“Asian-Pacific Bank”
(Public joint stock company)

Consolidated Financial Statements
for the year ended 31 December 2015

Contents

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Auditors' Report

To the Shareholders and Board of Directors of "Asian-Pacific Bank" (Public joint stock company)

We have audited the accompanying consolidated financial statements of "Asian-Pacific Bank" (Public joint stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: "Asian-Pacific Bank" (Public joint stock company).

Registered by the Central Bank of the Russian Federation on 14 February 1992, Registration No. 1810.

Entered in the Unified State Register of Legal Entities on 22 August 2002 by Amur Regional Tax Inspectorate of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1022800000079, Certificate series 28 No. 000749008.

Address of the audited entity: 225 Amurskaya St., Blagoveschensk, Amur region, Russian Federation, 675000.

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

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

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

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

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

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

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

- the Group's compliance with mandatory ratios as at 1 January 2016 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organisation of its risk management systems with requirements established by the Bank of Russia.

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

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2016 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

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

- as at 31 December 2015, the Bank's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2015, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2015, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2015, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.
- as at 31 December 2015, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2015 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

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

Kolosov A.E.

Director,

power of attorney dated 16 March 2015 No. 44/15

JSC "KPMG"

Moscow, Russian Federation

29 April 2016

	Notes	2015 RUB'000	2014 RUB'000
Interest income	4	17 993 313	18 209 312
Interest expense	4	(10 752 297)	(7 528 772)
Net interest income		**7 241 016**	**10 680 540**
Deposit insurance expenses		(246 976)	(204 873)
Net interest income after deposit insurance expenses		**6 994 040**	**10 475 667**
Fee and commission income	5	2 660 735	3 589 056
Fee and commission expense		(402 154)	(330 243)
Net fee and commission income		**2 258 581**	**3 258 813**
Net gain (loss) on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets		462 531	(949 440)
Net foreign exchange gain	6	1 207 235	578 830
Net gain on operations with precious metals	7	112 534	68 328
Other operating income	8	1 093 023	836 443
Operating income		**12 127 944**	**14 268 641**
Impairment losses	9	(8 533 246)	(8 878 902)
Personnel expenses	10	(3 235 911)	(3 529 789)
Other general administrative expenses	11	(2 344 826)	(1 812 984)
(Loss) profit before income tax		**(1 986 039)**	**46 966**
Income tax benefit	12	401 214	3 015
(Loss) profit for the year		**(1 584 825)**	**49 981**
Other comprehensive income (loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		590 945	(606 741)
- Net change in fair value transferred to profit or loss		(165 866)	212 810
Total items that are or may be reclassified subsequently to profit or loss		*425 079*	*(393 931)*
Other comprehensive income (loss) for the year, net of income tax		**425 079**	**(393 931)**
Total comprehensive loss for the year		**(1 159 746)**	**(343 950)**

The consolidated financial statements were approved by the Management Board on 29 April 2016.

Mr. A.V. Novikov
Chairman of the Management Board

Ms. Ya.E. Kornova
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2015 RUB'000	2014 RUB'000
ASSETS			
Cash and cash equivalents	13	17 333 745	13 973 022
Obligatory reserves with the Central Bank of the Russian Federation		638 293	896 191
Financial instruments at fair value through profit or loss	14	413 626	44 348
Available-for-sale financial assets	15	20 506 720	13 309 230
Due from banks	16	717 022	999 369
Amounts receivable under reverse repurchase agreements	17	9 617 023	1 560 811
Loans to customers	18	74 914 701	85 591 339
Net investments in finance leases	19	1 393 857	2 082 190
Investments in associates	20	575 000	-
Held-to-maturity investments	21	7 035 062	5 544 648
Current tax asset		37 117	196 821
Deferred tax asset	12	103 016	76 691
Property, equipment, intangible assets and investment property	23	5 137 753	5 196 020
Other assets	24	4 645 849	996 163
Total assets		**143 068 784**	**130 466 843**
LIABILITIES			
Derivative financial instruments	14	198 507	6 492
Deposits and balances from banks	25	3 972 106	10 721 632
Amounts payable under repurchase agreements	26	8 160 886	8 838 184
Current accounts and deposits from customers	27	104 026 865	84 497 714
Debt securities issued	28	4 684 558	6 506 591
Subordinated borrowings	29	5 385 283	4 021 246
Current tax liability		4 214	2 073
Deferred tax liability	12	8 253	313 697
Other liabilities	30	732 272	703 628
Total liabilities		**127 172 944**	**115 611 257**
EQUITY			
Share capital	31	585 414	585 414
Treasury shares		(10 307)	(10 307)
Share premium		1 778 739	1 778 739
Additional paid-in capital		2 200 000	-
Revaluation reserve for available-for-sale financial assets		1 321	(423 758)
Revaluation surplus for buildings		1 614 979	1 618 659
Retained earnings		9 725 694	11 306 839
Total equity		**15 895 840**	**14 855 586**
Total liabilities and equity		**143 068 784**	**130 466 843**

Mr. A.V. Novikov
Chairman of the Management Board

«АЗИАТСКО-ТИХООКЕАНСКИЙ БАНК» (ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО) АМУРСКАЯ ОБЛАСТЬ ГОРОД БЛАГОВЕЩЕНСК
АТБ

Ms. Ya.E. Komova
Chief Accountant

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2015 RUB'000	2014 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		17 082 713	15 999 111
Interest payments		(9 207 179)	(7 989 173)
Fee and commission receipts		2 660 103	3 617 960
Fee and commission payments		(405 692)	(330 243)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial instruments		506 605	375 005
Net (payments) receipts from foreign exchange		(791 377)	1 667 300
Other income receipts		1 093 023	836 443
Net receipts from operations with precious metals		112 534	72 417
General administrative expenses payments		(5 541 749)	(5 535 465)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		257 898	182 602
Financial instruments at fair value through profit or loss		(187 301)	5 449 763
Available-for-sale financial assets		(6 255 321)	(6 995 392)
Due from banks		636 292	49 883
Amounts receivable under reverse repurchase agreements		(7 628 916)	(1 220 384)
Loans to customers		7 133 359	(9 059 719)
Net investments in finance leases		538 855	172 173
Other assets		(1 831 263)	862 430
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(6 972 855)	2 581 857
Amounts payable under repurchase agreements		(1 031 368)	2 028 874
Current accounts and deposits from customers		15 150 685	(1 705 516)
Promissory notes		(256 173)	582 170
Other liabilities		331 477	(423 135)
Cash flows from operating activities before income tax paid		**5 394 350**	**1 218 961**
Income tax received (paid)		125 941	(405 564)
Cash flows from operations		**5 520 291**	**813 397**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		(3 064 310)	(627 945)
Repayment of held-to-maturity investments		1 833 455	88 368
Investments in associates		(2 300 000)	-
Net purchases of property and equipment and intangible assets		(277 392)	(501 686)
Cash flows used in investing activities		**(3 808 247)**	**(1 041 263)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	609 118
Repayment of bonds		(1 625 152)	(124 342)
Attraction of subordinated borrowing		-	1 410 060
Cash contribution from shareholders		2 200 000	-
Cash flows from financing activities		**574 848**	**1 894 836**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2015 RUB'000	2014 RUB'000
Net increase in cash and cash equivalents		**2 286 892**	**1 666 970**
Effect of changes in exchange rates on cash and cash equivalents		1 073 831	2 220 272
Cash and cash equivalents as at the beginning of the year		13 973 022	10 085 780
Cash and cash equivalents as at the end of the year	13	**17 333 745**	**13 973 022**

Mr. A.V. Novikov
Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2014	**562 312**	**(10 307)**	**1 192 723**	**-**	**(29 827)**	**1 620 178**	**11 255 339**	**14 590 418**
Total comprehensive loss for the year								
Profit for the year	-	-	-	-	-	-	49 981	49 981
Other comprehensive loss, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 151 686 thousand	-	-	-	-	(606 741)	-	-	(606 741)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 53 203 thousand	-	-	-	-	212 810	-	-	212 810
Total items that are or may be reclassified subsequently to profit or loss	*-*	*-*	*-*	*-*	*(393 931)*	*-*	*-*	*(393 931)*
Items that will not be reclassified to profit or loss								
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	-	(1 519)	1 519	-
Total items that will not be reclassified to profit or loss	*-*	*-*	*-*	*-*	*-*	*(1 519)*	*1 519*	*-*
Total comprehensive loss for the year, net of income tax	**-**	**-**	**-**	**-**	**(393 931)**	**(1 519)**	**51 500**	**(343 950)**
Transactions with owners, recorded directly in equity								
Issue of shares (note 31)	23 102	-	586 016	-	-	-	-	609 118
Total transactions with owners	**23 102**	**-**	**586 016**	**-**	**-**	**-**	**-**	**609 118**
Balance as at 31 December 2014	**585 414**	**(10 307)**	**1 778 739**	**-**	**(423 758)**	**1 618 659**	**11 306 839**	**14 855 586**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2015	585 414	(10 307)	1 778 739	-	(423 758)	1 618 659	11 306 839	14 855 586
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	-	-	(1 584 825)	(1 584 825)
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 147 734 thousand	-	-	-	-	590 945	-	-	590 945
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 41 466 thousand	-	-	-	-	(165 866)	-	-	(165 866)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*425 079*	-	-	*425 079*
Items that will not be reclassified to profit or loss								
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	-	(3 680)	3 680	-
Total items that will not be reclassified to profit or loss	-	-	-	-	-	*(3 680)*	*3 680*	-
Total comprehensive loss for the year, net of income tax	-	-	-	-	425 079	(3 680)	(1 581 145)	(1 159 746)
Transactions with owners, recorded directly in equity								
Cash contribution from shareholders	-	-	-	2 200 000	-	-	-	2 200 000
Total transactions with owners	-	-	-	2 200 000	-	-	-	2 200 000
Balance as at 31 December 2015	585 414	(10 307)	1 778 739	2 200 000	1 321	1 614 979	9 725 694	15 895 840

Mr. A.V. Novikov
Chairman of the Management Board

Ms. Ya.E. Komova
Chief Accountant

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of PJSC “Asian-Pacific Bank” (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. On 7 May 2010 LLC “PPFIN Region”, being a common majority shareholder for OJSC “Asian-Pacific Bank”, OJSC “Kamchatprombank” and OJSC “Kolyma-Bank”, merged the operations of these entities and therefore granted full control over OJSC “Kamchatprombank” and OJSC “Kolyma-Bank” to OJSC “Asian-Pacific Bank”. In July 2015 the Bank was reorganised from an open joint stock company to a public joint stock company.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 224 (2014: 250) offices from which it conducts business throughout the Russian Federation including a head office, 4 regional branches, 41 additional offices, 178 operational offices. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the assets and liabilities are located in the Russian Federation.

