responsible for the development and implementation of on-line technologies for the Bank with a client base of more than 100,000 legal entities. With our new professional team our target is to create a new, convenient and high technological product for our small business clients, which will help them manage their business more effectively”

Elena Budnik, Deputy Chairman of the Management Board, Head of Retail Banking

### Tochka Project

In 2014, Khanty-Mansiysk Otkritie Bank completed the preparation-phase of the Tochka Project which is to be launched in 2015 (“tochka” is Russian for “point”). The account management service is targeted at individual entrepreneurs and the SME segment. The Bank’s clients will be able to manage their personal and business finances and access related financial services online 24/7. The only time they have to contact the Bank’s offices is to sign up to the service.

Business Online, the special branch of Khanty-Mansiysk Otkritie Bank, will handle the Tochka Project. The designated team of 350 specialists, experienced in developing similar products, will service the Project. Initially, the service will be available in Moscow, St. Petersburg, Yekaterinburg, Kazan, Chelyabinsk, Novosibirsk and Krasnoyarsk.

The project’s success lies in offering a user-friendly interface and client-oriented approach. This service allows clients to send and receive money transfers in just 60 seconds and send their partners text notifications of the transfers. The service is compatible with tablets and other devices, cooperates with several companies, can be integrated with 1C, and offers the service of billing partners. The clients have unlimited access to a hotline, via which managers will assist the clients until their problems are resolved.

In 2015, the Bank expects to build up the client base for this service to reach the breakeven point while creating the environment-friendly system for the clients and their partners and developing remote service channels and mobile banking.

## 2015 Strategic Objectives in Small Business Banking

The key objectives of small business banking for 2015:

- enhancing efficiency and reducing the costs of the loan factory;
- increasing debt collection performance;
- reducing risk appetite with focus on secured lending;
- sustaining business volumes;
- integrating the small business banking of Petrocommerce Bank with that of Khanty-Mansiysk Otkritie Bank.

## Private Banking

### Overview



Alina Nazarova  
Senior Vice President,  
Head of Private Banking

Otkritie FC Banking Group offers a full range of Private Banking products and services to high net worth individual clients, including financial planning, asset structuring, brokerage and investment products, precious metals operations, real estate services, insurance products, and equity investments in Russia and abroad, as well as structured products and lifestyle products.

The Group’s Private Banking business operates according to the “open product architecture” principle, offering solutions developed both internally and in cooperation with its Russian and foreign partners. This principle gives our clients maximum freedom in choosing financial and non-financial instruments and access to the best products that the world’s leading financial organisations offer.

### Key Figures<sup>1</sup>

Geography covers 19 largest Russian cities

In 2014, funds under management up **20%**

Over 2014 investment product portfolio more than doubled to **RUB 19.6 billion**



<sup>1</sup> As at the year end.

### Key Private Banking Objectives for 2014

Target	Key results/achievements
The development of Private Banking business during 2014 was positively affected by the synergies resulting from the merger of Otkritie Bank and Khanty-Mansiysk Bank	<ul style="list-style-type: none"> <li>• all offices follow the same client service standards;</li> <li>• Private Banking offices were launched in all major Russian cities. Designated Private Banking managers work in 19 Russian cities (Moscow, St. Petersburg, Yekaterinburg, Irkutsk, Saratov, Tyumen, Novosibirsk, Nizhny Novgorod, Rostov-on-Don, Samara, Krasnoyarsk, Krasnodar, Ufa, Kaliningrad, Kazan, Khabarovsk and, starting from 2014, Nizhnevartovsk, Surgut, and Khanty-Mansiysk).</li> </ul>
Focus on the strengths of the Private Banking business	<ul style="list-style-type: none"> <li>• maximum freedom for clients in choosing financial instruments;</li> <li>• access to the best products that the world’s leading financial organisations currently offer;</li> <li>• regularly upgraded product and service offering extension;</li> <li>• a full range of Private Banking products and services offered in the Russian market;</li> <li>• product line focused on clients’ individual needs;</li> <li>• compliance with the ‘one client – one manager’ principle;</li> <li>• a large number of in-house specialists in various lines of business (loans, investments, taxes, legal services, and lifestyle consultants);</li> <li>• in-house investment consulting department covering various classes of investment assets in Russia and abroad;</li> <li>• a wide range of services offered in the lifestyle segment (children’s education, art banking, luxury goods, real estate investments, healthcare services, insurance, travel etc.);</li> <li>• a well-organised staff administration system, including a career model for each employee;</li> <li>• low staff turnover: the average employee stays with the Private Banking division for at least five years.</li> </ul>

## Product range

The classic Private Banking product line has been adapted to meet customers' individual needs:

- the line of deposit accounts varies depending on customer requirements for the investment;
- the owners of Private Banking products are offered additional benefits and the possibility of participating in charity projects

### Banking Products

In 2014, the Private Banking division focused on improving its existing product line.

The Private Banking diversified the product line and now offers Hong Kong dollar deposit accounts which is the 12<sup>th</sup> currency in a deposit product line.

Starting in 2014, the Private Banking clients can have their banking cards denominated in British pounds and Swiss francs to avoid currency conversion fees when paying for their purchases in the UK or Switzerland. This product is of special value for parents whose children study in these countries, as it allows payments in local currency.

In December 2014, the Private Banking package was launched. As part of this package, the Private Banking division offers high interest on banking card balances (up to 0.5 % higher than the deposit rates), the Novikov Group restaurant loyalty card, an insurance package, a free Priority Pass and many other services.

### Insurance Products

In summer 2014, Otkritie Insurance Company and Otkritie Life Insurance Company launched special insurance programs, including various endowment and investment life insurance plans targeted at Otkritie Private Banking premium cardholders.

## M&A and Lifestyle

In 2014, the list of the Private Banking lifestyle business partners broadened significantly to over

**100** companies

### M&A

Most of the Group's Private Banking clients are small and medium-sized business owners. In late 2014, the Bank and its partners launched an M&A consulting service. This business has proved to be a success and will remain high on the Private Banking agenda in 2015.

### Lifestyle Products

As part of the lifestyle management business, the Private Banking offers its clients various types of consulting services covering issues like children's education, art banking, real estate investments, healthcare service programmes for family members in Russia and abroad, and much more. In 2014, the list of the Private Banking lifestyle business partners broadened significantly to over 100 companies. Private Banking clients gain special access to premium services, invitation-only events and prestigious world-class events. The Bank's offices also host permanent exhibitions of art and special events featuring famous artists and experts in fine art. Over 2014, the Lifestyle business doubled its commission revenues.

## Investments

### Investments: Portfolio Approach

When selecting investment ideas for clients, the Private Banking team uses a 'top-down' approach. First, Private Banking specialists analyse the condition of the global economy and the trends prevailing in the global markets; then select the classes of investment assets, regions, and industries that are most attractive in the mid-term; after that the specialists choose the most appropriate instruments for each specific case. By spreading the assets across various regions of the world, the Private Banking team has managed to reduce its dependence on Russian assets significantly, which for the most part of 2014 lagged behind the international benchmarks. The percentage of Russian companies/indices in Private Banking clients' portfolios did not exceed 10 %.

With the Asian market seeing a growing economy and strengthening political positions, the Group expanded its product offering linked to China and the Asia Pacific region.

## Staff Development

### Career Development Model

The Private Banking team of Otkritie FC Banking Group has more than 200 people. The management remains focused on career development planning efforts. The career planning model implemented by the Private Banking division includes several important aspects, such as a system of key competencies, training sessions aimed at developing hard and soft skills, and regular employee assessments with the purpose of identifying each employee's strengths and weaknesses and determining areas for development and career growth prospects.

This well-organised system of employee development and motivation provides the Group's Private Banking with a considerable competitive advantage in hiring and retaining the best professionals. By building a comprehensive system of training, assessment, and development, the Private Banking division has achieved low staff turnover, with employees staying at the division for at least five years on average.

## Professional Awards

### Euromoney Private Banking Survey Results

The Euromoney Private Banking — Russia Survey 2015 ranked Otkritie Private Banking team second in Russia among other Russian and foreign private banking businesses in the "Wealth management and structured assets" category.

## Investment Banking

### Overview



Nikolay Katorzhnov  
Senior Vice President,  
Head of Investment Banking



Konstantin Bobrov  
Senior Vice President, Head of ALM

### 2014 Priorities

The worsening macroeconomic climate and highly turbulent markets during 2014 uncovered new challenges for the Group in managing the risks inherent in financial instruments (market, credit, and liquidity risks). The Group primarily focused on expanding secured transactions associated with lower credit risk. In line with this strategy, the Group significantly increased the volume of REPO transactions and swaps. Secondly, the Group prioritised managing securities portfolio risks, paying close attention to liquidity and credit quality.

These measures helped the Group mitigate possible losses on financial instruments.

Another priority was boosting the efficiency of the internal processes the Group implements to operate in financial markets. The Group optimised access to financial markets and financial instruments for the clients.

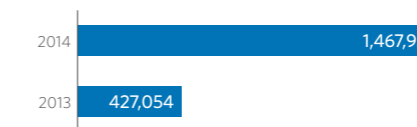
During 2014, Otkritie FC Bank organised 64 issues of rouble-denominated bonds of 27 Russian corporations and financial institutions for a total amount in excess of RUB 316 billion. In 2014, Otkritie FC Bank debuted as the arranger of its clients' mortgage-backed bond issues with a total volume of RUB 15.5 billion.

### Key Figures<sup>1</sup>

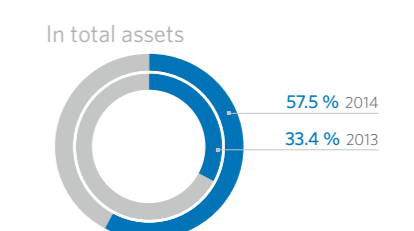
Number of clients



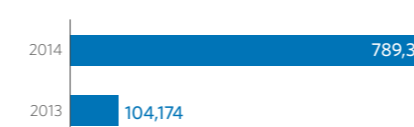
Assets, million roubles



Investment Banking Share<sup>2</sup>, %



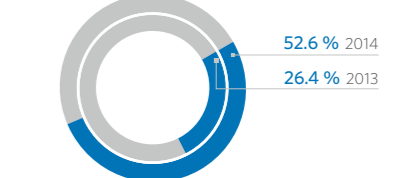
Net loan portfolio, million roubles



Liabilities, million roubles



In total liabilities



<sup>1</sup> As at the year end.

<sup>2</sup> The amounts relating to Treasury, Asset and Liability management units and Unallocated balances are excluded from the calculation.

## Financial Highlights (IFRS)

million roubles	2013	2014	Y-o-y, %
<b>Key balance sheet figures</b>			
Total assets of the segment	427,054	1,467,951	243.7
including net loans and assets provided to banks and other financial institutions	82,206	30,721	-62.6
financial assets at fair value through profit or loss	170,133	291,824	71.5
net loans to clients	104,174	789,317	657.7
Total liabilities of the segment	299,708	1,162,573	287.9
including due to banks	219,644	957,297	335.8
<b>Key profit &amp; loss figures<sup>1</sup></b>			
Net interest income <sup>2</sup>	4,937	5,194	5.2
Financial results from trading and FX operations	1,156	(7,290)	-730.6
Operating income before provision for impairment	6,750	(1,520)	-122.5
Operating expenses	1,192	1,680	40.9
Profit/(loss) before income tax	5,553	(3,202)	-157.7

<sup>1</sup> Income statement of Otkritie Bank for the year 2013 was not recognised as the Group gained control in late 2013.

<sup>2</sup> Net interest income before provision for impairment losses on interest bearing assets.

Note: The financial highlights are shown as of December 31, 2014, for the year ended on December 31, 2014; and as of December 31, 2013, for the year ended on December 31, 2013.

In 2014, the Group continued investing in low-risk securities, thus sustaining its liquid assets. The financial assets at fair value through profit and loss accounted for 11.3 % of the Group's assets as at the end of 2014 (13.2 % as at the end of 2013). The loan portfolio growth in the investment banking business was driven by a higher volume of REPO transactions in 2014.

Due to turbulent markets in 2014, the Group incurred a loss in its trading operations, represented mainly by unrealised negative revaluation of securities portfolio.

## Key Investment Banking Objectives for 2014

Target	Key results/achievements
Designing structured solutions and financial risk hedging instruments for Otkritie FC Banking Group clients	The Group worked closely with clients to offer the wide range of structured and hedging solutions.
Adding technologically sophisticated solutions (such as HFT instruments) to its brokerage products targeted at asset managers, investment companies, and small-cap banks	The Group launched the project QUIK to multiply the number of trades per second and enhance the client trading platform. The Group also targeted to speed the processing of the in-house back-office IT solution. In 2015, the Group plans to provide direct access to global exchange traded derivatives markets (CME) to its brokerage clients.

## Fixed Income Securities Transactions

Otkritie FC Bank fixed income desk offers its clients a wide range of instruments for the debt capital market. The Bank's client portfolio includes more than 270 active clients. Among them are major asset managers, banks, and insurance companies. The securities portfolio is the key source of liquidity for the Group. As of December 31, 2014, the Group's fixed income securities portfolio totalled RUB 217.2 billion (RUB 325.8 billion, as of December 31, 2013). It consists of highly liquid fixed income instruments included in the Central Bank of Russia's Lombard list.

The Bank's trading volumes in REPO in 2014 reached

**RUB 5.4 trillion**

During 2014, Otkritie FC Bank arranged rouble-denominated bonds issues for a total amount exceeding

**RUB 316 billion**

## REPO Transactions

In 2014, Otkritie FC Bank concluded REPO transactions with major financial institutions, including Sberbank, Vnesheconombank, Alfa Bank, Rosbank, VTB Capital, ING Bank, Raiffeisenbank, Credit Suisse Bank, UniCredit Bank, Morgan Stanley, Citibank, Deutsche Bank and others.

According to the Moscow Exchange data, during 2014, the Bank's trading volumes in REPO reached RUB 5.4 trillion, of which RUB 1.8 trillion is attributable to shares repurchase agreements, RUB 2.1 trillion — to bonds repurchase agreements, and RUB 1.5 trillion — to government bond repurchase agreements. In 2013, the Group posted REPO trading volumes of RUB 3.8 trillion, of which RUB 0.8 trillion was attributable to shares repurchase agreements, RUB 1.7 trillion — to bond repurchase agreements, and RUB 1.3 trillion — to government bond repurchase agreements.

## Debt Capital Market

During 2014, Otkritie FC Bank arranged 64 issues of rouble-denominated bonds of 27 Russian corporations and financial institutions for a total amount exceeding RUB 316 billion. In 2014, Otkritie FC Bank debuted as the arranger of its clients' mortgage-backed bond issues with overall value of RUB 15.5 billion.

In 2014, Otkritie FC Bank was ranked second in Cbond's annual ranking of Russian top bonds arrangers and underwriters. The Bank also gained the third place in Bloomberg's 2014 rating of bond market arrangers. The Bank won Cbond's award for Best Investment Bank (Company) for 2<sup>nd</sup> and 3<sup>rd</sup> Tier Issuers, Best Debut Subfederal/Municipal Bond Issue, Best Broker in the Bond Market for Private Investors, and Best Broker in the Bond Market for Institutional Investors.

## Financial Market Transactions

Otkritie FC Bank is active in interbank lending, foreign exchange, OTC, derivatives and spot markets. The Bank's counterparties include over 350 financial institutions and corporations classified as professional traders in the financial markets of Russia, the CIS and other countries.

The Bank's leading position, sustained for many years, is further proof of the professionalism of its team and the high quality of services it offers clients and counterparties. The Bank's dealers were named Best FX Dealer of the Year several times.

In 2014, the volume of transactions in financial markets exceeded

**USD 1 trillion**

In 2014, the trading volumes of FX forward contracts, swaps, and options reached

**RUB 212 billion**

As at the end of 2014, Otkritie FC Bank held the following positions in the Russian financial market:

- No. 1 in the interbank lending market according to DELTA.
- Top 3 in the FX section of the Moscow Exchange.
- Top 3 in the spot FX market.

