MAZARS

AUDIT OPINION

Commercial bank "Khlynov" (Joint Stock Company) Group

Contents

Translation from original in Russian

AUDIT OPINION

To the shareholders of Commercial bank "Khlynov" (Joint-Stock Company)

Audited entity

Name: Commercial bank "Khlynov" (Joint Stock Company) (JSC CB "Khlynov").

Primary state registration number: 1024300000042.

Registration number in the CBR 254 dated 06.03.1990.

Location: 610002, Kirov, Uritskogo st., 40.

Auditor

Name: Limited Liability Company "Mazars Audit" (LLC "Mazars Audit").

Primary state registration number: 1147746603124.

Location: 5/19 Nizhniy Susalniy pereulok, Moscow, 105064.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - Noncommercial Partnership "Moscow Audit Chamber". The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 11403052852.

We have audited the annual consolidated financial statements of **Commercial bank "Khlynov" (Joint-Stock Company)**, which is the managing credit organization of the banking group (the "Bank") which comprise of the consolidated statement of financial position as of December 31, 2015, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Consolidated Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these annual consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of annual 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 these annual consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Standards on Auditing and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the annual 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 Bank'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 annual consolidated financial statements.

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

Opinion

In our opinion, the annual consolidated financial statements give a true and fair view of the financial position of the banking group, managing credit organization of which is the "Bank" as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The report on the audit results presented in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990

The Bank's management is responsible for the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of

Russia, as well as for the conformity of the Bank's internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia.

We have tested the following within the scope of the Bank's annual audit of the annual consolidated financial statements for the year 2015 performed in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990:

- the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of Russia as of January 1, 2016;
- the conformity of banking group, the managing credit organization of which is the "Bank", internal control and risk management with the requirements imposed on analogous systems by the Bank of Russia.

The aforesaid audit has been limited to the procedures selected per auditor's professional judgement such as inquiries, analysis, review of documents, and comparison of the Bank's requirements, procedures and methodologies with the requirements set out by the Bank of Russia, as well as recalculations and correlation of quantitative data and other information.

Our audit disclosed the following:

- compliance with the mandatory regulations established by the Bank of Russia:
    - as of January 1, 2016 the indicators for mandatory standards stated by the Bank of Russia have remained within the limits established by the Bank of Russia

We have not conducted any procedures to evaluate the accounting data of the banking group, the managing credit organization of which is the "Bank", except for the procedures considered necessary for the purpose of expressing an opinion on whether the annual consolidated financial statements present fairly, in all material respects, its financial position as of December 31, 2015, the financial results of its activity and the cash flow for the year 2015 in accordance with International Financial Reporting Standards;

- conformity of the banking group, the managing credit organization of which is the "Bank", internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia:
    - as of December 31, 2015 the internal audit department of the Bank reports functionally and administratively to the Board in accordance with the requirements and recommendations of the Bank of Russia; the risk management department has not reported neither functionally nor administratively to the divisions taking pertinent risks; internal audit and risk managers meet qualification requirements established by the Bank of Russia;
    - internal banking documents valid as of December 31, 2015 that set up techniques for identifying and managing key business risks as regards to the banking group, the managing credit organization of which is the "Bank", including credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, and stress testings are all approved by competent governing authorities of the banking group, the managing credit organization of which is the "Bank", in accordance with the requirements and recommendations of the Bank of Russia;

- existence of the aggregate reporting system for the Bank's key risks such as credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, as well as for the Bank's own funds (capital) as of December 31, 2015;
- frequency and consistency of the 2015 reports prepared by the Bank's risk and internal audit department that cover the process of managing credit, operational, market, interest, legal, liquidity and reputation risks of the banking group, the managing credit organization of which is the "Bank", have complied with internal documents of the Bank; these reports include the results on monitoring of the evaluation of the effectiveness of the Bank's applicable methodologies performed by the Bank's risk and internal audit management, as well as provide recommendations for their improvement;
- as of December 31, 2015 the Board and its executive committee's responsibilities include monitoring of the banking group, the managing credit organization of which is the "Bank", compliance with established risk limits and sufficiency of its own funds (capital). In order to monitor the effectiveness of the applicable procedures of risk monitoring and consistency of their application during 2015 within banking group, the managing credit organization of which is the "Bank", the Board and its executive committee have been periodically discussing the reports prepared by the risk and internal control management, have also been considering proposed corrective measures with the purpose of controlling the effectiveness and the consistency of the adopted risk management procedures.