As at 31 December 2015, the following shareholders held the issued shares of Public Joint Stock Company “Asian-Pacific Bank”:

Shareholder	2015 %	2014 %
LLC “PPFIN Region” (Russian Federation)	59.17	59.17
East Capital Explorer Financial Institutions Fund AB (Sweden)	17.91	17.91
TECHSUN ENTERPRISES LIMITED (Cyprus)	8.41	8.41
International Financial Corporation	6.71	6.71
Aksenov E.V.	3.08	3.08
LLC “Expo-Leasing” (a 100% owned subsidiary of the Bank)	1.76*	1.76*
Others	2.96	2.96
Total:	**100.00**	**100.00**

** Treasury shares*

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership % 2015	Ownership % 2014
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%
CJSC “Mortgage agent APB”	Russian Federation	Mortgage agent	see below	see below
CJSC “Mortgage agent APB 2”	Russian Federation	Mortgage agent	see below	see below

On 1 October 2010 100% of the shares of LLC “Expo-Leasing” were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russian Federation. Its head office is in Moscow and it has 10 branches (2014: 10) comprising a head office, 1 regional branch and 8 additional offices.

CJSC “Mortgage agent APB” and CJSC “Mortgage agent APB 2” (MA APB and MA APB 2) are structured entities established to facilitate the Bank’s issue of mortgage backed securities (refer to note 28). These entities are not owned by the Group. Control arises through the predetermination of the entities’ activities, having rights to obtain the majority of benefits of the structured entities, and retaining the majority of the residual risks related to the entities.

In 2015 the average number of the Group’s employees was 4 013 (2014: 4 489).

Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

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

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale financial assets and investment property are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- insurance agent commission – note 3;
- loan impairment estimates - note 18;
- building revaluation estimates - note 23;
- estimates of fair values of financial assets and liabilities - note 40.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank equity, except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks and amounts due from credit institutions with original maturity within ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the at fair value through profit or loss category. A financial asset that would have met the definition of loans and receivables may be reclassified out of the at fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repurchase agreements. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase agreements, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

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

Leases

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment allowances attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed 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. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value the presumption is that the carrying amount of investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group's contractual arrangements with the insurance provider rather than with the borrower. The Group does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Hyperinflation accounting

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

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Comparative information

With effect from 1 January 2015, the Group presents interest income on all categories of securities in interest income. The Group previously presented interest income on financial instruments at fair value through profit or loss (except promissory notes) and available-for-sale financials assets within net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. As a result, the amount of RUB 1 317 784 thousand has been reclassified from net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets to interest income in the comparative consolidated statement of profit or loss and other comprehensive income, to conform to the 2015 presentation.

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The Group has not analysed the impact of these changes yet. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted.

- Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Interest income and expense

	2015 RUB’000	2014 RUB’000
Interest income		
Loans to customers	14 990 346	15 986 377
Available-for-sale financial assets	1 507 314	646 836
Held-to-maturity investments	800 587	66 898
Net investments in finance leases	352 982	509 537
Due from banks and cash equivalents	222 195	257 442
Financial instruments at fair value through profit or loss	119 889	742 222
	17 993 313	**18 209 312**
Interest expense		
Current accounts and deposits from customers	8 396 289	5 194 026
Deposits and balances from banks	1 250 948	1 301 950
Debt securities issued	599 136	817 278
Subordinated borrowings	505 924	215 518
	10 752 297	**7 528 772**

5 Fee and commission income

	2015 RUB’000	2014 RUB’000
Settlement operations	1 560 563	1 364 951
Insurance agent commission	475 126	1 784 608
Guarantee issuance	195 341	104 871
Accounts opening and maintenance	175 144	166 045
Other	254 561	168 581
	2 660 735	**3 589 056**

Information on the basis of which insurance agent commission income is recognised in profit or loss is disclosed in note 3.

6 Net foreign exchange gain

	2015 RUB’000	2014 RUB’000
Gain on derivatives and spot transactions (except swaps)	816 173	1 068 927
Gain (loss) on swap operations	410 737	(47 610)
Loss from revaluation of financial assets and liabilities	(19 675)	(442 487)
	1 207 235	**578 830**

7 Net gain on operations with precious metals

	2015 RUB'000	2014 RUB'000
Gain on trading operations	95 356	56 921
Gain from revaluation of financial assets and liabilities and operations with derivatives	17 178	11 407
	112 534	**68 328**

8 Other operating income

	2015 RUB'000	2014 RUB'000
Penalties on loans issued	571 934	597 304
Repayment of written off loans	287 838	101 888
Penalties on other operations	93 998	39 705
Income from sale of repossesed collateral	32 028	15 550
Rental income	24 539	24 109
Dividend income	12 744	-
Other income	69 942	57 887
	1 093 023	**836 443**

9 Impairment losses

	2015 RUB'000	2014 RUB'000
Loans to customers	7 341 022	8 719 202
Available-for-sale financial assets	1 005 551	-
Net investments in finance leases	149 478	92 938
Other assets	37 195	66 762
	8 533 246	**8 878 902**

10 Personnel expenses

	2015 RUB'000	2014 RUB'000
Employee compensation	2 564 056	2 793 790
Payroll related taxes	671 855	735 999
	3 235 911	**3 529 789**

11 Other general administrative expenses

	2015 RUB’000	2014 RUB’000
Write-off of materials and loss on disposals of assets	375 901	169 743
Depreciation and amortisation	331 064	310 587
Taxes other than income tax	235 482	261 735
Repairs and maintenance	205 173	216 960
Communications and information services	167 191	160 270
Advertising and marketing	161 130	105 671
Rent	149 227	167 251
IT expenses	149 018	73 990
Security	50 624	47 915
Travel expenses	50 366	45 699
Professional services	33 334	28 691
Loss on termination lease agreements	22 753	37 592
Agent fees for attraction of clients	22 147	12 357
Insurance	16 238	11 697
Other	375 178	162 826
	2 344 826	**1 812 984**

12 Income tax benefit

	2015 RUB’000	2014 RUB’000
Current year tax expense	(35 904)	(53 731)
Origination and reversal of temporary differences	437 118	56 746
Total income tax benefit	**401 214**	**3 015**

In 2015, the applicable tax rate for current and deferred tax is 20% (2014: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2015 RUB’000	%	2014 RUB’000	%
(Loss) profit before tax	**(1 986 039)**		**46 966**	
Income tax at the applicable tax rate	(397 208)	(20.0)	9 393	20.0
Other differences	8 301	0.4	1 032	2.2
Income taxed at lower tax rates	(12 307)	(0.6)	(13 440)	(28.6)
	(401 214)	**(20.2)**	**(3 015)**	**(6.4)**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2015 and 2014. Net deferred tax assets and liabilities have been recognised in these consolidated financial statements.

The deductible temporary differences do not expire under current tax legislation. Tax loss carry-forward expires in 2024 and in 2025.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows:

RUB'000	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2015
Due from banks	(414)	(1 586)	-	(2 000)
Available-for-sale financial assets	69 030	77 405	(106 268)	40 167
Held-to-maturity investments	23 186	(79 789)	-	(56 603)
Derivative financial instruments	(7 571)	34 263	-	26 692
Amounts receivable under reverse repurchase agreements	-	(2 977)	-	(2 977)
Loans to customers	(360 488)	(152 433)	-	(512 921)
Net investments in finance leases	73 241	29 775	-	103 016
Property, equipment and intangible assets	(376 094)	10 116	919	(365 059)
Other assets	33 583	73 792	-	107 375
Debt securities issued	897	125	-	1 022
Subordinated borrowings	(6 637)	(1 813)	-	(8 450)
Other liabilities	620	5 582	-	6 202
Tax loss carry-forward	313 641	444 658	-	758 299
	(237 006)	**437 118**	**(105 349)**	**94 763**
Comprising of:				
Deferred tax asset	76 691			103 016
Deferred tax liability	(313 697)			(8 253)

RUB’000	Balance 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2014
Due from banks	-	(414)		(414)
Financial instruments at fair value through profit or loss	(19 797)	19 797	-	-
Available-for-sale financial assets	7 457	(36 910)	98 483	69 030
Held-to-maturity investments	-	23 186	-	23 186
Derivative financial instruments	1 973	(9 544)	-	(7 571)
Loans to customers	(166 016)	(194 472)	-	(360 488)
Net investments in finance leases	51 462	21 779	-	73 241
Property, equipment and intangible assets	(379 271)	2 797	380	(376 094)
Other assets	-	33 583	-	33 583
Current accounts and deposits from customers	10 901	(10 901)	-	-
Debt securities issued	(2 504)	3 401	-	897
Subordinated borrowings	-	(6 637)	-	(6 637)
Other liabilities	103 180	(102 560)	-	620
Tax loss carry-forward	-	313 641	-	313 641
	(392 615)	**56 746**	**98 863**	**(237 006)**
Comprising of:				
Deferred tax asset	51 462			76 691
Deferred tax liability	(444 077)			(313 697)

13 Cash and cash equivalents

	2015 RUB’000	2014 RUB’000
Cash on hand	**4 350 070**	**5 148 414**
Nostro accounts with the CBR	**4 717 250**	**3 778 620**
Nostro accounts with other banks		
- Largest 30 Russian banks	2 325 735	2 043 488
- OECD banks	1 301 125	987 138
- Other Russian banks	366 067	365 829
- Other foreign banks	80 824	103 972
Total nostro accounts with other banks	**4 073 751**	**3 500 427**
Term deposits with the CBR	**2 000 000**	**1 500 000**
Term deposits with other banks		
- Other Russian banks	1 154 710	-
- Other foreign banks	955 376	45 408
- OECD banks	82 588	-
- Largest 30 Russian banks	-	153
Total term deposits with other banks	**2 192 674**	**45 561**
Total cash and cash equivalents	**17 333 745**	**13 973 022**

As at 31 December 2015, the Group has no banks (except the CBR) (2014: no banks), whose balances individually exceed 10% of equity.

14 Financial instruments at fair value through profit or loss

	2015 RUB’000	2014 RUB’000
ASSETS		
Held by the Group		
- Promissory notes		
rated below B+	348 578	-
Total promissory notes	**348 578**	**-**
Derivative financial instruments		
Foreign currency and securities contracts	65 048	44 348
	65 048	**44 348**
Total financial instruments at fair value through profit or loss held by the Group	**413 626**	**44 348**
Total financial instruments at fair value through profit or loss	**413 626**	**44 348**
LIABILITIES		
Derivative financial instruments		
Foreign currency and securities contracts	198 507	6 492
	198 507	**6 492**

Ratings of corporate entities are based on Standart & Poor’s or the equivalent ratings assigned by Fitch Rating and Moody’s.

All financial instruments at fair value through profit or loss are classified as held for trading.

None of financial assets at fair value through profit or loss are past due.

During the year ended 31 December 2014 the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale assets. For details on impact of these reclassifications, refer to note 15 “Available-for-sale financial assets” of the consolidated financial statements.

