OOO Commercial Bank Aljba Alliance

Consolidated Financial Statements and Independent Auditor's Report
for the Year Ended 31 December 2015

Commercial Bank Aljba Alliance, OOO

Table of contents

Commercial Bank Aljba Alliance, OOO

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statement for the Year Ended 31 December 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Commercial Bank Aljba Alliance (the "Bank") and its subsidiaries (the "Group") as at 31 December 2015, and the results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting polices;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

These consolidated financial statements of the Group for the year ended 31 December 2015 were approved by management on 29 April 2016.

A.S. Zarifov
Acting President

29 April 2016
Moscow

O.A. Anokhina
Chief Accountant

29 April 2016
Moscow

Deloitte.

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Participants and the Board of Directors of OOO CB Aljba Alliance:

We have audited the accompanying consolidated financial statements of CB Aljba Alliance (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 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 cash flows for the 2015, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion on the financial statements, we draw your attention to the information about the events after the reporting date and judgments of the Bank's management and owners on the such events disclosed in Note 24 'Subsequent events' of these consolidated financial statements. Our opinion is not qualified in respect of this matter.

Report on procedures performed in accordance with Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Bank is responsible for compliance of the Group with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (the "Federal Law") in the course of our audit of the Group's consolidated financial statements for 2015 we performed procedures with respect to the Group's compliance with the obligatory ratios as at 1 January 2016 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2016 were within the limits established by the CBRF.

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

   We have not audited the financial statements prepared under the Russian standards for the preparation of annual financial statements by credit institutions on the basis of which the obligatory ratios had been calculated.

2. With respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

   (a) in accordance with the CBRF requirements and recommendations as at 31 December 2015 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) as at 31 December 2015, the Bank had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   (c) as at 31 December 2015, the Bank had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

   (d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2015 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;

   (e) as at 31 December 2015, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the effictiveness and consistency of application of the Group's risk management policies, during 2015 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Deloitte & Touche

29 April 2016
Moscow, Russian Federation

S.V. Neklyudov, Partner
(Qualification Certificate No. 01-000196 dated 28 November 2011)

ZAO Deloitte & Touche CIS

Commercial Bank Aljba Alliance, OOO

Consolidated Statement of Financial Position
as at 31 December 2015
(in thousands of Russian Rubles)

	Notes	December 31, 2015	December 31, 2014
ASSETS			
Cash and cash equivalents	5	1,823,531	2,007,751
Minimum reserve deposit with the Central Bank of the Russian Federation		44,889	67,702
Financial assets at fair value through profit or loss	6	1,168,598	2,039,631
Due from banks	7	284,982	76,763
Loans to customers	8, 23	4,384,430	3,507,857
Property, plant and equipment	9	2,347,252	539,432
Current income tax assets		51,648	29,654
Other assets		86,230	78,654
TOTAL ASSETS		**10,191,560**	**8,347,444**
LIABILITIES			
Due to the Central Bank of the Russian Federation	10	384,097	139,643
Customer accounts	11, 23	6,105,063	5,964,954
Debt securities issued	12	619,378	470,482
Deferred tax liabilities	18	364,457	55,510
Current income tax liabilities		-	245
Other liabilities		29,849	40,762
Net assets attributable to the participants of the Group	13	2,688,716	1,675,848
TOTAL LIABILITIES		**10,191,560**	**8,347,444**

A.S. Zarifov
Acting President

29 April 2016
Moscow

O.A. Anokhina
Chief Accountant

29 April 2016
Moscow

The notes on pages 10-64 form an integral part of these consolidated financial statements.

Commercial Bank Aljba Alliance, OOO

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2015
(in thousands of Russian Rubles)

	Notes	2015	2014
Interest income	14, 23	805,518	600,455
Interest expense	14, 23	(289,676)	(210,155)
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	14	515,842	390,300
Allowance for impairment losses on interest bearing assets	8, 23	(687,473)	(66,348)
NET INTEREST (EXPENSE)/INCOME		**(171,631)**	**323,952**
Net gain/(loss) on financial assets at fair value through profit or loss	15	78,452	(250,103)
Net gain on foreign exchange transactions		37,901	229,090
Foreign exchange translation losses		(177,307)	(97,293)
Fee and commission income	16	144,301	132,575
Fee and commission expense	16	(26,252)	(14,155)
Other income		24,756	22,527
NET NON-INTEREST INCOME		**81,851**	**22,641**
OPERATING (EXPENSE)/INCOME		(89,780)	346,593
OPERATING EXPENSES	17	(475,486)	(429,326)
LOSS BEFORE INCOME TAX		(565,266)	(82,733)
Income tax recovery/(expense)	18	34,291	(22,676)
NET LOSS FOR THE YEAR		**(530,975)**	**(105,409)**
OTHER COMPREHENSIVE INCOME			
Items that will not be subsequently reclassified to profit or loss:			
Net gain resulting on revaluation of property	9	1,822,285	-
Deferred tax liability	18	(364,457)	-
Total items that will not be reclassified subsequently to profit or loss		**1,457,828**	**-**

Commercial Bank Aljba Alliance, OOO

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)
for the Year Ended 31 December 2015
(in thousands of Russian Rubles)

	Notes	2015	2014
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating the foreign operations		86,015	166,182
Total items that may be reclassified subsequently to profit or loss		**86,015**	**166,182**
Total other comprehensive income		**1,543,843**	**166,182**
TOTAL COMPREHENSIVE INCOME		**1,012,868**	**60,773**

A.S. Zarifov
Acting President

29 April 2016
Moscow

O.A. Anokhina
Chief Accountant

29 April 2016
Moscow

The notes on pages 10-64 form an integral part of these consolidated financial statements.

Commercial Bank Aljba Alliance, OOO

Consolidated Statement of Cash Flows for the Year Ended 31 December 2015

(in thousands of Russian Rubles)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(565,266)	(82,733)
Adjustments for non-monetary items:			
Allowance for impairment losses on interest bearing assets	8	687,473	66,348
Depreciation of property and equipment	9,17	25,391	25,968
Net change in accrued interest income and expenses		(38,619)	17,706
Net change in fair value of financial assets at fair value through profit or loss	15	129,234	226,043
Foreign exchange differences on foreign exchange transactions		177,307	97,293
Foreign exchange differences on precious metals transactions		(1,330)	(3,295)
Other income/expense		9,683	28,619
Cash flows from operating activities before changes in operating assets and liabilities		**423,873**	**375,949**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		22,813	127,829
Due from banks		(147,622)	99,548
Financial assets at fair value through profit or loss		1,071,523	(284,186)
Loans to customers		(1,073,374)	113,756
Other assets		17,523	6,171
Increase/(decrease) in operating liabilities:			
Due to the CBRF		230,691	139,000
Customer accounts		(947,879)	(719,705)
Debt securities issued		6,325	(17,081)
Other liabilities		(36,055)	(15,529)
Cash flows used in operating activities before tax		**(432,182)**	**(174,248)**
Income tax paid		(43,458)	(33,817)
Cash used in operating activities		**(475,640)**	**(208,065)**

Commercial Bank Aljba Alliance, OOO

Consolidated Statement of Cash Flows (continued)
for the Year Ended 31 December 2015
(in thousands of Russian Rubles)

	Notes	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(10,538)	(4,049)
Cash used in investing activities		**(10,538)**	**(4,049)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		301,958	761,356
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(184,220)**	**549,242**
CASH AND CASH EQUIVALENTS, beginning of the year	5	**2,007,751**	**1,458,509**
CASH AND CASH EQUIVALENTS, end of the year	5	**1,823,531**	**2,007,751**

Interest paid and received during the year ended 31 December 2015 was RUB 310,176 thousand and RUB 787,399 thousand, respectively.

Interest paid and received during the year ended 31 December 2014 was RUB 176,684 thousand and RUB 584,664 thousand, respectively.

A.S. Zarifov
Acting President

29 April 2016
Moscow

O.A. Anokhina
Chief Accountant

29 April 2016
Moscow

The notes on pages 10-64 form an integral part of these consolidated financial statements.

1. Organisation

OOO Commercial Bank Aljba Alliance (the "Bank") is a limited liability company incorporated in the Russian Federation (the "RF") in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBRF") and conducts its business under license No. 2593. The Bank also holds licenses for broker, dealer, depositary and security management operations issued by the Federal Service for Financial Markets in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank is primarily engaged in commercial banking, trading in securities, foreign currencies and derivative instruments, originating loans and guarantees, settlements on customer export/import operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players. The Bank conducts operations in the Russian and international markets.

The registered office of the Bank is located at: 1 Kremlevskaya naberezhnaya, bld. 2, Moscow, Russian Federation.

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

		Proportion of ownership interest/ voting rights, %		
Name	**Country of operation**	**December 31, 2015**	**December 31, 2014**	**Type of activity**
OOO CB Aljba Alliance	Russian Federation	Parent	Parent	Banking
OOO SOVLINK	Russian Federation	100%	100%	Broker and dealer services, corporate finance and financial advisory services
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, broker operations, securities management, agency and other services to Russian securities market players

As at 31 December 2015 and 2014 the following participants (ultimate beneficiaries) owned 100% of the Bank's share capital:

Participants	**% in share capital**
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
Total	**100.0**

These consolidated financial statements for the year ended 31 December 2015 were authorized for issue by the General meeting of participants of Commercial Bank Aljba Alliance (Limited Liability Company) on 29 April 2016.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

These financial statements are presented in *thousands of Russian rubles* ("RUB thousand"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In these consolidated financial statements, fair value measurements and/or fair value disclosures are made on the basis above, except for measurements that have some similarities to fair value but are not fair value (e.g. net realizable value in IAS 2 or value in use in IAS 36).