In 2014, the volume of transactions in financial markets exceeded USD 1 trillion (including more than USD 700 billion in the organised market), up 50 % year-on-year<sup>1</sup>.

Despite limited access to global financial markets, extremely high volatility and economic sanctions against Russia, the Bank's leveraged well-balanced business strategy and excellent reputation among Russian and international market players helped it to retain and strengthen its position as a significant strategic financial institution in Russia.

## Sales in Financial Markets

In 2014, the financial market sales department continued to win new clients among corporations and financial institutions, offering them risk hedging schemes in the FX and commodity markets. The total number of clients who chose the derivative products offered by the Group was up 12 % year-on-year. Due to the professionalism of the team and its competitive edge, the trading volumes of FX forward contracts, swaps, and options reached RUB 212 billion (2013: RUB 141 billion) and the volume of commodity hedge contracts reached RUB 1.7 billion. Over 2014, the Group traded the derivative credit instruments for a total volume of RUB 5.3 billion (2013: none). Otkritie FC Bank raised RUB 23.4 billion (compared to RUB 10 billion in 2013) using option strategies to manage clients' liquidity.

## Client Conversions

The FX market was highly volatile in 2014 and contributed to greater activity by both individuals and corporations in the FX market. The highest trading volumes were reported in Q3 and Q4, dominated by spot currency sales/purchases by individuals. The volume of individual client conversions reached USD 4.35 billion in 2014 (against USD 3.2 billion in 2013); the volume of corporate client conversions exceeded USD 18.5 billion.

<sup>1</sup> According to management reporting data.

In 2014, the Group's FX conversions exceeded

USD 3 billion

In volatile market environment Otkritie FC Bank was able to build up its clientele, offer its clients favourable conditions, and sustain its margin.

Khanty-Mansiysk Otkritie Bank and Otkritie FC Bank reported more than USD 1.35 billion of non-cash settlements performed by individual clients. Overall client conversions reached USD 3 billion.

### Brokerage

In 2014, the brokerage department embarked on a project to develop an IT solution for front- and back-offices aimed at clients who use HFT technologies in their business.

In 2014, the Bank's clients were able to transfer their rouble-denominated balances from broker accounts to their current accounts online. The Bank increased its margin on clients' transactions with exchange-traded FX instruments.

The Bank is currently working on the implementation of direct access to the international exchange-traded derivative market (CME).

## IT

### 2014 Results

The key objective in 2014 was to integrate the operations of Khanty-Mansiysk Otkritie Bank, Otkritie Bank, Bank of Khanty-Mansiysk, and Novosibirsk Municipal Bank. Each bank's IT-services were combined, processing centres were integrated, and accounting data were consolidated. In 2015, the integration will continue: IT-systems will be centralised to harmonise the customer services of the banks



Vladimir Ivanov  
Senior Vice President, Head of IT



Mikhail Sokolov  
Senior Vice President, Head of  
Innovation and Technology

In 2014, the integration of the IT infrastructures of Otkritie Bank, Bank of Khanty-Mansiysk and Novosibirsk Municipal Bank was successfully completed. Among the key targets for 2015 will be the integration of the IT infrastructures of Otkritie Financial Corporation Bank and Petrocommerce Bank.

In 2014, Otkritie FC Bank's key achievements in IT were as follows:

- development of online banking services for corporate clients:
  - clients' accountants and financial managers now have more user-friendly tools to work with the Bank;
  - the Bank's IT infrastructure is integrated online with clients' 1C-Enterprise-based accounting and ERP systems, as well as with cloud-based accounting systems;
  - new functions are available, including client budget monitoring and payment acceptance;
- launch of the Online Conversion service providing corporate clients with an access to online currency conversions at FX spot rates;
- launch of the automated credit conveyor for corporate business across all of Otkritie FC Bank's branches. The system allows to harmonise and speed up loan decision-making for corporate clients by automatically factoring in many aspects of the prospective borrower's financial condition;
- cash services for corporate clients by means of automated deposit ATMs within the Group's network using local access cards;
- development of Business Intelligence (BI) software, an analytical tool for Otkritie FC Banking Group's corporate business based on SAP Business Objects technology.

During 2014 the Group integrated internal IT services and clearing centres and consolidated financial reporting. In 2015, the Group will continue the integration efforts to centralise the Banks' IT solutions and harmonise client services.

Key achievements of Khanty-Mansiysk Otkritie Bank in IT-infrastructure development in 2014 were as follows:

- upgrade of all remote services: mobile banking applications for iOS and Android devices were released; the content management platform of the bank's website was replaced with a new one;
- Otkritie Arena Project: 260 POS terminals and 40 payment terminals were installed. All the POS terminals were fitted with pay pass card readers. Cashless areas were set up enabling users to receive prepaid cards in less than a minute from 15 vending machines. Also, three co-brand card products were launched: classic cards, season tickets (on the basis of prepaid cards) and conventional prepaid cards;
- introduction of the "golden record" system for customer data: golden records for both legal entities and individuals were made. The customer base was optimised: as a result, 30 % duplicate customer entries were identified and corrected. Also, an advanced technology was introduced to improve customer identification, enhance contactability, improve the "credit conveyor", and ensure better recovery of bad debt, more efficient risk management, target marketing, AML, and cross sales.

## Key IT Priorities and Projects for 2015-2017

### IT Projects for 2015-2017

Otkritie FC Bank intends to:

- further improve its online banking systems;
- complete the development and implementation of the automated transaction conveyor for corporate business that will allow to harmonise and speed up the decision-making for individual transaction services and packages for corporate clients;
- harmonise and integrate risk management systems and further upgrade and harmonise the IT infrastructure in the investment banking segment;
- harmonise and automate the problem asset management process;
- introduce an Asset Liability Management system (an integrated system for managing the Bank's assets and liabilities based on common rules of funding and evaluating liquidity risks);
- upgrade the corporate business CRM solution (product catalogue, calculation of banking product potential, business planning, mobile application);
- develop a centralised, integrated RAS and IFRS reporting system using the Corporate Data Warehouse (CDW);
- optimise and centralise the Bank's correspondent account management; streamline payment processing;
- achieve complete centralisation of the IT infrastructure across all branches.

Khanty-Mansiysk Otkritie Bank will continue to upgrade its retail banking IT systems and centralise and harmonise the consolidated Bank's IT landscape to standardise its products, client service processes and standards and reduce operating expenses.

Khanty-Mansiysk Otkritie Bank intends to work on the following projects in the coming years:

- development of technologies for retail customers to establish a digital environment; reduction of maintenance costs; ergonomic enhancement of the existing services to increase customer loyalty and reduce customer outflow;
- establishment of an operations room to control the efficiency of business processes and correct deviations on the basis of the 'Data as a Service' concept;
- development of co-brand card products: in particular, establishment of a specialised back office and processing center for transactions with cards;
- establishment of a single front office to significantly reduce the time required for launching a new product; (this solution will help the merged banks promptly launch a single product line);
- development of technologies related to payroll card programmes;
- establishment of a CRM system and development of cross sales;
- establishment of a single overdue debt management system to manage overdue payments at all stages; real-time monitoring and management of overdue payments.

## Corporate Social Responsibility

Otkritie Holding handles a number of key socially-oriented events and projects, many of which are known nationwide, such as the Good Deeds charity programme and the strategic partnership with Spartak football club. Some other corporate charitable initiatives include direct support of orphanages and regional cultural events

### Good Deeds



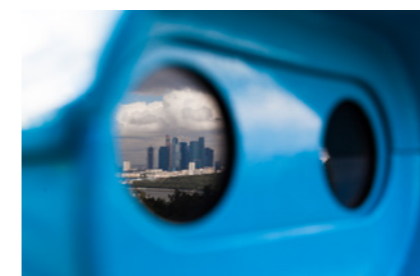
Good Deeds is a joint project between Otkritie Holding and Vera Hospice Charity Fund. As part of this project, Otkritie Holding issued limited edition bank cards and souvenirs featuring characters of the "Hedgehog in the Fog" cartoon. Otkritie Holding purchased the rights to the cartoon characters from its author, Yuri Norshtein, who approved the design of all souvenirs. Cash back on bank cards (1% of all transactions) and proceeds from the sale of souvenirs are donated to the Vera Hospice Charity Fund.

### Cooperation with Spartak Football Club



Khanty-Mansiysk Otkritie Bank and Spartak Moscow Football Club have entered into a long-term strategic partnership agreement that is unique in the Russian market. The sponsor's money will be used to build up the club's infrastructure, support retired athletes and promote football with children and teenagers. The new Spartak stadium that opened this year in Tushino is named Otkritie Arena. Since the 2013/14 season, Spartak players' jerseys have featured the Khanty-Mansiysk Otkritie Bank logo.

### Urban Development



In 2014, Otkritie Holding installed observation binoculars at Ostankino TV Tower and in Kolomenskoye park with more to be set up in Gorky Park and on the Krymsky and Andreevsky Bridges in Moscow. The project was launched in 2013, when Otkritie Holding installed Russia's first observation binoculars at the Sparrow Hills observation deck in Moscow, where both city dwellers and tourists can feast their eyes on Moscow's views, magnified tenfold, absolutely free of charge.

## Skating Rink at VDNKh Exhibition Centre



The largest artificial ice skating rink in Europe and Russia opened at Moscow's VDNKh Exhibition Centre in 2014 with the support of Khanty-Mansiysk Otkritie Bank as general partner. The skating rink is shaped to resemble the famous Golden Key from the Russian version of Pinocchio, stretching from a square near the People's Friendship Fountain towards the Stone Flower fountain.

## Polytechnic Theatre



As a long-time partner of the Polytechnic Museum, one of the world's largest science and technology museums, Otkritie Holding is now financing the renovation of the Museum building in Novaya Square in Moscow.

For the duration of the renovation, fans can visit the Polytechnic Museum's new exhibition at VDNKh Exhibition Centre. The Museum fund and the Polytechnic Library collection have moved temporarily to Technopolis Moscow; the Children's Lectorium and Science Labs continue to operate as usual at the ZIL Culture Centre.

## Charitable Deposit



In October 2012, the Private Banking team of OFCB Group launched a charitable deposit with all interest accruing on such deposits to be donated monthly to Rozhdestvensky Charity Fund established to support children from the Rozhdestvensky orphanage.

## Support for the Children's Puppet Theatre



Over the past few years, Otkritie Holding has sponsored the Puppet Theatre in St. Petersburg. This is the first professional theatre to be fully equipped for children with disabilities. With the support of Otkritie Holding, the theatre has acquired its own building and expanded its performances to include monthly charity tours at orphanages and residential schools.

## Christmas Fair



Each year before New Year's and Christmas, Otkritie Holding hosts a charitable holiday fair. Guests can buy hand-made gifts and souvenirs, such as Christmas tree ornaments, gingerbread houses, children's books, farm products and much more.

## Blood Donation



Otkritie Holding regularly holds donor days, when employees can donate blood to children undergoing treatment for cancer at the Federal Research and Clinical Centre of Pediatric Haematology, Oncology, and Immunology. Employees also direct the payments they receive for donating blood to the Give Life Foundation and the Vera Hospice Charity Fund.

## Scholarship Programmes



Khanty-Mansiysk Otkritie Bank provides a special scholarship to the best students from the Khanty-Mansiysk Autonomous District and the Tyumen Region. In 2014, 21 students with top academic, scientific, and community performance received scholarships. Khanty-Mansiysk Otkritie Bank also offered the best students internships at the Bank's offices.

## Sports



Khanty-Mansiysk Otkritie Bank sponsors international biathlon and skiing events, as well as regional and national volleyball and basketball tournaments, boxing matches, swimming competitions, and motorsports events.

Since 2006, the Bank has been the general sponsor of Ugra, the professional hockey club playing in the Continental Hockey League. Ugra Hockey Club was Supreme Hockey League champion in 2011 and 2012 and won the Bratina Cup in 2008/2009 and 2009/2010.

Khanty-Mansiysk Otkritie Bank and the government of the Khanty-Mansiysk Autonomous District (Ugra) organised the third UGRA SKI MARATHON open international ski racing competition, which is part of the RUSSIALOPPET series and the FIS Marathon Cup.

Each year more than 1,300 Russian and foreign athletes participate in 5, 25, and 50 km races for a total prize fund of RUB 3 million.

Otkritie Holding supports its employees' sports initiatives. Otkritie Holding's football and basketball teams rank high in prestigious corporate leagues.

In implementing its social programmes, Otkritie Holding believes that social responsibility should not be limited to emergency situations or charity. The Group and its employees launch and participate in a large number of corporate initiatives, both at a national level and in the form of direct support to those who need it most.

## Human Resources

### Overview

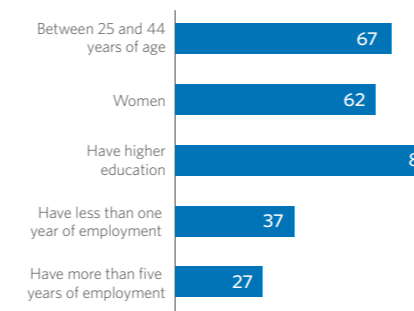


Olga Selyanina  
Head of HR

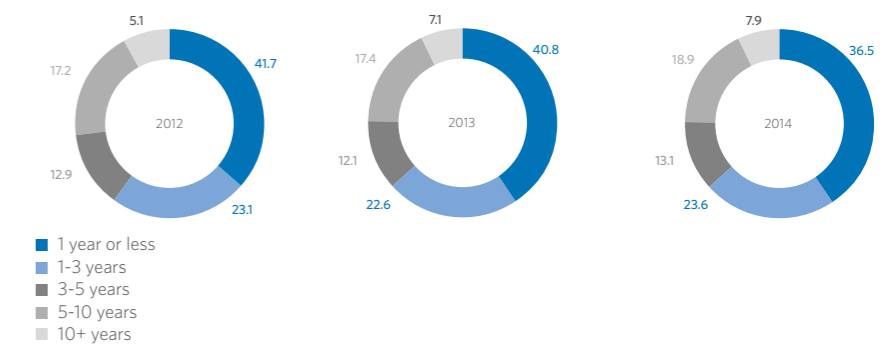
### 2014 Priorities

In 2014, the Human Resources Department focused on improving employee performance, quality and training a new generation of executives.