Foreign currency and securities contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange and securities contracts outstanding at 31 December 2015 and at 31 December 2014 with details of the contractual exchange rates and prices and remaining periods to maturity. Foreign currency and securities amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2015 RUB’000	**2014 RUB’000**	**2015 RUB’000**	**2014 RUB’000**
Buy USD sell RUB				
Less than 3 months	7 565 913	84 388	73.15	57.37
Buy USD sell RUB				
Between 3 to 12 months	744 116	-	74.41	-
Buy USD sell CHF				
Less than 3 months	811 568	-	0.99	-
Buy USD sell JPY				
Less than 3 months	18 213	-	1.20	-
Buy EUR sell RUB				
Less than 3 months	199 243	-	80.20	-
Buy EUR sell USD				
Less than 3 months	317 668	1 435 197	1.09	1.22
Buy EUR sell CHF				
Less than 3 months	39 849	-	1.08	-
Buy CNY sell RUB				
Less than 3 months	-	22 677	-	93.62
Sell USD buy RUB				
Less than 3 months	12 912 592	2 126 568	72.63	57.41
Sell USD buy RUB				
Between 3 to 12 months	2 317 647	-	73.95	-
Sell USD buy CNY				
Less than 3 months	109 519	-	6.63	-
Sell EUR buy RUB				
Less than 3 months	19 924	27 337	80.71	70.25
Sell EUR buy USD				
Less than 3 months	2 430 765	-	1.09	-
Sell EUR buy USD				
Between 3 to 12 months	803 709	-	1.14	-

	Notional amount		Weighted average contractual exchange rates	
	2015 RUB'000	**2014 RUB'000**	**2015 RUB'000**	**2014 RUB'000**
Sell CNY buy RUB				
Less than 3 months	112 298	-	11.13	-
Sell CHF buy RUB				
Less than 3 months	2 279	-	73.80	-
Sell option call USD/RUB buy RUB				
Less than 3 months	280 864	-	73.28	-
BuyTMK ao sell RUB				
Less than 3 months	680	-	61.23	-
Sell VTB ao buy RUB				
Less than 3 months	7 920	-	0.08	-

15 Available-for-sale financial assets

	2015 RUB'000	2014 RUB'000
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	2 016 282	328 213
Regional authorities bonds	863 420	-
Russian Government Eurobonds	146 754	291 457
Foreign Government bonds	60 576	-
Total government and municipal bonds	**3 087 032**	**619 670**
- Corporate bonds		
rated from BB- to BBB+	12 897 900	5 554 421
bank with revoked license	1 005 551	-
rated B+ and below	718 153	-
not rated	89 399	47 124
Total corporate bonds	**14 711 003**	**5 601 545**
- Corporate shares		
rated from BB- to BBB+	426 408	-
rated B+ and below	15 250	-
not rated	14 021	-
Total corporate shares	**455 679**	**-**
Total available-for-sale financial instruments held by Group	**18 253 714**	**6 221 215**
Pledged under sale and repurchase agreements		
- Corporate bonds		
rated from BB- to BBB+	2 240 143	7 088 015
rated B+ and below	1 018 414	-
Total corporate bonds	**3 258 557**	**7 088 015**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**3 258 557**	**7 088 015**
Total gross available-for-sale financial instruments	**21 512 271**	**13 309 230**
Less allowance for impairment of available-for-sale financial instruments	**(1 005 551)**	**-**
Net available-for-sale financial instruments	**20 506 720**	**13 309 230**

Movements in the impairment allowance are as follows:

	2015 RUB'000	2014 RUB'000
Balance at the beginning of the year	-	-
Net charge	1 005 551	-
Balance at the end of the year	**1 005 551**	**-**

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

Among debt and other fixed-income instruments held by the Group as at 31 December 2015 there are bonds of Vneshprombank LLC in the amount RUB 1 005 551 thousand the license of which was revoked by CBR on 21 January 2016. These investments were fully reserved by the Group. None of the other available-for-sale financial assets are past due or impaired.

Reclassifications out of securities held for trading

The substantial falls in the securities markets in Russia commencing October 2014 and the subsequent lack of liquidity in the market peaking up period after 15 December 2014 (when the CBR increased key rate from 12% to 17%), meaning the Group was either unable to sell certain securities or sell them at what they believe is a reasonable price, a situation which they believe will continue for the foreseeable future, constituted rare circumstances that permit reclassification out of the trading category. Thus the Group decided to perform reclassifications of trading securities with carrying value RUB 5 129 649 thousand to available-for-sale financial assets.

The reclassifications were made with effect from 16 December 2014 at fair value at this date. The table below shows carrying and fair value of reclassified securities as at reporting dates:

	Carrying value of reclassified securities as at 31 December 2015 RUB’000	Fair value of reclassified securities as 31 December 2015 RUB’000	Carrying value of reclassified securities as at 31 December 2014 RUB’000	Fair value of reclassified securities as at 31 December 2014 RUB’000
Securities held for trading reclassified to available-for-sale financial assets	863 211	863 211	5 092 817	5 092 817

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2015 in respect of securities reclassified out of securities held for trading:

	Profit or loss RUB’000	Other comprehensive income RUB’000
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	404 115	-
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets	4 682	-
Revaluation reverve for available-for-sale financial assets	-	61 153

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2014 in respect of securities reclassified out of securities held for trading:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Before reclassification		
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	171 319	-
Net loss on financial instruments at fair value through profit or loss and on available-for-sale financial assets	(128 970)	-
After reclassification		
Securities held for trading reclassified to available-for-sale financial assets		
Interest income	22 056	-
Revaluation reverve for available-for-sale financial assets	-	(29 466)

The table below sets out the amounts that would have been recognised during 2015 if the reclassifications had not been made:

	Profit or loss RUB'000
Securities held for trading reclassified to available-for-sale financial assets	
Interest income	338 278
Net gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial assets	137 951

The table below sets out the amounts that would have been recognised in the period following reclassifications during 2014 if the reclassifications had not been made:

	Profit or loss RUB'000
Securities held for trading reclassified to available-for-sale financial assets	
Interest income	22 056
Net loss on financial instruments at fair value through profit or loss and on available-for-sale financial assets	(36 832)

The effective interest rates on trading securities reclassified to available-for-sale assets with expected recoverable cash flows as at the date of reclassification are presented below:

	Effective interest rate %	Expected cash flows RUB'000
Securities held for trading reclassified to available-for-sale financial assets	9.72%	5 658 922

During the year ended 31 December 2014 the Group reclassified certain financial assets out of available-for-sale assets into held-to-maturity investments. For details on impact of these reclassifications, refer to note 21 "Held-to-maturity investments" of the consolidated financial statements.

16 Due from banks

	2015 RUB'000	2014 RUB'000
Term deposits		
- Other foreign banks	450 614	827 600
- Largest 30 Russian banks	884	6 563
- OECD banks	265 524	165 206
Total term deposits	**717 022**	**999 369**

None of due from banks balances are impaired or past due.

17 Amounts receivable under reverse repurchase agreements

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2015:

	Government and municipal bonds RUB'000	Corporate bonds RUB'000	Corporate shares and mutual funds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements				
- Other Russian companies	-	663 458	2 302 029	2 965 487
- Largest 30 Russian banks	132 509	3 596 229	2 312 087	6 040 825
- Other Russian banks	-	401 796	208 915	610 711
	132 509	**4 661 483**	**4 823 031**	**9 617 023**

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2014:

	Corporate bonds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements		
- Other Russian companies	946 566	946 566
- Other Russian banks	614 245	614 245
	1 560 811	**1 560 811**

At 31 December 2015, the fair value of securities collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is RUB 11 339 015 thousand (31 December 2014: RUB 1 879 496 thousand, out of which the Group repledged securities with fair value of RUB 765 915 thousand).

None of amounts receivable under reverse repurchase agreements are past due or impaired.

18 Loans to customers

	2015 RUB’000	2014 RUB’000
Loans to corporate customers	**38 910 840**	**34 158 648**
Loans to retail customers		
Consumer loans	48 407 227	54 436 681
Mortgage loans	6 693 989	10 123 948
Total loans to retail customers	**55 101 216**	**64 560 629**
Gross loans to customers	**94 012 056**	**98 719 277**
Impairment allowance	(19 097 355)	(13 127 938)
Net loans to customers	**74 914 701**	**85 591 339**

Interest accrued on impaired loans in 2015 amounted to RUB 1 307 278 thousand (2014: RUB 978 773 thousand).

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers RUB’000	Loans to retail customers RUB’000	Total RUB’000
Balance at the beginning of the year	**1 361 740**	**11 766 198**	**13 127 938**
Net charge	1 709 719	5 631 303	7 341 022
Write-offs	(165 861)	(1 205 744)	(1 371 605)
Balance at the end of the year	**2 905 598**	**16 191 757**	**19 097 355**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers RUB’000	Loans to retail customers RUB’000	Total RUB’000
Balance at the beginning of the year	**670 578**	**5 140 698**	**5 811 276**
Net charge	712 440	8 006 762	8 719 202
Write-offs	(21 278)	(1 381 262)	(1 402 540)
Balance at the end of the year	**1 361 740**	**11 766 198**	**13 127 938**

Credit quality of loans to customers

The following table provides information on the credit quality of loans to corporate customers as at 31 December 2015 and 2014:

	2015 RUB'000	2014 RUB'000
Loans to corporate customers		
Loans without individual signs of impairment	35 612 707	32 463 471
Impaired loans:		
- overdue less than 90 days	450 534	369 540
- overdue more than 90 days and less than 1 year	1 721 396	772 110
- overdue more than 1 year	1 126 203	553 527
Total impaired loans	3 298 133	1 695 177
Total gross loans to corporate customers	**38 910 840**	**34 158 648**
Impairment allowance	(2 905 598)	(1 361 740)
Net loans to corporate customers	**36 005 242**	**32 796 908**

The following table provides information on the credit quality of loans to retail customers as at 31 December 2015:

	Consumer loans RUB'000	Mortgage loans RUB'000	Total loans to retail customers RUB'000
Loans to retail customers			
- not overdue	27 314 363	6 256 474	33 570 837
- overdue less than 30 days	1 379 729	66 624	1 446 353
- overdue 30-89 days	1 552 067	87 402	1 639 469
- overdue 90-179 days	1 808 230	72 920	1 881 150
- overdue more than 180 days	16 352 838	210 569	16 563 407
Total gross loans to retail customers	**48 407 227**	**6 693 989**	**55 101 216**
Impairment allowance	(16 174 756)	(17 001)	(16 191 757)
Net loans to retail customers	**32 232 471**	**6 676 988**	**38 909 459**

The following table provides information on the credit quality of loans to retail customers as at 31 December 2014:

	Consumer loans RUB'000	Mortgage loans RUB'000	Total loans to retail customers RUB'000
Loans to retail customers			
- not overdue	36 963 000	9 850 665	46 813 665
- overdue less than 30 days	1 859 284	50 719	1 910 003
- overdue 30-89 days	2 216 731	73 778	2 290 509
- overdue 90-179 days	2 859 085	64 610	2 923 695
- overdue more than 180 days	10 538 581	84 176	10 622 757
Total gross loans to retail customers	**54 436 681**	**10 123 948**	**64 560 629**
Impairment allowance	(11 699 080)	(67 118)	(11 766 198)
Net loans to retail customers	**42 737 601**	**10 056 830**	**52 794 431**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for significant impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified or not significant impaired loans.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows represented by different types, mainly real estate. Valuations for real estate have been discounted by 40 percent to reflect current market conditions and costs to sell;
- loss given default rate for unsecured loans is 75%.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2015 would be RUB 360 052 thousand lower/higher (31 December 2014: RUB 327 969 thousand lower/higher).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 36 months
- the historic actual recovery rate of loans overdue 364 - 393 days for past 18 months has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2015 would be RUB 1 167 284 thousand lower/higher (31 December 2014: RUB 1 583 833 thousand).