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its subsidiary registered in the Russian Federation maintain their accounting records in accordance with the Russian Accounting Standards ("RAS"). The foreign subsidiary of the Bank prepares IFRS financial statements. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented (see Note 22).

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the parent company of the Group (Bank) is the Russian Ruble ("RUB"). The Bank's foreign subsidiary incorporated in the Republic of Cyprus has the US Dollar as its functional currency and its financial statements are measured in US Dollars. The Russian Ruble is the presentational currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Rubles, except where otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or loss and other comprehensive income unless so required or permitted by any accounting standard or interpretation, with such offsets particularly addressed in the accounting policies of the Group.

2. Significant accounting policies (continued)

The principal accounting policies are set out below.

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reviews whether or not it controls an investee where facts and circumstances indicate that there have been changes to one or more of the three elements of control listed above.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Income recognition

Recognition of interest income and expenses. Interest income from a financial asset is recognized when it is likely that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements. Gain/loss on the sale of the above instruments is recognised as interest income or expense in the statement of profit or loss and other comprehensive income based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognised using the effective interest method.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized as services are rendered.

2. Significant accounting policies (continued)

Recognition of dividend income. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income. The Group's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments (HTM), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL. Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Net gain/(loss) on financial assets at fair value through profit or loss" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described (see Note 20).

2. Significant accounting policies (continued)

Loans and receivables. Loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the CBRF, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks and customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans to customers.

The Group enters into securities repos and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- Likely probability that the borrower will enter bankruptcy or financial re-organization or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that usually correlate with default on receivables.

2. Significant accounting policies (continued)

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered noncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management monitors renegotiated loans to ensure that all of the criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2. Significant accounting policies (continued)

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities Other financial liabilities, including depository instruments with the the Central Bank of the Russian Federation, deposits by banks and customers, repurchase agreements, debt securities issued, and other financial liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivatives

Forwards and futures. Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

2. Significant accounting policies (continued)

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps. Details are provided in Note 22.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in profit or loss.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor. Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded deposits with the CBRF and amounts due from credit and financial institutions with original maturity of less or equal to 30 days and are free from contractual encumbrances.

Minimum reserve deposit with the Central Bank of the Russian Federation. Minimum reserve deposits with the Central Bank of the Russian Federation (the "CBRF") represent minimum reserve deposits with the CBRF that are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Assets re-possessed as a result of a claim are measured at the lower of: their carrying amount or fair value less costs to sell.

Property and equipment. The land plot and the building owned and used by the Group for its management purposes from the acquisition and until 31 December 2014 is recognized at historical cost in the consolidated statement of financial position, less accumulated depreciation. The cost of the building is the cash price equivalent at the recognition date.

Starting from the financial statements for 2015, the office building and land plot adjoining the building are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation was performed as at 31 December 2015.

2. Significant accounting policies (continued)

Any revaluation increase arising on the revaluation of such land and building is recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and building is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on the revalued building is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost or valuation of assets other than the land plot, less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Building and other real estate	2%-13%
Furniture and equipment	5%-33%
Vehicles	14%-20%

Expenses related to repairs and renewals are recognized as operating expenses in the consolidated statement of profit or loss and other comprehensive income when incurred unless they qualify for capitalization.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u> Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

<u>Deferred income tax.</u> Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

2. Significant accounting policies (continued)

Deferred tax liabilities of the Group include taxable temporary differences attributable to the subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets with regard to the subsidiaries are recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are directly recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

Operating taxes. The Russian Federation and the Republic of Cyprus have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the probability of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Fiduciary activities. The Group provides trustee services to its customers. The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Foreign currencies. In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are recognized at historical cost denominated in a foreign currency are not translated.

2. Significant accounting policies (continued)

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from net assets to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Rubles using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants.

On the disposal of foreign subdivisions (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary), all of the exchange differences accumulated in net assets attributable to the Group's participants are reclassified to profit or loss.

Where a partial disposal of a subsidiary that includes a foreign operation does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Below are the year-end exchange rates used by the Group in the preparation of these consolidated financial statements:

	December 31, 2015	December 31, 2014
RUB/USD	72.8827	56.2584
RUB/EUR	79.6972	68.3427

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Net assets attributable to the participants of the Group. The Bank, which is a parent company of the banking group, was incorporated as a limited liability company. In accordance with the Bank's Articles of Association, a participant may withdraw at any time without the need for agreement by the remaining participants or the company. In this case the company is required to either pay the participant an amount that is proportionate to the participant's share in the net assets of the Bank or provide the participant with assets of similar value. For this reason, shares of the participants in the company's share capital, retained earnings and reserve funds of the company are reported as net assets attributable to the participants of the Group in the consolidated statement of financial position.

Equity reserves. In the consolidated statement of financial position, the net assets attributable to the participants of the Group (other comprehensive income) include:

- Property revaluation reserve;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- Available for sale assets revaluation reserve, which comprises changes in fair value of available for sale financial assets.

2. Significant accounting policies (continued)

Non-current assets held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Group regularly reviews its loans and receivables to assess them for impairment. The Group's loan impairment allowances are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record allowance which could have a material impact on its financial statements in future periods.

The Group uses management's judgments to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowance for impairment of financial assets in the consolidated financial statements has been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2015 and 2014, loans to customers totaled RUB 5,185,825 thousand and RUB 3,671,485 thousand, respectively, with an impairment allowance of RUB 801,395 thousand and RUB 163,628 thousand, respectively (Note 8).

Property and equipment carried at revalued amounts. The building and land owned by the Bank are stated at revalued cost since 2015. The first fair value measurement was performed as at 31 December 2015. The next revaluation is preliminary scheduled as at 31 December 2016.

As at 31 December 2015 the carrying value of revalued property was RUB 2,333,343 thousand. Details of the valuation techniques used are set out in Note 9.

4. Amendments to IFRS affecting amounts reported in the financial statements

4.1 Standards affecting the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted without affecting the amounts reported in these financial statements.

- Amendments to IAS 19 *Defined Benefit Plans: Employee contributions*;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions.* The amendments require the Group to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Group should recognize the reduction in the service cost in the period in which the related services are rendered.

These amendments do not have any effect on the Group's consolidated financial statements as the Bank does not have any Defined Benefit Plans.

Annual Improvements to IFRSs 2010-2012 Cycle. Annual Improvements to IFRSs for 2010-2012 include a number of amendments to the standards summarized below.

The amendments to IFRS 2 change the definitions of 'vesting condition' and 'market condition'; and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments become effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

These amendments do not have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

Amendments to IFRS 3 clarify that the Standard does not apply to the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in IAS 40 and whether the transaction meets the definition of a business combination under IFRS 3.

There is no significant effect of these amendments on the consolidated financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

4.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments [2];
- IFRS 14 Regulatory Deferral Accounts[1];
- IFRS 15 Revenue from Contracts with Customers[2];
- Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations[1];
- Amendments to IAS 1 -- *Disclosure Initiative*[1];
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization[1];
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants[1];
- Amendments to IAS 27 – Equity Method in Separate Financial Statements[1];
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1];
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*;
- Annual Improvements to IFRSs 2012-2014 Cycle[1].

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

IFRS 9 ***Financial Instruments.*** Issued in November 2009, IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalized version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets by introducing a 'fair value through other comprehensive income' category for certain debt instruments. IFRS 9 will replace the current IAS 39 *Financial Instruments: Recognition and Measurement.*

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost after the initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such instruments are measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified similarly to IAS 39 requirements, however, the are differences in requirements to the entity's own credit risk measurement. IFRS 9 prescribes that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The Standard will be effective from 1 January 2018, with early adoption permitted. Depending of the approach selected, the transition may be effectuated on a single date or on various dates for various requirements of the standard.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

The Group expects that IFRS 9 may have a significant impact on the reported amounts of the financial assets and financial liabilities. However, it is impossible to measure the impact of IFRS 9 application reliably without a detailed analysis.

IFRS 14 *Regulatory Deferral Accounts.* IFRS 14 allows an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The adoption of IFRS 14 will not have any effect on the Group's future financial statements, as the Group is not a first-time IFRS adopter.

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15.

The Group believes that IFRS 15 may have a significant impact on the reported amounts and timing of the revenue. However, it is impossible to measure the impact of IFRS 15 application reliably without a detailed analysis.

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations.* The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 *Income Taxes* as regards deferred taxes when recognised on acquisition and IAS 36 *Impairment of Assets* as regards impairment testing of a generating unit to which goodwill is allocated when a a joint operation is acquired) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The management of the Group anticipates that the application of these amendments to IFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 *Disclosure Initiative.* The amendments clarify the principles of disclosing information. The definition of materiality is expanded. It specifies the requirements of aggregation and disaggregation of data, clarifies that materiality applies to all parts of financial statements and even in those cases when the standards require specific disclosures materiality criteria do apply. The standard also provides more guidance on presenting the information in the statement of financial position and statement of comprehensive income as well as on the order of the notes in the financial statements.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortization.* Amendments to IAS 16 prohibit the preparers from using revenue-based method to calculate charges for the depreciation or amortization of items of property, plant and equipment. Amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis to calculate charges for depreciation or amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

Currently, the Group uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively. The management of the Group believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 – *Agriculture: Bearer Plants.* The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for as agricultural produce in accordance with IAS 41.

