Translation from the Russian original

OJSC Russian Reinsurance Company

Financial Statements
for the Year Ended 31 December 2014
and Auditor's Report

Исх. № 2047-БДО-15

Translation from the Russian original

Contents

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AUDITOR'S REPORT

To the Shareholders of OJSC Russian Reinsurance Company

Audited Entity

Open Joint Stock Company Russian Reinsurance Company (OJSC Russian Reinsurance Company)

Registered by Interdistrict Tax Inspectorate No. 39 of the RF Ministry of Taxation of the City of Moscow on 28 August 2002, Certificate of Registration No. 1027739122498.

Registered office: Russian RE Business Centre, 19/1 Lyalin Pereulok, Moscow, 105062, Russian Federation.

Auditor

BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)

Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.

Registered office: 11/1, 125, Warshavskoye shosse, Moscow, 117587, Russian Federation.

BDO Unicon AO is a member of the professional audit association Russian Audit Chamber Non-Profit Partnership (Main State Registration No. 10201018307 in the State Register of Auditors and Audit Organisations).

Authority to sign the Auditor's Report rests with Larisa V. Efremova, Partner, by way of Power of Attorney No. 13-01/2015-БДО of 1 January 2015.

We have audited the accompanying financial statements of OJSC Russian Reinsurance Company, which comprise the statement of financial position as at 31 December 2014, the statement of income and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and explanatory notes to the financial statements for the year ended 31 December 2014 which consist of a summary of significant accounting policies and other explanatory information.

Audited Entity's Responsibility for the Financial Statements

Management of OJSC Russian Reinsurance Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation and for the internal control system necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

BDO Unicon AO

Signed by:

Larisa V. Efremova

Partner

24 April 2015

Total number of pages bound: 68.

(in thousands of Russian Roubles) Translation from the Russian original

1. Principal Activities of the Company

OJSC Russian Reinsurance Company (the Company) was registered in the Russian Federation on 18 December 1992. The principal activity of the Company is provision of reinsurance services in the Russian Federation and the Commonwealth of Independent States (CIS). The Company has outward reinsurance placements shared with the leading reinsurers of Germany, Sweden, Great Britain, USA, India, Turkey and Republic of Korea.

The Company operates under a license for conducting reinsurance activities:

- License No. 0235 77 P for conducting reinsurance activities issued by the Federal Service of Insurance Supervision of the Russian Federation on 6 December 2005.

The priority lines of the Company's business are:

- accident and health reinsurance;
- reinsurance of travellers abroad;
- land transport reinsurance;
- cargo reinsurance;
- corporate property reinsurance;
- personal property reinsurance;
- civil liability reinsurance for legal entities;
- agricultural risks reinsurance.

The Company's registered office is located at the following address: Russian RE Business Centre, 19/1 Lyalin Pereulok, Moscow, 105062.

The average annual number of the Company's employees as at 31 December 2014 was 30 (2013: 30).

As at 31 December 2014 and 31 December 2013, Company had 1 representative office in the Russian Federation and 1 representation abroad:

No.	Description	Mailing address
1.	Representative office in Vladivostok	Office 207, 3-a, Sukhanova Str., Vladivostok, 690091, Russia
2.	Ukrainian representative office in Kiev	2a Konstantinovskaya St., Kiev, 04071, Ukraine

Representations are the Company's separate divisions that do not have a legal entity status. Representative offices represent the Company's interests, are not involved in reinsurance activities, do not conduct business transactions and are not separate reporting entities. Representative offices in the territory of the Russian Federation do not have their own settlement accounts. To maintain the operations of the foreign representation in Ukraine, settlement accounts were opened in foreign currency (USD) and Ukrainian hryvna (UAH) with CITIBANK, Ukraine, Kiev.

Below is the information on the Company's main shareholders with a more than 5% shareholding in the Company's share capital as at 31 December 2014 and 31 December 2013.

	2014	2013
Shareholders	**Ownership, %**	**Ownership, %**
ACE Russia Investments Limited	23.3	23.3
Catlin Underwriting Agencies Limited	22.5	22.5
Andrey A. Polyakov	22.0	22.0
Teimuraz O. Batiashvili	21.6	21.6
Maria V. Morozova	5.1	5.1
Other	5.5	5.5
Total	**100.0**	**100.0**

The Company's ultimate beneficiaries are: Mr. A.A. Polyakov (22.0%), Mr. T.O. Batiashvili (21.6%) and Ms. M.V. Morozova (5.1%). Catlin Underwriting Agencies Limited (UK) is a 100% subsidiary of Lloyds — Catlin (Bermuda), ACE Russia Investments Limited (UK) is a 100% subsidiary of ACE Limited (Switzerland).

2. Operating Environment of the Company

General

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency in most countries outside of Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Russia continues development of the legal, tax and administrative infrastructure to comply with the market economy requirements. The economic reforms conducted by the Government are aimed at retooling the Russian economy, development of high-tech productions, enhancement of labour productivity and competitiveness of the Russian products on the world market.

Continuing uncertainty and volatility of financial markets, including the European region, as well as other risks may have a considerable adverse effect on the financial and production sectors of the Russian economy. It is impossible to estimate reliably what impact the above financial market uncertainty and volatility will have on the Company's operations.

Starting from March 2014 the US and EU imposed a set of sanctions against some Russian officials, businessmen and companies. These sanctions can lead to restricted access of Russian companies to the international capital markets and exports, and cause other potentially negative consequences. In September - October 2014 Russian currency markets demonstrated increased volatility, and the Russian Rouble depreciated significantly against some major world currencies. The official US Dollar exchange rate set by the Central Bank of the Russian Federation increased from RUB 36.93 at 1 September 2014 to RUB 56.26 at 31 December 2014. Management of the Company is unable to reliably determine the effects of any further deterioration in the operating environment on the Company's future financial position and activities as a result of this situation. Management of the Company believes it is taking all the necessary measures to support the sustainability and further development of business operations of the Company in these circumstances.

In April 2014 the international rating agency Standard & Poor's downgraded Russia's long- term foreign currency sovereign credit rating from BBB to BBB-, negative outlook, and Fitch revised downwards Russia's long-term credit rating to BBB, negative outlook.

At the beginning of 2015 Standard & Poor's downgraded Russia's sovereign rating to BB+ and Moody's – to Ba1.

In 2014 and from 1 January 2015 to the current date the refinancing rate remained stable and is 8.25% per annum.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

In 2014 there were changes in the regulation of the insurance business in the Russian Federation.

On 16 November 2014 the CBR adopted Directive No. 3444-У "On investment of funds from insurance reserves and assets qualifying for such investment". This Directive sets forth the new procedure of investing funds from insurance reserves and clarifies requirements for certain types of assets. The structural correlation of assets and insurance reserves was also revised.

On 16 November 2014 the CBR adopted Directive No. 3445-У "On investment of the insurer's own capital (equity) and assets qualifying for such investment". This Directive adjusts the procedure of investing the insurer's own capital and sets forth a list of assets allowed for investment.

The new CBR instructions on placement of the insurer's equity and insurance reserves become effective since 11 January 2015. As at 31 December 2014, such investments are regulated by RF MOF Orders of 08.08.2005 No. 100n (amended as at 08.02.2012) "On approval of Rules on the insurers' placement of insurance reserves" and "On approval of Requirements for composition and structure of assets covering the insurers' equity" No. 101н of 02.07.2012 (amended as at 29.10.2012).

(in thousands of Russian Roubles) Translation from the Russian original

Inflation

The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period, %
31 December 2014	11.4%
31 December 2013	6.5%
31 December 2012	6.6%
31 December 2011	6.1%
31 December 2010	8.8%

Currency transactions

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of RUB relative to USD and EUR:

Date	USD	EUR
31 December 2014	56.2584	68.3427
31 December 2013	32.7292	44.9699
31 December 2012	30.3727	40.2286
31 December 2011	32.1961	41.6714
31 December 2010	30.4769	40.3331

3. Basis of Presentation

General principles

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations. The Company maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional and presentation currency

The functional currency is the currency used in the primary operating environment in which the Company operates.

The presentation currency is the currency in which financial statements are presented.

These financial statements are presented in Russian Roubles being the Company's functional and presentation currency.

Estimates and assumptions

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the amounts of revenues and expenses during the reporting period.

Going concern

These financial statements reflect the Company management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Company's control. The Company's management cannot predict what impact these factors can have on the Company's financial position in future. The accompanying financial statements do not include the adjustments associated with this risk.

These financial statements were prepared on a going concern assumption.

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For prompt management of liquidity risk the Company regularly monitors external factors, which could influence the Company's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Company analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Company sets liquidity gap limits. The set limits are periodically reviewed to reflect the changes in external and internal environment.

Changes in the presentation format

The management made a decision on reclassification, as it believes that the new presentation format ensures more reliable and transparent reflection of the economic substance of transactions as compared to the previous presentation format and is more in line with the best practice.

The following adjustments have been made by the Company in the statement of profit or loss and other comprehensive income for the year ended 31 December 2013 to conform to the presentation format for the year ended 31 December 2014:

Financial statement section/ item	Adjustment amount	As reported before reclassification	As reported after reclassification	Description
Reinsurance activity / Net acquisition costs	6 572	(109 776)	(103 204)	Reclassification of expense items (depreciation, property and other taxes, communication services) from acquisition costs to general and administrative expenses
Reinsurance activity / General and administrative expenses	(6 572)	(91 716)	(98 288)	Reclassification of expense items (depreciation, property and other taxes, communication services) from acquisition costs to general and administrative expenses

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which became effective and which are or in the future could be relevant to the Company's operations:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities (effective for annual periods beginning on or after 1 January 2014 and applied retrospectively subject to exemptions regarding adoption of the standard). Under the exception to the consolidation requirements, investment entities should measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments have not had any effect on the Company's financial statements as the Company does not meet recognition criteria of an investment entity, as required by IFRS 10.

- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). The amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous, and applied retrospectively. The amendments have not had any effect on the Company's financial statements as the Company does not have relevant offsetting arrangements.

- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013 and effective for annual periods beginning on or after 1 January 2014, early application is permitted if IFRS 13 is applied for the same accounting and comparative period. The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use. Disclosures are now required only when impairment has been recorded or reversed in respect of that asset (or CGU). Other disclosure requirements for assets or CGU were clarified and expanded where the recoverable amount has been determined based on fair value less costs of disposal. This amendment has not had any impact on the Company's financial statements.

- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives.
- IFRIC 21 – Levies (effective for annual periods beginning on or after 1 January 2014, applied retrospectively). IFRIC 21 clarifies that:
  - An entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs;
  - For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- Amendment to IFRS 13 - Fair Value Measurement (effective immediately for annual periods beginning on or after 1 July 2014). The amendment clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at the amounts payable or receivable if the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the financial statements of the Company.
- Amendment to IFRS 1 - First Time Adoption of International Financial Reporting Standards (effective immediately for annual periods beginning on or after 1 January 2014). The Basis for Conclusions is amended to clarify that an entity has an option to use either the IFRSs that are mandatory at the reporting date, or an IFRS that is not yet mandatory, if it permits early application, provided the same standard is applied in all periods presented in the first IFRS financial statements. This amendment has not had any impact on the Company's financial statements, as the Company already prepares its financial statements in accordance with IFRS.

The changes described above did not have a material impact on the Company's financial statements.

IFRSs and IFRIC Interpretations not yet effective

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018, early adoption is permitted; retrospective application is allowed, but comparative information is not compulsory). It was issued in 2014 and replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 - Financial Instruments reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of adoption of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.
- IFRS 14 - Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016). IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing IFRS preparer, this standard would not apply.

- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions *(*effective for annual periods beginning on or after 1 July 2014). IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service because the Company has not defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle. These improvements include:

- Amendment to IFRS 2 - Share-based Payment *(*effective for annual periods beginning on or after 1 July 2014, applied prospectively, supposedly will not have a material impact on the Company's financial statements). It clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition;
  - A performance target must be met while the counterparty is rendering service;
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
  - A performance condition may be a market or non-market condition;
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- Amendment to IFRS 3 - Business Combinations *(*effective for annual periods beginning on or after 1 July 2014, applied prospectively, supposedly will not have a material impact on the Company's financial statements). The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- Amendments to IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 July 2014, applied retrospectively, supposedly will not have a material impact on the Company's financial statements). The amendments clarify that:
  - An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are economically 'similar';
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets *(*effective for annual periods beginning on or after 1 July 2014, applied retrospectively, supposedly will not have a material impact on the Company's financial statements). The amendments clarify in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.
- Amendment to IAS 24 - Related Party Disclosures *(*effective for annual periods beginning on or after 1 July 2014, applied retrospectively, supposedly will not have a material impact on the Company's financial statements). The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle. They include:

- Amendment to IFRS 3 - Business Combinations (effective for annual periods beginning on or after 1 July 2014, applied prospectively, supposedly will not have a material impact on the Company's financial statements). The amendment clarifies for the scope exceptions within IFRS 3 that:
  - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- Amendment to IFRS 13 - Fair Value Measurement (effective for annual periods beginning on or after 1 July 2014, applied prospectively, supposedly will not have a material impact on the Company's financial statements). The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).
- Amendment to IAS 40 - Investment Property (effective for annual periods beginning on or after 1 July 2014, applied prospectively, supposedly will not have a material impact on the Company's financial statements). The amendment clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively.
- IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017, either a full or modified retrospective application is required, with early adoption permitted). IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.
- Amendments to IFRS 11 - Joint Arrangements: Accounting for Acquisitions of Interests (prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments are not expected to have any impact on the Company's financial statements.
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate

financial statements, they will be required to apply this method from the date of transition to IFRS. These amendments will not have any impact on the Company's financial statements.