Analysis of collateral and other credit enhancements

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2015 RUB’000	**% of loan portfolio**	**2014 RUB’000**	**% of loan portfolio**
Real estate	16 269 645	45.20	15 375 380	46.88
Motor vehicles	2 981 683	8.28	2 955 771	9.01
Corporate and personal guarantees	1 476 076	4.10	3 913 515	11.93
Cash balances	828 880	2.30	31 180	0.10
Goods in turnover	790 213	2.20	1 495 690	4.56
Equipment	170 390	0.47	274 631	0.84
Securities	16 007	0.04	15 961	0.05
Promissory notes issued by the Bank	5 168	0.01	87 019	0.27
Other collateral	540 080	1.50	710 525	2.17
No collateral	12 927 100	35.90	7 937 236	24.19
	36 005 242	**100.00**	**32 796 908**	**100.00**

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the collateral.

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired or past due

Loans with individual signs of impairment or past due with net carrying value of RUB 975 283 thousand (31 December 2014: RUB 457 053 thousand) are secured by collateral (mainly real estate) with fair value of RUB 951 690 thousand (31 December 2014: RUB 219 552 thousand), excluding the effect of over collateralisation.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Repossessed collateral

During the year ended 31 December 2015, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 43 205 thousand (2014: RUB 41 845 thousand). As at 31 December, the repossessed collateral comprise:

	2015 RUB'000	**2014 RUB'000**
Real estate	35 163	15 058
Other assets	7 210	2 611
Total repossessed collateral	**42 373**	**17 669**

The Group's policy is to sell these assets as soon as it is practicable.

Asset securitisation

As at 31 December 2015, the Group transferred mortgage loans of RUB 3 384 127 thousand (31 December 2014: RUB 3 941 004 thousand) to MA APB and MA APB 2, entities that are, in substance, controlled by the Group. Accordingly, MA APB and MA APB 2 are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans serve as collateral for secured mortgage backed securities issued by the Group. As at 31 December 2015, the carrying amount of liabilities on these securities is RUB 2 389 417 thousand (31 December 2014: RUB 3 056 990 thousand).

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2015 RUB'000	2014 RUB'000
Wholesale and retail trade	8 772 996	7 501 253
Services	8 082 268	6 130 362
Investment activities and real estate	6 240 104	5 373 366
Construction	2 795 286	1 351 618
Mining	2 751 286	2 192 429
Production	1 195 499	1 601 547
Fishery	1 155 018	1 170 839
Other	7 918 383	8 837 234
Individuals	55 101 216	64 560 629
	94 012 056	**98 719 277**
Impairment allowance	(19 097 355)	(13 127 938)
	74 914 701	**85 591 339**

Significant credit exposures

As at 31 December 2015, the Group has two groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2014: two groups of connected borrowers). The gross value of these balances as at 31 December 2015 is RUB 10 195 112 thousand (2014: RUB 8 396 351 thousand).

For maturity analysis refer to note 33.

19 Net investments in finance leases

Net investments in finance leases comprise:

	2015 RUB'000	2014 RUB'000
Gross investments in finance leases	1 900 879	2 694 581
Less unearned finance lease income	(245 511)	(463 140)
	1 655 368	**2 231 441**
Less allowance for impairment	(261 511)	(149 251)
Net investments in finance leases	**1 393 857**	**2 082 190**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Future minimum lease payments to be received are disclosed below:

	2015 RUB'000	2014 RUB'000
Overdue and within 1 year	1 456 338	1 768 833
From 1 to 5 years	444 541	925 748
Minimum lease payments receivable	**1 900 879**	**2 694 581**

Gross investment in leases is receivable in the following currencies:

	2015 RUB'000	2014 RUB'000
RUB	1 653 483	2 376 670
USD	247 396	317 911
Gross investments in finance leases	**1 900 879**	**2 694 581**

The following table provides information on the credit quality of net investments in finance leases as at 31 December 2015 and 2014:

	2015 RUB'000	2014 RUB'000
Not overdue and overdue less than 90 days	1 103 387	1 631 824
Overdue more than 90 days and less than 180 days	51 839	84 450
Overdue more than 180 days	500 142	515 167
	1 655 368	**2 231 441**
Less allowance for impairment	(261 511)	(149 251)
Net investments in finance leases	**1 393 857**	**2 082 190**

Movements in the impairment allowance are as follows:

	2015 RUB'000	2014 RUB'000
Balance at the beginning of the year	149 251	61 809
Net charge	149 478	92 938
Write-offs	(37 218)	(5 496)
Balance at the end of the year	**261 511**	**149 251**

20 Investments in associates

Associates comprise the following:

Name	Country of incorporation	Main activity	% Controlled 2015	% Controlled 2014	2015 Carrying value RUB'000	2014 Carrying value RUB'000
PJSC M2M Private Bank	Russian Federation	Banking	25%	-	575 000	-
					575 000	**-**

The following table summarises the financial information of PJSC M2M Private Bank as at 31 December 2015 and for 2015 year and reconciliation of carrying amount of the Group's interest in associate:

	2015 RUB'000
Total assets	33 109 783
Total liabilities	31 016 310
Net assets	2 093 473
Group's share of net assets (25%)	**523 368**
Goodwill	**51 632**

	2015 RUB'000
Net loss for the year	(748 844)
Total comprehensive loss for the year	(536 807)

21 Held-to-maturity investments

	2015 RUB'000	2014 RUB'000
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	311 377
Regional authorities bonds	132 559	512 643
Total government and municipal bonds	**132 559**	**824 020**
Corporate bonds		
rated from BB- to BBB+	970 588	2 211 789
rated B+ and below	-	1 097
Total corporate bonds	**970 588**	**2 212 886**
Total held-to-maturity investments held by Group	**1 103 147**	**3 036 906**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Regional authorities bonds	342 495	360 338
Total government and municipal bonds	**342 495**	**360 338**
Corporate bonds		
rated from BB- to BBB+	5 589 420	1 690 159
rated B+ and below	-	457 245
Total corporate bonds	**5 589 420**	**2 147 404**
Total held-to-maturity investments pledged under sale and repurchase agreements	**5 931 915**	**2 507 742**
Total held-to-maturity investments	**7 035 062**	**5 544 648**

Ratings of corporate entities are based on Standart & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

None of held-to-maturity investments are past due or impaired.

Reclassifications out of of available-for-sale financial assets

In accordance with IAS 39 the Group reclassified certain securities out of available-for-sale financial assets to held-to-maturity investments as a result of a change in intention to hold these securities until maturity.

The reclassifications were made with effect in October 2014 and December 2014 at fair value at these dates:

Date of reclassification	Carrying value of reclassified securities as at date of reclassification	Fair value of reclassified securities as at date of reclassification
	RUB'000	RUB'000
28 October 2014	2 680 256	2 680 256
5 December 2014	591 225	591 225
8 December 2014	172 255	172 255
16 December 2014	1 522 810	1 522 810
31 December 2014	454	454

The table below shows carrying and fair value of reclassified securities as at reporting dates:

Date of reclassification	Carrying value of reclassified securities as at 31 December 2015	Fair value of reclassified securities as at 31 December 2015	Carrying value of reclassified securities as at 31 December 2014	Fair value of reclassified securities as at 31 December 2014
	RUB'000	RUB'000	RUB'000	RUB'000
28 October 2014	2 730 285	2 676 862	2 688 672	2 329 934
5 December 2014	256 600	257 902	590 390	588 198
8 December 2014	108 613	108 266	172 389	164 800
16 December 2014	1 298 851	1 311 816	1 524 199	1 479 361
31 December 2014	498	506	454	454

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2015 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss
	RUB'000
Available-for-sale securities reclassified to held-to-maturity investments	
Interest income	447 862

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2014 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Before reclassification		
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	64 971	-
Revaluation reserve for available-for-sale financial assets	-	(199 920)
After reclassification		
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	58 439	-

The table below sets out the amounts that would have been recognised during 2015 if the reclassifications had not been made:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	447 862	-
Revaluation reserve for available-for-sale financial assets	-	561 119

The table below sets out the amounts that would have been recognised in the period following reclassifications during 2014 if the reclassifications had not been made:

	Profit or loss RUB'000	Other comprehensive income RUB'000
Available-for-sale securities reclassified to held-to-maturity investments		
Interest income	51 890	-
Revaluation reserve for available-for-sale financial assets	-	(323 402)

The effective interest rates on available-for-sale securities reclassified to held-to-maturity investments with expected recoverable cash flows as at the date of reclassification are presented below:

Date of reclassification	Effective interest rate %	Expected cash flows RUB'000
28 October 2014	8.02%	3 314 172
5 December 2014	8.77%	825 392
8 December 2014	9.75%	226 624
16 December 2014	7.89%	2 244 101
31 December 2014	8.50%	564

22 Transfers of financial assets

(a) Transferred financial assets, that are not derecognised in their entirety

The securities sold under agreements to repurchase as at 31 December 2015 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to-maturity investments
Carrying amount of assets	3 258 557	5 931 915
Carrying amount of associated liabilities	2 733 477	5 427 409

The securities sold under agreements to repurchase as at 31 December 2014 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to-maturity investments	Securities received under reverse repurchase agreements repledged
Carrying amount of assets	7 088 015	2 507 742	765 915
Carrying amount of associated liabilities	6 088 856	2 135 083	614 245

The Group has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 15 and 21 and as repledged securities received under reverse repurchase agreements in note 17. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (note 26).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(b) Transferred financial assets with continuing involvement

Securitisations

As part of securitisation transaction with unconsolidated structured entity (for details refer to note 35) the Group transferred mortgage loans and neither transferred nor retained substantially all the risks and rewards of ownership of the loans. The Group recognises its continuing involvement in mortgage loans in the amount of the issued lower tranche of bonds by unconsolidated structured entity.

The Group also retains servicing rights in respect of the transferred mortgage loans. Under the servicing arrangements the Group collects cash flows on the transferred mortgage loans on behalf of the unconsolidated structured entity. In return, the Group receives a fee that is expected to compensate the Group adequately for performing the servicing of the related assets. Consequently, the Group accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability.

Mortgage loans transferred were classified as loans to customers and measured at amortised cost with a total carrying amount of RUB 2 300 027 thousand at the date of transfer. As at 31 December 2015, the value of the loans that the Group still services amounts to RUB 2 191 797 thousand.

During the year ended 31 December 2015, the Group recognised income of RUB 5 628 thousand in respect of servicing transferred mortgage loans.

23 Property, equipment, intangible assets and investment property

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2015	4 543 635	858 878	19 329	60 497	505 518	45 358	6 033 215
Additions and transfers	87 749	65 081	797	10 907	119 132	95 268	378 934
Disposals and transfers	(33 620)	(328 595)	(9 241)	(2 138)	(34 926)	(45 358)	(453 878)
Transfers from investment property	4 677	-	-	-	-	-	4 677
At 31 December 2015	**4 602 441**	**595 364**	**10 885**	**69 266**	**589 724**	**95 268**	**5 962 948**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2015	138 630	506 720	12 658	34 862	188 448	-	881 318
Depreciation and amortisation for the year	132 518	110 568	2 017	9 363	76 598	-	331 064
Disposals	(1 611)	(301 396)	(8 935)	(1 719)	(34 926)	-	(348 587)
Balance at 31 December 2015	**269 537**	**315 892**	**5 740**	**42 506**	**230 120**	**-**	**863 795**
Carrying amounts							
At 31 December 2015	**4 332 904**	**279 472**	**5 145**	**26 760**	**359 604**	**95 268**	**5 099 153**
At 31 December 2014	**4 405 005**	**352 158**	**6 671**	**25 635**	**317 070**	**45 358**	**5 151 897**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2015 (2014: nil).