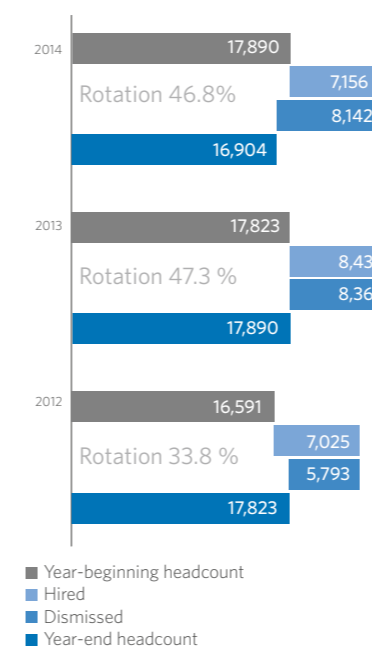
### Share in total number of employees, %



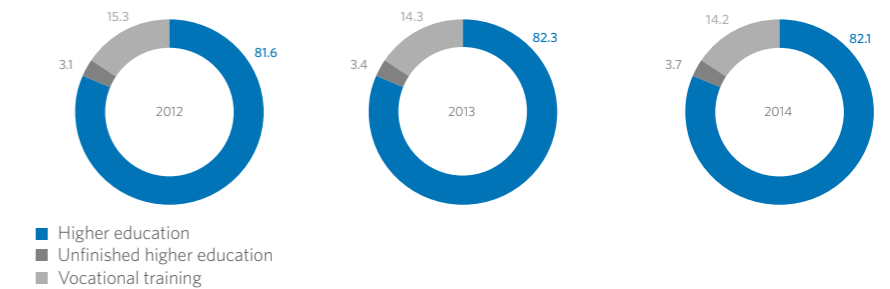
### Duration of Employment as at the year end, %



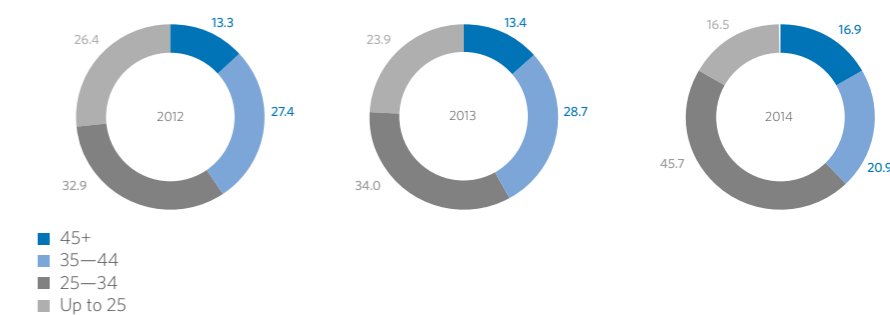
### Headcount Dynamic



### Education Distribution as at the year end, %



### Age Composition as at the year end, %



## Priority Segments and Projects in 2014

### Financial Incentives Risk Management

In 2014, the Group paid close attention to improving its financial incentives risk management in line with Russian laws.

### Professional Training System Development

The Group follows a systematic approach to human resources training and development.

A unique manual was developed for distance learning at Otkritie FC Bank. The manual comprises over 20 learning modules devoted to essential products in the corporate banking segment. Employees have access to a specialised training system for professional development. The Private Banking employees successfully use the Career Model project.

In 2014, Khanty-Mansiysk Otkritie Bank launched a Client Service project, for employees and managers from offices across all geographic regions where the Bank operates, to learn about new service quality standards, managerial instruments for better client service and to plan for local implementation of those standards.

### Launch of Corporate Development Programmes

In 2014, Otkritie FC Bank developed and launched a new programme called Keys to Efficient Management to foster managerial skills of employees with working experience of less than 1 year at the Bank. More than 50 mid-level managers enrolled in the programme and received training in leadership skills and competences over the year.

Khanty-Mansiysk Otkritie Bank implemented a similar management development project in 2014 called Manager Training School. Over 200 managers of the Bank, including unit heads and department directors participated in the training sessions.

### Employee's Voice Project

Khanty-Mansiysk Otkritie Bank conducted a survey called "Employee's Voice" from September, 1 to October 1, 2014. Each employee was invited to voice their point of view on various aspects of working at the Bank. The survey covered more than 5,000 employees, 73% of staff.

The survey results showed that employees value the excellent working atmosphere (65%), management and managerial solutions (63%), and interesting work (52%) at Khanty-Mansiysk Otkritie Bank. The survey also helped outline the following key areas for improving employee involvement in 2015: career growth, employee recognition and streamlining internal processes.

### Cooperation with Educational Institutions

In 2014, Khanty-Mansiysk Bank Otkritie launched a project to cooperate with a number of higher education institutions with a view to recruiting young specialists for paid and unpaid internship programmes to build a stronger workforce.

Over 100 interns subsequently accepted offers of permanent employment with the Bank.

## 2015 Strategy and Priorities

The key objectives of the HR strategy for 2015 include:

- to improve processes across all major HR systems, including personnel selection and training, HR document workflow and HR management;
- to manage the OFCB Group integration process covering all HR issues.

## Business Reorganisation at Otkritie Financial Corporation Banking Group

During 2014, the key objectives of the HR policy were:

- to support the integration processes in terms of human resources;
- to design and implement a systematic approach to employee development and motivation;
- to build a high-performing professional team.

### Role of HR in the integration of Otkritie Bank, Bank of Khanty-Mansiysk and Novosibirsk Municipal Bank

In the course of the banks integration, the HR focus was on ensuring smooth integration and creating a unified management structure for effective cooperation.

In order to structure the new Bank, each bank's key strengths were identified and used for better synergies. The 2015 plans include a series of events to improve the unified team's performance efficiency.



## FINANCIAL OVERVIEW



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"Despite the volatile markets and the general economic downturn, Otkritie FC Banking Group earned RUB 5.9 billion in net profit in 2014"

Dmitry Romaev

President, Chairman of the Management Board,  
member of the Supervisory Board



Sergey Kovtun  
CFO

In 2014, Otkritie FC Banking Group's total assets increased by 88.2% to

**RUB 2,595.9 billion**  
as of December 31, 2014

As of December 31, 2014 non-performing loans accounted for

**2.6%**  
of gross loan portfolio of the Group

As of December 31, 2014 the Group's investments in securities and derivative financial instruments comprised 17.9% of its total assets or

**RUB 464.2 billion**

## Assets

In 2014, there were no major changes in the Group's asset structure. The net loan portfolio accounted for 68.8% of total assets, while investments in securities and derivative financial instruments made up 17.9% of assets. As of December 31, 2014, liquid assets represented 29.5% of total assets. The Group's net loan portfolio demonstrated a 103.0% increase year-on-year (68.4% increase year-on-year excluding foreign currency revaluation) to RUB 1,784.8 billion (2013: RUB 879.3 billion). This rapid growth of the Group's business was supported by a conservative risk management policy. As of December 31, 2014, non-performing loans (NPL) accounted for only 2.6% of the gross loan portfolio of the Group, one of the lowest results in the Russian banking sector (2.9% as of December 31, 2013).

The loan loss provision (LLP) ratio stood at 2.2% as of December 31, 2014 (3.6% as of December 31, 2013). Cost of risk ratio amounted to 1.9% for 2014 (1.2% for 2013). For more details on the loan portfolio quality analysis, please refer to page 64, Credit Risk of Risk Management and Control section.

## Securities Portfolio

As of December 31, 2014, the Group invested a total of RUB 464.2 billion in securities and derivative financial instruments (representing 17.9% of its total assets), of which financial assets at fair value through profit and loss (FVTPL) accounted for RUB 292.2 billion. Fixed income instruments, including bonds and promissory notes of leading Russian banks and corporations, and sovereign bonds, account for more than 55.3% of the Group's FVTPL portfolio. These securities form the Group's liquidity cushion. As at the end of 2014, available-for-sale investments (AFS) accounted for 23.9% of total investments in securities and derivative financial instruments (or RUB 110.8 billion). This portfolio consists of bonds issued by leading Russian banks, corporations and sovereign bonds.

## Liabilities

The Group's customer accounts totalled RUB 1,023.0 billion as of December 31, 2014, a 30.9% increase year-on-year (13.0% increase year-on-year excluding foreign currency revaluation). The volume of term deposits and the share of current accounts as a proportion of the total amount of customer funds stood at 78.7% and 21.3%, respectively. Customer accounts of corporates amounted to 57.9% as of December 31, 2014, while the share of individuals and the customers from the small business segment amounted to 34.8% of customer accounts<sup>1</sup>. Interbank loans (which totalled RUB 1,041.6 billion as of December 31, 2014) accounted for 42.7% of the Group's liabilities. In 2014, interbank loans raised by the Group had an average duration of approximately 106 days and an average effective interest rate of 9.1%, making this source of funding stable and cost-efficient for the Group.

<sup>1</sup> Calculated based on the percentage of client accounts attributable to the Group's core businesses, excluding the Treasury and non-distributable operations.

In 2014, the Group's liabilities demonstrated a 96.7% increase year-on-year (59.7% increase year-on-year excluding foreign currency revaluation) and reached

**RUB 2,438.0 billion**

In 2014, total operating income (before provision for impairment losses) increased by 26.1% year-on-year and reached

**RUB 67.1 billion**

Net interest margin stood at

**4.5%**

for 2014 (compared to 4.4% in 2013)

In November 2014, Otkritie FC Bank completed its secondary public offering at the Moscow Exchange, raising

**RUB 21.4 billion**

in additional capital

## Profitability

Otkritie FC Banking Group earned RUB 5.9 billion in net profit in 2014. The Group's net profit attributable to shareholders amounted to RUB 7.1 billion, while earnings per share came to RUB 60.4 in 2014. Return on Equity (RoAE) for 2014 amounted to 21.7% (net of results from operations with securities), or 6.2% (including results on operations with securities). RoAE for 2013 stood at 17.5%.

Total operating income (before provision for impairment losses) of the Group for 2014 amounted to RUB 67.1 billion (up 26.1% year-on-year). Net interest income and net fee and commission income were the key growth drivers for the Group's operating income. Net interest income for 2014 increased by 61.1% year-on-year to RUB 65.6 billion.

Net fee and commission income for 2014 increased by 46.8% to RUB 13.2 billion. The greater part of the Group's net fee and commission income accounted for settlement transactions (RUB 5.8 billion), documentary operations (RUB 3.0 billion) and commissions on agents' fees (RUB 2.4 billion). The retail business segment earned about the half of the total net fee and commission income of the Group. In 2014, net fee and commission income of the retail business segment increased by 62.2% year-on-year and reached RUB 6.1 billion. Operating expenses for 2014 increased by 10.4% as compared to the Pro-forma<sup>1</sup> results for 2013. Staff expenses accounted for 60.3% of total Group's operating expenses.

The Cost-Income ratio (operating expenses to operating income before provision for impairment and results on operations with securities) stood at 43.7% for 2014<sup>2</sup> (41.3% in 2013).

## Capital Adequacy

As of December 31, 2014, the Group's total equity increased to RUB 157.8 billion (2013: RUB 139.4 billion). In November 2014, Otkritie FC Bank completed its secondary public offering at the Moscow Exchange, raising RUB 21.4 billion in additional capital. As of December 31, 2014, the total capital adequacy ratio stood at 12.4%.

<sup>1</sup> Pro-forma means the 2013 financial results of Otkritie Financial Corporation Bank assuming that the consolidation of Otkritie Bank took place on January 1, 2013.

<sup>2</sup> The Cost-Income Ratio amounted to 54.8% including results on operations with securities in 2014.



## RISK MANAGEMENT AND CONTROL

“The Group made risk management a top priority during the market turbulence in 2014, tempering business growth with a conservative risk policy”



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for discoveries in our life  
[open.ru](http://open.ru)

Dmitry Romaev

President, Chairman of the Management Board,  
member of the Supervisory Board

## Overview



Anatoly Predtechensky  
Deputy Chairman of the Managing  
Board, Head of Risk

In 2014, Otkritie FC Banking Group continued to strengthen the risk management framework. The main focus areas were:

- improvement of risk assessment guidelines, decision-making procedures, risk monitoring and cooperation between the business units of the Bank implied in risk management framework;
- harmonisation of products and risk management approaches between the banks of the Group;
- preparation of the internal regulations for implementation of Basel II standards.

In addition to the above, substantial attention was paid to adopt a risk management system to manage the deteriorating operating environment during 2014.

## Key Risk Areas and Risk Management Tools

### Key risks and mitigation procedures in 2014

Risks	Key mitigation procedures and their enhancement in 2014
Credit risk	<ul style="list-style-type: none"> <li>• implementation of the early warning system to identify the first signs of deteriorating quality of the project finance portfolio;</li> <li>• statistical models updated to evaluate risks in terms of expected losses (PD and LGD models);</li> <li>• further improvement to the risk management system for structured products operations, including the establishment and monitoring of credit risk limits.</li> </ul>
Liquidity risk	<ul style="list-style-type: none"> <li>• well-balanced funding profile maintenance and concentration risk management in the Bank's funding base.</li> </ul>
Market risks	<ul style="list-style-type: none"> <li>• maintenance of the continuity of the market risks management processes during the merger of Bank of Khanty-Mansiysk, Otkritie Bank and Novosibirsk Municipal Bank (including the unification of limits, risk management methodology and key business processes);</li> <li>• unification of stress test procedures for securities portfolios of the banks;</li> <li>• specification of the risk evaluation methodologies and update of the currency position management process;</li> <li>• specification of the risk management development strategy regarding the market risks management.</li> </ul>
Operational risk	<ul style="list-style-type: none"> <li>• the updated business processes in the following areas: foreign currency loans conversion, verification of borrower tax arrears when opening new accounts, settlements and cash services for pension fund clients, improved efficiency of insurance policy, the independent risk survey for currency transactions and transactions with valuables.</li> </ul>

Risks	Key mitigation procedures and their enhancement in 2014
Anti-money laundering and counter-terrorist financing procedures	<ul style="list-style-type: none"> <li>• development of a policy for implementation of internal controls to prevent the legalisation (laundering) of proceeds from crime and terrorist financing;</li> <li>• improvement of "know your client" policy in respect of new clients (when entering into bank account agreements, receiving bank guarantees, rendering broker services, performing transactions without opening an account and other services);</li> <li>• improvement of the monitoring procedures for suspicious client transactions in order to identify and prevent the laundering of proceeds from crime and terrorist financing in a timely manner;</li> <li>• implementation of the steps to ensure that the Group's banks are in compliance with FATCA;</li> <li>• development of internal procedures to adapt to international sanctions against Russian banks, corporations and individuals;</li> <li>• carrying out the training for employees of the Group's banks on issues connected to preventing the laundering of criminal proceeds and terrorist financing.</li> </ul>
Legal and reputational risks	<ul style="list-style-type: none"> <li>• constant monitoring of regulatory changes and timely updating of the contract specimen database;</li> <li>• communication of regulatory changes within the Group and carrying out of the special trainings for employees on legislation updates;</li> <li>• enhancement of the Group's internal regulations in terms of legal risks' origin, potential loss and internal units responsibility to solve them;</li> <li>• update of internal regulations in terms of drafting and approval of standard and non-standard agreements;</li> <li>• preparation of the guidelines for verification of the Bank's counterparties;</li> <li>• boosting the communication channels of the Group's core business, sponsorship and charity events to clients and media.</li> </ul>
Strategic risks	<ul style="list-style-type: none"> <li>• introducing measures to implement a strategic model for business development within Otkritie FC Banking Group, considering the integration aspects: the transfer of the retail and small business from Otkritie FC Bank to Khanty-Mansiysk Otkritie Bank and the minimisation of non-core expenses;</li> <li>• monitoring the implementation of the approved business plans for the banks of the Group.</li> </ul>
Regulatory risks	<ul style="list-style-type: none"> <li>• organisation of the independent internal control offices according to the requirements of the Central Bank of Russia.</li> </ul>

## Credit Risk

**Credit risk — the risk of contractual default by a borrower or counterparty — is the most significant risk that the Group faces**

**Credit risk mostly arises from the loans to the non-financial sector and retail loans, corporate debt (promissory notes and bonds), loans to other banks and interbank operations**

**The Group's credit portfolio risk is concentrated mostly in the corporate banking segment. The Group offers its corporate clients a wide range of credit products, such as working capital financing, factoring, leasing, project finance and documentary products (such as guarantees, letters of credit etc.). The substantial part of the retail portfolio is the mortgage business**

### Credit Risk Management Aspects in 2014

In 2014, the credit risk management policy was affected by sanctions against Russian banks and corporations, significant exchange rate fluctuations, higher interest rates and overall deterioration in the economic business climate.

The negative impact of exchange rate fluctuations on borrowers' debt was minimised by restricting the provision of loans in foreign currency to borrowers only with stable revenue in foreign currency.

In early 2014, the Group also worked with a significant number of clients to convert their foreign currency loans to roubles.

In 2014, the Group continued to imply more stringent credit rules, yet started in 2013, especially for new borrowers. Underwriting preferences received clients, who provided liquid collateral and enjoyed stable cash flow for debt servicing and acceptable debt leverage. A more conservative approach was also applied to projects with long payback periods (residential and commercial construction projects, investment projects in the real sector).