The management of the Group does not expect any impact of adoption of these amendments on the consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to IAS 27 *Equity methods in separate financial statements.* Amendments to IAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with early adoption permitted. The management of the Group does not expect any impact of these amendments on the financial statements as the Group does not prepare its separate financial statements.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. Amendments to IFRS 10 and IAS 28 apply to a sale or a contribution of assets between an investor and its associate or a joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The management of the Group anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment entities: applying the consolidation exception*. The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The management of the Group does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that when an entity reclassifies an asset or disposal group from held for sale to held for distribution for owners (or vice versa), such reclassifications should not be considered as changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. The amendments also state that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments apply prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures in relation to transferred assets. The amendments to IFRS 7 clarify that the offsetting disclosures are not explicitly required for all interim periods in interim financial statements. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 *Interim Financial Reporting*. The amendments apply retrospectively.

The amendments to IAS 19 clarify that high-quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of th earlier comparative period presented in the financial statements in which the amendments are first applied.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Amendments to IAS 34 clarify that if the information that is required to be disclosed by IAS 34 is presented within the interim financial report but outside the interim financial statements, such information must be incorporated by way of a cross-reference from the interim consolidated financial statements to the other part of the consolidated interim financial report that is available to users on the same terms and at the same time as the interim consolidated financial statements.

The management of the Group does not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

5. Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	227,441	89,293
Balances with the CBRF	340,402	430,008
Correspondent accounts and time deposits with original maturities up to 30 days	1,255,688	1,488,450
Total cash and cash equivalents	**1,823,531**	**2,007,751**

As at 31 December 2015 and 2014, correspondent accounts included call deposits of RUB 297,911 thousand and RUB 295,445 thousand, respectively, held in the settlement accounts with the Russian exchanges of MICEX-RTS (ZAO National Clearing Center and ZAO National Settlement Depository) and international exchanges.

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and comprise:

	December 31, 2015	December 31, 2014
Debt securities	505,721	1,090,150
Equity securities	662,877	949,481
Total financial assets at fair value through profit or loss	**1,168,598**	**2,039,631**

	Interest rate to nominal, %	December 31, 2015	Interest rate to nominal, %	December 31, 2014
Corporate Eurobonds	6.5 -10.0	302,065	6.5 -9.9	295,257
Corporate bonds	24.0	98,593	19.0	189,621
Debt instruments of the Russian Federation	7.5	86,391	7.5	311,453
Credit institution Eurobonds	4.875	18,672	5.3 -10.2	267,751
Eurobonds of foreign countries	-	-	13.6	26,068
Total debt securities		**505,721**		**1,090,150**

6. Financial assets at fair value through profit or loss (continued)

	December 31, 2015	December 31, 2014
Shares/American depository receipts on shares of non-resident entities	621,661	943,434
Shares of non-resident credit institutions	33,149	-
Shares of Russian companies	8,067	6,047
Total equity securities	**662,877**	**949,481**

As at 31 December 2015 and 2014 investments in equity securities include shares of non-resident entities in telecommunication, electrical engineering and pharmacy, which account for 38%, 57% and 2% of total investments in shares of non-resident entities and in telecommunication, electrical engineering and machine-building industries, which account for 50%, 20% and 12% of total investments in shares of non-resident entities, respectively.

As at 31 December 2015 financial assets at fair value through profit or loss included Eurobonds of the Ministry of Finance of the RF and corporate Eurobonds with fair value of RUB 135,097 thousand pledged as collateral under repurchase agreements with the CBRF. All the repurchase agreements that were outstanding at 31 December 2015 were settled by the parties in January 2016 (Note 10).

7. Due from banks

Due from banks comprise:

	December 31, 2015	December 31, 2014
Correspondent accounts with other banks	104,054	30,602
Time deposits	182,207	47,440
Due from banks before allowance for impairment losses	**286,261**	**78,042**
Less allowance for impairment losses	(1,279)	(1,279)
Total due from banks	**284,982**	**76,763**

As at 31 December 2015 and 2014, included in due from banks were restricted amounts of RUB 61,586 thousand and RUB 47,440 thousand, respectively, in correspondent accounts with banks, including guarantee deposits placed by the Group to collateralize its operations with plastic cards, and contributions of RUB 18,000 thousand and RUB 15,000 thousand, respectively, to insurance funds of ZAO National Clearing Center.

7. Due from banks (continued)

Movements in the allowances for impairment losses comprise:

	Total
December 31, 2013	1,279
Provisions/(recovery of provisions)	-
December 31, 2014	1,279
Provisions/(recovery of provisions)	-
December 31, 2015	1,279

8. Loans to customers

The Group uses the following classification of loans by classes:

- Loans to legal entities with medium-size business (hereinafter – medium-sized enterprises);
- Loans to individuals.

Loans to customers comprise:

	December 31, 2015	December 31, 2014
Loans to medium-sized enterprises	3,637,770	2,591,495
Loans to individuals	1,548,055	1,079,990
Loans to customers before allowance for impairment losses	5,185,825	3,671,485
Less allowance for impairment losses	(801,395)	(163,628)
Total loans to customers	4,384,430	3,507,857

As at 31 December 2015 and 2014, the Group granted loans to 4 and 10 borrowers/groups of related borrowers, totaling RUB 1,265,255 thousand and RUB 2,293,071 thousand, respectively, which individually exceeded 10% of net assets attributable to the Group's participants.

8. Loans to customers (continued)

Analysis by credit quality of loans to medium-sized enterprise outstanding as at 31 December 2015 was as follows:

Medium-sized enterprises as at 31 December 2015	Gross loans	Allowance for impairment	Net loans	Allowance for impairment losses to gross loans
Collectively assessed:				
Not past due	184,886	(2,699)	182,187	1.46%
Overdue more than 180 days	5,580	(5,580)	-	100.00%
Total collectively assessed loans	**190,466**	**(8,279)**	**182,187**	4.35%
Assessed on an individual basis:				
Not past due	3,447,304	(541,010)	2,906,294	15.69%
Total loans assessed on an individual basis	**3,447,304**	**(541,010)**	**2,906,294**	15.69%
Total medium sized enterprises	**3,637,770**	**(549,289)**	**3,088,481**	15.10%

Below is the analysis by credit quality of loans to medium-sized enterprise outstanding as at 31 December 2015:

Medium-sized enterprises as at 31 December 2014	Gross loans	Allowance for impairment losses	Net loans	Allowance for impairment losses to gross loans
Collectively assessed:				
Not past due	219,744	(3,200)	216,544	1.46%
Overdue more than 180 days	46,733	(46,733)	-	100.00%
Total collectively assessed loans	**266,477**	**(49,933)**	**216,544**	18.74%
Assessed on an individual basis:				
Not past due	2,325,018	(98,563)	2,226,455	4.24%
Total loans assessed on an individual basis	**2,325,018**	**(98,563)**	**2,226,455**	4.24%
Total medium sized enterprises	**2,591,495**	**(148,496)**	**2,442,999**	5.73%

8. Loans to customers (continued)

Credit quality of loans to individuals outstanding as at 31 December 2015 was as follows:

Individuals as at 31 December 2015	Gross loans	Allowance for impairment losses	Net loans	Allowance for impairment losses to gross loans
Collectively assessed:				
Not past due	258,394	(306)	258,088	0.12%
Overdue more than 180 days	1,720	(1,720)	-	100.00%
Total collectively assessed loans	**260,114**	**(2,026)**	**258,088**	**0.78%**
Assessed on an individual basis:				
Not past due	1,287,941	(250,080)	1,037,861	19.42%
Total loans assessed on an individual basis	**1,287,941**	**(250,080)**	**1,037,861**	**19.42%**
Total loans to individuals	**1,548,055**	**(252,106)**	**1,295,949**	**16.29%**

Credit quality of loans to individuals outstanding as at 31 December 2014 was as follows:

Individuals as at 31 December 2014	Gross loans	Allowance for impairment losses	Net loans	Allowance for impairment losses to gross loans
Collectively assessed:				
Not past due	315,658	(905)	314,753	0.29%
Overdue more than 180 days	2,888	(2,888)	-	100.00%
Total collectively assessed loans	**318,546**	**(3,793)**	**314,753**	**1.19%**
Assessed on an individual basis:				
Not past due	761,444	(11,339)	750,105	1.49%
Total loans assessed on an individual basis	**761,444**	**(11,339)**	**750,105**	**1.49%**
Total loans to individuals	**1,079,990**	**(15,132)**	**1,064,858**	**1.40%**

8. Loans to customers (continued)

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2015 and 2014 comprise:

	Medium-sized enterprises	Individuals	Total
December 31, 2013	**108,080**	**12,690**	**120,770**
Allowance	63,906	2,442	66,348
Assets written off against allowances	(23,490)	-	(23,490)
December 31, 2014	**148,496**	**15,132**	**163,628**
Allowance	450,499	236,974	687,473
Assets written off against allowances	(49,706)	-	(49,706)
December 31, 2015	**549,289**	**252,106**	**801,395**

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2015	December 31, 2014
Loans collateralised by pledge of real estate or rights thereto	963,260	1,048,048
Loans collateralized by pledge of corporate shares	582,074	450,354
Loans collateralized by pledge of inventories	343,761	219,070
Loans collateralized by pledge of equipment	5,799	46,702
Loans collateralized by cash	-	75,949
Loans collateralized by other collateral	2,923	-
Unsecured loans	3,288,008	1,831,362
Total loans to customers before allowance for impairment losses	**5,185,825**	**3,671,485**
Less allowance for impairment losses	(801,395)	(163,628)
Total loans to customers	**4,384,430**	**3,507,857**