RUB’000	**Land and buildings**	**Computers and equipment**	**Fixtures and fittings**	**Vehicles**	**Intangible assets**	**Construction in progress**	**Total**
Cost/revalued amount							
Balance at 1 January 2014	4 387 149	642 687	44 382	55 606	255 014	190 822	5 575 660
Additions and transfers	127 221	227 511	2 345	10 604	256 071	45 358	669 110
Disposals and transfers	(9 766)	(11 320)	(27 398)	(5 713)	(5 567)	(190 822)	(250 586)
Transfers from investment property	39 031	-	-	-	-	-	39 031
At 31 December 2014	**4 543 635**	**858 878**	**19 329**	**60 497**	**505 518**	**45 358**	**6 033 215**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2014	6 229	419 191	37 834	30 341	125 637	-	619 232
Depreciation and amortisation for the year	133 039	98 175	1 839	9 156	68 378	-	310 587
Disposals	(638)	(10 646)	(27 015)	(4 635)	(5 567)	-	(48 501)
Balance at 31 December 2014	**138 630**	**506 720**	**12 658**	**34 862**	**188 448**	**-**	**881 318**
Carrying amounts							
At 31 December 2014	**4 405 005**	**352 158**	**6 671**	**25 635**	**317 070**	**45 358**	**5 151 897**
At 31 December 2013	**4 380 920**	**223 496**	**6 548**	**25 265**	**129 377**	**190 822**	**4 956 428**

Revalued assets

As at 31 December 2015 and as at 31 December 2014, the independent appraiser S.A.Ricci analysed the main factors of change in value of commercial real estate in regions where Group’s buildings are located. Based on the analysis it is concluded that there were no significant changes in prices of commercial real estate during 2015 and 2014.

At 31 December 2013, buildings were revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50%/50% basis.

The market approach is based upon an analysis of the results of comparable sales/offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

The following key assumptions are used in applying the income capitalisation approach:

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties’ rental rates
- the vacancy rate of 5% was assumed for the properties with the total area less than 150 m2, the vacancy rate of 7% was assumed for the properties with the total area of 150 to 500 m2, the vacancy rate of 10% was used for the properties with the total area of more than 500 m2
- the capitalisation rate of 13% was assumed for large cities (regional centres) and 14% for small cities. For the office building located in Moscow, the capitalisation rate of 10% was assumed based on the Appraiser’s internal research (S.A.Ricci).

The values assigned to the key assumptions represent management’s assessment of future business trends and are based on both external sources and internal sources of information.

Fair value measurement of buildings is categorised as Level 3 in the fair value hierarchy.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2015 would be RUB 129 987 thousand higher/lower (2014: RUB 132 150 thousand).

The carrying value of buildings as at 31 December 2015, if the buildings would not have been revalued, would be RUB 2 646 989 thousand (2014: RUB 2 572 939 thousand).

Investment property

	2015 RUB’000	**2014 RUB’000**
Balance at 1 January	44 123	49 213
Additions	-	34 753
Transfer to property, equipment and intangible assets	(4 677)	(39 031)
Fair value revaluation	(846)	(812)
Balance at 31 December	**38 600**	**44 123**

As at 31 December 2015 and as at 31 December 2014, the independent appraiser S.A.Ricci analysed the main factors of change in value of commercial real estate in regions where Group’s buildings are located. Based on the analysis it is concluded that there were no significant changes in prices of commercial real estate during 2015 and 2014.

Fair value measurement of investment property is categorised as Level 3 in the fair value hierarchy.

Rental income from investment property for the year ended 31 December 2015 comprised RUB 1 786 thousand (2014: RUB 2 801 thousand).

24 Other assets

	2015 RUB’000	2014 RUB’000
Settlements on purchase of shares	2 162 296	-
Continuing involvement with sold loan portfolio	563 048	-
Guarantee deposit with broker	154 875	-
Other receivables	283 226	273 439
Total other financial assets	**3 163 445**	**273 439**
Prepayments	968 203	289 552
Inventory	84 109	133 350
Advances on precious metals delivery	79 647	63 245
Prepayments for assets to be leased under finance lease	51 572	87 842
Materials and supplies	36 911	40 925
Other	370 492	183 370
Total other non-financial assets	**1 590 934**	**798 284**
Total other assets	**4 754 379**	**1 071 723**
Less allowance for impairment	(108 530)	(75 560)
Total other assets net of allowance for impairment	**4 645 849**	**996 163**

Movements in the impairment allowance are as follows:

	2015 RUB’000	2014 RUB’000
Balance at the beginning of the year	75 560	28 871
Net charge	37 195	66 762
Write-offs	(4 225)	(20 073)
Balance at the end of the year	**108 530**	**75 560**

Settlements on purchase of shares includes settlements on acquisition of shares of PJSC M2M Private Bank in the amount of RUB 1 725 000 thousand. In 2015 year the Group paid RUB 2 300 000 thousand for 100% shares of PJSC M2M Private Bank. As at 31 December 2015 in accordance with purchase agreement terms 25% of shares were transferred to the Group.

For details on continuing involvement with sold loan portfolio please refer to note 35.

25 Deposits and balances from banks

	2015 RUB’000	2014 RUB’000
Vostro accounts	421 996	146 920
Term deposits from banks	3 550 110	8 618 727
Term deposit from the CBR	-	1 955 985
	3 972 106	**10 721 632**

As at 31 December 2015, the Group has one bank (31 December 2014: three banks, including the CBR), whose balances individually equal or exceed 10% of equity. The gross value of these balances as at 31 December 2015 is RUB 1 780 700 thousand (2014: RUB 6 501 347 thousand).

Covenants

As at 31 December 2015, the Group has term deposits from one of the banks amounting to RUB 1 780 700 thousand (31 December 2014: RUB 2 720 359 thousand) with maturities set out in the table below:

	2015 RUB’000	2014 RUB’000
- repayable on 27 July 2016	14 393	96 154
- repayable on 5 July 2017	69 688	91 213
- repayable on 15 August 2017	10 324	54 386
- repayable on 19 March 2018	336 766	618 794
- repayable on 29 October 2018	232 539	381 861
- repayable on 10 November 2018	-	23 443
- repayable on 12 November 2018	61 692	71 167
- repayable on 28 February 2019	314 199	557 134
- repayable on 18 June 2019	163 142	246 920
- repayable on 12 August 2019	376 280	579 287
- repayable on 17 September 2020	100 871	-
- repayable on 16 September 2022	100 806	-
	1 780 700	**2 720 359**

According to the terms of the agreements, the Group is subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Bank should comply with all ratios of the CBR and N1.0 statutory ratio should be not less than 10.2%.

As at 31 December 2015 and 2014, the Group did not breach any covenants described above.

26 Amounts payable under repurchase agreements

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2015:

RUB’000	**Corporate bonds**	**Total**
Amounts payable under direct repo agreements		
- The CBR	6 374 465	6 374 465
- Largest 30 Russian banks	1 786 421	1 786 421
	8 160 886	**8 160 886**

The table below sets out payables under direct repo agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2014:

RUB’000	**Government and municipal bonds**	**Corporate bonds**	**Total**
Amounts payable under direct repo agreements			
- The CBR	317 890	8 520 294	8 838 184
	317 890	**8 520 294**	**8 838 184**

Fair value of securities transferred under repo agreements as at 31 December 2015 comprised RUB 9 179 993 thousand (31 December 2014: RUB 9 404 640 thousand). For details, please, refer to note 22.

27 Current accounts and deposits from customers

	2015 RUB'000	2014 RUB'000
Current accounts and demand deposits		
- Retail	4 679 390	4 374 344
- Corporate	11 152 065	13 594 354
Term deposits		
- Retail	69 531 129	54 258 564
- Corporate	18 664 281	12 270 452
	104 026 865	**84 497 714**

As at 31 December 2015, the Group has one customer (2014: two groups of connected customers), whose balances individually exceed 10% of equity. The amount owned comprised RUB 3 174 025 thousand (2014: RUB 7 931 497 thousand).

28 Debt securities issued

	2015 RUB'000	2014 RUB'000
Bonds	4 058 906	5 668 351
Promissory notes	625 652	838 240
	4 684 558	**6 506 591**

Bonds are presented by three issues: one of the Bank and the others of MA APB and MA APB 2.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature not later than 26 April 2045 with partially repayments each quarter.

In February 2013, the Group issued RUB 3 000 000 thousand of bonds with a coupon rate as at 31 December 2015 of 12.00%. These bonds mature on 19 February 2016. The parts of the issue amounted to RUB 2 645 020 thousand, RUB 952 359 thousand and RUB 477 000 thousand has been repaid by the Group at the put-option dates on 22 August 2014, 24 August 2015 and 18 January 2016 respectively. On 19 February 2016, the Group repaid the remainder of bonds RUB 1 119 621 thousand due to their maturity.

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9%. These securities mature not later than 1 October 2046 with partially repayments each quarter.

On 29 April 2015, the Group repaid RUB 1 500 000 thousand of bonds with a coupon rate of 10.4% due to their maturity.

29 Subordinated borrowings

	2015 RUB'000	2014 RUB'000
Subordinated loan	5 385 283	4 021 246
	5 385 283	**4 021 246**

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 million from one of the Bank's shareholders - IFC. The loan with interest rate 12.92% as at 31 December 2015 mature by tranches until 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants. As at 31 December 2014 the Group breached one of the financial covenants that led to the increase of interest rate on agreement in 2015 year. Subordinated debt is not payable on demand as at 31 December 2015 and 31 December 2014.

On 10 July 2014, the Group issued subordinated Loan Participation Notes in the amount of USD 42 million for 5.5 years with interest rate of 11.00% through SCI Finance B.V., partially consolidated structured entity incorporated in the Netherlands. This entity was partially consolidated because portion of the entity is a deemed separate entity which is in substance "ring-fenced" from the rest of the entity, and the Group has control over deemed separate entity. The Group consolidated only those assets and returns related to the issue of Loan Participation Notes.

30 Other liabilities

	2015 RUB'000	2014 RUB'000
Payables to employees	195 406	182 575
Advances from lessees received	100 391	145 759
Deferred commission on guarantees	97 373	77 123
Other taxes payable	83 238	150 783
Payables on cession agreements	76 762	-
Payables to creditors	61 352	44 527
Other liabilities	117 750	102 861
	732 272	**703 628**

31 Share capital

Issued capital

Movements in share capital for the years ended 31 December 2015 and 2014 are as follows:

	Shares (thousands)	Nominal amount, RUB'000	Inflation adjustment, RUB'000	Total, RUB'000
Balance as at 1 January 2014	**4 949 019 820 939**	**554 290**	**8 022**	**562 312**
Ordinary shares	4 858 303 245 205	544 130	7 875	552 005
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Issue of ordinary shares	206 271 120 949	23 102	-	23 102
Balance as at 1 January 2015	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 31 December 2015	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**

On 14 April 2014 the Group issued 206 271 120 949 312 ordinary shares with a nominal value of RUB 0.000000112 per each share and total nominal value of RUB 23 102 thousand. Total value of shares at the price of issue is RUB 609 118 thousand.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the Russian Accounting Legislation. As at 31 December 2015, reserves available for distribution amounted to RUB 9 361 575 thousand (31 December 2014: RUB 9 319 252 thousand).