The limit policy for financial market transactions became more prudent to prevent losses on transactions concerning the placements of temporarily spare funds as well as to build up a bonds portfolio for liquidity management purposes.

The guidelines and procedures of the early warning system approved in 2014 helped to identify the potential problems with investment projects at early stage and to ensure the timely monitoring and rapid identification of deviations from target indicators during project implementation. This allowed Otkritie FC Bank to focus its efforts on working more closely with a number of clients in order to improve the quality of the loans.

The early warning system for working capital financing projects proved to be the effective loan portfolio quality monitoring tool, which helped to control the borrowers' quality considering a wide range of indicators, including financial performance, debt service and communication process. As a result, the Bank was able to develop accurate forecasts of loan portfolio quality and its loss provisions.

**Apart from the borrower's financial standing and creditworthiness assessment lending decisions also involve a review of the borrower's vulnerability to macroeconomic factors and regional market conditions**

The volume of new loans provided to retail and small business clients in 2014 declined in line with the implementation of stricter requirements for potential borrowers. The Group's priority products during 2014 were providing loans to employees of the Group's corporate clients (payroll customers) and mortgage loans.

During 2014 small business lending was carried out primarily on a secured basis. Significant attention was paid to enhance business procedures and efficiency in terms of settlement of problem loans as well as identification of early signs of assets deterioration.

Interest rates on loans increased notably in the end of 2014, when the Central Bank of Russia raised the key refinance rate to 17 % in December 2014. The Bank's pricing policy was adapted to reflect the changes. However, the Bank was very cautious while changing the rates upwards and offering them to clients in order to prevent the dramatic working capital outflow of the customers. Loan rates were reduced in the first quarter of 2015 to reflect stabilisation of the situation in the Russian financial market compared to 2014 year end.

### Main principles of credit risk management in the Group's banks

The Group's banks use the unified approaches while implementing the credit policy based on multi-level control and potential risk appetite, considering the following aspects:

- the principle of business units responsibility: client and (credit) product units are responsible for risk taking; performance results including the level of risk taken and realised are included in the motivation system;
- the rule of regular monitoring of particular clients and the portfolio dynamics: is used to implement changes in the conditions of lending facilities as well as credit rules and procedures;
- the principle of independence of risk management units: risk analysis, evaluation and control are entrusted to risk management divisions that participate in structuring, approving and monitoring of risk and report directly to the President of the bank;
- the decision making process on loans is delegated based on the size and complexity of a transaction. It may be reviewed by the Management Board, Major Credit Committee or Small Credit Committee in order to minimise risk and to consider the volume of risk appetite.

According to IFRS requirements, the Group makes provisions for potential losses on impaired loans. Risk management divisions calculate collective provisions based on historical losses and individual provisions based on a conservative estimate of the expected recovery, considering the work-out plan developed for the problem asset management.

Since 2013 the Bank has been using an automated corporate loan conveyor system

For retail portfolios and small business portfolios, provisions are calculated on collective assessment principle based on historical loss data, considering the product category, impairment period and internal statistics on recovery for the pools of problem loans. Individual assessment may be carried out for loans with significant volume and small business loans.

#### The Quality of the Loan Portfolio of Otkritie FC Banking Group, as of December 31, 2014

	The share of non-performing loans (NPL, %)		Provision ratio, %	
	2014	2013	2014	2013
Corporate loans	1.4	1.9	1.3	3.1
Small business loans to corporates	11.9	6.4	8.6	5.4
Loans to individuals	9.9	5.5	8.1	5.0
<b>Total loans to customers</b>	<b>2.6</b>	<b>2.9</b>	<b>2.2</b>	<b>3.6</b>

Khanty-Mansiysk Otkritie Bank responded to market volatility and the economic downturn by focusing on providing the retail loans to employees of the corporate clients of the Group and to payroll clients, i.e. the less risky segments of the retail banking business

#### Corporate and Interbank Loans

The Group has built a multi-level limit system of the decision-making process. Decisions are made by the credit committees, head office credit committees of the bank's branch within the cope of their competencies or the Management Board, depending on the transaction value and other parameters. Residential and commercial real estate financing is handled by the head office project finance Investment Committee.

According to the credit policy of the Group's banks adequate collateral is necessary for the loan approval. The collateral must be liquid and enough to cover the potential losses in the event of default.

Only secured loans can be provided to higher-risk customers.

The risk evaluation and loan approval policies and procedures in the Group's banks are strictly subordinated. When a prospective transaction is initiated, the customer relationship manager first assesses the transaction compliance with the Group's standards. The credit departments then review the purpose of the loan, the business of the borrower and other parties of the transaction (if applicable), i.e. the borrower's financial standing and credit history, the quality of the proposed collateral and the borrower's compliance with legal requirements.

Otkritie FC Bank halted its retail lending, mortgage programmes and small business financing. These segments are served by Khanty-Mansiysk Otkritie Bank. In 2014, Otkritie FC Bank continued transferring its existing small business and retail loans portfolios to Khanty-Mansiysk Otkritie Bank

The department responsible for credit risk analysis provides an independent opinion regarding the credit transaction. All review units (including those authorised to evaluate collateral and review legal risks) are independent from the loan-origination client and business units.

Once a review is complete, the relevant collegial body makes a final decision regarding the loan and its parameters based on a review results.

Apart from the borrower's financial standing and creditworthiness assessment lending decisions also involve a review of the borrower's vulnerability to macroeconomic factors and regional market conditions.

Exposure to a single borrower or a group of related borrowers sometimes can be subject to sub-limits, taking into the account on-balance and off-balance risk position. Compliance with exposure limits is monitored on an ongoing basis in respect of single clients, groups of related clients, industries and types of financial instruments.

In order to assess the adequate level of credit risk in respect of financial markets transactions, the Group stipulated the conservative limits definition system based on the types of customers and categories of transactions. The limits are defined by the collegial body based on a review of counterparties' financial standing and business reputation. Counterparty creditworthiness is verified monthly, and recommendations are issued to review current limits, if necessary.

Loan quality is monitored by portfolio monitoring and risk management teams in close cooperation with loan-origination units. The early warning system (EWS) helps to promptly identify clients with a deteriorating credit profile. During 2014 EWS was implemented for investment projects. Any red flags are reported to the collegial bodies, which approved the loan, or to the Committee for problem asset management.

The problem asset management unit deals with impaired loans and takes measures to mitigate the Group's losses, including legal protection of the Group's interests.

The Bank launched an automated corporate loan conveyor system in 2013. The system was deployed at all branches of the Bank in 2014. The new software allowed to save time on processing corporate loan applications as well as to widespread within the Group the common standards for applications analyses and transaction support.

In 2014, the Bank improved its statistical models for risk evaluation in terms of probability of default. A new model was designed to evaluate clients' exposure to other related companies and to factor in the support by owners and the government.

## Retail Loans

Retail risks are managed by the retail risk department and retail lending division, the latter handles verification, fraud detection, risk analysis, evaluation and monitoring of the credit decisions.

The Group primarily sells its retail products through its corporate channel. Products include the Partner package (targeted at employees of the approved companies) and the Professional package (targeted at payroll clients).

Khanty-Mansiysk Otkritie Bank used to target a wide range of potential retail clientele, including walk-in segment. But volatile markets and a shrinking economy have forced Khanty-Mansiysk Otkritie Bank to focus on less risky retail clients of the corporate segment and payroll customers.

In 2014, the Group took a more disciplined approach to its risk appetite, introduced new scoring models, revised criteria for companies accreditation, decreased the maximum level of debt burden (debt to revenue ratio) with more stringent minimum requirements for new customers, increased the proportion of manual underwriting.

Otkritie FC Bank halted its retail lending, mortgage programmes and small business financing. These segments are now served by Khanty-Mansiysk Otkritie Bank.

In 2014, Otkritie FC Bank continued transferring its existing small business and retail loans portfolios to Khanty-Mansiysk Otkritie Bank.

Khanty-Mansiysk Otkritie Bank focuses on mortgage programmes for its most reliable customers. The Bank uses a loan factory tool that segments clients by risk level and offers the most favourable conditions to top clients. This results in a high percentage of approvals in its target segments.

The level of credit risk is measured based on a client's credit history with other banks, the volume of down payment, the financial position of the client and other factors. As economic conditions changed, the Bank introduced more stringent criteria for client financial standing and credit history.

In 2014, Khanty-Mansiysk Otkritie Bank targeted its SME lending policy at reducing credit and operational risks and making the lending process more efficient by centralising certain lending processes, decision-making, transaction conditions monitoring, and provisioning. The financial criteria and collateral screening criteria were revised to reflect a more conservative policy.

In order to determine financial handicaps by borrowers at early stage and to undertake adequate measures to protect the Bank's interests, the Bank performs the ongoing loan monitoring and reviews of borrowers' accounts to detect any changes in their creditworthiness, monitors the compliance with the loan agreement and collateral etc.

In 2014, Khanty-Mansiysk Otkritie Bank focused on improving the collection process. The Bank streamlined its automated call system to increase the number of contacts with clients and started to involve field debt collectors at the very early stages of the recovery process. The Bank also started to hire the third-party collection agencies and implement the new behavioural models. Debt recovery was further improved through the introduction of individual debt collection for clients with large arrears; now the Bank promptly files suits to compel payment of significant arrears. Collateral management techniques were introduced at early stages of delinquency. The Bank also launched a centralised mailing notification system.

## Liquidity Risk

**Liquidity risk is the risk that the Bank will not be able to perform its obligations in a timely manner and in full, whether in normal circumstances or due to contingencies**

The OFCB Group banks maintain sufficient liquid assets to perform their obligations and comply with requirements of the Central Bank of Russia and internal limits.

The day-to-day management of the Group's liquidity risk is carried out by the Treasury Department within the limits defined by the Financial Committee. The Group distinguishes between short-term and long-term liquidity risk.

Short-term liquidity risk is managed by the distribution of assets between nostro accounts, collection of information on proposed major transactions and clients' payments, and the use of money market instruments such as swap and REPO transactions.

To minimise the risk of unforeseen cash outflow, the Group has formed a treasury securities portfolio to have a proper liquidity buffer that could be used to secure financing from the Central Bank (i.e. securities from the Lombard List) or quickly sold in the market without any significant decline in value.

Long-term liquidity risk is managed through structuring assets and liabilities in terms of their currency, maturities, and instruments.

The Group aims to maintain a reasonable level of highly liquid assets and complies with limits on a mismatch between assets and liabilities as well as with limits on exposure to individual counterparties and groups of affiliated counterparties.

In 2014, the Group sustained a well-balanced financing structure. The Group had access to REPO auctions and to refinancing options provided by the Central Bank of Russia against market instruments (securities, precious metals) and non-market assets (commercial loans and guarantees by counterparty banks). In this way the Group provided access to rouble and foreign currency resources for its clients.

## Market Risks

**Market risk is the risk that the Group will incur losses due to the unfavorable fluctuations in the market value of financial instruments (including debt securities), foreign exchange rates and interest rates**

Market risk is managed on a day-to-day basis by departments responsible for trading in the financial markets and by risk management departments, which evaluate and monitor exposure to currency and price risks and submit proposals on market risk limits to the Financial Markets Committee.

The OFCB Group banks run the VaR tool and regularly apply scenario-based analysis to manage the market risk.

Currency risk is primarily managed by analysing open currency positions and VaR both for financial markets and for the bank in general.

Currency positions are monitored for potential exchange rates fluctuations. All positions in excess of applicable limits are hedged.

The OFCB Group banks' policy is to maintain of a well-balanced currency position in order to minimise any exposure to fluctuations of the Russian Rouble against the FX basket.

### Otkritie FC Banking Group Value-at-Risk, as of December 31, 2014<sup>1</sup>

Type of Risks	Position (RUB million)	Absolute VaR / Risk via Sensitivity (RUB million)	Relative VaR, %
Currency risk	5,796	2,105	36.3
Fixed income securities market risk	247,176	19,849	8.0
Equity market risk	9,418	486	5.2
Total for securities with market risk evaluated based on VaR	256,594	20,335	7.9
Sensitivity for illiquid securities	16,832	500	3.0

**The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from the borrowing terms of the funding base**

Interest rate risk is managed by the ALM Committees, which define the appropriate structure of assets and liabilities by maturity and interest rate and sets the ceiling or floor volume for raising or investing funds based on the GAP-analysis and the Bank's interest margin change scenarios.

The OFCB Group's banks assess their exposure to interest risk using GAP-analysis to determine the sensitivity of assets and liabilities to interest rate fluctuation.

Scenario analysis and stress tests ensure adequate evaluation of the possible influence of drastic market fluctuations on the Group's business. Significant attention is paid to assessment of illiquid instruments and instruments with non-defined maturity.

The worst case scenario is under special control. In this case stress tests are based on the imitation principle.

2014 saw increased volatility in FX markets and drastic rouble depreciation against main international currencies. Russian companies and banks had limited access to capital markets, Russian issuers were downgraded, and the Central Bank of Russia increased the refinancing rate significantly. In this volatile environment, the OFCB Group's banks paid close attention to open currency positions, interest rate risk management, risks associated with derivatives transactions as well as monitoring and limitation of credit exposure to financial markets transactions.

In order to mitigate risks the Group's banks took a number of measures such as: review of exposure to certain counterparties, ceiling REPO discounts, open currency position limits. The Group also implied more stringent requirements for transactions with derivative financial instruments.

<sup>1</sup> For consolidation purposes 10-day VaR is implemented.

## Operational Risks

**Operational risk involves potential losses caused by improper management and control procedures, fraud, poor business decisions, system failures due to employee errors or abuses, technical malfunctions, calculation errors, natural disasters and improper use of Group property**

The OFCB Group's banks identify, evaluate and monitor operational risks, undertake measures for their immediate elimination on a constant basis.

Operational risk exposure is reduced by harmonising banking procedures, insuring and outsourcing some operations, improving corporate governance procedures and IT systems, as well as developing emergency recovery scenarios and a contingency plan.

The Group's banks took the following operational risk management measures in 2014:

- launched operational risk management software in trial mode;
- revised the operational risk management policy and the procedure for gathering and recording information about operational risk events. These documents describe the operational risk management framework built by the Group's banks, define the new procedure for collecting information about operational risk events, and spell out the roles of each employee in mitigating and eliminating operational risks;
- developed an operational risk management training programme for Otkritie FC Bank staff and test materials for running operational risk management software (staff trainings and tests are scheduled to start in 2015);
- engaged a third-party provider to perform a risk survey of the head office data warehouse and three network units at the Group's banks; the survey found that the Group's systems are well protected from risks;
- operational risk management was integrated into the Group's risk insurance system to coordinate approval of contracts, covered risks, and coverage conditions. In late 2014, the risk insurance policy saw the light;
- worked out changes into the business processes of conversion of loans nominated in foreign currencies, new accounts registration taking with simulation verification of clients' indebtedness on taxes, of conduction of settlements of non-state pension funds clients.

## Financial Monitoring

**In 2014, the Group worked with international consultants to focus on compliance with FATCA requirements. Internal business processes were also updated to respond to sanctions by a number of foreign governments against Russian corporations, banks and some individuals**

The OFCB Group's banks follow the common approaches while implementing and updating the internal control system in terms of anti-money laundering and counter-terrorist financing.

Initiatives to combat money laundering and terrorist financing involve specialists at all levels of the Group's banks, from the Management Board and top managers to financial monitoring and compliance control teams, to authorised staff and other employees.

These employees regularly participate in special trainings and workshops to improve their skills and learn about changes to laws and regulations.

The OFCB Group's banks amended its internal regulations and programs to reflect changes to money laundering and terrorist financing laws in 2014.

To reduce the risk of involvement in improper business relations, the banks introduced a complete screening procedure for all new clients (when a new account is opened, a bank guarantee is issued, or other services are rendered).

The compliance department applies reputational risk criteria and ratios specially designed to mitigate the risk of doing business with untrustworthy clients and counterparties. Depending on the reputational risk ratio, the Bank resolves whether a customer (counterparty) is reliable enough to conduct operations with.