Procedures for testing the internal control and risk management systems of the banking group, the managing credit organization of which is the "Bank" have been performed by us solely for the purpose of verifying the compliance of the banking group, the managing credit organization of which is the "Bank", internal control and risk management systems with the requirements imposed on analogous banking systems by the Bank of Russia.

LLC «Mazars Audit»

Auditor

Лыт

Общество с ограниченной ответственностью ОГРН 1147746603124 "Мазар Аудит" "Mazars Audit" ИНН 7707835399 Москва

Lytov S.I.

(auditor's qualification certificate № 03-000074 issued in accordance with order of SRO NP MOAP #166 dd November 30, 2011, ORNZ 20903038266 for unlimited period of time).

27 April 2016

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Bank Khlynov

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

	Notes	2015	2014
Assets			
Cash and Cash Equivalents	5	1,586,718	1,483,593
Mandatory Balances with the CBRF	6	81,220	116,148
Due from Banks	7	327,714	123,931
Financial assets at fair value through profit or loss	8	3,155,415	2,391,410
Financial assets available for sell	9	89,234	-
Financial assets held to maturity	10	2,501	13,847
Loans and Advances to Customers	11	10,412,664	10,142,149
Net Investment in Financial Lease	12	107,696	209,255
Other Assets	13	106,100	224,705
Deferred tax asset	18	10,202	-
Property, Plant and Equipment	14	351,001	366,706
Investment properties	14	264,356	4,356
Total Assets		**16,494,821**	**15,076,100**
Liabilities			
Due to Banks	15	431,366	357,616
Customer Accounts	16	13,314,293	12,164,066
Debt Securities Issued	17	18,594	132,076
Deferred Tax Liability	18	-	5,118
Other Liabilities	19	212,624	140,498
Total Liabilities		**13,976,877**	**12,799,374**
Equity			
Share Capital	20	620,283	620,283
Retained Earnings		1,819,898	1,570,905
Revaluation Reserve of Financial assets Held for sell		(21)	-
Revaluation Reserve of Property, Plant and Equipment		77,784	85,538
Total Equity		**2,517,944**	**2,276,726**
Total Liabilities and Equity		**16,494,821**	**15,076,100**
Credit related commitments	21	**2,682,822**	**2,206,565**

Signed and authorized for release on behalf of the Executive Board of the Group on 27 April 2016

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

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Bank Khlynov
Consolidated Statement of Profit or Loss and other Comprehensive Income
for the Year ended on 31 December 2015
(in thousands of Russian Roubles)