The share capital of the Bank was contributed by the shareholders in Russian Roubles and they are entitled to dividends and any capital distribution in Russian Roubles.

32 Analysis by segment

The Group has seventeen divisions located in different regions of the Russian Federation, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units the chief operating decision maker reviews internal management reports on at least a monthly basis. The Group combined branches into three reporting units based on geographical location: Far East region, Siberia region and West region.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is set out below:

	2015 RUB'000	2014 RUB'000
ASSETS		
Far East region	47 693 297	55 172 615
West region	66 035 984	40 828 079
Siberia region	23 524 815	28 858 843
Total assets	**137 254 096**	**124 859 537**
LIABILITIES		
Far East region	82 704 378	70 014 400
West region	18 610 502	25 057 952
Siberia region	22 980 386	17 411 503
Total liabilities	**124 295 266**	**112 483 855**

Segment information for the main reportable segments for the year ended 31 December 2015 is set below:

RUB'000	Far East region	Siberia region	West region	Total
External interest income	8 042 042	4 721 121	3 032 791	15 795 954
Fee and commission income	1 544 521	564 663	233 656	2 342 840
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(4 165)	-	2 720 414	2 716 249
Net foreign exchange (loss) gain	(7 130 037)	269 763	8 210 663	1 350 389
Other operating income	2 473 305	188 917	9 467	2 671 689
Revenue	**4 925 666**	**5 744 464**	**14 206 991**	**24 877 121**

RUB'000	Far East region	Siberia region	West region	Total
Impairment losses	2 952 604	4 251 549	1 154 580	8 358 733
Interest expense	6 852 008	1 977 711	1 700 931	10 530 650
Fee and commission expense	84 044	40 389	13 109	137 542
General administrative expenses	4 703 135	578 569	193 466	5 475 170
Segment result	**(9 666 125)**	**(1 103 754)**	**11 144 905**	**375 026**
Income tax expense				(7 850)
Profit for the year				**367 176**

Segment information for the main reportable segments for the year ended 31 December 2014 is set below:

RUB'000	Far East region	Siberia region	West region	Total
External interest income	8 602 826	5 574 917	1 514 577	15 692 320
Fee and commission income	2 926 263	677 143	191 960	3 795 366
Net (loss) gain on financial instruments at fair value through profit or loss and realised gain on available-for-sale financial instruments	(3 740)	-	458 586	454 846
Net foreign exchange gain	50 072	402 481	166 024	618 577
Other operating income	487 268	230 008	7 391	724 667
Revenue	**12 062 689**	**6 884 549**	**2 338 538**	**21 285 776**
Impairment losses	3 797 289	4 380 666	497 040	8 674 995
Interest expense	4 477 173	1 186 407	1 579 725	7 243 305
Fee and commission expense	159 091	40 721	16 565	216 377
General administrative expenses	4 820 733	494 473	68 211	5 383 417
Segment result	**(1 191 597)**	**782 282**	**176 997**	**(232 318)**
Income tax expense				(5 091)
Loss for the year				**(237 409)**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2015 RUB'000	2014 RUB'000
Revenues		
Total revenues for reportable segments	24 877 121	21 285 776
IFRS accounting policy adjustments:		
- interest income on loans to customers and net investments in finance lease	809 079	1 016 336
- securities at fair value	(932 910)	(54 203)
- contributions from shareholders	(2 200 000)	-
- other adjustments	976 081	84 620
Consolidated revenues	**23 529 371**	**22 332 529**

	2015 RUB'000	2014 RUB'000
Profit or loss		
Total profit (loss) for reportable segments	367 176	(237 409)
IFRS accounting policy adjustments:		
- interest income on loans to customers	809 079	506 799
- allowance for impairment of loans to customers, net investments in finance leases and other assets	(174 513)	(203 907)
- depreciation and amortisation of property and equipment and intangible assets	5 473	34 223
- securities at fair value	(932 910)	(54 203)
- contributions from shareholders	(2 200 000)	-
- other adjustments	540 870	4 478
Consolidated (loss) profit for the year	**(1 584 825)**	**49 981**
Assets		
Total assets for reportable segments	137 254 096	124 859 537
IFRS accounting policy adjustments:		
- interest income on loans to customers	313 786	60 264
- allowance for impairment of loans to customers and net investments in finance leases	2 307 447	1 900 500
- allowance for impairment of other assets	388 037	268 487
- depreciation and amortisation of property and equipment and intangible assets and other adjustments to property cost	213 668	198 993
- securities at fair value	(911 377)	(283 964)
- double repo adjustment	-	(764 820)
- deferred tax asset	(210 625)	76 691
- revaluation of property and equipment	359 791	364 391
- other assets of subsidiaries (net of intragroup transactions)	2 805 156	3 855 272
- other adjustments	548 805	(68 508)
Consolidated assets	**143 068 784**	**130 466 843**
Liabilities		
Total liabilities for reportable segments	124 295 266	112 483 855
IFRS accounting policy adjustments:		
- accounting for deferred tax liability	(141 545)	313 697
- liabilities of subsidiaries (net of intragroup transactions)	2 591 397	3 672 069
- double repo adjustment	-	(764 820)
- other adjustments	427 826	(93 544)
Consolidated liabilities	**127 172 944**	**115 611 257**

Information about major customers and geographical areas

For the years ended 31 December 2015 and 2014, there were no corporate customers whose revenues individually exceed 10% of total revenue.

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

33 Corporate governance, internal control and risk management

(a) Corporate governance framework

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

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

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

As at 31 December 2015, the Board of Directors includes:

Andrey Novikov – Chairman of the Board of Directors

Sergey Golubev

Margo Jacobs

Marc van der Plas

Andrey Vdovin

Alexander Murichev

Oleg Safonov

Andrey Shlyahovoy.

During the year ended 31 December 2015 the following changes occurred in composition of the Board of Directors: Evgeniy Aksenov, Stefan Dertnig left the Board, Oleg Safonov, Andrey Shlyahovoy joined the Board.

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

As at 31 December 2015, the Management Board includes:

Andrey Vdovin – Chairman of the Management Board

Vyacheslav Andryushkin

Dmitry Makarov

Igor Zilberblum

Andrey Chavtur

Andrey Novikov

Mikhail Pavlov

Tatiana Chekonova.

During the year ended 31 December 2015 the following changes occurred in composition of the Management Board: Igor Abazov, Alexander Nepomnyashiy and Andrey Frolov left the Board, Vyacheslav Andryushkin, Dmitry Makarov and Andrey Chavtur joined the Board.

(b) Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

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

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

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

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

The internal control system in the Bank comprises:

- the Board of Directors and its committees, including the Audit and Risk Committee
- the Chairman of the Management Board and the Management Board
- the Chief Accountant
- the Risk Department
- the security function, including IT-security
- the human resource function
- the Internal Audit Service
- the Internal Control (Compliance) Service
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:

  - heads of branches and heads of business-units
  - business processes managers
  - the compliance officer and the compliance function, including the division responsible for compliance with anti-money laundering and anticorruption requirements
  - professional securities market participant controller – an executive office responsible for compliance with the requirements for securities market participants
  - the legal officer – employees and a division responsible for compliance with the legal and regulatory requirements
  - other employees/divisions with control responsibilities.

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

The main functions of the Internal Audit Service include the following:

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

The Internal Control (Compliance) Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

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

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

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit Service, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group’s operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2015, the Group’s internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group’s significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Board of Directors and management bodies of the Bank have responsibility for controlling the Group’s compliance with risk limits and capital adequacy ratios as established by the Group’s internal documentation. With the view of controlling effectiveness of the Group’s risk management procedures and their consistent application the Board of Directors and management bodies of the Bank periodically receive reports prepared by the Internal Audit Service and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (the ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

In compliance with the Group’s internal documentation the Risk Department and the Internal Audit Service frequently prepare reports, which cover the Group’s significant risks management. The reports include observations as to assessment of the effectiveness of the Group’s procedures and methodologies, and recommendations for improvement.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instrument types stated above, value-at-risk based limits and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015 Average effective interest rate, %			**2014 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	10%	1%	2%	14%	-	-
Financial instruments at fair value through profit or loss	13%	-	-	-	-	-
Available-for-sale financial assets	11%	5%	4%	9%	5%	-
Due from banks	1%	3%	-	-	5%	4%
Amounts receivable under reverse repurchase agreements	11%	9%	-	15%	-	-
Loans to customers						
- retail	24%	10%	-	19%	12%	-
- corporate	18%	10%	5%	15%	10%	3%
Net investments in finance leases	29%	23%	-	30%	23%	-
Held-to-maturity investments	12%	7%	-	8%	-	-
Interest bearing liabilities						
Deposits and balances from banks	9%	5%	1%	13%	3%	4%
Amounts payable under repurchase agreements	11%	2%	-	17%	-	-
Term deposits from customers						
- retail	12%	4%	4%	11%	4%	4%
- corporate	11%	2%	4%	15%	3%	5%
Debt securities issued						
- promissory notes	8%	5%	-	11%	4%	-
- bonds	11%	-	-	11%	-	-
Subordinated borrowings	-	12%	-	-	11%	-

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December is as follows:

	2015		**2014**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
300 bp parallel fall	541 263	541 263	244 540	244 540
300 bp parallel rise	(541 263)	(541 263)	(244 540)	(244 540)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December and a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2015		**2014**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
300 bp parallel fall	9 578	756 906	-	331 612
300 bp parallel rise	(9 587)	(687 992)	-	(302 011)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2015:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS						
Cash and cash equivalents	10 184 032	2 871 614	2 228 491	1 434 823	614 785	17 333 745
Obligatory reserves with the Central Bank of the Russian Federation	638 293	-	-	-	-	638 293
Financial instruments at fair value through profit or loss	348 578	21 032	31 793	-	12 223	413 626
Available-for-sale financial assets	14 907 198	2 623 489	2 146 566	-	829 467	20 506 720
Due from banks	154	450 186	265 525		1 157	717 022
Amounts receivable under reverse repurchase agreements	7 314 994	2 302 029	-	-	-	9 617 023
Loans to customers	62 432 099	11 909 636	537 416	-	35 550	74 914 701
Net investments in finance leases	1 182 512	211 345	-	-	-	1 393 857
Investments in associates	575 000	-	-	-	-	575 000
Held-to-maturity investments	4 504 688	2 530 374	-	-	-	7 035 062
Current tax asset	37 117	-	-	-	-	37 117
Deferred tax asset	103 016	-	-	-	-	103 016
Property, equipment, intangible assets and investment property	5 137 753	-	-	-	-	5 137 753
Other assets	4 022 578	620 998	2 273	-	-	4 645 849
Total assets	**111 388 012**	**23 540 703**	**5 212 064**	**1 434 823**	**1 493 182**	**143 068 784**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	195 974	1 507	-	1 026	198 507
Deposits and balances from banks	2 272 941	999 541	605 000	-	94 624	3 972 106
Amounts payable under repurchase agreements	6 421 411	1 739 475	-	-	-	8 160 886
Current accounts and deposits from customers	88 300 389	12 016 296	1 953 498	1 434 900	321 782	104 026 865
Debt securities issued	4 674 476	10 082	-	-	-	4 684 558
Subordinated borrowings	-	5 385 283	-	-	-	5 385 283
Current tax liability	4 214	-	-	-	-	4 214
Deferred tax liability	8 253	-	-	-	-	8 253
Other liabilities	713 303	17 436	1 526	-	7	732 272
Total liabilities	**102 394 987**	**20 364 087**	**2 561 531**	**1 434 900**	**417 439**	**127 172 944**
Net position	**8 993 025**	**3 176 616**	**2 650 533**	**(77)**	**1 075 743**	**15 895 840**
The effect of derivatives held for risk management	**7 143 573**	**(3 283 142)**	**(2 697 638)**	**-**	**(1 162 793)**	**-**
Net position after derivatives held for risk management purposes	**16 136 598**	**(106 526)**	**(47 105)**	**(77)**	**(87 050)**	**15 895 840**