## Legal and Reputational Risks

**The goal of reputational risk management is to uphold the Group's favourable image and reputation with counterparties and the media**

Legal risk management includes an expert assessment of the Group's banks contracts and documentation. To mitigate their legal risks, the OFCB Group's banks implement standard agreements and procedures, share information on legislative changes, and carry out regular consultancy and training events for staff, including operational divisions.

Residual risks arising during banking activity are minimised and approved using legal risk maps depending on the client and transaction type.

The OFCB Group's banks maintain open communication channels with clients and the media to provide information about their core business. Each office of the Group has an information stand with client information and a feedback book. Online contact forms make it easy for clients to contact the banks with questions regarding banking activities.

The Public Relations department reaches out to the media to obtain coverage of OFCB Group's banks core businesses and the Group's sponsorship and charity programmes. Bank managers regularly meet with journalists to talk about important developments in the Group's business.

## Strategic Risks

**In 2014, the OFCB Group's banks implemented a strategy to allocate mandates by line of business. The strategic model called for Otkritie FC Bank to focus on enhancing its corporate and investment businesses**

In November 2014, the OFCB Group reorganised its retail business by forming Khanty-Mansiysk Otkritie Bank through consolidation of Bank of Khanty-Mansiysk, Otkritie Bank and Novosibirsk Municipal Bank. The development strategy envisions Khanty-Mansiysk Otkritie Bank as a full-service national retail bank with regional roots in Tyumen Oblast that offers all types of banking services, including corporate lending.

This approach to developing its banking business allows the Group to mitigate operational risks associated with fast growth and expansion across a number of business models, minimising competition for resources on the same balance-sheet while supporting a diversified revenue structure at the Group level and centralised coordination among Treasury, Risk Management, and Internal Audit departments.

Deviations from business plan targets are analysed on a regular basis and reported to the OFCB Group's banks' Management Boards. Performance by business segments and individual products are also analysed regularly. Any significant deviations from the strategy are reviewed to identify internal and external causes to adjust strategies and business plans going forward. In 2014, the OFCB Group's banks implemented their strategy and business plan without material deviations from the targets.

## Regulatory Risks

**Regulatory risks are assessed by internal control services using Otkritie FC Bank's point system, which takes into account the criticality and significance of identified violations**

In accordance with the requirements of Bank of Russia Regulation No. 242-P starting from October 1, 2014, each of the Group's banks has an internal control service whose key role is to monitor regulatory risks (the risk of loss due to failure to comply with Russian Federation law, a bank's internal regulations, or the standards of a self-regulatory organisation, if such standards are mandatory, or through sanctions and/or other actions imposed by regulatory authorities).

Internal control services also perform:

- monitoring of regulatory risk when introducing and implementing banking products, services and procedures by participating in approval of Bank internal regulations;
- analysis of regulatory risk levels by line of business, including analysis of the economic feasibility of outsourcing contracts by means of control audits;
- development and implementation of new or improved guidelines for control audits;
- monitoring of how the Bank's responsible officers apply measures to minimise regulatory risks;
- analysis and monitoring of regulatory risks using the results of audits by external regulatory authorities;
- analysis of contact trends (complaints and applications from the Bank's clients);
- development of recommendations for the Bank's top management or the Board on regulatory risk management.

The internal control services at the OFCB Group's banks operate under the banks' Articles of Association and internal regulations, namely: regulatory risk management policy, regulatory risk management regulation, internal control service regulation. The OFCB Group takes a unified approach to managing and monitoring regulatory risks.

## 2015 Priorities

**The Group will continue monitoring new trends in banking regulation. As a member of multiple task forces established by the Association of Russian Banks, the Group will work closely with the Russian Central Bank to design new approaches to banking regulation and introduce international best practices**

The Group continuously monitors the market and the economy in order to effectively plan the level of capital adequacy to cover both development plans and changes to the economic environment.

The Deposit Insurance Agency included the OFCB Group's banks in the list of banks, who meet the criteria for recapitalisation through government bonds. Banks will be offered recapitalisation in 2015 as part of a package of measures adopted by the Russian Federation Government and the Central Bank of Russia to stabilise the banking sector.

The Group will continue groundwork for the introduction of Basel II requirements, developing models for quantitative risk evaluation and other Basel II components (capital management and disclosures).

In 2015, the Group plans to consolidate Otkritie FC Bank and Petrocommerce Bank, creating a new bank focused on corporate and investment businesses. The consolidated bank will implement its strategy for corporate and investment business under the Otkritie FC Banking Group and will continue to serve key clients of Petrocommerce Bank.

The Group's risk management team will focus on integrating risk management frameworks, harmonising methodological approaches, and introducing best practices into the day-to-day operation of Petrocommerce Bank and other banks of the Group.



# CORPORATE GOVERNANCE

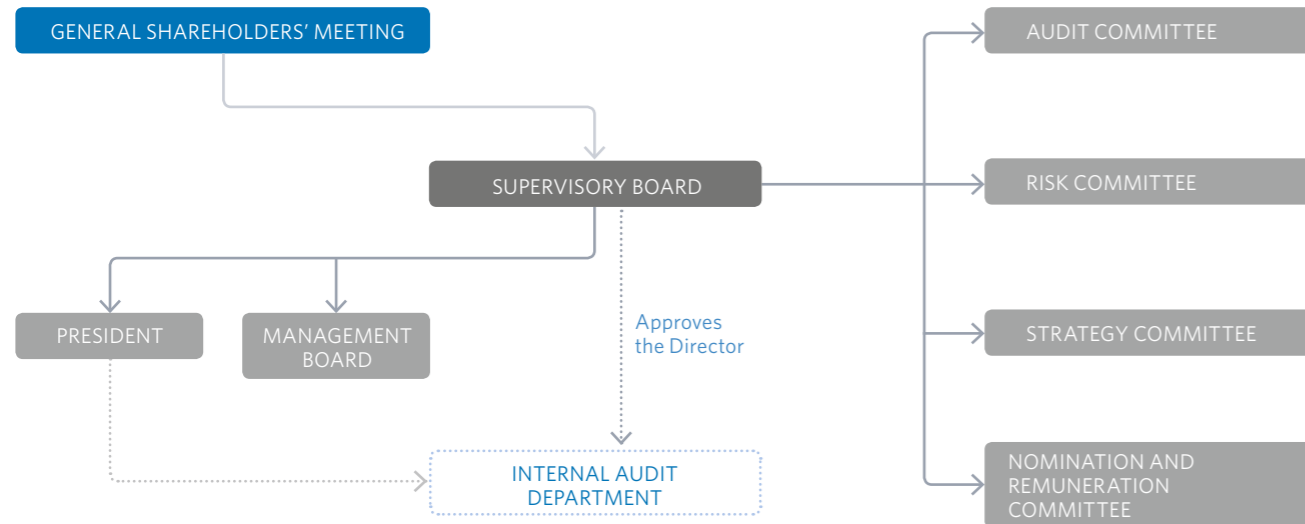


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for discoveries in our life  
[open.ru](http://open.ru)

“We are confident about the future development of the Group. Our strong corporate governance structure, underpinned by experienced top managers with a solid track record of working together as a team, has enabled us to successfully implement our strategy to build the largest full-service private financial group in Russia”

Ruben Aganbegyan  
Chairman of the Supervisory Board

## Corporate governance scheme



Otkritie FC Bank is a public company with shares and bonds traded on the Moscow Exchange. The Bank's shares are included in the top level quotation list

Otkritie FC Bank is a public company with shares and bonds traded on the Moscow Exchange. The Bank provides information on its business activities to all stakeholders in accordance with Russian law, regulations of the Central Bank of Russia, as well as Moscow Exchange requirements. The Bank timely discloses reliable information including its IFRS and RAS financial statements, quarterly reports of the securities issuer, its shareholding structure (ultimate beneficiaries), all material events and facts that concern that concern its business and may influence the Bank's share price, in order to ensure investors' and shareholders' ability to make informed investment decisions. This information is also available on the Bank's website.

## Share Capital

### Overview of Share Capital

Since its inception, the Bank has carried out 26 issues of ordinary shares and 3 issues of preferred shares.

As at the end of the 2014, the Bank's share capital amounted to RUB 7,797,645,500 and consists of 143,852,910 common registered shares and 12,100,000 of preferred registered shares with no fixed dividend. The par value of each ordinary and each preferred share is RUB 50. Common and preferred shares vest in their holders rights as provided by the Joint-Stock Companies Law and the Bank's Articles of Association. All preferred shares are held by a wholly-owned subsidiary of the Bank.

After the IPO in 2011, the Bank's shares were publicly traded at the Moscow Exchange and the London Stock Exchange in the form of ordinary shares and global depository receipts. In August 2014, having considered the tough market situation and closure of international capital markets for issuers from Russia, the Supervisory Board of Otkritie FC Bank decided to delist the Bank's global depository receipts (GDR) from the London Stock Exchange and close the global depository receipts programme. The Bank's global depository receipts were delisted from the London Stock Exchange on September 10, 2014.

The Bank's shares are traded at the Moscow Exchange, where they are in the top level quotation list. The Bank considers the Moscow Exchange to be an efficient platform for attracting Russian and global investors.

## Effective Corporate Governance Framework

The Bank's corporate governance operates in strict compliance with Russian law and the recommendations of the Russian Central Bank and it relies on best practice, including the generally accepted corporate governance principles developed by the Organisation for Economic Cooperation and Development (OECD)

### Corporate Governance System Overview

The Bank's corporate governance framework regulates the relations among its executive bodies, Supervisory Board, shareholders, and other stakeholders. The Bank's corporate governance structure provides an adequate balance between the governing bodies, assigns responsibilities, and delegates general governance functions carried out by the shareholders and the Supervisory Board and routine management exercised by the Bank's executive bodies.

Otkritie Bank's governing bodies interact within the scope of their respective powers as determined by the Russian Federal Law "On Joint-Stock Companies" and the Bank's Articles of Association.

To ensure effective governance, the Bank's executive bodies are highly autonomous. The Supervisory Board and shareholders may not, without due reason, interfere in the routine proceedings of the Bank's executive bodies or limit their ability to handle the Bank's day-to-day operations against the background of an evolving business environment.

The Bank's Board, chaired by its President, establishes a system of clear and pre-defined criteria and procedures for the appointment and replacement of heads of the Bank's departments, an efficient remuneration system, and programmes for training the Bank's employees and improving their skills.

To protect the interests of its shareholders, creditors, clients, business partners and counterparties, the Bank continually monitors its compliance with the Corporate Governance Code.

In November 2014, Otkritie FC Bank raised RUB 21.4 bn of equity as part of a secondary public offering on the Moscow Exchange. As a result of the SPO, the Bank has not only raised the capital required for further business growth but also expanded the shareholding structure: alongside the strategic investor who holds approximately 7.4 % of the Bank's capital, a number of institutional investors that have not previously held any of the Bank's shares as well as private investors have taken part in the offering. The stake of the majority shareholder Otkritie Holding decreased to 61.5 % (including direct and indirect ownership).

The Bank's shareholding structure is presented on its website as a flowchart and a list of holders who, either directly or indirectly, have material influence on the decisions made by the Bank's governing bodies; the list contains details of the Bank's shareholders (please visit <http://www.otkritiefc.ru/about/holders/>).

Members of the Supervisory Board and Management Board do not directly own the shares of the Bank.

As of December 31, 2014, the members of the Supervisory Board and Management Board indirectly control the Bank:

- Vadim Belyaev - indirectly controls 16.93 % of the ordinary shares;
- Ruben Aganbegyan — indirectly controls 5.05 % of the ordinary shares;
- Dmitry Romaev — indirectly controls 2.12 % of the ordinary shares;
- Alexey Karakhan — indirectly controls 1.03 % of the ordinary shares.

## Dividend Policy

### Overview of Dividend Policy

Up to date Otkritie FC Bank has not paid dividends to shareholders and reinvested its profit in order to contribute to the achievement of the Bank's objective to maximise its business expansion.

Resolutions to pay dividends and/or otherwise use the available profit are passed by General Shareholders' Meetings based on recommendations made by the Supervisory Board.

Otkritie FC Bank Regulation on the Dividend Policy was approved on April 7, 2015, by the Supervisory Board.

## General Shareholders' Meeting

**The annual General Shareholders' Meeting was held on June 17, 2014, in the form of attendance meeting in person and voting by ballot**

### Key Information

The General Shareholders' Meeting is the supreme governing body of the Bank.

Each shareholder may exercise its right to directly participate in managing the Bank by voting on agenda matters at the General Shareholders' Meeting. The General Shareholders' Meeting is convened by a resolution of the Supervisory Board in accordance with applicable Russian laws and the Bank's Articles of Association.

An annual General Shareholders' Meeting is held at least two months and up to six months after the end of each fiscal year. An extraordinary General Shareholders' Meeting may be held upon the request of the Bank's Supervisory Board, its Auditor, the Internal Audit Commission, or upon the request of shareholders holding at least 10 % of the Bank's voting shares.

### General Shareholders' Meeting Competencies

Within the scope of their authority, shareholders may:

- amend or supplement the Bank's Articles of Association, and approve revised Articles of Association;
- pass resolutions to reorganise or liquidate the Bank;
- determine the number of members of the Bank's Supervisory Board, elect and terminate the power of its members;
- elect and remove members of the Bank's Internal Audit Commission;
- approve the Bank's Auditor;
- pay/declare dividends;
- approve annual reports, annual financial statements of the Bank;
- approve major and related-party transactions;
- increase the Bank's authorised capital in cases provided by the laws on joint-stock companies and the Bank's Articles of Association;
- authorise the buyback by the Bank of its outstanding shares in cases provided by the laws on joint-stock companies and the Bank's Articles of Association;
- pass resolution to delist the Bank's shares and/or other securities convertible into shares;
- pass other resolutions as may be provided by applicable laws on joint-stock companies and the Bank's Articles of Association.

In 2014, four extraordinary General Shareholders' Meetings were held in the form of absentee votes. Representatives of Computershare Registrar CJSC acted as the Counting Committee at the General Shareholders' Meetings.

Shareholders were notified of the General Shareholders' Meeting in accordance with the requirements of the Law "On Joint-Stock Companies" and the Bank's Articles of Association. As provided by the applicable laws and resolved by the Supervisory Board, materials for the meeting were made available for review by the shareholders at the Bank's headquarters 20 days before the date of the General Shareholders' Meeting.

The notice of the General Shareholders' Meeting and the meeting materials were sent to shareholders and to the nominee shareholder (National Settlement Depository (NSD) CJSC) by the deadline specified by law and the Bank's Articles of Association. The nominee shareholder, in turn, forwarded this information to its depositors.

#### Key Resolutions of General Shareholders' Meeting in 2014

In 2014, General Shareholders' Meeting passed the following key resolutions:

- to approve the Bank's revised Articles of Association;
- to change the Bank's full and short names;
- to approve the 2013 Annual Report;
- to determine the number of the Bank's Supervisory Board members and to elect the members;
- to determine the number of members to sit on the Bank's Internal Audit Commission and to elect these members;
- to approve the appointment of the Bank's auditor;
- to approve related-party transactions;
- to amend the Articles of Association to the extent of the provisions regarding declared preferred shares of certain type that may be offered under Federal Law No.173-FZ.

## Supervisory Board Structure and Proceedings

**Among eight members of the Supervisory Board are three independent Directors and three non-executive Directors. The role of independent directors is to boost shareholder and investor confidence by ensuring effective control over the Bank's operations and factoring the interests of all stakeholders (including minority shareholders) in decisions vital to the Bank's business**

#### Key Information

The Supervisory Board is one of the key elements of the Bank's corporate governance. The Supervisory Board carries out strategic governance of the Bank, defines the key risk management principles and approaches, designs the internal control system, supervises the activities of the Bank's executive bodies and carries other crucial functions.