Annual improvements, 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments relate to four standards.

- Amendment to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal and should not be recorded as a change of this plan.
- Amendment to IFRS 7 - Financial Instruments — Disclosures. The amendment contains additional guidance helping management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement in accordance with IFRS 7. Besides, it clarifies that the application of the amendment to IFRS 7 is not explicitly required for all interim periods, unless required by IAS 34.
- Amendment to IAS 19 - Employee Benefits. The amendment clarifies that with respect to post-employment benefit obligations decisions on the choice of the discount rate, existence of the deep market of high-quality corporate bonds or what government bonds should be used as a benchmark are based on the currency in which the liabilities are denominated and not in the currency in which these liabilities occur.
- Amendment to IAS 34 - Interim Financial Reporting. The amendment clarifies that a cross-reference is required, if the disclosures are presented "elsewhere in the interim financial report".

The Company is currently assessing the adoption of these IFRS and IFRIC, the impact of their application on the Company and the timing of adoption.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, and settlement and current account balances.

Financial assets

The Company classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes loans issued and receivables);

The Company determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Company recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial instrument.

Fair value of financial instruments

The fair value of financial instruments traded as at the reporting date in an active market is determined on the basis of market or dealer quotations, plus the transaction costs incurred.

If quoted market prices are not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated using various valuation techniques, including mathematical models. Inputs for such models are based on observable market data or judgment.

Judgement is based on such factors as the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Company must have access to the principal or most advantageous market.

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

Risk management staff determines the policies and procedures for both recurring fair value measurement, such as investment properties, and for non-recurring measurement.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Company either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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

Reclassifications

The Company shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets measured at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or investments held to maturity depending on the purposes for which these financial assets are held, if the Company has intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

Deposits with banks

Deposits with banks are recorded when the Company advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Deposits with banks are carried at amortised cost and recorded until repayment.

Loans issued

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans issued are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market interest rates on similar loans in effect at origination date.

Loans issued are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of profit or loss and other comprehensive income as gains/losses on origination of assets at rates below/above market. Subsequently, the carrying amount of such loans is adjusted for amortisation of gains/losses on origination and the related income/expenses are recorded in the statement of profit or loss and other comprehensive income using the effective interest method.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities and other financial instruments at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Company classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category except for rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are initially recognised at fair value.

The fair value of trading securities is calculated either based on their market quotations or using various valuation procedures based on the assumption that these securities could be sold in future.

Published price quotations in an active market are the best evidence of fair value. If the market for a financial instrument is not active, valuation techniques are used which incorporate recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. In determining market value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from financial assets at fair value through profit or loss in the statement of profit or loss and other comprehensive income in the period in which they occur. Interest earned on trading securities is reflected in the statement of profit or loss and other comprehensive income as interest income. Dividends received are recorded as other income.

All purchases and sales of trading securities that require delivery within the time frame established by legislation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the Company commits to purchase or sell the asset. Otherwise, such transactions are treated as financial derivatives until settlement.

The Company determines the appropriate classification of financial assets at fair value through profit or loss at the time of purchase. Financial assets classified into this category are not subjected to reclassification.

Other financial instruments at fair value through profit or loss include securities that were initially classified in this category provided one of the following criteria was met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets and liabilities and recognising gains and losses on them on a different basis; or
- a group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and investment strategy and information about this basis is regularly disclosed and revised by the Company's management.

Recognition and measurement of financial assets designated in this category is in compliance with the accounting policies for trading securities presented above.

Interest earned on trading securities is recorded as interest income in the statement of profit or loss and other comprehensive income. Dividends are recognised as dividend income within income from investing activity when the Company's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains and losses on derecognition are recorded in the statement of profit or loss and other comprehensive income as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

Accounts receivable

Receivables are accounted for using the accrual method. Accounts receivable comprise 1) reinsurance receivables including the amounts due from reinsurers on settled claims, inward reinsurance premiums receivable, and 2) other receivables. Prepayments are recorded at the date of payment and included within expenses in the statement of profit or loss and other comprehensive income after the service is provided.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that the value of a financial asset or group of financial assets has been impaired. Impairment losses are recognised in the statement of profit or loss and other comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of loans issued

For loans issued carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets.

The key criteria underlying assessment of objective evidence that loans issued are impaired are as follows:

- significant financial difficulty of the borrower supported by financial information at the Company's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of loans issued representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Company shall take necessary and adequate steps, envisaged by law, standard business practice or agreement, to collect the outstanding loan.

(2) Impairment of accounts receivable

For accounts receivable the Company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that accounts receivable are impaired includes observable data about the following events in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the debtor supported by financial information at the Company's disposal;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the debtor;
- breach of contract, such as a default or delinquency in debt payments;
- the lender, for economic or legal reasons relating to the debtor's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

A provision for impairment of accounts receivable is established if there is objective evidence that the Company will not be able to collect the amounts due according to original contractual terms.

The amount of the provision is the difference between the carrying amount and estimated recoverable amount calculated as the present value of expected cash flows.

When receivables and/or prepayments are uncollectible, they are written off against the related impairment provision recorded in the statement of financial position. Such amounts are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded within other income.

If the amount of the impairment provision decreases and the decrease can be related objectively to an event occurring after its write-off, the recovery of the provision is credited to provision for impairment of receivables in the statement of profit or loss and other comprehensive income.

Reinsurance assets

In the course of its ordinary activity the Company takes on and cedes contracts to reinsurers. Cession of the contract to reinsurers does not relieve the Company of the responsibility before the insured person. Amounts receivable from reinsurers or payable to reinsurers are estimated in accordance with the terms of each reinsurance contract.

Reinsurance assets include:

– deferred acquisition costs;

– reinsurance receivables;

– reinsurers' share of claims provision.

Deferred acquisition costs

Deferred acquisition costs include commissions and remunerations of brokers and reinsured persons for conclusion and prolongation of reinsurance contracts. Deferred acquisition costs are amortised on a pro rata basis during the term of the corresponding reinsurance contracts.

Reinsurers' share of claims provision

Reinsurers' share of the Company's claims provision includes the reinsurers' share of outstanding claims reserve (OCR) and the reinsurers' share of provision for losses incurred but not yet reported (IBNR). Reinsurers' share of claims provision is estimated for each reinsurance line on the basis of the claims provision and the share of risks ceded by the Company to reinsurers.

At each reporting date the Company recalculates the reinsurers' share of claims provision in accordance with the corresponding claims provision and the share of risks ceded to reinsurers at the respective reporting date. Based on the results of the calculation the Company adjusts the reinsurers' share of claims provision and recognises the result in the statement of profit or loss and other comprehensive income .

Impairment of reinsurance assets

The Company assesses on a regular basis whether there is any objective evidence that the value of a reinsurance asset has been impaired. If there is objective evidence that an impairment loss has been incurred, the carrying amount of such an asset is decreased to its recoverable amount and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Company at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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

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

Financial liabilities measured at amortised cost

Financial liabilities carried at amortised cost include borrowed funds (loans from commercial banks and borrowings), accounts payable and debt securities issued.

Borrowed funds (loans from commercial banks and borrowings)

Borrowings are recognised initially at the fair value of the proceeds received less the transaction costs incurred. The Company recognises the costs directly attributable to transactions as interest expense on a straight-line basis over the term the borrowed funds are used. The cost of borrowings is recognised in the statement of financial position at the nominal amount of the loan balance including the accrued but unpaid interest, less unrecognised costs relating to the transaction. The Company believes that the estimated value of borrowed funds does not significantly differ from their amortised cost calculated using the effective interest method.

Borrowings with interest rates different from market rates are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar borrowings. The difference between the fair value and the nominal value of borrowings at origination is recognised in the statement of profit or loss and other comprehensive income as losses/gains on origination of liabilities at rates above/below market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the original losses/gains and the related losses/gains are recorded in the statement of profit or loss and other comprehensive income using the effective interest method as interest expense/income.

The Company applies the following principle of classifying loans into long- and short-term portions. Loans with principal and interest due within 12 months from the reporting date are recognised as short-term loans. Loans with interest and principal due in more than 12 months from the reporting date are recognised as long-term loans.

Accounts payable

Accounts payable comprise 1) insurance and reinsurance payables including the Company's liabilities in respect of premiums ceded to reinsurers and payment of claims filed by the insureds and 2) other payables.

Accounts payable are initially recognised at cost. Subsequently the Company remeasures the fair value of accounts payable using the discounted cash flow method.

The Company applies the following principle of classifying payables into long- and short-term portions. Payables due within 12 months from the reporting date are recognised as short-term payables. Payables due in more than 12 months from the reporting date are recognised as long-term accounts payable.

Offsetting of financial instruments

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

Investment property

Investment property is property held by the Company to earn rentals or for capital appreciation, or both, rather than for: (a) use in the Company's ordinary course of business, for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is initially recognised at cost and subsequently remeasured at fair value based on its market value. The market value of the Company's investment property is obtained from reports of independent appraisers, who have recognised and relevant professional qualifications and experience in valuation of property of similar location and category. Changes in the fair value of investment property are recorded in the statement of profit or loss and other comprehensive income as a separate line.

The Company records rentals in the statement of profit or loss and other comprehensive income as income from investing activity. Direct operating expenses (including repair and maintenance) arising from investment property are recorded as incurred within other expenses from investing activity in the statement of profit or loss and other comprehensive income.

If the investment property is used by the Company for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property under construction or renovation intended for subsequent use as investment property is recorded as investment property.

Premises and equipment

Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 (for assets acquired prior to 1 January 2003), or at revalued amounts, as indicated below, less accumulated depreciation and impairment provision, where required.

The Company's premises are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Company. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

At each reporting date the Company assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of profit or loss and other comprehensive income.

An impairment loss recognised in prior periods shall be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are recognised in the statement of profit or loss and other comprehensive income as other expenses.

Repair and maintenance expenses are charged to the statement of profit or loss and other comprehensive income as incurred.

Construction in progress is carried at cost less impairment provision, where required. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use.

Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Premises – 50 years;
- Furniture – 7 years;
- Office equipment – 6 years;
- Computers and computing facilities – 6 years;
- Motor vehicles – 5 years.

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

Operating lease - the Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Rental income from operating leases is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term as income from investing activity.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital

Ordinary shares are classified as share capital. The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is carried at cost. Share capital contributions made in the form of assets other than cash are stated at the fair value of such assets at the date of contribution. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

Dividends

Dividends are recognised as a liability and deducted from capital at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements were authorised for issue.

Dividends declared after the reporting date are disclosed in the subsequent events note. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

After approval of dividends by the General Shareholders' Meeting they are recognised in the financial statements as distributed profits.

Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Provisions

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

Reinsurance and investment contracts - classification

The Company enters into contracts which have insurance or financial risk, or both.

Reinsurance contracts are contracts where one party (the reinsurer) accepts a substantial insurance risk from the other party (the reinsured), agreeing to make payment to the reinsured upon occurrence in the future of the agreed unforeseen event (insured event) which had an adverse effect on the reinsured.

Such contracts are also exposed to financial risk.

Insurance risk arises when at least one of the following is uncertain at the inception of the insurance contract:

- whether an insured event will occur;
- when it will occur; or
- how much the insurer will need to pay if it occurs.

Apart from financial risk, the Company does not consider the following risks as insured:

- risk that did not exist before the conclusion of the contract and resulted from its conclusion;
- risk of cancellation (prolongation) of the contract earlier than the issuer expected when determining the contract price;
- risk of unforeseen increase in administrative expenses related to the contract.

The Company classifies a contract as a reinsurance contract only if it cedes significant insurance risk.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

Contracts that have a legal form of insurance, but contain financial risk with no significant insurance risk are investment contracts.

The following IFRSs are applied in respect of a group of contracts that have the legal form of insurance:

- reinsurance contracts – recognition and measurement are made in accordance with IFRS 4;
- investment contracts - recognition and measurement are made in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Description of reinsurance products

The Company accepts for reinsurance the following insurance risks and portfolios:

- accident and health insurance, voluntary medical insurance;
- insurance of travellers abroad;
- land transport insurance;
- cargo insurance;
- corporate property insurance (warehouse inventory insurance, insurance of agricultural risks, property insurance, insurance of power generation and technical risks, including insurance of construction and assembly risks, insurance of construction machinery and mechanisms);
- personal property insurance;
- civil liability insurance for legal entities (business risk insurance, voluntary insurance of motor vehicle owner TPL, carriers liability insurance, civil liability insurance of enterprises operating hazardous production facilities, professional liability insurance, insurance of liability for non-performance of obligations);
- agricultural risks insurance (insurance of crops and perennial plantings, livestock insurance)

The Company accepts risks on a facultative and obligatory basis, as well as on a proportional and non-proportional basis.

Reinsurance operations

- ***Premiums***

The Company records reinsurance premiums as revenues at the date the insurance risk is assumed. A provision for unearned premium is made at the same date and is subsequently recognised as income proportionately over the term of reinsurance contracts.