8. Loans to customers (continued)

	December 31, 2015	December 31, 2014
Analysis by sector:		
Trade	1,928,990	1,373,014
Individuals	1,548,055	1,079,990
Services	450,372	-
Finance	433,065	453,207
Real estate	359,585	523,301
Insurance	196,783	-
Transport and communication	175,297	184,393
Construction	78,458	57,360
Food	15,000	-
Other	220	220
Total loans to customers before allowance for impairment losses	**5,185,825**	**3,671,485**
Less allowance for impairment losses	(801,395)	(163,628)
Total loans to customers	**4,384,430**	**3,507,857**

Loans to individuals comprise:

	December 31, 2015	December 31, 2014
Investment loans	988,903	670,619
Consumer loans	380,202	175,610
Housing loans	178,950	233,761
Total loans to individuals before allowance for impairment losses	**1,548,055**	**1,079,990**
Less allowance for impairment losses	(252,106)	(15,132)
Total loans to individuals	**1,295,949**	**1,064,858**

The table below summarizes loans to customers by type of impairment:

	December 31, 2015			December 31, 2014		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	3,938,858	(792,810)	3,146,048	1,603,648	(109,902)	1,493,746
Loans to customers collectively determined to be impaired	448,859	(8,585)	440,274	556,894	(53,726)	503,168
Unimpaired loans	798,108	-	798,108	1,510,943	-	1,510,943
Total	**5,185,825**	**(801,395)**	**4,384,430**	**3,671,485**	**(163,628)**	**3,507,857**

8. Loans to customers (continued)

As at 31 December 2015 and 2014, loans totaling RUB 3,938,858 thousand and RUB 1,603,648 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of securities, real estate, equipment, inventories with fair value totaling RUB 1,068,704 thousand and RUB 652,299 thousand, respectively. For the purposes of estimating impairment of individual loans the Group analyses the financial position, debt service, credit history and collateral.

As at 31 December 2015 and 2014, there were no past due, but unimpaired loans.

9. Property and equipment

Property and equipment comprise:

	Land, buildings and structures	Furniture and equipment	Vehicles	Total
Cost:				
December 31, 2013	**852,026**	**63,050**	**7,403**	**922,479**
Additions	126	3,923	-	4,049
Disposals	-	(1,209)	-	(1,209)
Foreign exchange differences	-	3,661	1,496	5,157
December 31, 2014	**852,152**	**69,425**	**8,899**	**930,476**
Additions	4,896	4,905	737	10,538
Revaluation	1,480,773	-	-	1,480,773
Disposals	(4,478)	(4,353)	-	(8,831)
Foreign exchange differences	-	3,563	1,013	4,576
December 31, 2015	**2,333,343**	**73,540**	**10,649**	**2,417,532**
Accumulated depreciation:				
December 31, 2013	**301,831**	**56,146**	**3,531**	**361,508**
Depreciation charge	22,522	2,464	982	25,968
Disposals	-	(1,209)	-	(1,209)
Foreign exchange differences	-	3,288	1,489	4,777
December 31, 2014	**324,353**	**60,689**	**6,002**	**391,044**
Charge for the year	21,473	2,871	1,047	25,391
Revaluation	(341,512)	-	-	(341,512)
Eliminated on disposal	(4,314)	(3,836)	-	(8,150)
Foreign exchange differences	-	2,637	870	3,507
December 31, 2015	**-**	**62,361**	**7,919**	**70,280**
Net book value:				
December 31, 2015	**2,333,343**	**11,179**	**2,730**	**2,347,252**
December 31, 2014	**527,799**	**8,736**	**2,897**	**539,432**

The Group owns an office building with a total area of 5,324.6 sq. m. The office building is used for an administrative purpose and located at: 1 Kremlevskaya naberezhnaya, bld. 2, Moscow. The office building is located on a land plot of 1,262 sq. m owned by the Group.

9. Property and equipment (continued)

As at 31 December 2015 the office building and land plot are stated at their revalued amounts, being the fair value at the date of revaluation. The fair value of the building and land was determined by a qualified appraiser based on the market comparable approach that reflects recent transaction prices for similar properties, and using valuation techniques based on three valuation approaches (comparable, cost-based and profitable), which allowed to generate an integrated opinion on the cost of the above items in terms of both quantity and quality. The hierarchy analysis method was used to verify the results obtained using various valuation techniques.

Details of the Group's revalued assets and information about the fair value hierarchy as at 31 December 2015 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2015
Building	-	-	2,170,304	2,170,304
Land	-	-	163,039	163,039
Total	-	-	**2,333,343**	**2,333,343**

Had the Bank's buildings and land been measured on a historical cost basis, their carrying amount would have been RUB 519,654 thousand as at 31 December 2015 (31 December 2014: RUB 527,799 thousand).

As at 31 December 2015 and 2014 included in property and equipment were fully depreciated equipment totaling RUB 50,102 thousand and RUB 51,104 thousand, respectively.

10. Due to the CBRF

Due to the CBRF comprise:

	December 31, 2015	December 31, 2014
Loans and borrowings	264,388	139,643
Loans received under repurchase agreements	119,709	-
Total	**384,097**	**139,643**

As at 31 December 2015 due to the CBRF were collaterized by loans issued to two customers totaling RUB 291,056 thousand.

As at 31 December 2015 depository instruments with the CBRF included loans under repurchase agreements of RUB 119,709 thousand collaterized by Eurobonds of the Ministry of Finance of the RF and corporate Eurobonds with fair value of RUB 135,097 thousand. Such depository instruments were settled before 31 January 2016 (Note 6).

11. Customer accounts

Customer accounts comprise:

	December 31, 2015	December 31, 2014
Individuals:		
Current/settlement accounts	903,719	778,960
Term deposits	3,163,331	3,326,312
Legal entities:		
Current/settlement accounts	1,492,908	1,551,656
Term deposits	545,105	308,026
Total customer accounts	**6,105,063**	**5,964,954**

As at 31 December 2015 and 2014 customer accounts totaling RUB 1,776,778 thousand and RUB 1,572,949 thousand (29.1% and 26.4%), respectively, were due to five customers, which represented a significant concentration.

	December 31, 2015	December 31, 2014
Analysis by sector:		
Individuals	4,067,050	4,105,272
Finance	1,685,845	1,397,920
Chemical industry	107,171	-
Construction and real estate	81,252	61,220
Trade and personal services	59,076	140,289
Development services	27,335	371
Transport and communication	24,889	227,666
Marketing and advertising	10,825	-
Private sector	7,446	24,822
Mining	5,002	1,083
Other	29,172	6,311
Total customer accounts	**6,105,063**	**5,964,954**

12. Debt securities issued

Debt securities issued comprise:

	December 31, 2015			December 31, 2014		
	Maturity date	Annual interest rate %	Amount	Maturity date	Annual interest rate %	Amount
Interest bearing promissory notes	January – December 2016	6.3-16.0	619,378	January – December 2015	7.3-7.5	470,482
Total debt securities issued			**619,378**			470,482

13. Net assets attributable to the participants of the Group

Net assets attributable to the participants in the Group:

	Net assets attributable to the participants of the group
December 31, 2013	**1,615,075**
Comprehensive income	60.773
December 31, 2014	**1,675,848**
Comprehensive income	1.012,868
December 31, 2015	**2,688,716**

As at 31 December 2015 and 2014, net assets attributable to the participants in the Group included paid-in share capital of RUB 370,907 thousand of the Bank, a parent company of the Group, as well as statutory reserve fund consisting of annual contributions and retained earnings attributable to the participants in the Group.

The Group's reserves distributable among participants are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a statutory reserve fund that is created to cover financial risks, including future losses and other unforeseen risks or contingencies. The reserve fund is created in accordance with the Articles of Association of the Bank and/or the Group's participants by means of annual contributions from the net profit in accordance with RAS. As at 31 December 2015 and 2014, the reserve fund accumulated by the participants of the Group was RUB 41,489 and RUB 36,010 thousand, respectively.

14. Net interest income

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income:		
Financial assets recorded at amortized cost:		
- impaired financial assets	571,016	301,279
- unimpaired financial assets	115,866	218,821
Financial assets at fair value	118,636	80,355
Total interest income	**805,518**	**600,455**
Financial assets recorded at amortized cost:		
Loans to customers	674,881	511,974
Due from banks	12,001	8,126
Total interest income on financial assets recorded at amortized cost	**686,882**	**520,100**
Interest expense:		
Financial liabilities at amortized cost	(289,676)	(210,155)
Total interest expense	**(289,676)**	**(210,155)**
Financial liabilities at amortized cost:		
Deposits by customers	(223,108)	(184,558)
Debt securities issued	(35,273)	(23,277)
Depository instruments with the CBRF	(31,295)	(2,234)
Deposits by banks	-	(86)
Total interest expense on financial liabilities recorded at amortized cost	**(289,676)**	**(210,155)**
Net interest income before allowance for impairment losses on interest bearing assets	**515,842**	**390,300**

15. Net gain/(loss) on financial assets at fair value through profit or loss

Net gain/(loss) on financial assets at fair value through profit or loss includes gains and losses on financial assets held for trading and comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Net gain/(loss) on financial assets held for trading comprises:		
Trading, net	186,805	(34,713)
Dividend income	20,881	10,653
Change in fair value	(129,234)	(226,043)
Total net gain/(loss) on financial assets at fair value through profit or loss	**78,452**	**(250,103)**

16. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Fee and commission income:		
Consulting services	63,311	50,348
Broker operations with securities	33,123	45,995
Settlement services	29,205	23,271
Trust and other fiduciary activities	8,675	8,177
Guarantees	5,390	2,844
Other	4,597	1,940
Total fee and commission income	**144,301**	**132,575**
Fee and commission expense:		
Settlement services	(13,116)	(5,342)
Trust and fiduciary activities	(3,892)	(3,658)
Broker operations with securities	(3,127)	(3,780)
Other	(6,117)	(1,375)
Total fee and commission expense	**(26,252)**	**(14,155)**

17. Operating expenses

Operating expenses comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Payroll and bonuses	218,477	195,953
Social insurance contributions	47,693	40,211
Taxes other than income tax	31,722	26,796
Communications	28,159	32,215
Professional services	26,270	22,316
Depreciation of property and equipment	25,391	25,968
Security	15,389	15,027
Property and equipment maintenance	14,034	11,191
Payments to the Deposit Insurance Fund	11,289	14,373
Data processing	10,345	5,021
Insurance	9,957	6,917
Stationery and other supplies	9,282	5,408
Operating leases	8,637	7,155
Provision for unused vacations	3,436	1,174
Impairment of non-current assets	3,216	6,605
Travel expenses	2,620	2,298
Charity and sponsorship	-	9,000
Other expenses	9,569	1,698
Total operating expenses	**475,486**	**429,326**

18. Income tax

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2015 and 2014 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax to accounting profit reconciliations for the years ended 31 December 2015 and 2014 are at a statutory tax rate of 20% applicable to corporate entities in the Russian Federation and 12.5% in Cyprus.