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2014:

	RUB	USD	EUR	Gold	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS						
Cash and cash equivalents	9 114 896	2 511 488	1 337 295	666 199	343 144	13 973 022
Obligatory reserves with the Central Bank of the Russian Federation	896 191	-	-	-	-	896 191
Financial instruments at fair value through profit or loss	-	43 585	763	-	-	44 348
Available-for-sale financial assets	10 900 786	2 408 444	-	-	-	13 309 230
Due from banks	6 000	484 856	507 515	-	998	999 369
Amounts receivable under reverse repurchase agreements	1 560 811	-	-	-	-	1 560 811
Loans to customers	71 959 849	13 054 369	549 978	-	27 143	85 591 339
Net investments in finance leases	1 846 358	235 832	-	-	-	2 082 190
Held-to-maturity investments	5 544 648	-	-	-	-	5 544 648
Current tax asset	196 821	-	-	-	-	196 821
Deferred tax asset	76 691	-	-	-	-	76 691
Property, equipment, intangible assets and investment property	5 196 020	-	-	-	-	5 196 020
Other assets	933 746	54 735	7 639	-	43	996 163
Total assets	**108 232 817**	**18 793 309**	**2 403 190**	**666 199**	**371 328**	**130 466 843**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Derivative financial instruments	-	1 671	-	-	4 821	6 492
Deposits and balances from banks	6 831 982	1 957 124	1 899 275	-	33 251	10 721 632
Amounts payable under repurchase agreements	8 838 184	-	-	-	-	8 838 184
Current accounts and deposits from customers	72 315 830	9 277 676	1 930 372	640 808	333 028	84 497 714
Debt securities issued	6 381 422	125 169	-	-	-	6 506 591
Subordinated borrowings	-	4 021 246	-	-	-	4 021 246
Current tax liability	2 073	-	-	-	-	2 073
Deferred tax liability	313 697	-	-	-	-	313 697
Other liabilities	690 271	11 929	1 422	-	6	703 628
Total liabilities	**95 373 459**	**15 394 815**	**3 831 069**	**640 808**	**371 106**	**115 611 257**
Net position	**12 859 358**	**3 398 494**	**(1 427 879)**	**25 391**	**222**	**14 855 586**
The effect of derivatives held for risk management	**2 046 840**	**(3 477 377)**	**1 407 860**	**-**	**22 677**	**-**
Net position after derivatives held for risk management purposes	**14 906 198**	**(78 883)**	**(20 019)**	**25 391**	**22 899**	**14 855 586**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2015 and 2014 would have decreased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2015		2014	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
20% appreciation of USD against RUB	(17 044)	(17 044)	(12 621)	(12 621)
20% appreciation of EUR against RUB	(7 537)	(7 537)	(3 203)	(3 203)

A strengthening of the RUB against the above currencies at 31 December 2015 and 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Equity risk

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity risk arises when the Group takes a long or short position in an equity financial instrument.

The amount of the position exposed to equity risk is RUB 455 679 thousand.

Quantitative valuation of the level of risk is performed using the historical VAR method with a retrospective of 2 years, 99% confidence level and 10-day holding period depending on the type of positions. When calculating the level of risk the correlation between the individual instruments in the portfolio is taking into account that allows to get more accurate estimate.

As at 31 December 2015, the Group estimates the level of equity risk in the amount of RUB 40 721 thousand.

(iv) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a system of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

For the analysis of concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 36.

As at 31 December 2015, the Group has no debtors or groups of connected debtors (31 December 2014: no debtors or group of debtors), credit risk exposure to whom individually exceeds 10% of maximum credit risk exposure.

(e) Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

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

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	9 617 023	-	9 617 023	(9 617 023)	-	-
Total financial assets	**9 617 023**	**-**	**9 617 023**	**(9 617 023)**	**-**	**-**
Sale and repurchase agreements	(8 160 886)	-	(8 160 886)	8 160 886	-	-
Total financial liabilities	**(8 160 886)**	**-**	**(8 160 886)**	**8 160 886**	**-**	**-**

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

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	1 560 811	-	1 560 811	(1 560 811)	-	-
Total financial assets	**1 560 811**	**-**	**1 560 811**	**(1 560 811)**	**-**	**-**
Sale and repurchase agreements	(8 838 184)	-	(8 838 184)	8 838 184	-	-
Total financial liabilities	**(8 838 184)**	**-**	**(8 838 184)**	**8 838 184**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term loans from other banks, core corporate and retail customer deposits. This policy is accompanied by diversified portfolios of highly liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department monitors liquidity position on a daily basis, aggregates information regarding the liquidity profile of assets and liabilities on past deals and receives from business units details of projected cash flows arising from future business.

The Treasury Department performs regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of balances on nostro accounts and short-term placements with other banks, liquid debt securities, stock exchange reverse repo deals, to ensure that sufficient liquidity is maintained within the Group as a whole both in normal and more severe market conditions.

Under the normal market conditions liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	857 976	202 862	657 523	2 669 199	111 519	4 499 079	3 972 106
Amounts payable under repurchase agreements	7 641 928	546 938	-	-	-	8 188 866	8 160 886
Current accounts and deposits from customers	28 344 434	21 641 820	53 853 483	3 537 333	-	107 377 070	104 026 865
Debt securities issued	205 043	1 866 020	876 474	2 174 622	23 724	5 145 883	4 684 558
Subordinated borrowings	168 359	-	455 561	6 998 901	-	7 622 821	5 385 283
Other financial liabilities	88 642	22 911	52 095	93 068	487	257 203	257 203
Derivative liabilities							
Inflow	(17 849 867)	-	(2 972 203)	-	-	(20 822 070)	-
Outflow	17 958 814	-	3 061 763	-	-	21 020 577	198 507
Total financial liabilities	**37 415 329**	**24 280 551**	**55 984 696**	**15 473 123**	**135 730**	**133 289 429**	**126 685 408**
Credit related commitments	**13 933 632**	**-**	**-**	**-**	**-**	**13 933 632**	**13 933 632**

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	1 237 856	2 323 252	2 094 915	6 302 245	73 195	12 031 463	10 721 632
Amounts payable under repurchase agreements	8 895 978	-	-	-	-	8 895 978	8 838 184
Current accounts and deposits from customers	19 172 754	17 344 735	40 228 193	11 671 563	-	88 417 245	84 497 714
Debt securities issued	854 947	123 136	2 550 009	3 700 492	23 724	7 252 308	6 506 591
Subordinated borrowings	-	-	240 593	3 063 537	2 493 878	5 798 008	4 021 246
Other financial liabilities	74 190	14 397	37 629	16 587	-	142 803	142 803
Derivative liabilities							
Inflow	(1 542 262)	-	-	-	-	(1 542 262)	-
Outflow	1 548 754	-	-	-	-	1 548 754	6 492
Total financial liabilities	**30 242 217**	**19 805 520**	**45 151 339**	**24 754 424**	**2 590 797**	**122 544 297**	**114 734 662**
Credit related commitments	**13 296 022**	**-**	**-**	**-**	**-**	**13 296 022**	**13 296 022**

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits with future payments of interests totaling RUB 72 545 319 thousand (31 December 2014: RUB 57 784 251 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2015:

RUB'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
ASSETS							
Cash and cash equivalents	16 250 802	1 082 943	-	-	-	-	17 333 745
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	638 293	638 293
Financial instruments at fair value through profit or loss	368 600	14 993	30 033	-	-	-	413 626
Available-for-sale financial assets	20 506 720	-	-	-	-	-	20 506 720
Due from banks	-	-	713 542	-	-	3 480	717 022
Amounts receivable under reverse repurchase agreements	9 617 023	-	-	-	-	-	9 617 023
Loans to customers	4 857 769	4 153 011	28 050 679	33 846 298	4 006 944	-	74 914 701
Net investments in finance leases	291 795	132 575	596 589	372 898	-	-	1 393 857
Investments in associates	-	-	-	-	-	575 000	575 000
Held-to-maturity investments	-	943 616	1 408 809	4 682 637	-	-	7 035 062
Current tax asset	37 117	-	-	-	-	-	37 117
Deferred tax asset	-	-	-	-	-	103 016	103 016
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 137 753	5 137 753
Other assets	1 242 315	652 953	2 140 926	8 475	562 883	38 297	4 645 849
Total assets	**53 172 141**	**6 980 091**	**32 940 578**	**38 910 308**	**4 569 827**	**6 495 839**	**143 068 784**
LIABILITIES							
Derivative financial instruments	108 947	-	89 560	-	-	-	198 507
Deposits and balances from banks	854 403	169 008	511 503	2 337 192	100 000	-	3 972 106
Amounts payable under repurchase agreements	7 616 284	544 602	-	-	-	-	8 160 886
Current accounts and deposits from customers	28 201 987	20 651 153	51 836 040	3 337 685	-	-	104 026 865
Debt securities issued	203 739	1 840 271	830 997	1 785 829	23 722	-	4 684 558
Subordinated borrowings	167 424	-	12 555	5 205 304	-	-	5 385 283
Current tax liability	4 214	-	-	-	-	-	4 214
Deferred tax liability	-	-	-	-	-	8 253	8 253
Other liabilities	345 257	94 510	198 950	93 068	487	-	732 272
Total liabilities	**37 502 255**	**23 299 544**	**53 479 605**	**12 759 078**	**124 209**	**8 253**	**127 172 944**
Net position	**15 669 886**	**(16 319 453)**	**(20 539 027)**	**26 151 230**	**4 445 618**	**6 487 586**	**15 895 840**