- ***Provision for unearned premiums***

Provision for unearned premiums represents the proportion of premiums written under reinsurance contracts that relates to unexpired terms of reinsurance contracts.

- ***Claims paid***

Claims paid are charged to the statement of profit or loss and other comprehensive income when the reinsured notifies the Company of the insured event occurred (when the loss amount can be reliably estimated) or at the time the damage incurred by the reinsured is assessed.

If at the time of notification by the reinsured of the Company of the insured event occurred it is impossible to reliably estimate the loss amount, the outstanding claims provision (OCR) is established.

Payments under outward reinsurance contracts include all losses incurred in the reporting period. The reinsurers' share of the insurance benefit is deducted from the total amount of losses incurred.

- ***Claims handling expenses***

Claims handling expenses are recorded in the statement of profit or loss and other comprehensive income as incurred.

- ***Claims provision***

Claims provision represents the estimates of the reinsurer's liabilities on future insurance payments and includes a provision for claims reported but not paid (OCR) and a provision for losses incurred but not yet reported (IBNR). OCR is made in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Company from ceding companies during investigation of the underlying insurance loss event including the data received after the reporting date. IBNR is actuarially determined by the Company by line of business, and includes assumptions based on prior years' claims and loss adjustment experience. The methods of determining such estimates and establishing the resulting reserves are continually reviewed and updated. Resulting adjustments are reflected in the statement of profit or loss and other comprehensive income as they arise. The claims provisions are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and settlement.

- ***Unexpired risk provision***

The unexpired risk provision is made when unearned premiums are insufficient to meet expected claims and expenses to be borne by the Company after the end of the financial year under reinsurance contracts in effect at the reporting date. Unexpired risk provision is based upon loss development historical patterns and future loss projections (including claims handling expenses), and the level of expenses required to cover the current portfolio. Expected losses are calculated having regard to events that have occurred prior to the reporting date. For the financial reporting purposes the provision for unexpired risk is written off against deferred acquisition costs.

Analysis of the provision's sufficiency to cover the insurer's liabilities in respect of the insureds is fundamental for maintaining the Company's financial viability. The Company performs regular tests to check the adequacy of the formed insurance provisions on the basis of analytical indicators and recommended threshold values. The reserve sufficiency indicators are calculated on the basis of the reporting year results. Reserve sufficiency indicators are evaluated on the assumption that movements in the provisions are in line with the movements in main reinsurance turnover indicators.

Acquisition costs

Acquisition costs represent commission for premiums under inward reinsurance contracts, salaries and other direct expenses associated with maintaining insurance business and vary with and are primarily related to the volumes of premiums collected. Deferred acquisition costs are estimated by each class of business. At the time of policy issue and each reporting date, deferred acquisition costs are subject to recoverability testing by class of insurance based on future assumptions.

Acquisition costs relating to reinsurance transactions, claims handling expenses and general and administrative expenses include staff costs, taxes other than income tax, depreciation and communications services allocated to the respective expense items depending on the job descriptions of the Company's employees and pro rata the actually spent working time.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision).

Commission income

The Company receives commissions for ceding premiums to reinsurers. Commission income from ceded reinsurance transactions that represent the recovery of acquisition costs reduces the applicable unamortised acquisition costs in such a manner that net acquisition costs are capitalised and charged to expenses in proportion to net revenue recognised.

The Company also provides non-reinsurance services to the clients in respect of which it does not accept insurance risk and charges fees.

Taxation

Income tax

Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period.

The income tax charge/(recovery) comprises current tax and deferred tax and is recorded in the statement of profit or loss and other comprehensive income except if it is recorded directly in equity because it relates to transactions that are also recorded directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in the financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Company's activities. These taxes are recorded in the statement of profit or loss and other comprehensive income within general and administrative expenses.

Income and expense recognition

Income/(expenses) of the Company are income/(expenses) received/(incurred) in connection with reinsurance transactions, income/ (expenses) from investment operations and other income/ (expenses).

Fee and commission income not relating to reinsurance transactions and other income and expenses are recorded on an accrual basis after the service is provided. The same principle applies in respect of other services provided on a regular basis over a long period of time.

Income from investment operations comprises interest income, gain on revaluation of investment property, rental income from lease of investment property, gains less losses from dealing in foreign currency. Expenses from investment operations include expenses associated with maintenance of investment property and losses on origination of loans at rates below market. Rental income from lease of investment property and expenses associated with maintenance of investment property are recorded on an accrual basis after the service is provided.

Interest income and expense are recorded in the statement of profit or loss and other comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract, that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

(in thousands of Russian Roubles) Translation from the Russian original

Other income and expense items are recorded on an accrual basis after the service is provided. The same principle applies to other services that are continuously provided over an extended period of time.

Employee benefits and social insurance contributions

The Company pays social insurance contributions in the territory of the Russian Federation. Insurance contributions are recorded on an accrual basis and comprise contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Company's employees. The Company does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Company's employees render the related service and are recorded in the statement of profit or loss and other comprehensive income as net acquisition costs, claims handing expenses and general and administrative expenses.

Foreign currency translation

Foreign currency transactions are initially translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CBR exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation are recorded in the statement of profit or loss and other comprehensive income within gains less losses from dealing in foreign currency relating to reinsurance activity, gains less losses from dealing in foreign currency relating to investing activity, gains less losses from dealing in foreign currency relating to other activities.

Non-monetary items denominated in foreign currencies that are stated at cost are translated at the CBR exchange rate in effect at the transaction date. Non-monetary items denominated in foreign currencies that are stated at fair value are translated at the CBR exchange rate ruling at the date the fair values were determined.

Accounting for the effects of hyperinflation

Effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies". Non-monetary items at the subsequent reporting dates and the results of the operations for subsequent reporting periods are recognised in actual nominal amounts.

The adjustments in respect of non-monetary items and financial performance prior to 1 January 2003 were calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"). Below are the conversion factors for the three years ended 31 December 2002:

Year	**Conversion factor**
2000	2.08
2001	1.46
2002	1.35

Non-monetary assets and liabilities are adjusted using the respective conversion factor.

5. Cash and Cash Equivalents

	2014	**2013**
Settlement accounts with banks in:		
- Russian Roubles	2 662	69 784
- foreign currencies	87 930	46 687
Cash on hand in Russian Roubles	33	20
Total cash and cash equivalents	**90 625**	**116 491**

(in thousands of Russian Roubles) Translation from the Russian original

Correlation of cash balances with banks in RUB and foreign currencies by bank is presented below:

	2014		2013	
	Amount	Share, %	Amount	Share, %
ZAO Citibank	90 294	99.67	115 854	99.47
OJSC Sberbank of Russia	192	0.21	491	0.42
JSC VTB Bank	100	0.11	119	0.10
LLC CB SINKO-Bank	6	0.01	7	0.01
Total cash balances with banks	**90 592**	**100.00**	**116 471**	**100.00**

The table below shows analysis of cash and cash equivalents placed with major banks which have long-term ratings assigned by the international rating agencies as at 31 December 2014:

	Fitch+	Moody's	S&P	Amount
JSC VTB Bank	-	Ba1	BB+	100
ZAO Citibank	BBB-	-	-	90 294
OJSC Sberbank of Russia	BBB-	Ba1	-	192
Total cash balances with major banks				**90 586**

The table below shows analysis of cash and cash equivalents placed with major banks which have long-term ratings assigned by the international rating agencies as at 31 December 2013:

	Fitch+	Moody's	S&P	Amount
JSC VTB Bank	BBB	Baa2	BBB	119
ZAO Citibank	BBB+	-	-	115 854
OJSC Sberbank of Russia	BBB	Baa1	-	491
Total cash balances with major banks				**116 464**

6. Deposits with Banks

	2014	2013
Deposits with Russian commercial banks	544 787	425 952
Total deposits with banks	**544 787**	**425 952**

As at 31 December 2014 , the Company placed deposits with Russian commercial banks in the amount of RUB 544 787 thousand (2013: RUB 425 952 thousand), including the accrued interest of RUB 14 760 thousand (2013: RUB 17 039 thousand).

Deposits are placed at the rate from 0.54% to 11.50% per annum with maturity from 164 to 366 days (2013: at the rate from 0.74% to 9.00% per annum with maturity from 182 to 365 days).

The correlation of deposits by bank is presented below:

	2014		2013	
	Amount	Share, %	Amount	Share, %
JSC VTB Bank	203 466	37.35	203 731	47.83
OJSC Sberbank of Russia	341 321	62.65	222 221	52.17
Total deposits with banks	**544 787**	**100.00**	**425 952**	**100.00**

As at 31 December 2014, the credit quality analysis of deposits with banks has shown that all deposits totalling RUB 544 787 thousand are current (2013: deposits totalling RUB 425 952 thousand are current).

Deposits with banks are not collateralised.

When placing deposits with banks the Company takes account of ratings assigned to the banks by international rating agencies.

(in thousands of Russian Roubles) Translation from the Russian original

The table below shows analysis of deposits placed with the banks which have long-term ratings assigned by international rating agencies as at 31 December 2014:

	Fitch+	Moody's	S&P	Amount
JSC VTB Bank	-	Ba1	BB+	203 466
OJSC Sberbank of Russia	BBB-	Ba1	-	341 321
Total deposits with banks				**544 787**

The table below shows analysis of deposits placed with the banks which have long-term ratings assigned by international rating agencies as at 31 December 2013:

	Fitch+	Moody's	S&P	Amount
JSC VTB Bank	BBB	Baa2	BBB	203 731
OJSC Sberbank of Russia	BBB	Baa1	-	222 221
Total deposits with banks				**425 952**

7. Loans Issued

	2014	2013
Loans issued to individuals	214	2 034
Total loans issued	**214**	**2 034**

Loans issued to individuals in the amount of RUB 214 thousand (2013: RUB 2 034 thousand), including the accrued interest in the amount of RUB 36 thousand (2013: RUB 187 thousand) represent loans issued to the Company's employees. Loans are issued at interest rates other than market rates and are measured at fair value at the date of origination representing future interest payments and principal amount discounted at market rates for similar loans. The market interest rate effective at the date of loan origination is 17.0% (2013: from 10.1% to 27.0%). In 2014, gain from recovery of the amortised cost of loans issued amounted to RUB 36 thousand (in 2013, loss on loans issued at rates below market amounted to RUB 581 thousand).

The credit quality analysis of loans issued as at 31 December 2014 has shown that all the above classes of loans issued in the total amount of RUB 214 thousand are current (2013: loans of RUB 2 034 thousand are current).

As at 31 December 2014, loans issued to individuals in the amount of RUB 214 thousand (100.00%), represented loans to related parties (2013: RUB 2 034 thousand (100.00%). The related party information is disclosed in Note 39.

8. Financial Assets at Fair Value through Profit or Loss

As at 31 December 2014, the Company has no financial assets at fair value through profit or loss (2013: financial assets at fair value through profit or loss amount to RUB 50 100 thousand and represent shares of OJSC ROSTELECOM).

As at 31 December 2013, corporate shares have ratings of international rating agencies - BBB- (Fitch+) and BB+ (S&P) and relate to Level 1 of the fair value hierarchy of financial assets.

Risk analysis is presented in Note 34.

(in thousands of Russian Roubles) Translation from the Russian original

9. Reinsurance Receivables

Below is the analysis of accounts receivable from reinsurance business with a breakdown by counterparty as at 31 December 2014:

	Amount	Share, %
LLC Northern Treasury Insurance Company	31 525	12.29
Korean Re	26 037	10.15
OJSC SOGAZ	20 596	8.03
Xalq Sigorta	11 406	4.45
Eureko Sigorta	10 791	4.21
International IC	9 456	3.69
Insurance Company DAR CJSC	9 152	3.57
Cedar Insurance And Reinsurance Company Ltd.	8 319	3.24
PVI Insurance corporation	7 444	2.90
OJSC AlfaStrakhovanie	6 183	2.41
Insurance Closed Joint Stock Company ROSGOSSTRAKH-ARMENIA	5 914	2.31
Asia Capital Reinsurance Malaysia	5 686	2.22
Other (less than 2% of the total amount)	103 948	40.53
Total reinsurance receivables before provision for impairment as at 31 December 2014	**256 457**	**100.00**
Provision for impairment of reinsurance receivables	(37 731)	
Total reinsurance receivables as at 31 December 2014	**218 726**	

Below is the analysis of accounts receivable from reinsurance business with a breakdown by counterparty as at 31 December 2013:

	Amount	Share, %
Korean Re	16 268	9.32
LLC Rosgosstrakh	14 190	8.13
OJSC SOGAZ	12 816	7.34
PVI Insurance corporation	7 941	4.55
CJSC Transneft Insurance Company	7 251	4.15
LLC Northern Treasury Insurance Company	5 936	3.40
International IC	5 502	3.15
CJSC Ace Insurance Company	5 352	3.07
AzRe Reinsurance	5 072	2.90
Best Re	4 170	2.39
OJSC AlfaStrakhovanie	3 823	2.19
Other (less than 2% of the total amount)	86 271	49.41
Total reinsurance receivables before provision for impairment as at 31 December 2013	**174 592**	**100.00**
Provision for impairment of reinsurance receivables	(6 457)	
Total reinsurance receivables as at 31 December 2013	**168 135**	

In 2014, five counterparties accounted for RUB 100 355 thousand or 39.13% of reinsurance receivables (in 2013 five counterparties accounted for RUB 58 466 thousand (33.49%)).