The Supervisory Board makes decisions related to the Bank's business within the scope of its authority under Russian law, the Bank's Articles of Association and the Supervisory Board Regulations. Its meetings are called as provided by the time schedule approved by the Supervisory Board, or as necessary by the Supervisory Board's Chairman, or as requested by any member of the Supervisory Board, the Bank's Internal Audit Commission, its Auditor, President, or the Management Board.

Members of the Supervisory Board are elected by the General Shareholders' Meeting.

#### Supervisory Board Members

Members of Otkritie FC Bank Supervisory Board were elected by the General Shareholders' Meeting on June 17, 2014, and include: Vadim Belyaev, Ruben Aganbegyan, Dmitry Romaev, Alexey Karakhan, Dmitry Vasiliev, Alexander Zelenov, Denis Stepanov, and Dmitry Mizgulin. Ruben Aganbegyan, the Chairman of the Board of Directors of Otkritie Holding, was elected to be the Chairman of Otkritie FC Bank Supervisory Board.

Three of the eight Supervisory Board members are independent directors and three members are non-executive directors. All members were nominated by the Supervisory Board for election at the General Shareholders' Meeting based on the recommendations of the Supervisory Board's Nomination and Remuneration Committee.

In line with the best international corporate governance standards, including the corporate governance principles developed by the Organisation for Economic Cooperation and Development (OECD) and Basel Committee on Banking Supervision, the Bank highly values the importance of independent directors. Their role is to boost shareholder and investor confidence by ensuring effective control over the Bank's operations and factoring the interests of all stakeholders (including minority shareholders) in decisions vital to the Bank's business.

## Supervisory Board Members



**Ruben Aganbegyan**

Chairman of the Supervisory Board, non-executive director

Mr. Aganbegyan was appointed Chairman of the Supervisory Board in 2013. He is a member of the Risk Committee, Audit Committee, Strategy Committee, and Nomination and Remuneration Committee of the Supervisory Board.

Mr. Aganbegyan is the CEO of Otkritie Holding and the Chairman of its Management Board. He also chairs the Board of Directors of Petrocommerce Bank and OTKRITIE Capital. He is a member of the Board of Directors of the Non-profit Organisation "National Association of Securities Market Participants" and a member of the Management Board of the Russian Non-governmental Organisation "Union of Industrialists and Entrepreneurs". Mr. Aganbegyan sits on the Board of Directors of Rostelecom.

Before joining Otkritie, Mr. Aganbegyan headed the Moscow Exchange. During his career, he held various executive positions with Renaissance Capital IC, Troika Dialog IC and Credit Suisse First Boston in Russia.

Mr. Aganbegyan graduated from Moscow State Law Academy in 1995, majoring in Law.



**Vadim Belyaev**

Member of the Supervisory Board, non-executive director

Mr. Belyaev has been on the Supervisory Board since 2013; he is also a member of the Strategy Committee of the Supervisory Board.

He is the President and the Chairman of the Board of Directors of Otkritie Holding.

Mr. Belyaev founded Otkritie in 1995, a retail broker company at the Moscow Exchange. Since then, he has held executive positions with the companies that later formed Otkritie Financial Group. Today, he is the major shareholder of Otkritie Holding, with a 26.71% stake held both directly and indirectly.

Mr. Belyaev has been involved in strategic and ongoing management of Otkritie Holding since 1995. He is known for his cultural and social projects.

Mr. Belyaev graduated from Moscow State Institute of Radio Engineering, Electronics and Automation. He has a degree in Banking and Insurance from the Finance Academy under the Government of Russia and holds an International Capital Markets Qualification from the Chartered Institute for Securities & Investments (UK). He was twice named Investment Banker of the Year.



**Dmitry Vasiliev**

Member of the Supervisory Board, independent director

Mr. Vasiliev has been an independent member of the Supervisory Board since 2013; he also chairs the Audit Committee, Risk Committee, and is a member of Nomination and Remuneration Committee of the Supervisory Board.

Mr. Vasiliev is a member of the Board of Directors of USRF (the U.S.-Russia Foundation for Economic Advancement and the Rule of Law, Washington, D.C., USA) and a member of the Supervisory Board of RKS-Management OJSC; he also serves as Managing Director of the Institute of Corporate Law and Management, an Autonomous Non-profit Organisation (Moscow, Russia).

During his career, he headed the Federal Commission for the Securities Market of Russia, was a top manager at Mosenergo OJSC and a Managing Director at JP Morgan.

He received his degree in Economics from Leningrad Institute of Finance and Economics named after N.A. Voznesensky majoring in National Economy Planning in 1984. In 2007, Mr. Vasiliev graduated from the Chartered Institute for Securities and Investment (London, UK). He has been approved to act as a professional investment consultant on the UK securities market.



**Denis Stepanov**

Member of the Supervisory Board, independent director

Mr. Stepanov has been a member of the Supervisory Board since 2013, he also sits on the Audit Committee and Risk Committee of the Supervisory Board.

Mr. Stepanov is President of Central Properties. Throughout his career he worked for Arthur Andersen and Alfa Bank; he later served as Deputy Chairman of the Management Board and CFO at Zenit Bank.

Since 2002, he has engaged in real estate projects via his company, Central Properties.

He graduated from the National Economy Academy of the Russian Government with a major in Finance and Credit in 1995.

He obtained his degree in Computer-Aided Design from Moscow Machines and Tools Engineering University in 1992.



**Alexey Karakhan**

Member of the Supervisory Board, executive director

Mr. Karakhan has been a member of the Supervisory Board since 2013; he is also a member of the Nomination and Remuneration Committee of the Supervisory Board.

Mr. Karakhan is Deputy CEO for Strategic Communications and a member of the Management Board of Otkritie Holding, General Director of Otkritie N, and a member of the Board of Directors at Otkritie Brokerage House, Otkritie Insurance and Otkritie Asset Management. During his career, Mr. Karakhan was a member of the Board of Directors of Otkritie Capital, Vice President for strategic communications at Aton and Advisor to the President of Business Russia. Between 2004 and 2009, Mr. Karakhan headed the Communications department at Renaissance Group companies (Renaissance Capital, Renaissance Credit, and Renaissance Investment Management).

Mr. Karakhan graduated from Lomonosov Moscow State University, majoring in Journalism in 2003.



**Dmitry Romaev**

President, Chairman of the Management Board, member of the Supervisory Board

Mr. Romaev has been a member of the Supervisory Board since 2013; he is also a member of the Strategy Committee of the Supervisory Board. He serves as President and Chairman of the Management Board of Otkritie FC Bank. Mr. Romaev also sits on the Board of Directors of Otkritie Holding and Petrocommerce Bank.

Over the years, Mr. Romaev was a member of the Management Board and CFO of Otkritie Holding. Before joining Otkritie, he held various positions in Sberbank OJSC, KIT Finance Investment Bank OJSC, and Petrocommerce Bank.

In 1993, he received an IT degree from Tula State Engineering University. In 1997, he graduated from the Finance Academy of the Russian Government with a major in Banking. In 1999, Mr. Romaev received his MBA from Dublin Business School.



Alexander Zelenov

Member of the Supervisory Board,  
independent director

Mr. Zelenov has been an a member of the Supervisory Board since 2009; he is also a member of the Risk Committee and Audit Committee of the Supervisory Board.

He is the Director of the Financial Institutions Department of State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank). Mr. Zelenov is also a member of the Board of Directors at GLOBEX Commercial Bank and Russian Standard Bank and a member of the Supervisory Board at Prominvestbank PJSC (Ukraine).

Mr. Zelenov graduated from Moscow Financial Institute majoring in International Economic Relations in 1977. He has a professional degree of certified directors awarded by the Institute of Directors (UK).



Dmitry Mizgulin

Member of the Supervisory Board,  
executive director

Mr. Mizgulin has been a member of the Supervisory Board since 2011. He is President and Chairman of the Management Board and a member of the Board of Directors of Khanty-Mansiysk Otkritie Bank. He has 20 years of banking experience. He served as CEO of the Bank of Khanty-Mansiysk between October 2001 and November 2014. Today, Mr. Mizgulin is Deputy Chairman of the Board of the Russian Regional Banks Association and a member of the Board of the Tyumen Region Lending Institutions Association. He chairs the budget, finance, and tax policy committee of the Khanty-Mansiysk Autonomous Okrug (Ugra) Duma.

Mr. Mizgulin graduated from Leningrad Institute of Finance and Economics majoring in Finance and Credit in 1984; has PhD in Economics. He has been awarded the title of Honoured Economist of Russia.

## Supervisory Board Resolutions in 2014

The Supervisory Board carries out strategic governance of the Bank, defines the key risk management principles and approaches, designs the internal control system, supervises the activities of the Bank's executive bodies and implements other key functions

### Key Information

In 2014, the Bank's Supervisory Board held more than 30 meetings and passed the following resolutions, among others:

- to increase the Bank's authorised capital by means of secondary public offering of ordinary shares; to determine the share price to be offered; to approve the shares issue documentation;
- to develop the Bank's internal controls system; to approve the Bank's organisational structure and the number of employees of the Internal Controls Department and the Internal Audit Department;
- to revise Regulations on the Bank's branches;
- to prepare recommendations for the annual General Shareholders' Meeting, including:
  - preliminary approval of the Bank's annual report and annual financial statements for 2013;
  - issuing recommendations regarding distribution of the Bank's net profit;
  - nomination of the Bank's Auditor;
  - nominations of the Supervisory Board members, to be elected during the annual General Shareholders' Meeting;
  - recommendations regarding the Auditor's remuneration;
  - other matters associated with preparation for the annual General Shareholders' Meeting;
- to convene extraordinary meetings of the Bank's shareholders: to approve their agendas; to set the record day for the list of participants authorised to attend the meeting; to approve voting ballots and the package of documents to be submitted to shareholders; other matters associated with preparation for the meeting;
- to review and to approve the Bank's RAS and IFRS financial statements;
- to review and to approve quarterly reports by the supervisor of the Bank's professional activities in the securities market and the supervisor of the Bank's specialised depository in the securities market;
- to review and approve issuer's quarterly reports;
- to review and to approve reports on the operation and the scope of work for the Bank's Internal Audit Department;
- to adopt resolutions associated with the Bank's reorganisation through the merger with Petrocommerce Bank, including preliminary approval of the merger agreement; to determine the share buyback price for shareholders who vote against the resolution on reorganisation or do not attend the General Shareholders' Meeting.

## Supervisory Board Committees

### Members of the Risk Committee:

- Dmitry Vasiliev (Chairman of the Committee, independent director)
- Ruben Aganbegyan (non-executive director)
- Alexander Zelenov (independent director)
- Denis Stepanov (independent director)

### Risk Committee of the Supervisory Board

The Risk Committee of the Supervisory Board evaluates the Bank's risk appetite, monitors key risk indicators and overall risk resilience, and adjusts risk management operations. The Committee keeps the Bank's risk appetite under control by analysing and identifying risk tolerance for any given risk, reviewing credit and market exposure limits, and mapping the overall risk profile.

The chairman and the majority of members of the Risk Committee are independent directors.

In 2014, the Risk Committee focused on managing risk levels, improving the risk identification process and developing recommendations to mitigate risks. In 2014, the Committee held three meetings to discuss the development strategy of the Bank's risk management system, approve the Bank's risk reports, and analyse risks associated with corporate lending, project financing, financial markets and Treasury. The Committee considered matters associated with an early warning and monitoring system for overdue debts and conducted a comparative analysis of the quality of the Bank's loan portfolio.

### Members of the Audit Committee:

- Dmitry Vasiliev (Chairman of the Committee, independent director)
- Ruben Aganbegyan (non-executive director)
- Alexander Zelenov (independent director)
- Denis Stepanov (independent director)

### Audit Committee of the Supervisory Board

The Audit Committee assists the Supervisory Board in maintaining efficient operation of the Bank's internal controls system, ensuring preparation and presentation of complete and accurate financial statements of the Bank, monitoring the compliance with Russian law and the Bank's internal regulations, and preserving its assets. The Committee supervises:

- the Bank's financial statements and accounting policies;
- the Bank's internal controls system;
- internal and external audit.

The Chairman and the majority of members of the Audit Committee of the Supervisory Board are independent directors. Matters reserved for the Committee include assessing nominations to the Bank's auditors and preparing recommendations to the Supervisory Board to be approved by the annual General Shareholders' Meeting; approving the auditor's report; evaluating the effectiveness of the Bank's internal controls and developing proposals to boost the effectiveness.

In 2014, the Committee held six meetings to review the Bank's annual financial and consolidated financial statements and the auditor's report, to approve the Bank's auditor for 2014 (Deloitte & Touche CIS) and its remuneration, and to prepare recommendations to the Supervisory Board regarding 2013 net profit distribution. The Committee regularly approved plans and reviewed reports by the Bank's internal audit and control departments.

The representatives of the Bank's auditor attended each meeting of the Supervisory Board's Audit Committee and reported on the findings of the quarterly review and audit of Otkritie FC Banking Group's consolidated financial statements for 2013. The efforts of the Audit Committee in 2014 contributed to further enhancing the Bank's internal controls.

### Members of the Supervisory Board's Nomination and Remuneration Committee:

- Ruben Aganbegyan (Chairman of the Committee, non-executive director)
- Alexey Karakhan (executive director)
- Dmitry Vasiliev (independent director)

### Nomination and Remuneration Committee of the Supervisory Board

The Nomination and Remuneration Committee assists the Bank's Supervisory Board in monitoring and controlling the remuneration system and evaluating its compliance with the Bank's strategy, the nature and scope of its operations, its performance, and the level and combination of assumed risks.

In 2014, the Nomination and Remuneration Committee of the Supervisory Board nominated Supervisory Board and Internal Audit Commission members for election at the annual General Shareholders' Meeting and approved a draft engagement letter with independent directors. The Nomination and Remuneration Committee also issued recommendations to the General Shareholders' Meeting regarding the volume of compensation paid to independent members of the Supervisory Board and the Internal Audit Commission.

The Committee discussed the Bank's remuneration policy and the list of executive positions in the Bank that significantly impact decision-making on material risks.

In addition to formal meetings, Committee members regularly met with the Bank's management to discuss routine human resources matters, including the new hiring process.

## Compensations and Remunations to Collegiate Bodies of Otkritie FC Bank in 2014

### Supervisory Board

Type of Compensation	Amount, RUB thousand
Remuneration	7,688
Salary	–
Bonuses	–
<b>Total</b>	<b>7,688</b>

### Management Board

Type of Compensation	Amount, RUB thousand
Salary	183,241
Bonuses	572,317
Compensation	1,025
<b>Total</b>	<b>756,583</b>

### Members of the Supervisory Board's Strategy Committee:

- Ruben Aganbegyan (Chairman of the Committee, non-executive director)
- Vadim Belyaev (non-executive director)
- Dmitry Romaev (President)

## The main aspects of Otkritie FC Bank's remuneration policy

The staff remuneration consists of the fixed and variable compensation.

Fixed part of compensation includes payroll and other compensations, which are guaranteed by the Bank.

Variable part of compensation includes bonuses, which are calculated based on the employees' performance and key performance indicators management.

The Bank's policy regarding the variable part of compensation is aimed at the Bank's efficiency and profitability improvement as well as the costs reduction followed by the each individual employee performance results improvement.

The variable part of compensation is based on the system of key performance indicators, which reflect the results of the Bank and its departments considering the level of responsibility taken.

The total volume of the variable compensation part is based on the qualitative and the quantitative indicators, taking into account the level of risk and the return level of business segments.

At present there are over 30 different motivation programs implemented by the Group. Around 99.7 % of employees receive the variable compensation.

The Bank's annual General Shareholders' Meeting approved a maximum of RUB 50 million in remuneration and compensation for all members of the Supervisory Board for 2014. The total amount actually paid to Supervisory Board members in 2014 was RUB 7.7 million. As recommended by the Nomination and Remuneration Committee, remuneration was only paid to independent directors.