As at 31 December 2015 and 2014, deferred income tax was calculated at the rate of 20%.

Temporary differences as at 31 December 2015 and 2014 comprise:

	31 December 2015	31 December 2014
Deferred tax assets/(liabilities) attributable to:		
Loans to customers	74,462	(27,170)
Debt securities issued	15,975	34,549
Other assets	2,959	2,075
Other liabilities	1,866	2,541
Due from banks	1,233	889
Property and equipment	(419,878)	(55,940)
Financial assets at fair value through profit or loss	(36,678)	(23,759)
Customer accounts	(987)	-
Tax losses carried forward	7,968	20,989
Deferred tax asset not recognized	(11,377)	(9,684)
Net deferred tax liabilities	(364,457)	(55,510)
Net deferred tax liability	**(364,457)**	**(55,510)**

18. Income tax (continued)

The effective tax rate reconciliation is as follows for the years ended 31 December 2015 and 2014:

	Year ended 31 December 2015	Year ended 31 December 2014
Loss before tax	**(565,266)**	**(82,733)**
Theoretical tax reimbursement at the statutory rate of 20%	(113,053)	(16,547)
Tax effect of permanent differences	56,655	23,787
Effect of tax rate, different from the rate of 20% (a subsidiary operating in other jurisdiction)	11,373	4,668
Effect of tax rate, different from the rate of 20%	9,040	1,084
Change in deferred tax asset not recognized	1,694	9,684
Income tax (recovery)/expense	**(34,291)**	**22,676**
Current income tax expense	21,219	10,046
Deferred tax (recovery)/expense recognized in the current year	(55,510)	12,630
Income tax (recovery)/expense	**(34,291)**	**22,676**

Changes in deferred income tax liabilities for the years ended 31 December 2015 and 2014 are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
As at 1 January – deferred tax liabilities	**55,510**	**42,880**
Change in deferred income tax recognized in profit or loss	(55,510)	12,630
Changes in deferred income tax recognized in other comprehensive income	364,457	-
As at 31 December – deferred tax liabilities	**364,457**	**55,510**

19. Commitments and contingencies

In the normal course of business, the Group acts as a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group applies the same credit control and management policy in undertaking off-balance sheet commitments as it does to the balance sheet financial instruments.

19. Commitments and contingencies (continued)

As at 31 December 2015 and 31 December 2014, contingent liabilities comprised:

	December 31, 2015	December 31, 2014
Contingent liabilities and credit commitments:		
Guarantees issued and similar commitments of future periods	362,180	253,609
Commitments on loans and unused credit lines	263,430	150,110
Total contingent liabilities and credit commitments	**625,610**	**403,719**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2015 and 2014 such unused credit lines were RUB 263,430 thousand and RUB 150,110 thousand, respectively.

Fiduciary activities – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to gross negligence or willful misconduct by the Group only until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized gain/loss on the clients' position. As at 31 December 2015 and 2014, the maximum potential financial risk on assets managed by the Group on behalf of its clients did not exceed RUB 61 thousand and RUB 100 thousand, respectively. This amount represents clients' balances and securities of RUB 56 thousand and RUB 47 thousand, respectively, managed by the Group as at 31 December 2015 and 2014, including securities in safekeeping accounts.

The Group also provides depositary services to its customers. As at 31 December 2015 and 2014, the Group had customer securities totaling 1,973,876,645 items and 4,232,837,531 items, respectively, in its nominal holder accounts.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these consolidated financial statements.

Taxes – The Russian laws and regulations affecting business continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances, reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increased tax base of the controlling entities in 2016. Presently, the Group is formulating its tax planning strategy with regard to the foreign subsidiary.

19. Commitments and contingencies (continued)

Operating environment. Emerging markets including Russia are exposed to economic, political, social, legal and legislative risks which differ from those inherent to more developed markets. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In 2014-2015 and in the first quarter of 2016, the oil price decreased significantly, causing a significant weakening of the Ruble.

Starting from 2014, the USA and the EU imposed sanctions on a number of Russian officials, businessmen, and organizations.

In Q1 2015, two international rating agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above-mentioned events hampered Russian companies' access to international capital markets, resulted in higher inflation rates, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is difficult to determine at this stage.

20. Fair value of financial instruments

IFRS 13 defines fair value as 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.

Some of the Group's financial assets and financial instruments are measured at fair value at the end of each reporting period. The carrying amount of other financial assets and liabilities is approximately equal to fair value.

The fair values of financial assets and financial liabilities are determined as follows

- The fair value of non-derivative of financial assets and liabilities at fair value through profit or loss is based on bid prices quoted in an active market (Level 1 of the fair value hierarchy);
- The fair value of other financial assets available for sale is based on bid prices quoted in an active market (Level 1 of the fair value hierarchy);
- The fair value of derivative of financial assets and liabilities at fair value through profit or loss is determined using a valuation technique based on discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties (Level 2 of the fair value hierarchy);
- The fair value of unquoted shares available for sale is determined using a valuation technique based on discounted cash flows, including significant unobservable inputs and their impact on fair value (Level 3 of the fair value hierarchy);
- The fair value of other financial assets and financial liabilities not quoted in an active market (excluding derivative instruments) can be determined using generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments (Level 3 of the fair value hierarchy).
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

20. Fair value of financial instruments (continued)

Analysis of financial instruments recognized at fair value in the consolidated statement of financial position. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value based on the fair value hierarchy. The levels correspond to the possibility of directly identifying fair value based on market data:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
Financial assets:					
Financial assets at fair value through profit or loss	1,168,598	-	-	1,168,598	1,168,598

The table below analyses financial instruments measured at fair value as at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
Financial assets:					
Financial assets at fair value through profit or loss	2,039,631	-	-	2,039,631	2,039,631

As at 31 December 2015 and 2014, Level 1 of the fair value hierarchy includes financial assets at fair value through profit or loss (equity and debt securities) of which the fair value is fully determined on the basis of published price quotations in the active market. As at 31 December 2015 and 2014, the share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss is 100%.

The management of the Group considers that the carrying amounts of all other financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values as at 31 December 2015 and 2014.

20. Fair value of financial instruments (continued)

The table below analyses financial instruments not measured at fair value as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
Financial assets:					
Due from banks	-	284,982	-	284,982	284,982
Loans to customers	-	4,384,430	-	4,384,430	4,384,430
Other financial assets	-	20,059	-	20,059	20,059
Financial liabilities:					
Due to the CBRF	-	384,097	-	384,097	384,097
Customer accounts	-	6,105,063	-	6,105,063	6,105,063
Debt securities issued	-	619,378	-	619,378	619,378
Other financial liabilities	-	16,949	-	16,949	16,949

The table below analyses financial instruments not measured at fair value as at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
Financial assets:					
Due from banks	-	76,763	-	76,763	76,763
Loans to customers	-	3,507,857	-	3,507,857	3,507,857
Other financial assets	-	41,854	-	41,854	41,854
Financial liabilities:					
Due to the CBRF	-	139,643	-	139,643	139,643
Customer accounts	-	5,964,954	-	5,964,954	5,964,954
Debt securities issued	-	470,482	-	470,482	470,482
Other financial liabilities	-	28,537	-	28,537	28,537

There were no transfers between the hierarchy Levels in 2015 and 2014.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Valuation technique	Key inputs
Financial assets at fair value through profit or loss	Use of quoted bid prices in an active market.	Quoted bid prices
Derivative financial assets and financial liabilities	Discounted cash flows.	Contractual cash flows, money market borrowing curves
Loans to customers and customer accounts	Discounted cash flows.	Estimated cash flows, discount rates.

21. Capital management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to the participants through the optimization of the debt balance and net assets attributable to the Group's participants.

Management reviews the structure of net assets attributable to the Group's participants on a quarterly basis. As part of this review, management considers the cost of net assets and risks associated with each class of the net assets attributable to the Group's participants.

The Group's overall capital risk management policy remains unchanged from 2014.

The CBRF requires the banks comply with the capital adequacy ratio as calculated on the basis of the Russian Accounting Standards.

Capital adequacy of the Group and the Bank is monitored using the capital adequacy ratios established by the CBRF. The Bank is required to keep the equity to total risk-weighted assets ratio (the statutory capital adequacy ratio) above a required 10 percent level. In 2015 and 2014, the Group and the Bank were in full compliance with the external requirements for capital/net assets attributable to the participants.