Reinsurance receivables are recorded at amortised cost. The market interest rate at the date of origination of receivables varies from 8.00% to 8.25% with maturity from January 2015 to August 2021 (2013: from 8.00% to 8.25% with maturity from January 2014 to August 2021).

(in thousands of Russian Roubles) Translation from the Russian original

Below is the analysis of movements in the provision for impairment of reinsurance receivables:

	2014	2013
Provision for impairment of reinsurance receivables as at 1 January	**6 457**	**4 001**
Reinsurance receivables written off against impairment provision	(4 704)	(422)
Provision charge for impairment of reinsurance receivables	35 978	2 878
Provision for impairment of reinsurance receivables as at 31 December	**37 731**	**6 457**

Below is the credit quality analysis of reinsurance receivables as at 31 December 2014:

	Current	Past due more than 1 year	Total
Reinsurance receivables before provision for impairment	250 251	6 206	256 457
Provision for impairment of reinsurance receivables	(31 525)	(6 206)	(37 731)
Total reinsurance receivables as at 31 December 2014	**218 726**	**-**	**218 726**

Below is the credit quality analysis of reinsurance receivables as at 31 December 2013:

	Current	Past due more than 1 year	Total
Reinsurance receivables before provision for impairment	168 135	6 457	174 592
Provision for impairment of reinsurance receivables	-	(6 457)	(6 457)
Total reinsurance receivables as at 31 December 2013	**168 135**	**-**	**168 135**

10. Accounts Receivable

Below is the analysis of accounts receivables from non-reinsurance business as at 31 December 2014 and 31 December 2013:

	2014	2013
Property insurance services prepaid	1 548	1 547
Prepaid audit fees	1 511	504
Receivables from insurance and reinsurance companies with recalled licences	425	-
Accounts receivable on advances received	317	2 700
Cash advances receivable from employees	1	428
Other accounts receivable	302	504
Accounts receivable before provision for impairment as at 31 December	**4 104**	**5 683**
Provision for impairment	(503)	(86)
Total accounts receivable as at 31 December	**3 601**	**5 597**

(in thousands of Russian Roubles) Translation from the Russian original

Below is the analysis of movements in the provision for impairment of accounts receivable from non-reinsurance business:

	2014	2013
Provision for impairment of accounts receivable as at 1 January	**86**	**111**
Use of provision for impairment of accounts receivable	(8)	(40)
Provision charge for impairment of accounts receivable	425	15
Provision for impairment of accounts receivable as at 31 December	**503**	**86**

Below is the credit quality analysis of accounts receivable as at 31 December 2014:

	Current	Past due more than 1 year	Total
Accounts receivable before provision for impairment	3 601	503	4 104
Provision for impairment of accounts receivable	-	(503)	(503)
Total accounts receivable as at 31 December 2014	**3 601**	**-**	**3 601**

Below is the credit quality analysis of accounts receivable as at 31 December 2013:

	Current	Past due more than 1 year	Total
Accounts receivable before provision for impairment	5 597	86	5 683
Provision for impairment of accounts receivable	-	(86)	(86)
Total accounts receivable as at 31 December 2013	**5 597**	**-**	**5 597**

11. Provision for Unearned Premiums

	2014	2013
Provision for unearned premiums	272 707	218 846
Reinsurers' share of provision for unearned premiums	(8 992)	(6 274)
Provision for unearned premiums, less reinsurers' share	**263 715**	**212 572**

Below is the analysis of movements in the provision for unearned premiums:

	2014	2013
Provision for unearned premiums, less reinsurers' share as at 1 January	212 572	179 820
Increase in provision for unearned premiums, reinsurers' share of provision for unearned premiums	51 143	32 752
Provision for unearned premiums, less reinsurers' share as at 31 December	**263 715**	**212 572**

(in thousands of Russian Roubles) Translation from the Russian original

Below is the structure of provision for unearned premiums less reinsurers' share by counterparty as at 31 December 2014:

	Amount	**Share, %**
Korean Re	33 565	12.73
OJSC SOGAZ	19 583	7.43
LLC Rosgosstrakh	17 185	6.52
British Insurance House Ltd	14 901	5.65
PVI Insurance Corporation	13 426	5.09
Other (less than 5% of the total amount)	165 055	62.58
Total provision for unearned premiums, less reinsurers' share, as at 31 December 2014	**263 715**	**100.00**

Below is the structure of provision for unearned premiums less reinsurers' share by counterparty as at 31 December 2013:

	Amount	**Share, %**
OJSC SOGAZ Insurance	23 332	10.98
Korean Re	16 720	7.87
LLC Rosgosstrakh	15 710	7.39
PVI Insurance Corporation	12 421	5.84
OJSC AlfaStrakhovanie	12 351	5.81
Other (less than 3% of the total amount)	132 038	62.11
Total provision for unearned premiums, less reinsurers' share, as at 31 December 2013	**212 572**	**100.00**

In 2014, five counterparties accounted for RUB 98 661 thousand or 37.42% of provision for unearned premiums (in 2013 five counterparties accounted for RUB 80 534 thousand (37.89%)).

12. Claims Provision

			2014			**2013**
	OCR	**IBNR**	**Total**	**OCR**	**IBNR**	**Total**
Claims provision, gross	606 027	205 233	811 260	593 851	146 628	740 479
Claims provision, reinsurers' share	(396 059)	(41 026)	(437 085)	(350 914)	(32 524)	(383 438)
Claims provision less reinsurers' share	**209 968**	**164 207**	**374 175**	**242 937**	**114 104**	**357 041**

Movements in the claims provision are as follows:

	2014	**2013**
Claims provision less reinsurers' share as at 1 January	357 041	249 374
Increase in the claims provision and reinsurers' share	17 134	107 667
Claims provision less reinsurers' share as at 31 December	**374 175**	**357 041**

(in thousands of Russian Roubles) Translation from the Russian original

Below is the analysis of OCR (claims reported but not yet paid) broken down by counterparty as at 31 December 2014:

	Amount	Share, %
OJSC SOGAZ Insurance	183 351	30.26
OJSC AlfaStrakhovanie	172 853	28.52
CJSC ACE Insurance Company	62 309	10.28
Korean Re	28 740	4.74
Cedar Insurance And Reinsurance	14 734	2.43
Insurance Closed Joint Stock Company ROSGOSSTRAKH-ARMENIA	14 227	2.35
OJSC VSK Insurance Company	14 180	2.34
LLC Northern Treasury Insurance Company	13 009	2.15
ASKA Ukrainian Insurance Closed Joint Stock Company	8 198	1.35
Moscow Re OJSIRC	7 797	1.29
LLC Rosgosstrakh	7 101	1.17
Other (less than 1% of the total amount)	79 528	13.12
Total OCR as at 31 December 2014	**606 027**	**100.00**

Below is the analysis of OCR (claims reported but not yet paid) broken down by counterparty as at 31 December 2013:

	Amount	Share, %
OJSC AlfaStrakhovanie»	128 723	21.68
OJSC SOGAZ Insurance	87 126	14.67
Hyundai Insurance	82 833	13.95
Insurance Closed Joint Stock Company ROSGOSSTRAKH-ARMENIA	57 938	9.75
Cedar Insurance And Reinsurance	23 721	3.99
OJSC VSK Insurance Company	13 410	2.26
OJSC Alliance Insurance Company	12 050	2.03
MAA General Assurance Phil. Inc.	8 550	1.44
Korean Re	7 848	1.32
CJSC Insurance Group Spasskie Vorota-M	6 693	1.13
LLC Northern Treasury Insurance Company	5 318	0.9
Other (less than 1% of the total amount)	159 641	26.88
Total OCR as at 31 December 2013	**593 851**	**100.00**

In 2014, five counterparties accounted for RUB 461 987 thousand or 76.23% of total OCR (in 2013 five counterparties accounted for RUB 380 341 thousand (64.04%)).

(in thousands of Russian Roubles) Translation from the Russian original

Below is the analysis of the reinsurers' share of OCR by counterparty as at 31 December 2014:

	Amount	Share, %
OJSC SOGAZ Insurance	180 736	45.63
OJSC AlfaStrakhovanie	141 597	35.75
CJSC ACE Insurance Company	38 500	9.72
Insurance Closed Joint Stock Company ROSGOSSTRAKH-ARMENIA	13 954	3.52
OJSC VSK Insurance Company	11 800	2.98
Open Joint Stock Insurance Company Ingosstrakh	3 318	0.84
Cedar Insurance And Reinsurance	3 118	0.79
Closed Joint Stock Insurance Company ERGO Rus	1 472	0.37
Hyundai Insurance	814	0.21
Moscow Re OJSIRC	750	0.19
Total reinsurers' share in OCR as at 31 December 2014	**396 059**	**100.00**

Below is the analysis of the reinsurers' share of OCR by counterparty as at 31 December 2013:

	Amount	Share, %
OJSC AlfaStrakhovanie	97 500	27.78
OJSC SOGAZ Insurance	72 592	20.69
Hyundai Insurance	57 276	16.32
Insurance Closed Joint Stock Company ROSGOSSTRAKH-ARMENIA	56 945	16.23
Soglasie Insurance Company LLC	43 564	12.42
OJSC VSK Insurance Company	11 800	3.36
Cedar Insurance And Reinsurance	10 487	2.99
Moscow Re OJSIRC	750	0.21
Total reinsurers' share in OCR as at 31 December 2013	**350 914**	**100.00**

In 2014, five counterparties accounted for RUB 386 587 thousand or 97.60% of the reinsurers' share of OCR (in 2013 five counterparties accounted for RUB 327 877 thousand (93.44%)).

The Company conducts regular tests for sufficiency and adequacy of its provisions, performs sensitivity analysis.

Below are the results of the LAT test of the claims provisions accrued as at the previous reporting date (run-off analysis).

	Personal	Land transport	Cargo	Property	Voluntary liability	Non-proportional based on excess of loss	Total
Claims provision as at 31 December 2013	**7 781**	**17 848**	**10 713**	**400 553**	**3 122**	**300 462**	**740 479**
Claims paid in 2014 for events occurred prior to 1 January 2014	794	41 826	7 338	227 179	1 418	119 913	398 468
Claims provision as at 31 December 2014 for events occurred prior to 1 January 2014	1 544	5 014	3 452	225 642	314	162 154	398 120
Surplus/(deficit) of the claims provision as at 31 December 2013	**5 443**	**(28 992)**	**(77)**	**(52 268)**	**1 390**	**18 395**	**(56 109)**

As at 31 December 2013, the claims provision ran off at a deficit of RUB 56 109 thousand.

(in thousands of Russian Roubles) Translation from the Russian original

The deficit level of the claims provision is attributed to increased losses from group 2 (land transport insurance) and group 4 (property insurance). As at 31 December 2014, claims provisions were reviewed and increased.

Below are the results of the LAT-test for sufficiency of insurance provisions to cover the Company's liabilities under agreements effective as at the reporting date.

Insurance	Provision for unearned premiums -net reinsurance, RUB'000	DAC- net reinsurance, RUB'000	Claim ratio net reinsurance, %	Expense ratio, %	Ratio of non-acquisition costs, %	LAT-result, RUB'000
Personal	5 276	209	13.48	1.45	5.90	3 967
Land transport	31 445	2 596	129.74	1.45	5.90	(14 257)
Cargo	1 661	2	64.49	1.45	5.90	466
Property	190 910	17 651	45.18	1.45	5.90	72 971
Voluntary liability	7 306	2 343	30.84	1.45	5.90	2 172
Non-proportional based on excess of loss	27 117	1 709	35.31	1.45	5.90	13 839
Total	**263 715**	**24 510**				**79 158**

The LAT-test performed has demonstrated sufficiency of insurance provisions as at 31 December 2014 for all insurance groups, except for land transport insurance.

The high level of loss in the reporting year in group 2 is extraordinary and was caused by two irregular large losses relating to two Russian obligatory reinsurance contracts, as well as by several losses under foreign obligatory agreements which the Company refused to renew in the reporting year and prior periods. The level of loss is expected to decrease in the following reporting periods.

In most cases obligatory reinsurance agreements for group 2 are signed in a single pool with agreements for group 4 (property), where the LAT result is positive.

Overall for the portfolio there is no deficit of premiums under agreements with unexpired liability. The unexpired risk provision was not formed.

Sensitivity analysis shows how net profit and comprehensive income would change for the period due to possible changes in the following factors: average payment and average number of payments. All other factors are deemed constant. The table illustrates the effect from increase in the analysed parameters. The effect from their reduction is similar by module.

Sensitivity analysis	Movement	Effect on profit before taxation	Effect on comprehensive income (adjusted for income tax effect)
Average amount of payments	10%	(49 622)	(39 697)
Average number of payments	100	(33 619)	(26 895)

13. Claims Development Analysis

Information on claims development is disclosed to illustrate insurance risk assumed by the Company. The tables below compare the claims paid that are classified by the accident year with the claims provision established for these claims.

The tables provide data on gross provisions from the date the Company made the first assessment of provisions in respect of insured events which occurred in the respective periods. The estimate is increased or decreased as losses are paid in the reporting period and/or the Company becomes aware of the occurrence of new insured events and unpaid claims.