	Notes	2015	2014
Interest income			
Loans and advances to legal entities		1,198,411	1,012,622
Loans and advances to individuals		530,716	433,993
Investment in lease		38,373	38,630
Securities		306,696	188,691
Due from banks		33,344	4,592
		2,107,540	**1,678,528**
Interest expense			
Term deposits of individuals		(891,812)	(652,093)
Term deposits of legal entities		(88,320)	(56,650)
Due to banks		(43,713)	(44,520)
Current/settlement accounts' balances		(17,075)	(4,933)
Debt securities		(5,791)	(2,655)
Other borrowings		(3,710)	-
		(1,050,421)	**(760,851)**
Net interest income			
		1,057,119	**917,677**
Allowance for impairment for loans and advances to customers, investment in lease	24	(515,352)	(239,649)
Net interest income less allowance for losses		**541,767**	**678,028**
Net fee and commission income	26	381,697	370,834
Gains less losses from trading with securities	25	104,431	(134,172)
Gains less losses from transactions with foreign currencies		13,685	(54,880)
Net gain / loss from revaluation of items in foreign currencies		52,622	116,341
Gains less losses from disposal of property, plant and equipment		-	(3,789)
Revaluation of property, plant and equipment		(2,599)	(7,047)
Revaluation of investment properties	14	18,499	(44)
Allowance for impairment of other assets		(1,881)	-
Reserve for impairment of other assets in the other banks	24	(11,422)	(27,866)
Staff Costs	27	(457,299)	(409,469)
Administrative and Other Operating Costs	27	(287,589)	(281,387)
Depreciation and Amortization	14	(45,995)	(32,908)
Other operating income		19,480	32,471
Operating income (expenses)		**(216,371)**	**(431,916)**
Profit before tax		**325,396**	**246,112**
Income tax charge	18	(76,403)	(49,896)
Profit for the period		**248,993**	**196,216**
Other comprehensive income			
Gains/(loss) on property revaluation, net of tax		(7,754)	4,051
Loss on Financial Assets held for selling		(21)	-
Total comprehensive income for the year		**241,218**	**200,267**

Signed and authorized for release on behalf of the Executive Board of the Group on 27 April 2016

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

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"Мазар Аудит" "Mazars Audit"

Translation from the original in Russian language.

Bank Khlynov
Consolidated Statement of Cash Flow
for the Year ended on 31 December 2015
(in thousands of Russian Roubles)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		1,700,999	1,587,629
Paid interest		(1,053,008)	(757,766)
Income less expenses from securities trading		422,812	54,519
Income less expenses from trading in foreign currencies		13,685	(54,880)
Commissions received		440,580	434,197
Commissions paid		(75,374)	(46,752)
Other operating incomes received		19,480	32,471
Other operating expenses paid		(743,689)	(685,294)
Income tax paid		(94,278)	(100,693)
Cash flows from operating activities received before changes in operating assets and liabilities		**631,207**	**463,431**
Cash flows from changes in operating assets and liabilities			
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		34,928	(6,541)
Due from banks		(209,901)	37,618
Securities at fair value through profit or loss		(775,695)	(526,457)
Loans and advances to customers		(729,367)	(811,469)
Investment properties		(4,168)	-
Other assets		(125,787)	(112,530)
Due to banks		73,750	(201,215)
Customers' accounts		1,150,698	205,787
Issued debt securities		(111,366)	119,526
Other liabilities		84,791	25,932
Net cash received from operating activities		**19,090**	**(805,918)**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(38,138)	(31,069)
Disposal of property, plant and equipment		65	1,500
Purchase of financial assets HTM		(77,909)	65,405
Net cash paid in investing activities		**(115,982)**	**35,836**
Cash flows from financing activities			
Net investment in financial lease		147,396	(100,979)
Net cash received from financing activities		**147,396**	**(100,979)**
Effect of exchange rate on cash and cash equivalents		52,621	116,339
Net increase/(decrease) of cash and cash equivalents		**103,125**	**(754,722)**
Cash and cash equivalents for the beginning of the year	5	**1,483,593**	**2,238,315**
Cash and cash equivalents for the end of the year	5	**1,586,718**	**1,483,593**

Signed and authorized for release on behalf of the Executive Board of the Group on 27 April 2016

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

РОССИЙСКАЯ ФЕДЕРАЦИЯ г.КИРОВ ОБЛАСТНОЙ КОММЕРЧЕСКИЙ БАНК «ХЛЫНОВ» (АКЦИОНЕРНОЕ ОБЩЕСТВО) ОГРН 1024300000042 ИНН 4346013603
АО КБ «ХЛЫНОВ»

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ОГРН 1147746603124 ИНН 7707835399 МОСКВА
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Bank Khlynov
Consolidated Statement of Changes in Equity
for the Year ended on 31 December 2015
(in thousands of Russian Roubles)