22. Risk management policies

Management of risk is fundamental to the Group's banking business. The main risks inherent in the Group's operations include:

- Credit risk;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from existing risks and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk. The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss. The Credit Committee and the Group's management are responsible for risk management and limit-based monitoring.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or one group of borrowers, and to industry (and geographical) segments. Credit risk limits on borrowers and products are approved by the Bank's Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits that are set by the Group's management to cover on and off-balance sheet exposures . Actual exposures against limits are monitored by the Group's management daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent unused portions of credit in the form of loans and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions.

22. Risk management policies (continued)

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum credit risk exposure. The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks, inherent to specific assets, and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	December 31, 2015		December 31, 2014	
	Maximum credit risk exposure	Collateral	Maximum credit risk exposure	Collateral
Cash and cash equivalents	1,596,090	-	1,918,458	-
Minimum reserve deposit with the CBRF	44,889	-	67,702	-
Financial assets at fair value through profit or loss, except for equity securities	505,721	-	1,090,150	-
Due from banks	284,982	-	76,763	-
Loans to customers	4,384,430	1,604,537	3,507,857	1,759,837
Other financial assets	20,059	-	41,854	-
Guarantees issued and other commitments	362,180	-	253,609	-
Commitments on loans and unused credit lines	263,430	-	150,110	-

Collateral pledged is determined based on its fair value not exceeding the carrying amount of the underlying loans.

The effect of collateral and other risk mitigation techniques is shown below.

Collateral. The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, securities and corporate guarantees, equipment and vehicles;
- For retail lending, mortgages over residential properties, vehicles, cash.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Credit quality by classes of financial assets. Financial assets other than loans to customers are graded based on the current credit rating assigned an internationally recognized rating agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets lower than BBB are classed as speculative grade.

22. Risk management policies (continued)

As at 31 December 2015 and 2014, balances with the CBRF were RUB 385,291 thousand and RUB 497,710 thousand, respectively. According to the international rating agencies, the sovereign credit rating of the Russian Federation corresponded to BBB in 2014, and since January 2015 Russia's foreign currency and national currency sovereign debt ratings corresponded to BB+ and BBB-, respectively.

The following table details credit ratings of financial assets held by the Group that are neither past due nor impaired:

December 31, 2015	AAA	AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	-	3,512	588,761	318,254	370,584	314,979	1,596,090
Minimum reserve deposit with the CBRF	-	-	-	-	44,889	-	44,889
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	-	176,838	328,883	505,721
Due from banks	-	-		58,306	24,646	202,030	284,982
Unimpaired loans to customers	-	-	-	-	-	798,108	798,108
Other financial assets	-	-	-	-	-	20,059	20,059

December 31, 2014	AAA	AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	-	3,214	1,041,617	452,844	560	420,223	1,918,458
Minimum reserve deposit with the CBRF	-	-	-	67,702	-	-	67,702
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	81,760	818,769	189,621	1,090,150
Due from banks	-	-	45,007	-	16,056	15,700	76,763
Unimpaired loans to customers	-	-	-	-	-	1,510,943	1,510,943
Other financial assets	-	-	-	-	-	41,854	41,854

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

The Group has developed a borrower credit rating methodology. The methodology uses a scoring model based on borrower key performance indicators, including minor expert adjustments where benchmark results are not objective enough. The financial situation and business activity are the most important criteria. Therefore, the scoring model enables an overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The following table provides an analysis of unimpaired loans to customers that are classified in three categories according to internal ratings assigned to borrowers (debtors):

- The "Top performing" category with low credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) that have unexceptionable credit history with the Group and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability;
- The "Moderately performing" category with temperate credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) with good credit history with the Group and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment;
- The "Other" category includes loans (assets) that are not overdue and are granted to borrowers (debtors) that do not fall within the two categories described above.

22. Risk management policies (continued)

	December 31, 2015	December 31, 2014
Unimpaired loans to corporate borrowers not rated by international rating agencies:		
Top performing loans	73,000	241,949
Moderately performing loans	490,501	915,188
Other unimpaired loans	-	20,253
Total	**563,501**	**1,177,390**
Unimpaired loans to individuals:		
Top performing loans	234,607	333,553
Total	**234,607**	**333,553**
Total unimpaired loans to borrowers not rated by international rating agencies	**798,108**	**1,510,943**
Unimpaired balances with banks and other financial institutions not rated by international rating agencies:		
Top performing assets	202,030	15,700
Total unimpaired balances with banks not rated by international rating agencies	**202,030**	**15,700**

There were no past due but not impaired financial assets.

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Group is generally concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Renegotiated loans and advances. As at 31 December 2015 and 2014 loans to customers included loans totaling RUB 308,233 thousand and RUB 111,013 thousand, respectively, whose terms were renegotiated. Without renegotiation, these loans would have become past due or impaired.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Geographical concentration. The Group's Management Board and the Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activities. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Group sets up limits by country.

22. Risk management policies (continued)

The geographical concentration of assets and liabilities is set out below:

	RF	OECD countries	Non-OECD countries	December 31, 2015 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	854,330	955,046	14,155	1,823,531
Minimum reserve deposit with the CBRF	44,889	-	-	44,889
Financial assets at fair value through profit or loss	495,116	673,482	-	1,168,598
Due from banks	224,853	58,307	1,822	284,982
Loans to customers	4,344,884	-	39,546	4,384,430
Other financial assets	12,355	-	7,704	20,059
TOTAL FINANCIAL ASSETS	**5,976,427**	**1,686,835**	**63,227**	**7,726,489**
FINANCIAL LIABILITIES:				
Due to the CBRF	384,097	-	-	384,097
Customer accounts	4,800,857	48,665	1,255,541	6,105,063
Debt securities issued	10,228	-	609,150	619,378
Other financial liabilities	12,243	-	4,706	16,949
TOTAL FINANCIAL LIABILITIES	**5,207,425**	**48,665**	**1,869,397**	**7,125,487**
NET POSITION	**769,002**	**1,638,170**	**(1,806,170)**	

22. Risk management policies (continued)

	RF	OECD countries	Non-OECD countries	December 31, 2014 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	881,651	1,125,942	158	2,007,751
Minimum reserve deposit with the CBRF	67,702	-	-	67,702
Financial assets at fair value through profit or loss	1,070,129	943,434	26,068	2,039,631
Due from banks	30,448	45,007	1,308	76,763
Loans to customers	3,459,944	-	47,913	3,507,857
Other financial assets	8,254	-	33,600	41,854
TOTAL FINANCIAL ASSETS	**5,518,128**	**2,114,383**	**109,047**	**7,741,558**
FINANCIAL LIABILITIES:				
Due to the CBRF	139,643	-	-	139,643
Customer accounts	4,858,993	27,273	1,078,688	5,964,954
Debt securities issued	-	-	470,482	470,482
Other financial liabilities	24,445	-	4,092	28,537
TOTAL FINANCIAL LIABILITIES	**5,023,081**	**27,273**	**1,553,262**	**6,603,616**
NET POSITION	**495,047**	**2,087,110**	**(1,444,215)**	

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Group's management and the Bank's Management Board control these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Currency Department of the Bank, which performs operations on money market for maintaining the current liquidity level and cash flows optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Group sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

22. Risk management policies (continued)

Below is the analysis of liquidity risk based on the carrying amount of financial assets and liabilities as at 31 December 2015 and 2014. The terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2015 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	358	-	-	-	-	-	358
Financial assets at fair value through profit or loss	505,721	-	-	-	-	-	505,721
Due from banks	182,207	-	-	-	-	-	182,207
Loans to customers	72,877	553,959	2,415,142	894,100	448,352	-	4,384,430
Total interest bearing financial assets	**761,163**	**553,959**	**2,415,142**	**894,100**	**448,352**	**-**	**5,072,716**
Cash and cash equivalents	1,823,173	-	-	-	-	-	1,823,173
Minimum reserve deposit with the CBRF	-	-	-	-	-	44,889	44,889
Financial assets at fair value through profit or loss	662,877	-	-	-	-	-	662,877
Due from banks	-	1,822	58,306	-	-	42,647	102,775
Other financial assets	12,355	-	-	-	-	7,704	20,059
TOTAL FINANCIAL ASSETS	**3,259,568**	**555,781**	**2,473,448**	**894,100**	**448,352**	**95,240**	**7,726,489**
FINANCIAL LIABILITIES:							
Due to the CBRF	119,709	186,117	78,271	-	-	-	384,097
Customer accounts	167,159	571,986	2,735,580	233,711	-	-	3,708,436
Debt securities issued	15,720	552,531	51,127	-	-	-	619,378
Total interest bearing financial liabilities	**302,588**	**1,310,634**	**2,864,978**	**233,711**	**-**	**-**	**4,711,911**
Customer accounts	2,396,627	-	-	-	-	-	2,396,627
Other financial liabilities	-	9,447	7,502	-	-	-	16,949
TOTAL FINANCIAL LIABILITIES	**2,699,215**	**1,320,081**	**2,872,480**	**233,711**	**-**	**-**	**7,125,487**
Liquidity gap	**560,353**	**(764,300)**	**(399,032)**	**660,389**	**448,352**		
Cumulative liquidity gap	**560,353**	**(203,947)**	**(602,979)**	**57,410**	**505,762**		