The line "gross claims provision" in the tables provides information on the claims provision recorded in the statement of financial position, which is estimated on the basis of cumulative outstanding claims, less the amount of claims paid at the reporting date.

(in thousands of Russian Roubles) Translation from the Russian original

Claims development analysis is performed in respect of business segments where uncertainties as regards the amount and timing of payments are resolved within more than one year.

Claims development analysis (gross) - Total:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	278 444	237 078	242 378	577 604	495 953	495 953
- one year later	226 136	244 914	346 491	711 992	-	711 992
- two years later	327 738	230 740	288 382		-	288 382
- three years later	340 842	229 558	-	-	-	229 558
- four years later	326 808	-	-	-	-	326 808
Estimate of cumulative claims	326 808	229 558	288 382	711 992	495 953	2 052 693
Cumulative payments	(326 325)	(206 986)	(239 422)	(387 560)	(82 813)	(1 243 106)
Claims provision for events occurred prior to 2010	-	-	-	-	-	1 673
Gross claims provisions	**483**	**22 572**	**48 960**	**324 432**	**413 140**	**811 260**

Claims development analysis (gross) – Personal insurance

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	11 622	9 280	5 387	3 356	4 659	4 659
- one year later	12 016	7 120	4 537	2 493	-	2 493
- two years later	14 881	7 273	4 322	-	-	4 322
- three years later	10 355	3 151	-	-	-	3 151
- four years later	10 134	-	-	-	-	10 134
Estimate of cumulative claims	10 134	3 151	4 322	2 493	4 659	24 759
Cumulative payments	(10 134)	(3 107)	(3 702)	(1 672)	(1 593)	(20 208)
Claims provision for events occurred prior to 2010	-	-	-	-	-	59
Gross claims provisions	**-**	**44**	**620**	**821**	**3 066**	**4 610**

Claims development analysis (gross) – Land transport insurance:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	9 093	61 888	59 349	31 067	48 872	48 872
- one year later	5 552	36 960	60 985	50 651	-	50 651
- two years later	6 882	36 372	70 469	-	-	70 469
- three years later	6 642	36 295	-	-	-	36 295
- four years later	6 642	-	-	-	-	6 642
Estimate of cumulative claims	6 642	36 295	70 469	50 651	48 872	212 929
Cumulative payments	(6 642)	(36 295)	(70 434)	(45 672)	(15 490)	(174 533)
Claims provision for events occurred prior to 2010	-	-	-	-	-	-
Gross claims provisions	**-**	**-**	**35**	**4 979**	**33 382**	**38 396**

Claims development analysis (gross) – Cargo insurance:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	5 972	6 471	4 665	11 205	5 893	5 893
- one year later	3 622	5 362	5 974	12 306	-	12 306
- two years later	6 545	5 645	4 944	-	-	4 944
- three years later	6 524	5 649	-	-	-	5 649
- four years later	6 524	-	-	-	-	6 524
Estimate of cumulative claims	6 524	5 649	4 944	12 306	5 893	35 316
Cumulative payments	(6 524)	(3 494)	(4 902)	(11 052)	(1 525)	(27 497)
Claims provision for events occurred prior to 2010	-	-	-	-	-	-
Gross claims provisions	**-**	**2 155**	**42**	**1 254**	**4 368**	**7 819**

(in thousands of Russian Roubles) Translation from the Russian original

Claims development analysis (gross) – Other property insurance:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	75 875	41 363	60 718	320 871	140 785	140 785
- one year later	47 331	70 196	176 844	408 050	-	408 050
- two years later	57 983	49 115	129 902	-	-	129 902
- three years later	60 922	64 074	-	-	-	64 074
- four years later	57 995	-	-	-	-	57 995
Estimate of cumulative claims	57 995	64 074	129 902	408 050	140 785	800 806
Cumulative payments	(57 915)	(56 560)	(105 543)	(214 361)	(28 694)	(463 073)
Claims provision for events occurred prior to 2010	-	-	-	-	-	-
Gross claims provisions	**80**	**7 514**	**24 359**	**193 689**	**112 091**	**337 733**

Claims development analysis (gross) – Voluntary liability insurance:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	758	1 114	2 176	4 098	2 836	2 836
- one year later	574	876	1 216	3 444	-	3 444
- two years later	828	825	902	-	-	902
- three years later	775	478	-	-	-	478
- four years later	701	-	-	-	-	701
Estimate of cumulative claims	701	478	902	3 444	2 836	8 361
Cumulative payments	(701)	(427)	(902)	(3 180)	(1 101)	(6 311)
Claims provision for events occurred prior to 2010	-	-	-	-	-	-
Gross claims provisions	**-**	**51**	**-**	**264**	**1 735**	**2 050**

Claims development analysis (gross) – Non-proportional reinsurance:

	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims						
At end of accident year	175 124	116 962	110 083	207 007	292 908	292 908
- one year later	157 041	124 400	96 935	235 048	-	235 048
- two years later	240 619	131 510	77 843	-	-	77 843
- three years later	255 624	119 911	-	-	-	119 911
- four years later	244 812	-	-	-	-	244 812
Estimate of cumulative claims	244 812	119 911	77 843	235 048	292 908	970 522
Cumulative payments	(244 409)	(107 103)	(53 939)	(111 623)	(34 410)	(551 484)
Claims provision for events occurred prior to 2010	-	-	-	-	-	1 614
Gross claims provisions	**403**	**12 808**	**23 904**	**123 425**	**258 498**	**420 652**

14. Investment Property

The Company's investment property represents land and premises owned by the Company with a total area of 1 382.26 square meters and leased out equipment.

Movements in the Company's investment property in 2014 are as follows:

	Land	Premises	Total
Cost as at 31 December 2013	**41 575**	**396 038**	**437 613**
Cost			
Balance as at 1 January 2014	41 575	396 038	437 613
Additions	-	122	122
Revaluation	16 711	24 124	40 835
Cost as at 31 December 2014	**58 286**	**420 284**	**478 570**

(in thousands of Russian Roubles) Translation from the Russian original

Movements in the Company's investment property in 2013 are as follows:

	Land	Premises	Total
Cost as at 31 December 2012	**31 006**	**380 348**	**411 354**
Cost			
Balance as at 1 January 2013	31 006	380 348	411 354
Additions	-	5 715	5 715
Revaluation	10 569	9 975	20 544
Cost as at 31 December 2013	**41 575**	**396 038**	**437 613**

The Company's premises were appraised by an independent appraiser as at 31 December 2014. The appraisal was performed by LLC ProfExpert and was based on the market value.

The cost of the land and premises includes the amount of RUB 237 309 thousand representing revaluation of the Company's land and premises (2013: RUB 196 474 thousand).

Effect of revaluation under RAS – RUB 20 240 thousand.

Revaluation amount for IFRS purposes in 2014 - RUB 40 835 thousand (2013: RUB 20 544 thousand).

If the premises were measured using the cost model, the statement of financial position items would be as follows:

	2014	2013
Cost	241 261	241 139
Accumulated depreciation	(18 329)	(17 555)
Net book value	**222 932**	**223 584**

During 2014, expenses on investment property generating rental income totalled RUB 11 418 thousand (2013: RUB 11 076 thousand) (Note 29).

Rental income for the year 2014 totalled RUB 37 831 thousand (2013: RUB 27 312 thousand).

15. Premises and Equipment

Movements in the Company's premises and equipment as at 31 December 2014 are as follows:

	Premises	Furniture	Computers and office equipment	Motor vehicles	Total
Net book value as at 31 December 2013	**152 355**	**48**	**890**	**2 857**	**156 150**
Cost					
Balance as at 1 January 2014	156 047	2 886	6 791	12 868	178 592
Additions	-	-	5 489	-	5 489
Disposals	-	-	(34)	-	(34)
Revaluation	5 002	-	-	-	5 002
Depreciation written off on revaluation	(3 692)	-	-	-	(3 692)
Balance as at 31 December 2014	**157 357**	**2 886**	**12 246**	**12 868**	**185 357**
Accumulated depreciation					
Balance as at 1 January 2014	3 692	2 838	5 901	10 011	22 442
Depreciation charge	3 777	10	552	934	5 273
Disposals	-	-	(34)	-	(34)
Depreciation written off on revaluation	(3 692)	-	-	-	(3 692)
Balance as at 31 December 2014	**3 777**	**2 848**	**6 419**	**10 945**	**23 989**
Net book value as at 31 December 2014	**153 580**	**38**	**5 827**	**1 923**	**161 368**

(in thousands of Russian Roubles) Translation from the Russian original

Movements in the Company's premises and equipment as at 31 December 2013 are as follows:

	Premises	Furniture	Computers and office equipment	Motor vehicles	Total
Net book value as at 31 December 2012	**148 926**	**107**	**1 020**	**5 052**	**155 105**
Cost					
Balance as at 1 January 2013	152 501	2 886	6 941	12 868	175 196
Additions	-	-	145	-	145
Disposals	-	-	(295)	-	(295)
Revaluation	7 121	-	-	-	7 121
Depreciation written off on revaluation	(3 575)	-	-		(3 575)
Balance as at 31 December 2013	**156 047**	**2 886**	**6 791**	**12 868**	**178 592**
Accumulated depreciation					
Balance as at 1 January 2013	3 575	2 779	5 921	7 816	20 091
Depreciation charge	3 692	59	275	2 195	6 221
Disposals	-	-	(295)	-	(295)
Depreciation written off on revaluation	(3 575)	-	-	-	(3 575)
Balance as at 31 December 2013	**3 692**	**2 838**	**5 901**	**10 011**	**22 442**
Net book value as at 31 December 2013	**152 355**	**48**	**890**	**2 857**	**156 150**

The Company's premises were appraised by an independent appraiser as at 31 December 2014. The appraisal was performed by the independent firm LLC ProfExpert and was based on the market value.

As at 31 December 2014, the net book value of the premises includes the amount of RUB 126 714 thousand representing surplus on revaluation of the Company's premises (2013: the net book value of the premises includes the amount of RUB 121 712 thousand representing surplus on revaluation of the Company's premises).

As at 31 December 2014, the total deferred tax liability of RUB 25 344 thousand was computed in respect of this fair value remeasurement of the premises and recorded within equity (2013: RUB 24 343 thousand).

If the premises were measured using the cost model, the statement of financial position items would be as follows:

	2014	2013
Cost	50 511	50 511
Accumulated depreciation	(11 659)	(10 648)
Net book value	**38 852**	**39 863**

16. Loans from Commercial Banks

Below is the information on loans from commercial banks by bank as at 31 December 2014 and 31 December 2013:

	2014		2013	
	Amount	Share, %	Amount	Share, %
ZAO Citibank	565	100.00	719	92.89
American Express Bank	-	-	55	7.11
Total loans from commercial banks	**565**	**100.00**	**774**	**100.00**

As at 31 December 2014, loans from commercial banks comprise short-term loans from ZAO Citibank in the amount of RUB 565 thousand (2013: RUB 719 thousand). Short-term loans from American Express Bank in the amount of RUB 55 thousand are repaid.

(in thousands of Russian Roubles) Translation from the Russian original

17. Reinsurance Payables

Below is the information on reinsurance payables by counterparty as at 31 December 2014:

	Amount	Share, %
Hannover Re	22 981	23.15
LLC Rosgosstrakh	10 238	10.31
Alpha Insurance Group	8 802	8.87
Eureko Sigorta	8 563	8.62
Cedar Insurance and Reinsurance Company Ltd.	8 141	8.20
ZAO DAR insurance company	4 553	4.59
Gunes Sigorta	4 390	4.42
Korean Re	4 154	4.18
Silver Star IC	3 846	3.87
A-Group Insurance Company	2 496	2.52
Ankara Sigorta	2 214	2.23
OJSC SOGAZ	2 212	2.23
Asia Capital Re	2 201	2.22
Turk Nippon Sigorta	1 941	1.95
Indigo Insurance Company	1 571	1.58
Twenty First Century Insurance Company, CJSC	1 294	1.30
Oman Insurance Company	1 283	1.29
Other (less than 1% of the total amount)	8 413	8.47
Total reinsurance payables as at 31 December 2014	**99 293**	**100.00**

Below is the information on reinsurance payables by counterparty as at 31 December 2013:

	Amount	Share, %
Hannover Re	9 040	16.6
Best Re	7 709	14.2
Korean Re	2 561	4.7
Silver Star IC	2 118	3.9
OJSC AlfaStrakhovanie	1 604	3.0
Xuan Thanh Insurance	1 265	2.3
Indigo Insurance Company	1 125	2.1
Seguros Banreservas	764	1.4
Ras Al Khaimah	744	1.4
A-Group Insurance Company	595	1.1
ASKA Ukrainian Insurance Closed Joint Stock Company	567	1.0
Other (less than 1% of the total amount)	26 268	48.3
Total reinsurance payables as at 31 December 2013	**54 360**	**100.00**

18. Accounts Payable

	2014	2013
Salaries and social insurance payable	7 209	5 284
Taxes payable other than income tax	5 092	5 279
Operating lease payable	2 890	3 080
Trade payables	725	690
Payables on investments acquired	-	50 000
Other accounts payable	3 036	3 416
Total accounts payable	**18 952**	**67 749**

(in thousands of Russian Roubles) Translation from the Russian original

19. Share Capital

The authorized, issued and fully paid share capital includes the following components:

	2014		2013	
	Number of shares	Nominal value, RUB'000	Number of shares	Nominal value, RUB'000
Ordinary shares	600 000	480 000	600 000	480 000

All ordinary shares have a nominal value of RUB 800 per share. Each share gives the right of one vote.