	Share capital	Revaluation reserve of Property, Plant and Equipment	Revaluation reserve of Financial Assets held for selling	Retained earnings	Total for the Group
01 January 2014	**620,283**	**81,930**	**-**	**1,374,246**	**2,076,459**
Total comprehensive income for the year	-	4,051	-	196,216	**200,267**
Write-off of revaluation reserve	-	(443)	-	443	**-**
31 December 2014	**620,283**	**85,538**	**-**	**1,570,905**	**2,276,726**
Total comprehensive income for the year	-	(7,754)	(21)	248,993	**241,218**
31 December 2015	**620,283**	**77,784**	**(21)**	**1,819,898**	**2,517,944**

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Group must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Group's reserves.

As at 31 December 2015, the retained profit of the Group calculated in accordance with RAS was 1,617,994 (2014: 1,449,586).

Signed and authorized for release on behalf of the Executive Board of the Group on 27 April 2016

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

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1. Principal Activities

These consolidated financial statements include the data of Khlynov commercial Bank (Joint Stock Company) ('the Bank') and its Subsidiary and unconsolidated structured company (together 'Group'). The Bank was registered with the CBRF under the name "Kirovcoopbank" on 06 March 1990. In 1991 the Bank was renamed Commercial bank «Khlynov» (Joint Stock Company).

The Bank conducts its business under licenses № 254 from Bank of Russia issued on 29 January 2016 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system. The Bank also has licenses of professional participants of the Securities Market allowing it to act as broker and dealer.

The principal activity of the Group is to provide banking services to the population and legal entities in the Kirov district and the Mari El Republic.

The structure of the Bank comprises 31 supplementary offices, situated at Kirov and Kirov district, 1 operational office, situated at Yoshkar-Ola in Mari El Republic.The Bank does not have any branches.

As at 31 December 2015 the Group had 799 members of staff (2014: 774).

Berezin Andrey Olegovich, the deputy by the chairman of the board of directors, is the beneficiary of the Bank, the person, under whose control and significant influence the Bank operates, according to IFRS 10 and IAS 28.

In the opinion of management due to the structure and nature of shareholders per note 19, the Group does not have an ultimate controlling party.

The Bank owns 100% of, and controls 'Leasing Khlynov' OOO that was purchased in 2004 and has been consolidated. The company focuses on providing financial lease services to corporate clients.

In August 2014 LLC "Khlynov-Invest" was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of LLC "Khlynov-Invest" are real estate transactions, including the enforcement of claims received from the Bank through cessions agreements. The main source of financing of LLC "Khlynov-Invest" are loans from the Bank.
Due to the fact that the total assets of LLC "Khlynov-Invest" is less than 1% of the total assets of the Bank, the impact of the reported data of LLC "Khlynov-Invest" on the Group's financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.
Information about the carrying value of assets and liabilities, income and expenses of LLC "Khlynov-Invest", recognized in the financial statements of the Group is presented in Note 23.

2. Operating Environment of the Group

Russian Federation economy still possesses a few of the developing markets' characteristics. Such characteristics include lack of practice of free national currency conversion in most countries outside of the Russian Federation and a relatively high inflation level, alongside others.

Moreover, Russian economy is highly influenced by world oil and gas prices therefore significant decrease of oil prices in 2014 and 2015 had and continues to have a negative impact on the economy of the Russian Federation. Significant Russian tax, currency and customs legislation is subject to interpretations and frequent changes.

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Organizations conducting business on the territory of the Russian Federation are also currently facing other fiscal, legal and regulatory obstacles. The course of economic development of the Russian Federation is largely dependent on the effectiveness of the measures taken by the Government in the fields of economy, finance and monitary policy, improvements of the tax system, legal and regulatory framework and the development of political processes. The Group conducts its financial activity mainly on the territory of the Russian Federation thus exposing itself to the risks related to the state of the economy and financial markets of the Russian Federation.

Management of the Group believes that it takes all the necessary measures aimed at maintaining stability and development of the Group's business in the economy conditions. Future situation in the economy and future legal and regulatory environment and its impact on the Group's activities can differ from the Management's expectations.