Otkritie FC Bank paid and accrued a total of RUB 756.6 million in salaries and bonuses to its Management Board members in 2014. The Bank did not contribute or pay any retirement compensation to its directors or executives in 2014.

## Strategy Committee of the Supervisory Board

The key function of the Strategy Committee is to assist the Supervisory Board in designing the Bank's development strategy.

The Committee prepares proposals to define priority segments of the Bank's business, review the Bank's development options, prepare proposals regarding the Bank's development strategy to be further reviewed and approved by the Supervisory Board, and follow up on the implementation of the Bank's development strategy approved by the Supervisory Board. In 2014, the Strategy Committee considered the matter associated with choosing an external consultant to develop the Bank's renewed development strategy and set strategic targets for the Bank's financial and business planning.

## Management Board

The key objective of the Management Board is to ensure the Bank's highly efficient performance, maximum profit generation, protection of the rights and legitimate interests of the Bank

## Key Information

The Management Board manages Otkritie FC Bank's day-to-day operations within the scope of its authority as determined by applicable laws, the Bank's Articles of Association, the Management Board Regulations and other internal regulations of the Bank. The Management Board reports to the General Shareholders' Meeting and the Supervisory Board. The Supervisory Board determines the number of members of the Management Board and elects and terminates the power of such members. The Bank's President is the Chairman of the Management Board.

Within the scope of its authority, the Bank's Management Board may:

- ensure compliance with resolutions passed by the General Shareholders' Meeting and the Supervisory Board;
- arrange for the drafting of annual and other financial and business plans of the Bank and ensure such plans are implemented;
- transact any matters associated with winning new clients and enhancing cash flows, improving banking operations, developing and launching new banking services;
- review the management reports and issue proposals to streamline the operations;
- approve internal regulations on matters within the scope of its authority, except for any internal documents to be approved by the General Shareholders' Meeting, the Supervisory Board, or the President;
- develop the Bank's internal controls evaluation system and control system to follow-up on rectification of any identified failures or defects of internal control and measures taken to rectify them;
- monitor compliance by the Bank, its branches and representative offices with Russian laws and regulations;
- review the materials and findings of regular audits of internal controls system;
- assign responsibility for implementing resolutions by the General Shareholders' Meeting and the Supervisory Board and implementing the Bank's strategy and policy regarding the design and operation of internal controls;
- develop efficient systems for information exchange to ensure necessary information is communicated to parties concerned;
- other matters as stipulated by the Bank's Articles of Association and in-house regulations.

The Bank's Management Board meets weekly, either physically or by correspondence, as the Chairman of the Board may determine. The Bank's Management Board meeting may be called upon the requirement of the Bank's Supervisory Board or on the initiative of at least two members of the Management Board. A total of 73 meetings were held in 2014.

## Members of the Management Board



**Dmitry Romaev**

President, Chairman of the Management Board, member of the Supervisory Board

Mr. Romaev has been a member of the Supervisory Board since 2013; he is also a member of the Strategy Committee of the Supervisory Board. He serves as President and Chairman of the Management Board of Otkritie FC Bank. Mr. Romaev also sits on the Board of Directors of Otkritie Holding and Petrocommerce Bank.

Over the years, Mr. Romaev was a member of the Management Board and CFO of Otkritie Holding. Before joining Otkritie, he held various positions in Sberbank OJSC, KIT Finance Investment Bank OJSC, and Petrocommerce Bank.

In 1993, he received an IT degree from Tula State Engineering University. In 1997, he graduated from the Finance Academy of the Russian Government with a major in Banking. In 1999, Mr. Romaev received his MBA from Dublin Business School.



**Irina Gordeeva**

Deputy President, member of the Management Board, Head of Corporate Banking

Ms. Gordeeva is also a member of the Board of Directors of Khanty-Mansiysk Otkritie Bank and a member of the Board of Directors of Petrocommerce Bank.

Since 1998, she has held various executive positions with Otkritie FC Bank. She has been Deputy President of Otkritie FC Bank since 2009.

Ms. Gordeeva received her degree in International Economic Relations from Moscow State University of International Relations (MGIMO) in 1979 followed by a PhD in Economics.



**Elena Budnik**

Deputy Chairman of the Management Board, Head of Retail Banking

Ms. Budnik is a member of the Board of Directors of Khanty-Mansiysk Otkritie Bank and CEO of Khanty-Mansiysk Otkritie Bank.

Until March 2013, Ms. Budnik was Senior Vice President of Otkritie FC Bank. Between February and December 2012, she headed retail business at Otkritie Bank and was promoted to Deputy Chairman of the Management Board of Otkritie Bank in April 2013. Between 2002 and 2007, Ms. Budnik worked at MDM Bank, where she built her career from operations department manager to head of retail products. She then headed retail sales at OTP Bank for three years. In 2010, Ms. Budnik was appointed head of retail products at Barclays.

She received her degree in Economics from Lomonosov Moscow State University in 2004.



**Victor Tyutin**

Senior Vice President, Chairman of the Financial Committee, member of the Management Board

Mr. Tyutin joined Otkritie FC Bank in 1996 and served as Chief Accountant and Senior Vice President. His career in accounting and finance started in 1992.

He received his degree in Automated Management Systems from Moscow Physics and Engineering University in 1989.



**Anatoly Predtechensky**

Deputy Chairman of the Management Board, Senior Vice President

Mr. Predtechensky was Deputy CEO of Otkritie Holding between March 2008 and April 2010. Since 2013, he has been working at Otkritie FC Bank as Head of Risk.

Since 2013, he has been a member of the Supervisory Board of National Clearing Center. Since 2014, he has been a member of the Board of Directors at LUKOIL-GARANT Non-state Pension Fund.

Before joining Otkritie Holding, Mr. Predtechensky worked for Inteza Bank, TransCreditBank, and Rossiyskiy Credit Bank.

In 2000, he graduated with honours from the Finance Academy of the Russian Government majoring in Finances and Credit. In 1998 and 1999, he studied financial management at Notre Dame de la Paix (Belgium) under the Russian President's scholarship programme. He has a PhD in Economics.



**Roman Vlasov**

Member of the Management Board, Senior Vice President

Mr. Vlasov worked as Vice President of Otkritie FC Bank from 2008. He was appointed Senior Vice President in July 2011 and has been a member of the Management Board since June 2014.

He received his degree in Economics and Enterprise Management from Moscow State Aviation University (Engineering University) in 1998.



**Natalya Matyunina**

Member of the Management Board, Senior Vice President

Ms. Matyunina has been working as Senior Vice President of Otkritie FC Bank since 2005.

In 1991, Ms. Matyunina graduated from the State Financial Academy majoring in Finance and Credit.

In 2000, she received a law degree from Moscow State Academy of Law. In 2006, she received her degree in Public and Municipal Administration from the Russian Presidential Academy of Public Administration. She has a PhD in Economics.



**Svetlana Fridman**

Member of the Management Board, Senior Vice President

In 2008, Ms. Fridman was appointed Vice President at Bank Petrocommerce. In 2013, she took the position of Advisor to Otkritie FC Bank's CEO. Ms. Fridman was appointed the Bank's Senior Vice President in January 2014. Since June 2014 she has been a member of the Management Board.

Ms. Fridman received her degree in Finance and Credit from the Finance Academy of the Russian Government in 1994. She has a PhD in Economics.

## Statement of Otkritie FC Bank's Supervisory Board Chairman on Compliance with the Corporate Governance Principles Established by the Corporate Governance Code

Otkritie FC Bank builds its business based on the corporate governance principles established by the Corporate Governance Code, approved by the Central Bank of Russia on April 10, 2014. The Bank strives to ensure fair and equal treatment of all stakeholders as they exercise their rights to participate in the management of the Bank's business. The Bank's corporate governance frameworks and practices guarantee equal conditions for holders of similar types of shares, including minority shareholders and non-Russian shareholders, and their equal treatment by the Bank.

Otkritie FC Bank's objective is to comply with the principles of the Corporate Governance Code, approved by the Bank of Russia. Those provisions of the Code, which have not been yet documented in the Bank's internal regulations are minor or technical, and do not affect shareholders' exercise of their rights.

Corporate governance principles adopted by the Bank are aimed at building trust in relations connected with the management of the Bank's business and are designed to support efficient operation, boost business value and financial resilience, and keep the Bank profitable and attractive to investors.

The corporate governance framework created by the Bank guarantees all shareholders and stakeholders free access to complete and reliable information about the Bank's business allowing them to take balanced investment decisions.

Unconditional compliance with the principles built in our Corporate Governance Code is one of the Bank's priorities for further development of the corporate governance framework.

**Ruben Aganbegyan**

Chairman of the Supervisory Board

## Corporate Governance Code

In doing its business, the Bank relies on the principles of the Corporate Governance Code approved by the Central Bank of Russia, on April 10, 2014, and strives to fully observe its provisions in its day-to-day operations

### Key Information

The Bank's corporate governance system regulates relations among shareholders, management bodies, employees, counterparties and other stakeholders.

To improve its corporate governance system, Otkritie FC Bank strives to achieve the following key goals:

- guarantee of shareholders' rights and legitimate interests;
- effective management;
- reasonable distribution of powers among governing bodies and control over them;
- effective control over financial and business operations;
- transparency of ownership structure and disclosure of information;
- compliance with the rule of law and ethics;
- effective cooperation with employees and fair remuneration;
- social responsibility and partnership with stakeholders.

Shareholders are entitled to the protection of their title to shares from any infringements.

The Bank facilitates exercise of this right by engaging an independent registrar with a sterling reputation in the securities market and adequate technical capabilities and control systems in place to record title to shares and to maintain the shareholders register.

Corporate governance practices adopted by the Bank guarantee shareholders their rights to participate in the management of the Bank's business, to participate in the Bank's profit, and to receive the necessary disclosures about the business of the Bank.

General Shareholders' Meetings are planned to ensure that shareholders can attend without incurring significant costs or time burden, and that all shareholders are treated fairly.

Shareholders have the right to receive regular, timely information about the Bank's business that is sufficient to make decisions regarding the shares' disposal.

To secure and protect the above right, the Bank complies with statutory disclosure requirements as well as provides additional information to stakeholders on a voluntary basis.

In doing its business, the Bank follows the principle of unacceptability of actions that may lead to artificial distribution of corporate control.

The Bank's Articles of Association and internal regulations clearly define the scope of authority and functions of the Supervisory Board and provide delimitation of powers among the Supervisory Board, executive bodies, and the General Shareholders' Meeting

### Supervisory Board Role

The Supervisory Board carries out strategic governance of the Bank, set the key business priorities, defines the key risk management and internal control principles and approaches, as well as financial stability and corporate governance. Besides it implements other key functions.

The Supervisory Board prepares the agenda for General Shareholders' Meetings of the Bank's shareholders.

The Supervisory Board is responsible for managing the efficiency of executive bodies and supervising their activities.

The Supervisory Board establishes the Bank's policy aimed at timely and complete disclosure to shareholders, prospective investors and other stakeholders of information about its business, and monitors the proper arrangement and efficient functioning of the reporting framework.

The Supervisory Board acknowledges its responsibility to the Bank and its shareholders and sees its mission in carrying out its management functions fairly and skilfully to maintain and boost the Bank's shareholder value and in creating favourable environment for shareholders to exercise their rights.

In making its decisions, the Supervisory Board relies on the principle of fair treatment of all shareholders and does not favour the interests of any given group of shareholders. It supports the maintenance of an efficient system for identifying and resolving potential conflicts of interest and maintains an ongoing dialogue with shareholders.

In approving the risk management policy, the Supervisory Board aims at balancing the Bank's risks and revenues taking into account statutory requirements, the Bank's internal regulations and its Articles of Association. Such policy requires taking into account a reasonable level of risk and comparing such risk against threshold values set in the risk management policy when evaluating any transactions or deals involving high risk of capital or investment loss.

**Independent directors - members of the Bank's Supervisory Board — ensure unbiased decision-making and balance the interests of various groups of shareholders**

### Executive Bodies Role

The Bank's executive bodies report to the shareholders and the Supervisory Board. The Bank's Articles of Association authorise the Supervisory Board to appoint the members of executive bodies and terminate their powers and to approve conditions of employment contracts with members of the Bank's executive bodies, including remuneration and other incentives.

To ensure effective governance, the Bank's executive bodies are highly autonomous. The Supervisory Board and shareholders may not, without due cause, interfere in the routine proceedings of the Bank's executive bodies or limit their ability to handle the Bank's day-to-day operations against the backdrop of an evolving business environment.

The Bank's Management Board and its President acknowledge their responsibility to shareholders and see their mission in managing the Bank's day-to-day operations fairly and skilfully to ensure its profitability and long-term appeal for investors. Executive bodies are responsible for timely and efficient implementation of decisions adopted by the Supervisory Board and General Shareholders' Meeting.

### The Corporate Governance System Review

The Bank regularly adopts measures to improve its corporate governance. First of all, it carries out in-depth comprehensive evaluations of the current status of the Bank's corporate governance framework and its compliance with the best international practice, Russian laws, and the Corporate Governance Code.

In 2014, corporate governance due diligence covered the following aspects:

- distribution of powers among managing bodies;
- organisation of the Supervisory Board activities, including its interaction with executive bodies (the Management Board and the President);
- approving the Bank's development strategy and monitoring its implementation;
- coordination of risk management;
- preventing conflicts of interest among shareholders, Supervisory Board members, the Bank's executive bodies, its employees, creditors, deposit account holders, and other clients;
- relations with affiliates;
- setting up rules and procedures to ensure compliance with professional ethics principles;
- coordination of disclosures;
- monitoring of internal control system.

The Supervisory Board reviewed the due diligence report. Based on its findings, corporate governance principles and approaches employed by the Bank are generally in line with the Corporate Governance Code and recommendations of the Basel Committee on Banking Supervision.

One of the Bank's priorities for improving its corporate governance is ensuring its absolute compliance with Russian laws and best international practice. The Bank seeks to ensure the maximum transparency and efficiency of its corporate governance, as well as its further development and improvement.

# APPENDIX



## Abbreviations

Term	Description
1C	Specialised software for accounting and budgeting
AFS	Available For Sale financial assets
AHML	Agency for Housing Mortgage Lending founded by the Government of the Russian Federation
ALM	Asset and Liabilities Management
AML	Anti-money laundering
ATM	An automated teller machine or automatic teller machine
BI	Business Intelligence
BKM	Bank of Khanty-Mansiysk OJSC
CBR	Central Bank of Russia
CDW	Corporate Data Warehouse
CEO	Chief Executive Officer
CME	Chicago Merchandise Exchange – the world leading exchange for hedging risks and term derivatives trade
CPI	A consumer price index which measures changes in the price level of consumer goods and services purchased by households
Credit conveyor	Credit applications processing system, an automated workflow system for the processing of credit applications
CRM	Customer Relationship Management system
DELTA	Electronic broker system for trading with the key Russian interbank market financial instruments
DIA	Deposit Insurance Agency
ERP	Enterprise Resource Planning system
FATCA	Foreign Account Tax Compliance Act
FVTPL	Financial assets at fair value through profit or loss
FX	Foreign exchange
GDP	Gross domestic product
GDR	Global Depositary Receipt
HFT	High Frequency Trading
HR	Human Resources
HTM	Held to Maturity investments
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IT	Information Technology

Term	Description
KhMOB	Khanty-Mansiysk Otkritie Bank PJSC
LBMA	London Bullion Market Association
LGD	Loss Given Default
LUKOIL	LUKOIL OJSC
MICEX	Moscow Exchange
NOMOS-BANK	Old name of Otkritie Financial Corporation Bank PJSC, till June 2014
NPLs	Non-performing loans, that are 90+ days overdue
OECD	Organisation for Economic Cooperation and Development
OFCB, Otkritie FC Bank	Otkritie Financial Corporation Bank PJSC
OFCB Group, Otkritie FC Banking Group	Otkritie Financial Corporation Banking Group, including Otkritie Financial Corporation Bank PJSC and Khanty-Mansiysk Otkritie Bank PJSC
OFZ	Sovereign bonds issued by the Government of the Russian Federation
OTA	Over-the-air technology
Otkritie Bank	Otkritie Bank OJSC
Otkritie Capital	Otkritie Capital International Ltd
Otkritie Holding	Otkritie Holding Joint Stock Company
PD	Probability of Default
Petrocommerce Bank	Petrocommerce Bank OJSC
PIN	Personal Identification Number
POS	Point of Sale
RAS	Russian Accounting Standards
REPO	Repurchase agreement
RoAE	Return on average equity
Rosstat	Federal State Statistics Service of the Russian Federation
RUB	Russian Rouble
SAP	Specialised software
SLA	Service Level Agreement
SME	Small and medium-sized enterprises
SPO	Secondary Public Offering
USD	The United States dollar
VaR	Value at Risk

# Appendix 1 Public Joint-Stock Company “Bank Otkritie Financial Corporation”

## Report of the independent auditor on the Summary Consolidated Financial Statements For the Year Ended 31 December 2014

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## Report of the independent auditor on the summary consolidated financial statements

### To: Shareholders and the Supervisory Board of Public Joint-Stock Company “Bank Otkritie Financial Corporation”

The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2014, the summary consolidated statement of profit or loss, summary consolidated statement of other comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, are derived from the audited consolidated financial statements of Public Joint-Stock Company “Bank Otkritie Financial Corporation” and its subsidiaries (collectively – the “Group”) for the year ended 31 December 2014. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 10 April 2015. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group.