20. Retained Earnings according to Russian Legislation

According to the Russian legislation, only accumulated retained earnings reflected in the Company's statutory financial statements may be distributed as dividends among the Company's shareholders. As at 31 December 2014, the Company's retained earnings amounted to RUB 105 190 thousand (2013: RUB 63 701 thousand).

In accordance with the Russian laws the Company is obliged to create a reserve fund at the rate of 15% of the share capital by annual contributions of at least 5% of the net profit which represents funds provided, as required by the regulations of the Russian Federation, in respect of the Company's general risks, including future losses and other unforeseen risks or contingencies. As at 31 December 2014, the reserve fund of the Company amounted to RUB 23 050 thousand (2013: RUB 22 193 thousand).

21. Dividends

In accordance with the General Shareholders' Meeting of 28 May 2014 (Minutes No. 32), the Company did not pay dividends for 2013 (2013: no dividends were paid for 2012).

22. Components of Comprehensive Income

	2014	2013
Revaluation of premises and equipment		
Gains less losses from revaluation of premises and equipment	5 002	7 121
Effect of revaluation of premises and equipment	**5 002**	**7 121**
Income tax movements attributable to components of comprehensive income:		
Revaluation of premises and equipment	(1 001)	(1 424)
Comprehensive income after taxation	**4 001**	**5 697**

(in thousands of Russian Roubles) Translation from the Russian original

23. Premiums and Claims Analysis

Below is the analysis of premiums and claims by line of business for the year ended 31 December 2014:

	Reinsurance						
	Personal	Land transport	Cargo	Property	Voluntary liability	Non-proportional on the excess of loss basis	Total
PREMIUMS							
Gross reinsurance premium written	12 598	70 860	14 803	295 089	16 110	282 779	**692 239**
Premiums ceded	(2 514)	-	(3 427)	(142 290)	(21)	(810)	**(149 062)**
Net premiums	**10 084**	**70 860**	**11 376**	**152 799**	**16 089**	**281 969**	**543 177**
Change in provision for unearned premiums, net of reinsurers' share	2 980	(11 136)	(645)	(62 025)	(4 961)	24 644	**(51 143)**
Net premiums earned	**13 064**	**59 724**	**10 731**	**90 774**	**11 128**	**306 613**	**492 034**
CLAIMS							
Claims paid, gross	(2 443)	(77 465)	(11 345)	(247 195)	(3 446)	(154 323)	**(496 217)**
Amounts ceded to reinsurers	-	-	-	77 599	-	45 487	**123 086**
Net claims	**(2 443)**	**(77 465)**	**(11 345)**	**(169 596)**	**(3 446)**	**(108 836)**	**(373 131)**
Change in claims provision, net of reinsurers' share	3 233	(18 674)	3 066	4 943	1 072	(10 774)	**(17 134)**
Net claims incurred	**790**	**(96 139)**	**(8 279)**	**(164 653)**	**(2 374)**	**(119 610)**	**(390 265)**

(in thousands of Russian Roubles) Translation from the Russian original

Below is the analysis of premiums and claims by line of business for the year ended 31 December 2013:

	Reinsurance						
	Personal	Land transport	Cargo	Property	Voluntary liability	Non-proportional on the excess of loss basis	Total
PREMIUMS							
Gross reinsurance premium written	15 391	62 422	17 832	299 875	9 816	254 994	660 330
Premiums ceded	(2 875)	-	(6 816)	(136 561)	(19)	-	(146 271)
Net premiums	**12 516**	**62 422**	**11 016**	**163 314**	**9 797**	**254 994**	**514 059**
Change in provision for unearned premiums, net of reinsurers' share	(3 688)	(4 384)	499	(35 641)	(1 603)	12 065	(32 752)
Net premiums earned	**8 828**	**58 038**	**11 515**	**127 673**	**8 194**	**267 059**	**481 307**
CLAIMS							
Claims paid, gross	(1 331)	(37 741)	(6 832)	(107 546)	(2 885)	(89 572)	(245 907)
Amounts ceded to reinsurers	-	-	-	7 975	-	-	7 975
Net claims	**(1 331)**	**(37 741)**	**(6 832)**	**(99 571)**	**(2 885)**	**(89 572)**	**(237 932)**
Change in claims provision, net of reinsurers' share	3 147	13 555	(6 500)	(108 164)	(695)	(9 010)	(107 667)
Net claims incurred	**1 816**	**(24 186)**	**(13 332)**	**(207 735)**	**(3 580)**	**(98 582)**	**(345 599)**

(in thousands of Russian Roubles) Translation from the Russian original

24. Deferred Acquisition Costs

	2014	2013
Deferred acquisition costs as at 1 January	**16 915**	**13 178**
Net change in deferred acquisition costs less unexpired risk provision	7 595	3 537
Total deferred acquisition costs as at 31 December	**24 510**	**16 915**

25. Acquisition Costs

	2014	2013
Commission on reinsurance contracts	72 029	78 961
Staff costs	27 616	27 622
Total acquisition costs	**99 645**	**106 583**
Commission expense/(income) on outward reinsurance contracts	(291)	158
Net change in deferred acquisition costs	(7 595)	(3 537)
Total net acquisition costs	**91 759**	**103 204**

26. Claims Handling Expenses

	2014	2013
Staff costs	5 697	6 053
Taxes other than income tax	630	619
Depreciation	250	272
Expenses relating to payment of surveyor services	283	203
Communication services	104	98
Total claims handling expenses	**6 964**	**7 245**

27. Gains less Losses from Dealing in Foreign Currency

Below is the information on gains less losses from dealing in foreign currency for the year ended 31 December 2014:

	Reinsurance activity	Investing activity
Foreign exchange translation gains less losses	53 453	58 093
Losses less gains from sale/purchase of foreign currency	(2 820)	-
Total gains less losses from dealing in foreign currency for the year ended 31 December 2014	**50 633**	**58 093**

Below is the information on gains less losses from dealing in foreign currency for the year ended 31 December 2013:

	Reinsurance activity	Investing activity
Foreign exchange translation gains less losses	3 271	421
Losses less gains from sale/purchase of foreign currency	(1 845)	-
Total gains less losses from dealing in foreign currency for the year ended 31 December 2013	**1 426**	**421**

(in thousands of Russian Roubles) Translation from the Russian original

28. Interest Income

	2014	2013
Interest income:		
- on deposits with banks	28 244	32 269
- on loans issued	7	17
- on premiums deposits	12	-
Total interest income	**28 263**	**32 286**

Information on deposits with banks is disclosed in Note 6, and information on loans issued is disclosed in Note 7.

29. Other Expenses from Investing Activity

	Note	2014	2013
Expenses from investment property maintenance	14	11 418	11 076
Gains/(losses) on origination of loans at rates below market		36	(581)
Other expenses		54	69
Total other expenses from investing activity		**11 508**	**10 564**

30. General and Administrative Expenses

	2014	2013
Staff costs	48 769	48 249
Property and other taxes	14 223	13 524
Information and consulting services	6 768	7 213
Depreciation	5 023	5 949
Travel expenses	8 638	6 258
Entertainment expenses	6 590	5 995
Property maintenance	3 876	3 337
Communication services	2 343	2 152
Bank fees	1 435	1 272
Rent	808	881
Insurance expenses	418	688
Other expenses	3 616	2 770
Total general and administrative expenses	**102 507**	**98 288**

31. Other Income

	2014	2013
Income from recourse claims	8 388	18 514
Income from recognition of accounts receivable and payable at fair value	1 125	1 327
Other income	803	40
Total other income	**10 316**	**19 881**

(in thousands of Russian Roubles) Translation from the Russian original

32. Other Expenses

	2014	2013
Provision for impairment of accounts receivable	36 403	2 893
Expenses from discounting of other assets at market rate	824	1 126
Write-off of accounts receivable	51	-
Interest on loans from commercial banks	-	612
Total other expenses	**37 278**	**4 631**

Expenses from discounting of other assets at market rate represent a loss from discounting long-term accounts receivable. The market interest rate at the date of origination of receivables ranges from 8.00% to 8.25% with instalment period mainly up to 7 years (2013: from 8.00% to 8.25% with instalment period mainly up to 10 years).

33. Income Tax

Income tax expense comprises the following:

	2014	2013
Current income tax	13 169	3 964
Deferred taxation movement due to origination and reversal of temporary differences recorded in the statement of profit or loss and other comprehensive income	4 413	1 341
Less: deferred taxation movement charged directly to other comprehensive income	(1 001)	(1 424)
Income tax expense for the year	**16 581**	**3 881**

The current income tax rate applicable to the majority of the Company's profit is 20% (2013: 20%).

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2014	2013
IFRS profit before taxation	**77 724**	**13 646**
Theoretical tax charge (recovery) at the applicable statutory rate (2014: 20%; 2013: 20%)	15 545	2 729
Non-deductible expenses less non-taxable income	1 036	1 152
Income tax expense for the year	**16 581**	**3 881**

(in thousands of Russian Roubles) Translation from the Russian original

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for the Company's profits tax purposes.

		Movement		
	2014	**Profit/loss**	**Other comprehensive income**	**2013**
Tax effect of deductible temporary differences				
Loans issued	7	(72)	-	79
Reinsurers' share of claim provisions	684	684	-	-
Provision for unearned premiums	8 192	2 485	-	5 707
Claims provision	5 318	(3 178)	-	8 496
Other accounts receivable	-	(1 327)	-	1 327
Other accounts payable	994	889	-	105
Reinsurance payables	3 694	3 694	-	-
Premises and equipment (depreciation)	3 817	652	-	3 165
Other assets	197	(34)	-	231
Gross deferred tax assets	**22 903**	**3 793**	**-**	**19 110**
Tax effect of taxable temporary differences				
Reinsurers' share of claims provision	-	(416)	-	416
Reinsurance receivables	4 647	(3 590)	-	8 237
Premises and equipment (revaluation)	25 344	-	1 001	24 343
Investment property	50 351	8 706	-	41 645
Deferred acquisition costs	4 902	1 519	-	3 383
Other liabilities	1 486	986	-	500
Gross deferred tax liabilities	**86 730**	**7 205**	**1 001**	**78 524**
Total net deferred tax liabilities	**(63 827)**	**(3 412)**	**(1 001)**	**(59 414)**

(in thousands of Russian Roubles) Translation from the Russian original

		Movement		
	2013	Profit/loss	Other comprehensive income	2012
Tax effect of deductible temporary differences				
Loans issued	79	(116)	-	195
Provision for unearned premiums	5 707	2 397	-	3 310
Claims provision	8 496	7 126	-	1 370
Other accounts receivable	1 327	1 293	-	34
Accounts payable	105	(288)	-	393
Premises and equipment (depreciation)	3 165	756	-	2 409
Other assets	231	(77)	-	308
Gross deferred tax assets	**19 110**	**11 091**	**-**	**8 019**
Tax effect of taxable temporary differences				
Reinsurers' share of claims provision	416	(97)	-	513
Reinsurance receivables	8 237	5 500	-	2 737
Premises and equipment (revaluation)	24 343	-	1 424	22 919
Investment property	41 645	4 630	-	37 015
Deferred acquisition costs	3 383	707	-	2 676
Other liabilities	500	268	-	232
Gross deferred tax liabilities	**78 524**	**11 008**	**1 424**	**66 092**
Total net deferred tax liabilities	**(59 414)**	**83**	**(1 424)**	**(58 073)**

Deferred tax assets represent income taxes recoverable through future tax revenues. Deferred tax liabilities represent that portion of the deferred income tax that increases the income tax payable in the period following the reporting one or in subsequent reporting periods.

34. Risk Management

The risk management function within the Company is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Company takes on exposure to credit risk which is the risk of non-performance, untimely or incomplete execution by the counterparty of its financial liabilities under the contract. The main sources of credit risk are payment of premiums by the cedents and payment of losses by retrocessionaries.

Credit risks are monitored by the Company on a regular basis. The Company controls the credit risk it undertakes by regular analysis of the ability of the existing counterparties to repay the amounts due under reinsurance contracts.

In forming its reinsurance portfolio, the Company adheres to a certain level of concentration of its transactions as it operates in the specific segment and specialises in provision of services to specific clientele represented by major Russian insurance companies with extensive market experience. The Company avoids concentration in insufficiently explored, new or non-traditional sectors (marine and aviation reinsurance, etc.).

(in thousands of Russian Roubles) Translation from the Russian original

The aging analysis of reinsurance receivables is performed on a permanent basis.

Collection of premiums by counterparty, territory and type of business is analysed on a weekly basis to maintain a sufficient level of diversification.

Outward reinsurance protection is achieved through involvement of high-ranking leading international companies with which the Company has been cooperating for over 10 years. During the entire period of the Company's operations it has not been exposed to the risk associated with payment of losses by retrocessionaries.

Market risk

The Company takes on exposure to market risks arising from open positions in interest rate instruments exposed to general and specific market movements. The Board of Directors sets risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within acceptable limits, assuring optimal yields for accepted risk.

Geographical risk

The geographical concentration of the Company's assets and liabilities as at 31 December 2014 is set out below.