22. Risk management policies (continued)

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	112,869	-	-	-	-	-	112,869
Financial assets at fair value through profit or loss	1,090,150	-	-	-	-	-	1,090,150
Due from banks	-	-	-	-	-	1,125	1,125
Loans to customers	25,454	220,163	2,262,555	822,815	176,870	-	3,507,857
Total interest bearing financial assets	**1,228,473**	**220,163**	**2,262,555**	**822,815**	**176,870**	**1,125**	**4,712,001**
Cash and cash equivalents	1,894,882	-	-	-	-	-	1,894,882
Minimum reserve deposit with the CBRF	-	-	-	-	-	67,702	67,702
Financial assets at fair value through profit or loss	949,481	-	-	-	-	-	949,481
Due from banks	2,007	-	45,007	-	-	28,624	75,638
Other financial assets	37,025	-	-	-	-	4,829	41,854
TOTAL FINANCIAL ASSETS	**4,111,868**	**220,163**	**2,307,562**	**822,815**	**176,870**	**102,280**	**7,741,558**
FINANCIAL LIABILITIES:							
Due to the CBRF	-	-	-	139,643	-	-	139,643
Customer accounts	339,986	539,567	2,472,493	282,292	-	-	3,634,338
Debt securities issued	434,455	-	36,027	-	-	-	470,482
Total interest bearing financial liabilities	**774,441**	**539,567**	**2,508,520**	**421,935**	-	-	**4,244,463**
Customer accounts	2,330,616	-	-	-	-	-	2,330,616
Other financial liabilities	1,412	27,125	-	-	-	-	28,537
TOTAL FINANCIAL LIABILITIES	**3,106,469**	**566,692**	**2,508,520**	**421,935**	-	-	**6,603,616**
Liquidity gap	**1,005,399**	**(346,529)**	**(200,958)**	**400,880**	**176,870**		
Cumulative liquidity gap	**1,005,399**	**658,870**	**457,912**	**858,792**	**1,035,662**		

As at 31 December 2015 the increase in liquidity gap by maturity from 1 month to 1 year as compared to 31 December 2014 resulted from the management's decision to sell some portion of its trading portfolio at fair value through profit or loss and to increase the credit portfolio by issuing long-term loans. Thus, the portfolio of financial assets at fair value through profit or loss reduced significantly (by RUB 871,033 thousand or by 43%) and the credit portfolio increased significantly (by RUB 1,514,340 thousand or by 41%).

22. Risk management policies (continued)

The Group's management believes that such a decision is reasonable as it keeps to liquidity gap limits set by the risk management department. Besides, based on daily liquidity stress test results the risk concentration will not result in any losses or reputational risks, as the Group's obligations to its customers, which are included in demand deposits and payable on demand, are analyzed based on an assumption that the Group could be required to pay to all its customers immediately. Nevertheless, based on the results of the retrospective analysis of demand and terms deposits as well as the stress test results, the Group's management assumes that less than 8% of customers could require settlement/repayment on the earliest date (up to 1 month), less than 14% of customers could require settlement/repayment on the next date (from 1 month to 3 months) and less than 54% of customes – subsequently.

The liquidity risk analysis table does not fully reflect the expected cash flows indicated based on the Group's deposit retention history. The maturity/repayment analysis does not reflect the historical data on current accounts, which traditionally experience cash outflows within a longer period than the period on demand. Thus, the Group's management believes that in spite of a substantial portion of customer accounts being up to 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Group serve as an indication that these customer accounts can act as a sable long-term funding source for the Group.

The management also controls the Group's liquidity by taking a number of actions, including:

- As at 31 December 2015 the Bank's portfolio comprised securities included in the Lombard list of the CBRF. These securities serve as collateral for repurchase agreements with the CBRF used to raise short-term funds. The securities serving as collateral for funds with maturity up to 1 month amounted to RUB 157,653 thousand (however, as at 31 December 2015, some portion of such securities of RUB 135,097 thousand was pledged as collateral for repurchase agreements with the CBRF);
- Credit agreements are entered into with the CBRF to raise unsecured funds and funds collaterized by other assets of the Group (loans to customers);
- The management performs regular stress tests of financial indicators of the Group and the Bank, including estimation and analysis of statistics related to permanent balances in customers' current accounts, ensuring that they are in compliance with external covenants and all regulatory requirements for capital adequacy, liquidity and financial risk management procedures in case of negative events in the market.

In accordance with liquidity risk management policies, a set of measures in case of unforeseen developments includes:

- Raising funds collaterized by securities;
- Sales of current assets in the form of corporate bonds and Eurobonds;
- Raising funds collaterized by non-marketable assets;
- Raising funds from the Bank's owners;
- Reduction of administrative expenses of the Group;
- Restrictions on lending to the Bank's customers.

The management believes that the measures above are sufficient to ensure the Group's ability to control liquidity gap.

22. Risk management policies (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2015 and 2014. The tables have been drawn up based on undiscounted cash flows of the Group's financial liabilities including interests which will be paid on these liabilities based on contractual terms of maturity, except the cases when the Group expects that cash flows will occur in a different time. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	On demand - and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2015 Total
FINANCIAL LIABILITIES:					
Due to the CBRF	119,768	189,545	84,576	-	393,889
Customer accounts	175,411	592,670	2,864,267	235,516	3,867,864
Debt securities issued	15,723	557,855	54,067	-	627,645
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**310,902**	**1,340,070**	**3,002,910**	**235,516**	**4,889,398**
Customer accounts	2,396,627	-	-	-	2,396,627
Other financial liabilities	-	9,447	7,502	-	16,949
Liabilities on financial guarantees	93,395	268,785	-	-	362,180
Commitments on loans and unused credit lines	263,430	-	-	-	263,430
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**3,064,354**	**1,618,302**	**3,010,412**	**235,516**	**7,928,584**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2014 Total
FINANCIAL LIABILITIES:					
Due to the CBRF	-	-	-	176,005	176,005
Customer accounts	345,329	550,180	2,580,255	302,363	3,778,127
Debt securities issued	436,316	-	37,407	-	473,723
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**781,645**	**550,180**	**2,617,662**	**478,368**	**4,427,855**
Customer accounts	2,330,616	-	-	-	2,330,616
Other financial liabilities	1,412	27,125	-	-	28,537
Liabilities on financial guarantees	25,716	227,893	-	-	253,609
Commitments on loans and unused credit lines	150,110	-	-	-	150,110
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**3,289,499**	**805,198**	**2,617,662**	**478,368**	**7,190,727**

22. Risk management policies (continued)

Market risk. Market risk is that the risk that the Group's earnings or net assets or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. In 2015, there were no changes as to the risks the Group is exposed to; the Group revised the manner in which these risks are measured and managed to ensure more accurate risk measurement in accordance with the changing market environment.

Market risk arises from open positions on interest, currency and equity instruments which are subject to general and specific market fluctuations and changes in market rates volatility.

Interest rate risk. The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on interest bearing financial assets and liabilities. The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department monitors the Group's current financial performance, estimates the Group's sensitivity to interest rate risk and its influence on the Group's profit and net assets attributable to its participants.

The sensitivity analysis uses possible changes in interest rate of 10% increase and 10% decrease.

The following table presents a sensitivity analysis of the Group's pretax profit and net assets attributable to the Group's participants to interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the Group's management and is contained within the risk reports prepared by the Risk Management Department and provided to key management personnel.

Impact on pretax profit and net assets attributable to the Group's participants

	Interest rate +10%		**Interest rate -10%**	
December 31, 2015	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**	**Impact on profit before tax**	**Impact on net assets attributable to the Group's participants**
Cash	34	27	(34)	(27)
Financial assets at fair value through profit or loss	48,465	38,772	(48,465)	(38,772)
Due from banks	17,462	13,969	(17,462)	(13,969)
Loans to customers	143,715	114,973	(143,715)	(114,973)
Total financial assets	**209,676**	**167,741**	**(209,676)**	**(167,741)**
Due to the CBRF	(29,917)	(23,934)	29,917	23,934
Customer accounts	(166,269)	(133,015)	166,269	133,015
Debt securities issued	(49,468)	(39,575)	49,468	39,575
Total financial liabilities	**(245,654)**	**(196,524)**	**245,654**	**196,524**
Net impact	**(35,978)**	**(28,783)**	**35,978**	**28,783**

22. Risk management policies (continued)

December 31, 2014	Interest rate +10% Impact on profit before tax	Interest rate +10% Impact on net assets attributable to the Group's participants	Interest rate -10% Impact on profit before tax	Interest rate -10% Impact on net assets attributable to the Group's participants
Loans to customers	105,631	84,505	(105,631)	(84,505)
Financial assets at fair value through profit or loss	104,473	83,578	(104,473)	(83,578)
Due from banks	10,817	8,654	(10,817)	(8,654)
Total financial assets	**220,921**	**176,737**	**(220,921)**	**(176,737)**
Customer accounts	(244,915)	(195,932)	244,915	195,932
Debt securities issued	(42,986)	(34,389)	42,986	34,389
Total financial liabilities	**(287,901)**	**(230,321)**	**287,901**	**230,321**
Net impact	**(66,980)**	**(53,584)**	**66,980**	**53,584**

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's management controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Management Board of the Bank performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBRF.