### Management’s Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in Note “Basis for preparation”.

### Auditor’s Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, “Engagements to Report on Summary Financial Statements”.

## Summary consolidated statement of financial position as of December 31, 2014

(in millions of Russian roubles)

### Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2014 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note "Basis for preparation".

*Deloitte & Touche*

Moscow, Russian Federation  
10 April 2015



Ploutalova Svetlana Evgenyevna, Partner  
(certificate no. 01-000596 dated 19 March 2012)  
ZAO Deloitte & Touche CIS

	31 December 2014	31 December 2013
<b>Assets</b>		
Cash and cash equivalents	253,792	197,124
Minimum reserve deposits with the Central Bank of the Russian Federation	10,541	8,869
Precious metals	2,312	5,746
Financial assets at fair value through profit or loss	292,174	181,986
Loans and advances to banks and other financial institutions	35,650	24,670
Loans to customers	1,784,784	879,274
Investments available-for-sale	110,843	39,532
Investments held to maturity	61,189	-
Investment property	7,473	8,571
Property, plant and equipment	15,231	16,205
Intangible assets	1,978	3,509
Goodwill	1,788	1,999
Other assets	18,108	11,566
<b>Total assets</b>	<b>2,595,863</b>	<b>1,379,051</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	94,096	2,866
Due to banks and the Central Bank of the Russian Federation	1,041,599	257,187
Customer accounts	1,022,995	781,471
Bonds and Eurobonds	114,666	63,959
Promissory notes issued	58,727	61,652
Deferred income tax liabilities	3,877	3,378
Other liabilities	5,128	5,722
Subordinated debt	96,939	63,459
<b>Total liabilities</b>	<b>2,438,027</b>	<b>1,239,694</b>

The Entity: Public Joint-Stock Company "Bank Otkritie Financial Corporation"  
Certificate of state registration № 2209 dated 15.12.1992.  
Certificate of registration in the Unified State Register for legal entities registered before 1 July 2002 № 1027739019208, of 26.07.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.  
Address: Russia, 115114, Moscow, Letnikovskaya 2, bld. 4  
Independent Auditor: ZAO "Deloitte & Touche CIS"  
Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.  
Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.  
Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

These summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards, namely summary of principal accounting policies and other explanatory information as presented in the audited consolidated financial statements of Public Joint-Stock Company "Bank Otkritie Financial Corporation" and its subsidiaries (collectively - the "Group") prepared in accordance with IFRS for the year ended 31 December 2014. For a better understanding of the Group's financial position, its financial performance and its cash flows, these summary consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Group from which these summary consolidated financial statements were derived.

## Summary consolidated statement of financial position as of December 31, 2014

(continued)  
(in millions of Russian roubles)

	31 December 2014	31 December 2013
<b>Equity</b>		
<b>Equity attributable to equity holders of the parent:</b>		
Share capital	9,076	7,934
Treasury shares	(929)	(932)
Share premium	59,098	38,883
Available-for-sale deficit	(3,269)	(34)
Property, plant and equipment revaluation reserve	1,822	1,617
Retained earnings	65,430	58,806
<b>Total equity attributable to equity holders of the parent</b>	<b>131,228</b>	<b>106,274</b>
Non-controlling interest	26,608	33,083
<b>Total equity</b>	<b>157,836</b>	<b>139,357</b>
<b>Total liabilities and equity</b>	<b>2,595,863</b>	<b>1,379,051</b>

## Summary consolidated statement of profit or loss for the year ended 31 December 2014

(in millions of Russian roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	152,202	97,849
Interest expense	(86,597)	(57,122)
<b>Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets</b>	<b>65,605</b>	<b>40,727</b>
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination	13	380
Provision for impairment losses on interest bearing assets	(21,838)	(9,390)
<b>Net interest income</b>	<b>43,780</b>	<b>31,717</b>
Trading (loss)/ income:	(10,342)	761
Securities	(15,204)	(988)
Foreign currency	6,378	1,582
Precious metals	(2,267)	151
Other derivatives	751	16
Net fee and commission income	13,192	8,988
Fee and commission income	17,364	12,155
Fee and commission expense	(4,172)	(3,167)
Net (loss)/ gain on investments available-for-sale	(1,910)	22
Net (loss)/ gain on disposal of loans	(1,012)	1,543
Provision for impairment losses on other transactions	(1,166)	(30)
Share of profits in associates	–	188
(Loss)/ gain from revaluation of investment property	(189)	178
Other income	1,774	827
<b>Net non-interest income</b>	<b>347</b>	<b>12,477</b>
<b>Operating income</b>	<b>44,127</b>	<b>44,194</b>

On behalf of the Supervisory Board  
President  
10 April 2015  
Moscow




Chief Accountant  
10 April 2015  
Moscow

These summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards, namely summary of principal accounting policies and other explanatory information as presented in the audited consolidated financial statements of Public Joint-Stock Company "Bank Otkritie Financial Corporation" and its subsidiaries (collectively - the "Group") prepared in accordance with IFRS for the year ended 31 December 2014. For a better understanding of the Group's financial position, its financial performance and its cash flows, these summary consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Group from which these summary consolidated financial statements were derived.

These summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards, namely summary of principal accounting policies and other explanatory information as presented in the audited consolidated financial statements of Public Joint-Stock Company "Bank Otkritie Financial Corporation" and its subsidiaries (collectively - the "Group") prepared in accordance with IFRS for the year ended 31 December 2014. For a better understanding of the Group's financial position, its financial performance and its cash flows, these summary consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Group from which these summary consolidated financial statements were derived.

## Summary consolidated statement of profit or loss for the year ended 31 December 2014

(continued)  
(in millions of Russian roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Operating expenses	(36,775)	(21,993)
Impairment of buildings and constructions	(30)	(13)
<b>Operating profit before income tax</b>	<b>7,322</b>	<b>22,188</b>
Income tax expense	(1,855)	(4,886)
Realised net gain on discontinued operations	415	–
<b>Net profit</b>	<b>5,882</b>	<b>17,302</b>
Attributable to:		
Owners of the parent	7,077	14,904
Non-controlling interest	(1,195)	2,398
<b>Earnings per share</b>		
From continuing and discontinued operations Basic and diluted (RUB)	60.35	154.67

## Summary consolidated statement of other comprehensive income for the year ended 31 December 2014

(in millions of Russian roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Net profit for the year</b>	<b>5,882</b>	<b>17,302</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Net gain resulting from revaluation of property	500	459
Share in revaluation of property of associate, net of tax	–	62
Income tax	(103)	(92)
	<b>397</b>	<b>429</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Net (loss)/gain resulting on revaluation of available-for-sale financial assets during the year	(8,133)	112
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year	1,910	(22)
Share in revaluation of available-for-sale financial assets of associate, net of tax	–	53
Income tax	1,245	(18)
	<b>(4,978)</b>	<b>125</b>
<b>Other comprehensive income after income tax</b>	<b>(4,581)</b>	<b>554</b>
<b>Total comprehensive income</b>	<b>1,301</b>	<b>17,856</b>
Attributable to:		
Owners of the parent	4,105	15,375
Non-controlling interests	(2,804)	2,481
<b>Total comprehensive income</b>	<b>1,301</b>	<b>17,856</b>

On behalf of the Supervisory Board  
President  
10 April 2015  
Moscow




Chief Accountant  
10 April 2015  
Moscow

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## Summary consolidated statement of changes in equity for the year ended 31 December 2014

(in millions of Russian roubles)

	Share capital	Treasury preference shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation of investments available-for-sale	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
<b>31 December 2012</b>	<b>6,504</b>	<b>(605)</b>	<b>20,898</b>	<b>1,302</b>	<b>(230)</b>	<b>46,811</b>	<b>74,680</b>	<b>15,681</b>	<b>90,361</b>
Net profit for the year	-	-	-	-	-	14,904	14,904	2,398	17,302
Total other comprehensive income for the period, net of tax	-	-	-	296	60	-	356	83	439
Share capital increase due to the merge with subsidiary banks	340	(340)	-	-	-	-	-	-	-
Share capital increase - issue of ordinary shares	1,090	-	17,985	-	-	-	19,075	-	19,075
Sale of treasury shares	-	16	-	-	-	235	251	-	251
Purchase of treasury shares	-	(3)	-	-	-	(53)	(56)	-	(56)
Sale of property, plant and equipment	-	-	-	(44)	-	44	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	(3,203)	(3,203)	15,095	11,892
Effect of increase/ (decrease) of the Group's shareholding in subsidiaries	-	-	-	1	83	68	152	(174)	(22)
Other comprehensive income from associate	-	-	-	62	53	-	115	-	115
<b>31 December 2013</b>	<b>7,934</b>	<b>(932)</b>	<b>38,883</b>	<b>1,617</b>	<b>(34)</b>	<b>58,806</b>	<b>106,274</b>	<b>33,083</b>	<b>139,357</b>
Net profit for the year	-	-	-	-	-	7,077	7,077	(1,195)	5,882
Total other comprehensive income for the period, net of tax	-	-	-	263	(3,235)	-	(2,972)	(1,609)	(4,581)
Share capital increase - issue of ordinary shares	1,142	-	20,213	-	-	-	21,355	-	21,355
Sale of treasury shares	-	3	2	-	-	53	58	-	58
Sale of property, plant and equipment	-	-	-	(57)	-	57	-	-	-
Effect of increase/ (decrease) of the Group's shareholding in subsidiaries	-	-	-	(1)	-	(563)	(564)	(3,671)	(4,235)
<b>31 December 2014</b>	<b>9,076</b>	<b>(929)</b>	<b>59,098</b>	<b>1,822</b>	<b>(3,269)</b>	<b>65,430</b>	<b>131,228</b>	<b>26,608</b>	<b>157,836</b>

On behalf of the Supervisory Board  
  
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## Summary consolidated statement of cash flows for the year ended 31 December 2014

(in millions of Russian roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Cash flows from operating activities:</b>		
Interest received	145,884	94,264
Interest paid	(86,850)	(54,937)
Cash received from prepayment of loans acquired in business combination in excess of carrying value	12	61
Cash received on dealing with securities	4,064	384
Cash (paid)/received on dealing with precious metals	(2,229)	173
Cash paid on dealing with foreign currencies	(2,671)	1,180
Cash received on dealing with other derivatives	72	71
Fees and commissions received	17,691	11,892
Fees and commissions paid	(4,170)	(3,005)
Other operating income received	2,405	838
Operating expenses paid	(34,411)	(19,432)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>39,797</b>	<b>31,489</b>
<b>Cash increase/(decrease) from operating assets and liabilities</b>		
Minimum reserve deposits with the Central Bank of the Russian Federation	(1,672)	(255)
Precious metals	5,505	(626)
Financial assets and liabilities at fair value through profit or loss	(126,162)	(78,402)
Loans and advances to banks and other financial institutions	(12,523)	72,701
Loans to customers	(896,682)	(186,874)
Other assets	2,211	(4,480)
Due to banks and the Central Bank of the Russian Federation	793,961	22,373
Customer accounts	236,046	161,744
Bonds and Eurobonds, net	41,996	20,800
Promissory notes (redeemed)/issued, net	(1,329)	34,845
Other liabilities	15	(1,390)
<b>Net cash from/(used in) operating activities before income tax</b>	<b>81,163</b>	<b>71,925</b>
Income tax paid	(3,732)	(4,018)
<b>Net cash from/(used in) operating activities</b>	<b>77,431</b>	<b>67,907</b>

## Summary consolidated statement of cash flows for the year ended 31 December 2014

(continued)

(in millions of Russian roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Cash flows from investing activities:</b>		
Purchase of investments held to maturity	(16,948)	–
Proceeds from investments held to maturity repayment	17,058	174
Acquisition of subsidiaries net of cash acquired	–	35,037
Purchase of property, plant and equipment	(1,704)	(1,049)
Proceeds from sale of property, plant and equipment	984	403
Purchase of intangible assets	(387)	(745)
Purchase of available-for-sale financial assets	(80,010)	(1,423)
Proceeds from sale of available-for-sale financial assets	44,026	5,455
Purchase of investment property	(914)	(991)
Proceeds from sale of investment property	926	1,403
Dividends received	15	2
Disposal of subsidiaries	648	–
<b>Net cash from investing activities</b>	<b>(36,306)</b>	<b>38,266</b>
<b>Cash flows from financing activities:</b>		
Issuance of shares	1,142	1,090
Share premium	20,215	17,985
Purchase of treasury preference shares	–	(56)
Proceeds from sale of ordinary shares	56	263
Redemption of bonds and Eurobonds	–	(4,263)
Subordinated debt received	–	7,609
Subordinated debt repaid	(1,174)	(3,198)
Effect of change in ownership interest in subsidiaries	(4,235)	(20)
<b>Net cash from financing activities</b>	<b>16,004</b>	<b>19,410</b>
Effect of exchange rate changes on cash and cash equivalents	(461)	680
<b>Net increase in cash and cash equivalents</b>	<b>56,668</b>	<b>126,263</b>
Cash and cash equivalents, beginning of the period	197,124	70,861
<b>Cash and cash equivalents, ending of the period</b>	<b>253,792</b>	<b>197,124</b>

## Summary consolidated statement of cash flows for the year ended 31 December 2014

(continued)  
(in millions of Russian roubles)

During the years ended 31 December 2014 and 2013 the Group obtained non-cash settlements for uncollectible loans to customers, previously originated and net assets acquired through purchase of subsidiary bank. These non-cash settlements were excluded from the consolidated statement of cash flows and presented separately below:

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Non-cash transaction:</b>		
Loans to customers settled by means of collateral repossession:	(310)	(261)
Other assets (obtained through repossession of collateral on uncollectible loans to customers):		
Property received as a collateral repossession	310	261
Net assets of subsidiary acquired	–	25,659

## Note to the summary consolidated financial statements

### Basis for preparation

These summary consolidated financial statements of the Group have been prepared by extraction, without any modification, of the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows from the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements, from which the summary consolidated financial statements have been derived, is published on the corporate web-site <http://ir.otkritiefc.ru/ru/investor-relations/otchety-i-publikacii/>.


 On behalf of the Supervisory Board  
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 Moscow


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## Contact Information

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