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	90 625	-	-	90 625
Deposits with banks	544 787	-	-	544 787
Loans issued	214	-	-	214
Reinsurance receivables	84 828	50 739	83 159	218 726
Accounts receivable	3 342	208	51	3 601
Reinsurers' share of provision for unearned premiums	252	8 451	289	8 992
Reinsurers' share of claims provision	378 880	39 336	18 869	437 085
Investment property	478 570	-	-	478 570
Premises and equipment	161 368	-	-	161 368
Deferred acquisition costs	6 976	3 529	14 005	24 510
Total assets	**1 749 842**	**102 263**	**116 373**	**1 968 478**
Liabilities				
Provision for unearned premiums	127 680	12 767	132 260	272 707
Claims provision	617 623	27 491	166 146	811 260
Loans from commercial banks	565	-	-	565
Reinsurance payables	19 811	54 550	24 932	99 293
Accounts payable	18 952	-	-	18 952
Current tax liabilities	8 855	-	-	8 855
Deferred tax liabilities	63 827	-	-	63 827
Total liabilities	**857 313**	**94 808**	**323 338**	**1 275 459**
Net balance sheet position as at 31 December 2014	**892 529**	**7 455**	**(206 965)**	**693 019**

Other countries are: Azerbaijan, Armenia, Vietnam, Georgia, India, Indonesia, Jordan, Iran, Qatar, China, Kyrgyzstan, Lebanon, Malaysia, Mongolia, UAE, Pakistan, Saudi Arabia, Syria, Tajikistan, Tunisia, Uzbekistan, Ukraine, Philippines.

OECD countries are: Great Britain, Germany, Republic of Korea, Turkey and France.

(in thousands of Russian Roubles) Translation from the Russian original

The geographical concentration of the Company's assets and liabilities as at 31 December 2013 is set out below.

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	116 491	-	-	116 491
Deposits with banks	425 952	-	-	425 952
Loans issued	2 034	-	-	2 034
Financial assets at fair value through profit or loss	50 100	-	-	50 100
Reinsurance receivables	73 294	18 252	76 589	168 135
Accounts receivable	5 319	278	-	5 597
Reinsurers' share of provision for unearned premiums	1 915	3 872	487	6 274
Reinsurers' share of claims provision	227 830	27 917	127 691	383 438
Investment property	437 613	-	-	437 613
Premises and equipment	156 150	-	-	156 150
Deferred acquisition costs	10 199	2 148	4 568	16 915
Current tax assets	798	-	-	798
Total assets	**1 507 695**	**52 467**	**209 335**	**1 769 497**
Liabilities				
Provision for unearned premiums	92 560	11 953	114 333	218 846
Claims provision	429 677	13 585	297 217	740 479
Loans from commercial banks	774	-	-	774
Reinsurance payables	4 903	27 598	21 859	54 360
Accounts payable	67 749	-	-	67 749
Deferred tax liabilities	59 414	-	-	59 414
Total liabilities	**655 077**	**53 136**	**433 409**	**1 141 622**
Net balance sheet position as at 31 December 2013	**852 618**	**(669)**	**(224 074)**	**627 875**

Currency risk

The Company takes on exposure to effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Company's Executive Board sets limits on the level of exposure by currency and in total, which are monitored weekly.

To mitigate the currency risk relating to payment of losses under outward reinsurance contracts the conditions have been put in place providing that losses under outward reinsurance contracts shall be claimed in the currency similar to the currency of loss under the inward reinsurance contracts. Settlements with reinsurers with regard to payment of losses are made in USD at the exchange rate in effect at the payment date. Subsequently, the Company translates the funds received into the currency of the primary contract accepted for reinsurance and makes payment to the reinsured within the shortest possible time. Exchange differences arising from settlements with the reinsured impact the Company's financial result.

To manage the currency risk, the Company's Executive Board performs a regular analysis of the claimed losses, accounts receivable and payable categorised by major counterparty and currency. Cash is placed on deposits with banks so as to balance cash flows in different currencies by the expected maturity.

(in thousands of Russian Roubles) Translation from the Russian original

The table below summarises the Company's currency risk as at 31 December 2014. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by major currency.

	RUB	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	2 695	74 433	13 282	215	90 625
Deposits with banks	363 736	181 051	-	-	544 787
Loans issued	214	-	-	-	214
Reinsurance receivables	110 649	104 989	14 498	20 115	250 251
Accounts receivable	3 393	-	208	-	3 601
Reinsurers' share of provision for unearned premiums	541	8 451	-	-	8 992
Reinsurers' share of claims provision	379 093	40 607	3 431	13 954	437 085
Investment property	478 570	-	-	-	478 570
Premises and equipment	161 368	-	-	-	161 368
Deferred acquisition costs	6 040	8 586	2 086	7 798	24 510
Total assets	**1 506 457**	**418 117**	**33 505**	**41 924**	**2 000 003**
Liabilities					
Provision for unearned premiums	104 262	64 724	13 158	90 563	272 707
Claims provision	589 416	75 223	42 085	104 536	811 260
Loans from commercial banks	565	-	-	-	565
Reinsurance payables	17 724	41 800	18 014	21 755	99 293
Accounts payable	18 952	34	103	-	18 952
Current tax liabilities	8 855	-	-	-	8 855
Deferred tax liabilities	70 250	-	-	-	70 250
Total liabilities	**809 887**	**181 781**	**73 360**	**216 854**	**1 281 882**
Net balance sheet position as at 31 December 2014	**696 570**	**236 336**	**(39 855)**	**(174 930)**	**718 121**

The Company places cash on accounts to maintain the level sufficient to meet its short-term liabilities in the respective currencies.

Other currencies are: Armenian Dram, Azerbaijani Manat, Great Britain Pound, Indian Rupee, Japanese Yen, Korean Won, Turkish Lira, Kazakhstan Tenge, Ukrainian Hryvnia, etc.

(in thousands of Russian Roubles) Translation from the Russian original

The table below summarises the Company's currency risk as at 31 December 2013. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by major currency.

	RUB	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	69 804	37 947	8 703	37	116 491
Deposits with banks	366 898	59 054	-	-	425 952
Loans issued	2 034	-	-	-	2 034
Financial assets at fair value through profit or loss	50 100	-	-	-	50 100
Reinsurance receivables	79 484	70 829	12 470	5 352	168 135
Accounts receivable	5 597	-	-	-	5 597
Reinsurers' share of provision for unearned premiums	-	6 274	-	-	6 274
Reinsurers' share of claims provision	226 905	96 436	5 710	54 387	383 438
Investment property	437 613	-	-	-	437 613
Premises and equipment	156 150	-	-	-	156 150
Deferred acquisition costs	1 293	6 328	5 395	3 899	16 915
Current tax assets	798	-	-	-	798
Total assets	**1 396 676**	**276 868**	**32 278**	**63 675**	**1 769 497**
Liabilities					
Provision for unearned premiums	92 478	56 280	17 705	52 383	218 846
Claims provision	411 705	175 622	36 348	116 804	740 479
Loans from commercial banks	774	-	-	-	774
Reinsurance payables	4 447	31 612	6 449	11 852	54 360
Accounts payable	67 749	3 093	-	-	67 749
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	59 414	-	-	-	59 414
Total liabilities	**633 474**	**266 607**	**60 502**	**181 039**	**1 141 622**
Net balance sheet position as at 31 December 2013	**763 202**	**10 261**	**(28 224)**	**(117 364)**	**627 875**

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged:

	2014		2013	
	Effect on profit or loss before taxation	Effect on comprehensive income	Effect on profit before taxation	Effect on comprehensive income
USD appreciation by 5%	11 251	9 001	5 241	4 193
USD depreciation by 5%	(11 251)	(9 001)	(5 241)	(4 193)
EUR appreciation by 5%	(1 993)	(1 594)	(1 352)	(1 082)
EUR depreciation by 5%	1 993	1 594	1 352	1 082
Appreciation of other currencies by 5%	(8 747)	(6 997)	(5 121)	(4 097)
Depreciation of other currencies by 5%	8 747	6 997	5 121	4 097

Liquidity risk

Liquidity risk arises when the maturity of assets and liabilities does not match.

The Company pursues the conservative investment strategy. The main investments represent real estate and deposits with Russian banks. To assure additional liquidity cushion, a substantial portion of cash is placed on current accounts.

(in thousands of Russian Roubles) Translation from the Russian original

To manage its liquidity, the Company is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing or drawing up plans to solve the problems with financing.

The Company regularly monitors the liquidity position and performs liquidity testing under a variety of scenarios covering both normal and more severe market conditions. Besides, the Company controls the expected maturities presented in the table below as at 31 December 2014.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the end of the reporting period.

The table below shows the maturity analysis of financial liabilities as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Provision for unearned premiums	37 511	139 674	60 180	35 068	274	272 707
Claims provision	7 572	108 107	257 555	438 026	-	811 260
Loans from commercial banks	565	-	-	-	-	565
Reinsurance payables	12 244	71 904	15 145	-	-	99 293
Accounts payable	725	18 227	-	-	-	18 952
Total financial liabilities as at 31 December 2014	**58 617**	**337 912**	**332 880**	**473 094**	**274**	**1 202 777**

The table below shows the maturity analysis of financial liabilities as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Provision for unearned premiums	25 780	97 456	56 233	38 847	530	218 846
Claims provision	8 511	169 433	231 855	330 680	-	740 479
Loans from commercial banks	774	-	-	-	-	774
Reinsurance payables	12 307	36 117	5 936	-	-	54 360
Accounts payable	50 690	17 059	-	-	-	67 749
Total financial liabilities as at 31 December 2013	**98 062**	**320 065**	**294 024**	**369 527**	**530**	**1 082 208**

(in thousands of Russian Roubles) Translation from the Russian original

The Company does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Company monitors the expected maturity limits of assets and liabilities presented in the table below as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Assets							
Cash and cash equivalents	90 625	-	-	-	-	-	90 625
Deposits with banks	-	228 199	316 588	-	-	-	544 787
Loans issued	-	214	-	-	-	-	214
Reinsurance receivables	31 791	146 447	39 173	1 298	17	-	218 726
Accounts receivable	455	2 527	619	-	-	-	3 601
Reinsurers' share of provision for unearned premiums	1 484	7 182	218	108	-	-	8 992
Reinsurers' share of claims provision	3 288	52 151	145 965	235 681	-	-	437 085
Investment property	-	-	-	-	-	478 570	478 570
Premises and equipment	-	-	-	-	-	161 368	161 368
Deferred acquisition costs	3 650	13 893	5 088	1 860	19	-	24 510
Current tax assets	**131 293**	**450 613**	**507 651**	**238 947**	**36**	**639 938**	**1 968 478**
Liabilities							
Provision for unearned premiums	37 511	139 674	60 180	35 068	274	-	272 707
Claims provision	7 572	108 107	257 555	438 026	-	-	811 260
Loans from commercial banks	565	-	-	-	-	-	565
Reinsurance payables	12 244	71 904	15 145	-	-	-	99 293
Accounts payable	725	18 227	-	-	-	-	18 952
Current tax liabilities	-	8 855	-	-	-	-	8 855
Deferred tax liabilities	-	-	-	-	-	63 827	67 739
Total liabilities	**58 617**	**346 767**	**332 880**	**473 094**	**274**	**63 827**	**1 275 459**
Net liquidity gap as at 31 December 2014	**72 676**	**103 846**	**174 771**	**(234 147)**	**(238)**	**576 111**	**693 019**
Cumulative liquidity gap as at 31 December 2014	**72 676**	**176 522**	**351 293**	**117 146**	**116 908**	**693 019**	

(in thousands of Russian Roubles) Translation from the Russian original

The Company does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Company monitors the expected maturity limits of assets and liabilities presented in the table below as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Assets							
Cash and cash equivalents	116 491	-	-	-	-	-	116 491
Deposits with banks	163 167	59 054	203 731	-	-	-	425 952
Loans issued	-	881	1 153	-	-	-	2 034
Financial assets at fair value through profit or loss	50 100	-	-	-	-	-	50 100
Reinsurance receivables	18 853	131 293	8 922	9 059	8		168 135
Accounts receivable	1 119	3 879	599	-	-	-	5 597
Reinsurers' share of provision for unearned premiums	1 135	4 860	279	-	-	-	6 274
Reinsurers' share of claims provision	2 367	92 006	129 237	159 828	-	-	383 438
Investment property	-	-	-	-	-	437 613	437 613
Premises and equipment	-	-	-	-	-	156 150	156 150
Deferred acquisition costs	1 828	7 430	5 800	1 857	-	-	16 915
Current tax assets	-	798	-	-	-	-	798
Total assets	**355 060**	**300 201**	**349 721**	**170 744**	**8**	**593 763**	**1 769 497**
Liabilities							
Provision for unearned premiums	25 780	97 456	56 233	38 847	530	-	218 846
Claims provision	8 511	169 433	231 855	330 680	-	-	740 479
Loans from commercial banks	774	-	-	-	-	-	774
Reinsurance payables	12 307	36 117	5 936	-	-	-	54 360
Accounts payable	50 690	17 059	-	-	-	-	67 749
Current tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	59 414	59 414
Total liabilities	**98 062**	**320 065**	**294 024**	**369 527**	**530**	**59 414**	**1 141 622**
Net liquidity gap as at 31 December 2013	**256 998**	**(19 864)**	**55 697**	**(198 783)**	**(522)**	**534 349**	**627 875**
Cumulative liquidity gap as at 31 December 2013	**256 998**	**237 134**	**292 831**	**94 048**	**93 526**	**627 875**	

The Company's management believes that matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental for the Company's successful management. It is unusual for the Company to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities are important factors in assessing the liquidity of the Company and its exposure to changes in exchange rates.