22. Risk management policies (continued)

The Group's exposure to foreign currency exchange rate risk is presented below:

	RUB	USD USD 1 = RUB 72.8827	EUR EUR 1 = RUB 79.6972	Other currency	December 31, 2015 Total
Non-derivative financial assets:					
Cash and cash equivalents	358,586	1,041,808	357,233	65,904	1,823,531
Minimum reserve deposit with the CBRF	44,889	-	-	-	44,889
Financial assets at fair value through profit or loss	98,659	1,016,362	45,664	7,913	1,168,598
Due from banks	29,867	250,408	4,707	-	284,982
Loans to customers	2,877,255	1,487,971	19,204	-	4,384,430
Other financial assets	12,081	274	7,704	-	20,059
Total non-derivative financial assets	**3,421,337**	**3,796,823**	**434,512**	**73,817**	**7,726,489**
Non-derivative financial liabilities:					
Due to the CBRF	264,389	119,708	-	-	384,097
Customer accounts	1,056,056	4,330,284	655,416	63,307	6,105,063
Debt securities issued	10,228	609,150	-	-	619,378
Other financial liabilities	12,243	119	4,587	-	16,949
Total non-derivative financial liabilities	**1,342,916**	**5,059,261**	**660,003**	**63,307**	**7,125,487**
OPEN BALANCE SHEET POSITION	**2,078,421**	**(1,262,438)**	**(225,491)**	**10,510**	
Derivative financial instruments					
Net settled:					
- foreign exchange spot contracts	(1,389,766)	1,149,957	239,809	-	
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(1,389,766)**	**1,149,957**	**239,809**	-	
OPEN POSITION	**688,655**	**(112,481)**	**14,318**	**10,510**	

22. Risk management policies (continued)

	RUB	USD USD 1 = RUB 56.2584	EUR EUR 1 = RUB 68.3427	Other currency	December 31, 2014 Total
Non-derivative financial assets:					
Cash and cash equivalents	455,812	1,180,046	345,694	26,199	2,007,751
Minimum reserve deposit with the CBRF	67,702	-	-	-	67,702
Financial assets at fair value through profit or loss	195,668	1,813,729	-	30,234	2,039,631
Due from banks	20,007	51,913	4,843	-	76,763
Loans to customers	2,210,472	1,236,309	61,076	-	3,507,857
Other financial assets	9,488	24,687	7,679	-	41,854
Total non-derivative financial assets	**2,959,149**	**4,306,684**	**419,292**	**56,433**	**7,741,558**
Non-derivative financial liabilities:					
Due to the CBRF	139,643	-	-	-	139,643
Customer accounts	1,055,320	3,778,606	1,117,502	13,526	5,964,954
Debt securities issued	-	470,482	-	-	470,482
Other financial liabilities	25,184	-	3,343	10	28,537
Total non-derivative financial liabilities	**1,220,147**	**4,249,088**	**1,120,845**	**13,536**	**6,603,616**
OPEN BALANCE SHEET POSITION	**1,739,002**	**57,596**	**(701,553)**	**42,897**	
Derivative financial instruments					
Net settled:					
- foreign exchange spot contracts	(785,080)	119,764	665,316	-	
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(785,080)**	**119,764**	**665,316**	-	
OPEN POSITION	**953,922**	**177,360**	**(36,237)**	**42,897**	

Currency risk sensitivity. The Group uses the VaR analysis to estimate probable losses that may result from adverse changes in exchange rates related to individual foreign currencies and the open position of the Group. For VaR analysis, the Bank uses Financial Risk Manager, a software system developed by INEC. The VaR analysis below shows maximum losses (in thousands of Rubles) that, within 10 days and with 95% confidence level, will not exceed the losses expected on the open currency position provided that the current market trends continue.

22. Risk management policies (continued)

Currency	Total open position as at 31 December 2015 RUB thousand	Currency rate volatility, %
US dollar	(112,481)	5.4351
Euro	14,318	5.5636
Canadian dollar	7,913	4.7230
Pound sterling	12,431	5.2056
Swiss franc	(9,892)	6.3143
Japanese yen	58	5.6686
95% 10 days VaR	**16,839**	

Currency	Total open position as at 31 December 2014 RUB thousand	Currency rate volatility, %
US dollar	177,360	5.6274
Euro	(36,237)	5.7748
Canadian dollar	30,234	5.4261
Pound sterling	11,852	5.7020
Swiss franc	801	5.8285
Japanese yen	10	5.8567
95% 10 days VaR	**27,951**	

Other price risks. The Group is exposed to price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes. The Group is engaged in active trading with such instruments.

The table below presents the amount of loss from publicly traded equity and debt security portfolios of the Group which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends continue.

	VaR (1 day, 0.95) (RUB thousand)	VaR (1 day, 0.95) %	VaR (10 days, 0.95) (RUB thousand)	VaR (10 days, 0.95) %
December 31, 2015				
Shares	14,491	2.27	45,950	6.95
Bonds	10,032	1.98	30,704	6.07
December 31, 2014				
Shares	31,187	3.28	86,337	9.09
Bonds	13,864	1.27	41,981	3.85

Taking into consideration the volatility in equity markets, the Group used the method of stochastic modeling (Monte Carlo) to assess changes in retrospective risk factors.

The Monte Carlo method uses scenarios for changes in retrospective risk factors. Scenarios are generated by a random-number generator based on the use of calculated projected risk factors and their volatility with consideration of their statistical correlations. Such approach ensures more adequate measurement of the Group's probable losses within a given time horizon both for individual financial instruments and the trading portfolio as a whole.

22. Risk management policies (continued)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not reflect the fact that the Group actively manages its assets and liabilities. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio structure and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in net assets.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

23. Related party transactions

The Group's balances with related parties are disclosed below:

	December 31, 2015		December 31, 2014	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Total loans to customers	**17,600**	**5,185,825**	**181,394**	**3,671,485**
- entities under common control with the Group	-		181,394	
- key management personnel	17,600		-	
Allowance on loans to customers	**(17,200)**	**(801,395)**	**(15,262)**	**(163,628)**
- entities under common control with the Group	-		(15,262)	
- key management personnel	(17,200)		-	
Customer accounts	**504,320**	**6,105,063**	**351,437**	**5,964,954**
- key management personnel	91,169		37,712	
- entities with joint control over the Group	3,114		4,057	
- entities under common control with the Group	5,361		3,939	
- other related parties	404,676		305,729	
Guarantees issued and other commitments	**23,469**	**362,180**	**24,502**	**253,609**
- key management personnel	2,915		2,250	
- entities with joint control or significant influence over the Group	20,554		16,377	
- entities under common control with the Group	-		5,875	

23. Related party transactions (continued)

Included in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2015 and 2014 are the following amounts which were recognized in transactions with related parties:

	Year ended 31 December 2015		Year ended 31 December 2014	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	**30,281**	**805,518**	**28,061**	**600,455**
- entities with joint control over the Group	146		1,542	
- entities under common control with the Group	28,262		26,036	
- key management personnel	1,873		483	
Interest expense	**(25,787)**	**(289,676)**	**(17,791)**	**(210,155)**
- entities with joint control or significant influence over the Group	(3)		(90)	
- key management personnel	(3,319)		(3,375)	
- other related parties	(22,465)		(14,326)	
Allowance for impairment losses on interest bearing assets	**(17,200)**	**(687,473)**	**(1,977)**	**(66,348)**
- entities under common control with the Group	-		(1,977)	
- key management personnel	(17,200)		-	
Payroll and bonuses	**(44,718)**	**(218,477)**	**(39,664)**	**(195,953)**
Short-term compensation of key management personnel	(44,718)		(39,664)	

24. Subsequent events

In 2015, Standard & Poor's reaffirmed the Bank's foreign and local currency rating at B/B, downgrading an outlook from 'stable' to 'negative' specifying that "Russia's monetary policy flexibility has become more limited and its economic growth prospects have weakened".

In its official rating report of 9 March 2015, Moody's Investors Service reaffirmed the Bank's rating as remaining unchanged at B3, with a stable outlook. On 1 April 2016 in its official rating report Moody's reaffirmed the Bank's rating as remaining unchanged at B3/Not Prime. The Bank's counterparty risk rating was also reaffirmed at B2(cr)/Not Prime(cr). All ratings have a stable outlook.

In March 2016, the Chairman of the Management Board Alexander Yakimov tragically died. The Bank's owners informed the CBRF, its customers and counterparties of that tragic event and appointed the vice-president Aziz Zarifov as acting President of the Bank. The Bank's management and owners adopted a set of measures to ensure continuity of the Bank's operations, retention of the customer base and regulatory compliance.

According to the Bank' management, this event resulted in a short-term outflow of customer funds amounting approximately to 7-8% of the total customer accounts, which was discontinued due to a number of actions undertaken by the Bank. As at the date of approval of these financial statements the Bank's management and owners assess the probability of recurring outflow of customer funds as remote.

24. Subsequent events (continued)

Moreover, in January-April 2016 the Bank's owners provided funds to the Bank on a free-of-charge basis amounting to RUB 81,600 thousand and transferred over RUB 1,300,000 thousand (or USD 20 mln) to the Bank's correspondent account to cover the liquidity reserve in case of any unexpected cash outflow. In January 2016, to optimize investments in subsidiaries OOO CB Aljba Alliance sold 100% interest in the share capital of its subsidiary OOO SOVLINK for cash consideration of RUB 103,000 thousand to a related party, which resulted in gain on disposal of the above asset of RUB 61,544 thousand. In March-April 2016, a related party controlled by the Bank's ultimate owners repurchased loans to customers at the carrying value for the total amount of RUB 874,212 thousand. The Bank's owners also confirmed to the CBRF and its customers its willingness to provide all necessary support to the Bank in future, if required.

The scheduled inspection carried out by the CBRF takes place in the Bank since 4 April 2016. As at the date of approval of these annual financial statements the Bank has no information on the results of such inspection, including on the expected additional allowances for possible losses on loans and loan equivalents. The Bank's management believes that the CBRF will not issue any instructions, which could have a material impact on the Group's financial statements or result in any significant changes in the Group's operations.

Прошнуровано, пронумеровано и скреплено печатью 64 страниц

Партнер
ЗАО «Делойт и Туш СНГ»

Неклюдов С.В.