The Group pays significant attention to the analysis of operating risk and reveals all necessary information about admitted risks, procedures of its assessment, managing of risks and of the Group's capital in notes to financial statements.

3. Basis of Presentation

a) General

The consolidated financial statements of the Group have been prepared in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Group maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

These consolidated financial statements are based on the Group's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements are presented and rounded to thousands of Roubles (RUB) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Group's transactions are denominated, measured, or funded in RUB, hence it is both the functional and reporting currency. Transactions in other currencies other than RUB are considered as transactions in foreign currencies.

b) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these appraisals are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. Further information concerning the most significant estimates and assumptions made by Management are set out below:

(i) Impairment of Loans

The Group reviews loans to customers on a regular basis for evidence of impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis (by industry and region of the

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borrower). When impairment is required to be recognised it is based for individually material loans on Management's estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Comprehensive Income for the year.

(ii) Impairment losses on receivables other than loans

The Group reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the statement of Profit or Loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows.

(iii) Fair values

Unless otherwise indicated, the financial instruments that the Group stated in the consolidated financial statements have been measured at fair value in accordance with IFRS 13 "Fair Value Measurement".
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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 addition, for financial reporting purposes, fair value measurements are categorised 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.

(iv) Related party transactions

In the normal course of business the Group enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non-market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non-related parties and effective interest rate analysis.

(v) Depreciation

The Group applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

The allowances for impairment of financial assets and provisions in the accompanying consolidated financial statements have 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 the future.

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c) Application of new and revised International Financial Reporting Standards (IFRSs)

New standards, interpretations and amendments effective from current year:

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became mandatory for implementation in the reporting period starting 1 January 2015 or later.

Amendments to IAS 19 «Defined Benefit Plans: Employee Contributions»

The Group has adopted amendments to IAS 19 «Defined Benefit Plans: Employee Contributions» for the first time. Prior to the application of the amendments the Group accounted the discretionary contributions of employees to the pension programs with defined benefit as a reduction of the cost of services when paying contributions to the program, and employees contributions under the terms of the program were accounted for as a reduction of cost of services in the period when the related services were rendered. The amendments require employees' contributions to be accounted for as follows:

- Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.
- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the Group reduces service cost in the period in which the related service is rendered.

The application of these amendments did not have a significant impact on the information disclosures nor on the amounts presented in the annual financial statements of the Group.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

In the current year the Group applied the amendments to IFRS included in the draft of Annual Improvements to IFRSs 2010-2012Cycle and 2011-2013 Cycle for the first time. One of the amendments require organizations to disclose the management's judgements in applying criteria for the aggregation of segments in accordance with point 12 od IFRS 8 "Operating segments". The Group has combined several operating segments into one reporting segment and disclosed the information in Note 28 in accordance with the amendment. Application of other amendments have not influenced the information disclosure nor the amounts presented in the annual financial statements of the Group.

New standards, interpretations and amendments issued but not yet effective

The Group did not apply the following new and revised IFRSs that are not yet mandatorily effective:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers*;
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 1 *Disclosure Initiative Operations*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- 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, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*;
- Annual amendments to IFRSs *Cycle 2012-2014.*

IFRS 9 Financial Instruments

The standard's updated version was issued in July 2014. The main changes relate to a) financial assets'impairment methodology; b) slight amendments to the classification and measurement by the way of adding a new category of financial instruments at "fair value throught other comprehensive income" (FVTOCI) for a certain type of simple debt instruments.

Main requirements of IFRS 9 are presented below:

- all recognised financial assets that are currently within the scope of IAS 39 "Financial instruments: recognition and measurement" must be subsequently measured at either amortised cost or fair value. In particular, debt instruments that are held within a business model whose objective is to collect the contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment). A debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI. All other debt and equity instruments are valued at FV. IFRS 9 also allows that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.
- Changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability are presented in other comprehensive income, unless the presentation of the effect of the change 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, there is now no need to wait for the event confirming high credit risk to recognize the impairment.
- The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as 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. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Group's Management expects IFRS 9 "Financial instruments" to have a significant impact of the financial assets and financial liabilities figures presented in the financial statements of the Group. At the same time a detailed analysis is needed for a reasonable assessment of the impact of IFRS 9 "Financial instruments".