Interest rate risk

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

The Company places deposits with banks at interest rates similar to risk-free instruments in respective currencies. In accordance with its general policy, the Company does not take into account in its financial plans the expected amounts due under deposits and loans issued.

(in thousands of Russian Roubles) Translation from the Russian original

The Company monitors interest rates on financial instruments. The table below summarises interest rates as at 31 December 2014 and 31 December 2013:

	2014	2013
Assets		
Deposits	5.39%	7.10%
Loans issued	17.00%	19.68%

The table below shows the effect of possible fluctuations in interest rates used as at the reporting date on the financial result, if all other conditions remain unchanged:

	Effect on financial result in 2014	Effect on financial result in 2013
Assets		
Interest rate increase by 0.5%		
- Deposits with banks	141	161
- Loans issued	(1)	(2)
Interest rate decrease by 0.5%		
- Deposits with banks	(141)	(161)
- Loans issued	1	2
Liabilities		
Interest rate increase by 0.5%		
- Loans from commercial banks	-	(3)
Interest rate decrease by 0.5%		
- Loans from commercial banks	-	3

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Non-interest bearing	Total
Assets					
Loans issued	-	214	-	-	214
Deposits with banks	-	228 199	316 588	-	544 787
Non-interest bearing assets	-	-	-	1 423 477	1 423 477
Total assets		**228 413**	**316 588**	**1 423 477**	**1 968 478**
Liabilities					
Loans from commercial banks	565	-	-	-	565
Non-interest bearing liabilities	-	-	-	1 274 894	1 274 894
Total liabilities	**565**	**-**	**-**	**1 274 894**	**1 275 459**
Net interest rate gap as at 31 December 2014	**(565)**	**228 413**	**316 588**	**148 583**	**693 019**
Cumulative interest rate gap as at 31 December 2014	**(565)**	**227 848**	**544 436**	**693 019**	

(in thousands of Russian Roubles) Translation from the Russian original

The table below summarises the Company's exposure to interest rate risks as at 31 December 2013. Included in the table are the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Non-interest bearing	Total
Assets					
Loans issued	-	881	1 153	-	2 034
Deposits with banks	163 167	59 054	203 731	-	425 952
Financial assets at fair value through profit or loss	-	-	-	50 100	50 100
Non-interest bearing assets	-	-	-	1 291 411	1 291 411
Total assets	**163 167**	**59 935**	**204 884**	**1 341 511**	**1 769 497**
Liabilities					
Loans from commercial banks	774	-	-	-	774
Non-interest bearing liabilities	-	-	-	1 140 848	1 140 848
Total liabilities	**774**	**-**	**-**	**1 140 848**	**1 141 622**
Net interest rate gap as at 31 December 2013	**162 393**	**59 935**	**204 884**	**200 663**	**627 875**
Cumulative interest rate gap as at 31 December 2013	**162 393**	**222 328**	**427 212**	**627 875**	

Insurance risk

The Company takes on exposure to insurance risk in the course of its ordinary operations. The key risk is the underwriting risk or the risk that payments on reinsurance contracts will exceed the expectations.

A specialised business intelligence system SAP Business Objects and a document management system based on the Lotus Notes platform enable real-time monitoring of the risk portfolio structure and allow to determine acceptable risk limits and track loss development.

The Company manages its risk through purposeful actions aimed at mitigation and minimisation of insurance risk associated with reinsurance contracts by:

- sustaining reinsurance portfolio rates at levels adequate for current exposures;
- analysing claims to reveal hidden patterns which may influence the frequency of occurrence of insured events and the amount of possible losses ;
- forecasting payments depending on the type of risk, counterparty group, the insured object or person and other parameters;
- ceding risk to reinsurers to mitigate liquidity risk in the event of major losses;
- diversifying the risks assumed;
- providing comprehensive actuarial support of underwriting.

The Company also considers catastrophe risk and under-provisioning risk as potentially dangerous exposures which may substantially affect its solvency. The Company manages the catastrophe risk by determining acceptable levels of risk. To avoid the risk of under-provisioning the Company pursues a balanced provisioning policy based on actuarial estimates of assumed insurance obligations (insurance reserves).

Other price risk

The current financial crisis exposes the Company to the risk of early termination of contracts. As the Company is involved in reinsurance, its clients are insurance companies. In most cases insurance contracts are terminated at the initiative of the primary insured person (a client of the insurance company) with whom the Company does not have direct relationships and cannot assess or influence this decision.

(in thousands of Russian Roubles) Translation from the Russian original

As regards major long-term inward reinsurance risks, the Company pursues a consistent policy of initial evaluation of the insured's financial position based on the published financial statements and indirect information sources.

35. Capital Management

The Company's capital management has the following objectives:

- to observe requirements established by Law of the Russian Federation No. 208-FZ of 24 November 1995 "Federal Law on Joint-Stock Companies";
- to observe the minimum share capital requirements established by Law of the Russian Federation No. 4015-1 of 27 November 1992 "On Organisation of Insurance Business in the Russian Federation";
- to ensure the Company's ability to operate as a going concern;
- to assure at least a 30% excess of the actual amount of solvency margin over recommended solvency margin (prescribed by the RF MOF Order No 90н of 2 November 2001 "On approval of the procedure for calculation by insurers of the standard assets to liabilities ratio");
    - to maintain the composition and structure of assets used as cover for equity in accordance with RF MOF Order No. 149n of 16 December 2005 "On approval of requirements to the composition and structure of assets accepted to cover the insurer's equity".

The control over compliance of the assets' composition and structure with the requirements of the Russian legislation is exercised on the basis of quarterly reports with the corresponding calculations that are verified by the Company's General Director and Chief Accountant. Other capital management objectives are assessed annually.

The Company manages its capital based on debt to equity ratio. Capital includes share capital, revaluation reserve for premises and equipment and retained earnings.

The table below shows the ratio between the Company's share capital and the minimum size of share capital established by the Russian legislation.

	31 December 2014	31 December 2013
Minimum size of share capital in accordance with the Russian legislation	480 000	480 000
Company's share capital	480 000	480 000

The minimum size of the share capital for insurance companies is set by item 3, Article 25 of Federal Law No. 4015-1 of 27 November 1992 "On Organisation of Insurance Business in the Russian Federation" and amounts to RUB 480 000 thousand for insurance business involving reinsurance coverage.

The table below shows assets used as cover for equity in accordance with the requirements of the Russian legislation as at 31 December 2014 and 31 December 2013:

	31 December 2014	31 December 2013
Cash and cash equivalents	43 307	30 961
Deposits with banks	270 000	240 000
Receivables from corporate customers	17 039	17 039
Immovable property	277 894	277 894
Total assets used as cover for the Company's equity	**608 240**	**565 894**
Share capital of the Company	480 000	480 000
Reserve fund of the Company	23 050	22 193
Additional capital	-	-
Retained earnings	105 190	63 701
Total equity of the Company	**608 240**	**565 894**

As at 31 December 2014 and 31 December 2013, the Company complied with all statutory requirements for the level of capital, the composition and structure of assets used as cover for equity.

(in thousands of Russian Roubles) Translation from the Russian original

36. Contingent Liabilities

Legal issues

As at 31 December 2014, the Company's management is not aware of any current, suspended or possible material legal actions in respect of the Company. As at 31 December 2014 and 31 December 2013, the Company did not make any provisions for possible litigation losses.

Tax legislation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events in the Russian Federation show that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As such, the Company may be assessed significant additional taxes, penalties and interest. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases of land and office premises are as follows:

	2014	2013
Less than 1 year	808	853
Total operating lease commitments	**808**	**853**

37. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value.

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

- Level 1: Financial assets measured at quoted market prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Financial assets measured using a valuation technique based on assumptions supported by prices from observable current market transactions, but not obtained from trading on the active market. This level also includes financial assets the fair value of which is determined based on the broker's quotes and assets the value of which is determined on the basis of the Company's own models mostly supported by assumptions obtained from observable market.

Level 3: Financial assets measured in full or in part by a valuation technique (model) based on assumptions supported by prices from observable current market transactions in the same instrument and observable market data. Valuation models are applied when observable market data are not available.

(in thousands of Russian Roubles) Translation from the Russian original

Below is the estimated fair value of the Company's financial assets and liabilities as at 31 December 2014 and 31 December 2013:

	2014			2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Cash and cash equivalents	90 625	-	-	116 491	-	-
Deposits with banks	-	544 787	-	-	425 952	-
Loans issued	-	-	214	-	-	2 034
Financial assets at fair value through profit or loss	-	-	-	50 100	-	-
Accounts receivable on reinsurance transactions	-	-	218 726	-	-	168 135
Accounts receivable	-	-	3 601	-	-	3 601
Investment property	-	-	478 570	-	-	437 613
Premises and equipment	-	-	161 368	-	-	156 150
Total	**90 625**	**544 787**	**862 479**	**166 691**	**425 952**	**767 533**
Financial liabilities						
Loans from commercial banks	-	565	-	-	774	-
Accounts payable	-	118 245	-	-	122 109	-
Total	**-**	**118 810**	-	**-**	**122 109**	-

The fair value of instruments with fixed interest rate not quoted in the active market (Levels 2 and 3) is based on the DCF method using effective interest rates for new borrowings with similar credit risk and maturity.

Deposits with banks

Deposits with banks are carried at amortised cost until maturity.

Loans issued

Loans issued are reported net of impairment provision. The estimated fair value of loans issued represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

Financial instruments carried at fair value

Cash and cash equivalents, financial assets at fair value through profit or loss are carried at fair value in the statement of financial position.

Accounts receivable

Accounts receivable are reported net of impairment provision. The estimation of the provision for impairment of receivables includes consideration of risk inherent in various types of debt based on factors such as the current situation in the economic sector in which the debtor operates, the debtor's financial position and guarantees obtained. Accordingly, the provision for impairment of receivables reflects a reasonable estimate of the value adjustment required to reflect the impact of risk.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received less directly attributable transaction costs. After initial recognition, borrowings are carried at amortised cost measured at amortised cost using the effective interest method.

Borrowings with interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal amounts discounted at market interest rates for similar borrowings.

Accounts payable

Short-term payables are stated at the nominal amount due. Long-term payables are measured at amortised cost using the discount rate that is equal to market interest rate on loans used for similar debt financing.

Item and valuation approach	Significant non-observable inputs	Impact of non-observable inputs on fair value
Investment property Fair value is determined using : - sales comparison approach based on analysis of sales and purchases of comparable items, as well as on quoted prices for similar property;	– Bargain adjustment (BA) (from 6% to 9%). For valuation purposes the BA of 7.5% was used; – Adjustment for technical condition (adjustment matrix for all possible combinations of conditions of valued property and analogues is presented in the Valuation Report);	Higher bargain adjustment results in lower fair value; Worse physical condition of an item results in lower fair value;
- income approach (direct capitalization method) based on determination of annual income and respective capitalization rate.	– Capitalization rate (from 8% to 10%). For valuation purposes the rate of 8.5% was used; – Expected percentage of unoccupied space. The rate of 20% was used for valuation purposes.	Higher capitalization rate results in lower fair value; Higher percentage of unoccupied space results in lower fair value.
Buildings and premises Fair value is determined using: - sales comparison approach based on analysis of sales and purchases of comparable items, as well as on quoted prices for similar property;	– Bargain adjustment (BA) (from 6% to 9%). For valuation purposes the BA of 7.5% was used; – Adjustment for technical condition (adjustment matrix for all possible combinations of conditions of valued property and analogues is presented in the Valuation Report);	Higher bargain adjustment results in lower fair value; Worse physical condition of an item results in lower fair value;
- income approach (direct capitalization method) based on determination of annual income and respective capitalization rate.	– Capitalization rate (from 8% to 10%). For valuation purposes the rate of 8.5% was used; – Expected percentage of unoccupied space. The rate of 20% was used for valuation purposes .	Higher capitalization rate results in lower fair value; Higher percentage of unoccupied space results in lower fair value.

(in thousands of Russian Roubles) Translation from the Russian original

Management believes that the fair value of financial assets and liabilities as at 31 December 2014 and 31 December 2013 did not materially differ from their carrying values. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	90 625	90 625	116 491	116 491
Deposits with banks	544 787	544 787	425 952	425 952
Financial assets at fair value through profit or loss	-	-	50 100	50 100
Loans issued	214	214	2 034	2 034
Reinsurance receivables	218 726	218 726	168 135	168 135
Accounts receivable	3 601	3 601	5 597	5 597
Financial liabilities				
Loans from commercial banks	567	567	774	774
Reinsurance payables	99 293	99 293	54 360	54 360
Accounts payable	18 952	18 952	67 749	67 749

38. Reconciliation of Classes of Financial Instruments with Measurement Categories

In accordance with IAS 39 “Financial Instruments: Recognition and Measurement” the Company classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2014:

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Assets			
Cash and cash equivalents	90 625	-	90 625
Deposits with banks	-	544 787	544 787
Reinsurance receivables	-	218 726	218 726
Accounts receivable	-	3 601	3 601
Total by category as at 31 December 2014	**90 625**	**767 114**	**857 739**