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

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	13 954 862	18 160	-	-	-	-	13 973 022
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	896 191	896 191
Financial instruments at fair value through profit or loss	44 348	-	-	-	-	-	44 348
Available-for-sale financial assets	13 309 230	-	-	-	-	-	13 309 230
Due from banks	-	-	990 402	-	-	8 967	999 369
Amounts receivable under reverse repurchase agreements	1 560 811	-	-	-	-	-	1 560 811
Loans to customers	3 562 903	5 383 540	28 200 999	42 271 534	6 172 363	-	85 591 339
Net investments in finance leases	355 526	172 508	776 288	777 868	-	-	2 082 190
Held-to-maturity investments	-	-	665 118	4 568 153	311 377	-	5 544 648
Current tax asset	196 821	-	-	-	-	-	196 821
Deferred tax asset	-	-	-	-	-	76 691	76 691
Property, equipment, intangible assets and investment property	-	-	-	-	-	5 196 020	5 196 020
Other assets	234 696	415 147	306 179	3 534	-	36 607	996 163
Total assets	**33 219 197**	**5 989 355**	**30 938 986**	**47 621 089**	**6 483 740**	**6 214 476**	**130 466 843**
LIABILITIES							
Derivative financial instruments	6 492	-	-	-	-	-	6 492
Deposits and balances from banks	1 212 886	2 187 821	1 735 417	5 512 313	73 195	-	10 721 632
Amounts payable under repurchase agreements	8 838 184	-	-	-	-	-	8 838 184
Current accounts and deposits from customers	19 065 898	16 298 624	38 244 261	10 888 931	-	-	84 497 714
Debt securities issued	849 260	121 468	2 444 706	3 067 433	23 724	-	6 506 591
Subordinated borrowings	-	-	8 191	1 687 752	2 325 303	-	4 021 246
Current tax liability	-	2 073	-	-	-	-	2 073
Deferred tax liability	-	-	-	-	-	313 697	313 697
Other liabilities	373 382	142 328	171 331	16 587	-	-	703 628
Total liabilities	**30 346 102**	**18 752 314**	**42 603 906**	**21 173 016**	**2 422 222**	**313 697**	**115 611 257**
Net position	**2 873 095**	**(12 762 959)**	**(11 664 920)**	**26 448 073**	**4 061 518**	**5 900 779**	**14 855 586**

In accordance with the Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 69 531 129 thousand (31 December 2014: RUB 54 258 564 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2015 RUB'000	2014 RUB'000
Demand and less than 1 month	9 990 067	5 571 514
From 1 to 3 months	16 611 531	12 085 929
From 3 to 12 months	40 136 105	26 339 184
From 1 to 5 years	2 793 426	10 261 937
	69 531 129	**54 258 564**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- Overdue and impaired loans are included in from 3 months to 1 year category based on past experience analysis of their recoverability;
- Available-for-sale financial assets: management holds a portfolio of other securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale securities, totalling RUB 20 506 720 thousand (31 December 2014: RUB 13 309 230 thousand) are included in the demand and less than 1 month category.

Contractual maturities of available-for-sale securities are as follows:

	2015 RUB'000	2014 RUB'000
From 1 to 3 months	3 217 784	1 293 431
From 3 to 12 months	3 307 291	6 368 162
From 1 to 5 years	13 013 731	5 270 668
More than 5 years	512 235	376 969
No maturity	455 679	-
	20 506 720	**13 309 230**

- In accordance with the Russian legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However, past experience indicates that current accounts in total population have permanent remainders. Based on the statistics cash flows from the current accounts for the year ended 31 December 2015, totalling RUB 8 639 246 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category (2014: RUB 8 699 497 thousand).

The Group maintains unused lines of credit from the CBR and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from the CBR, mentioned above.

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

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

The Bank was in compliance with these ratios as at 1 January 2016 and 2015. The following table shows the mandatory liquidity ratios calculated as at 1 January 2016 and 2015.

	Requirement	2015, %	2014, %
Instant liquidity ratio (N2)	Not less than 15%	287.7	79.5
Current liquidity ratio (N3)	Not less than 50%	255.3	97.7
Long-term liquidity ratio (N4)	Not more than 120%	38.3	82.5

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

34 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates amount of capital in accordance with Provision of the CBR dated 28 December 2012 No. 395-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)*.

Minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 5.0%, 6.0% and 10.0%, accordingly. Since 1 January 2016 minimum levels of ratios are 4.5%, 6.0% and 8.0% accordingly.

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

The Group provides the territorial CBR that supervises the Bank with information on mandatory ratios in accordance with set form. The Bank’s Financial-Analytical Department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and Group’s internal policy this information is communicated to the Management Board and the Board of Directors. The Group is in compliance with the statutory capital ratios as at 31 December 2015 and 31 December 2014.

The calculation of capital adequacy for the Group based on requirements set by the CBR ratios as at 31 December 2015 and 31 December 2014 is as follows:

	2015 RUB’000	2014 RUB’000
Base capital	11 347 361	10 583 112
Additional capital	-	-
Main capital	**11 347 361**	**10 583 112**
Supplementary capital	5 202 287	4 706 475
Own funds (capital)	**16 549 648**	**15 289 587**
Risk-weighted assets	**144 538 410**	**130 176 800**
Ratio N20.1 (%)	**7.94**	**8.23**
Ratio N20.2 (%)	**7.94**	**8.23**
Ratio N20.0 (%)	**11.45**	**11.75**

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2015 and 2014.

35 Involvement with unconsolidated structured entities

The table below describes the structured entities that the Group does not consolidate but in which it holds an interest as at 31 December 2015:

Description	Country of registration	The main types of activity	Interest held by the Group	Total assets, RUB’000
CJSC «Multi Originator Mortgage Agent 1»	Russian Federation	Mortgage agent	See below	12 948 714

CJSC «Multi Originator Mortgage Agent 1» (MMA 1) is a structured entity established to facilitate the issue of mortgage backed securities (refer to notes 22 and 24). The Group does not control MMA 1. The involvement of the Group refers to retaining risks and benefits of the entity in the amount of the issued lower tranche of bonds by MMA 1 which was bought by the Group, as well as the fees for transferred mortgage loan servicing.

The table below sets out the carrying amounts of interests held by the Group in MMA 1 as at 31 December 2015, representing the maximum exposure to loss:

	Other assets, RUB’000
Continuing involvement with sold loan portfolio	563 048
Impairment allowance	(165)
Total net continuing involvement with sold loan portfolio net of impairment allowance	**562 883**

36 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2015 RUB’000	2014 RUB’000
Contracted amount		
Undrawn overdraft facilities	6 014 107	4 025 655
Guarantees and letters of credit	5 806 084	7 835 975
Loan and credit line commitments	2 113 441	1 434 392
	13 933 632	**13 296 022**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

There is no significant credit risk concentration as at 31 December 2015 and 31 December 2014.

As at 31 December 2015, the Group has a commitment to purchase 6 643 kg of gold and 215 kg of silver (31 December 2014: 3 573 kg of gold and 147 kg of silver) under contracts to be settled at the market price at the date of maturity.

37 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

38 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Management is unaware of any significant actual, pending or threatened claims against the Group.

(c) Taxation contingencies

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

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Group’s financial position, if the authorities were successful in enforcing their interpretations, could be significant.

39 Related party transactions

(a) Control relationships

The Group's parent company is LLC "PPFIN Region" (Russian Federation). As at 31 December 2015, the ultimate beneficial owners of the Group were Mr. Andrey Vdovin (the owner of 22.528%), Mr. Alexey Maslovsky (the owner of 22.528%), Mr. Peter Hambro (the owner of 22.528%), East Capital Explorer Financial Institution Fund (Sweden) (the owner of 17.91%), International Finance Corporation (6.71%).

In October 2014, Mr. Kirill Yakubovsky sold his stake in the Group to the other ultimate beneficial owners (Mr. Andrey Vdovin, Mr. Alexey Maslovsky and Mr. Peter Hambro) in equal portions.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2015 and 2014 is as follows:

	2015 RUB'000	2014 RUB'000
Short term employee benefits	117 037	91 090
	117 037	**91 090**

The outstanding balances and average effective interest rates as at 31 December 2015 and 2014 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2015 RUB'000	Average effective interest rate, %	2014 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	208 438	15.23%	298	21.67%
Other assets	1 345	-	1 498	-
LIABILITIES				
Current accounts and deposits from customers	66 025	10.73%	198 257	11.54%
Other liabilities	2	-	4 349	-
Commitments				
Credit commitments	2 030	-	1 200	-

Other amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2015 RUB'000	2014 RUB'000
Consolidated statement of of profit or loss and other comprehensive income		
Interest income	17 590	34
Interest expense	(14 278)	(44 142)
Impairment losses	(1 111)	(2)

(c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2015 and 2014 for transactions with shareholders owning more than 10% share capital are as follows:

	2015 RUB'000	Average effective interest rate, %	2014 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	5 578 540	9.90%	4 643 669	9.88%
Other assets	437 296	-	-	-
LIABILITIES				
Current accounts and deposits	6	-	6	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2015 RUB'000	2014 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	641 486	221 417
Interest expenses	(3 814)	-
Impairment losses	(70 531)	(85 153)

During 2015 year the Group received cash contributions to additional paid-in capital from shareholder "PPFIN Region" in the amount of RUB 2 200 000 thousand.

(d) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the ultimate beneficial owners of the Group.

The outstanding balances and average effective interest rates as at 31 December 2015 and 2014 for transactions with other related parties are as follows:

	2015 RUB’000	Average effective interest rate, %	2014 RUB’000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Cash and cash equivalents	1 005 167	13.00%	1 754	-
Amounts receivable under reverse repurchase agreements	251 785	11.10%	-	-
Loans to customers	7 712	22.94%	1 198 149	9.59%
Investments in associates	575 000	-	-	-
Other assets	1 744 294	-	2 446	-
LIABILITIES				
Derivative financial instruments	6 930	-	-	-
Deposits and balances from banks	8 040	-	24 663	3.70%
Current accounts and deposits from customers	547 615	11.17%	2 941 155	7.88%
Other liabilities	6 614	-	1 317	-
Commitments				
Undrawn loan commitments and overdraft	50	-	226 484	-

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2015 RUB’000	2014 RUB’000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	65 620	35 248
Interest expense	(64 405)	(36 315)
Commission income	245 668	217 796
Other income	780	571
Other expense	(6 575)	(5 613)
Impairment recovery (losses)	21 446	(20 244)

40 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of all financial instruments as at 31 December 2015 approximates their carrying value except for the following financial instruments:

RUB'000	Balance value	Fair value
Loans to customers	74 914 701	76 263 327
Held-to-maturity investments	7 035 062	6 999 962
Deposits and balances from banks	3 972 106	3 916 276
Current accounts and deposits from customers	104 026 865	104 440 814
Debt securities issued	4 684 558	4 440 920

The estimated fair value of all financial instruments as at 31 December 2014 approximates their carrying value except for the following financial instruments:

RUB'000	Balance value	Fair value
Loans to customers	85 591 339	82 544 928
Held-to-maturity investments	5 544 648	5 016 710
Deposits and balances from banks	10 721 632	10 201 941
Current accounts and deposits from customers	84 497 714	79 482 302
Debt securities issued	6 506 591	6 243 933

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the Deputy Chairman of the Management Board, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	-	348 578	348 578
- Derivative assets	-	65 048	65 048
- Derivative liabilities	-	(198 507)	(198 507)
Available-for-sale financial assets			
- Debt and other fixed income instruments	20 506 720	-	20 506 720

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	44 348	44 348
- Derivative liabilities	-	(6 492)	(6 492)
Available-for-sale financial assets			
- Debt and other fixed income instruments	13 309 230	-	13 309 230

Fair value of all other financial instruments not measured at fair value categorised in level 3.

41 Events after the reporting date

On 29 February 2016, the Group acquired 7.28% shares of PJSC "Zapsibcombank" at total price RUB 899 991 thousand from PJSC M2M Private Bank. PJSC M2M Private Bank is an associate of the Group and controlled by the ultimate beneficial owners of the Group.

On 19 February 2016, the Group repaid bonds RUB 1 119 621 thousand due to their maturity.