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published in May 2015 and it established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Upon its effective date it will supersede the current standards regulating revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction contracts" and the according interpretations.

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The key principle of IFRS 15: IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In particular, the standard introduces a five-step model of revenue recognition:

- Stage 1: *Define the contract(s) with the customer;*
- Stage 2: *Define the contractual liabilities;*
- Stage 3: *Define the price of the deal;*
- Stage 4: *Dictribute the deal's price between the contractual liabilities, and*
- Stage 5: *Recognise the revenue when/as the contractual obligations are fulfilled by the organization.*

According to IFRS 15 the entity recognizes the revenue after/as the obligations are fulfilled, after the transfer of control of the relevant goods or services. IFRS 15 contains more detailed requirements in relation to the accounting of different types of deals. IFRS 15 requires the disclosure of a larger volume of information as well.

Management of the Group does not expect the application of IFRS 15 to have a significant impact on the amounts and dates of revenue recognition in the future due to the fact that IFRS 15 does not influence banks.

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 regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) 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.

Entities should apply the amendments prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses occurring from the beginning of annual periods beginning on or after 1 January 2016.

The Group's management expects that application of the amendments to IFRS 11 may have an impact on consolidated financial statements of the Group in future periods if such transactions occur.

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 1 explain how to put the concept of materiality to practice. These amendments are applicable for the annual reporting periods starting 1 January 2016 or later. The Group's management does not expect that application of these amendments to may have a material impact on consolidated financial statements of the Group.

Amendments to IAS 16 and IAS 38 «Clarification of Acceptable Methods of Depreciation and Amortisation»

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue;
- when it can be demonstrated that revenue and the 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 with earlier application permitted. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Management of the Group believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Management of the Group do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 "Agriculture"

Amendments to IAS 16 and IAS 41 "Agriculture" define horticultural crops and require biological assets, that fit to the definition, be recorded in accounting as property, plant and equipment according to IAS 16, not in compliance with IAS 41. Production by agricultural plants, as earlier, should be recorded in compliance with IAS 41.

Group's managers believes, that application of these amendments to IAS 16 and IAS 41 will not influence substantially on consolidated financial statements of the Group, because the Group does not implement the agricultural activity.

Amendments to IFRS 10 and IAS 28 «Sale or Contribution of Assets between an Investor and its Associate or Joint Venture»

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. IAS 28 and IFRS 10 are amended, as follows. 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 recognised 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 recognised 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 with earlier application permitted. The Group's management expects that application of the amendments to IFRS 11 may have an impact on consolidated financial statements of the Group in future periods if such transactions occur.

Amendments to IFRS 10, IFRS 12 and IAS 28 «Investment Entities: Applying the Consolidation Exception»

The amendments 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. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The Group's management does not expect that application of the amendments to IFRS 10, IFRS 12 and IAS 28 may have a material impact on consolidated financial statements of the Group as the Group is not an investment entity and do not have holding companies, subsidiaries, associates or joint ventures that meet the definition of an investment entity.

Annual amendments to IFRSs Cycle 2012-2014

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below.

Amendments to IFRS 5 contain guidance in circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa). Amendments clarify that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal. Consequently, requirements of IFRS 5 in respect of changes in plan of disposal are not applied. Amendments also contain guidance in circumstances in which an entity no longer meets the criteria for held for distribution.

Amendments to IFRS 7 provide additional guidance to determine whether the servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements.

Amendments to IAS 19 requires an entity to recognise a post-employment benefit obligation for its defined benefit plans. This obligation must be discounted using market rates on high quality corporate bonds or using government bond rates if a deep market for high quality corporate bonds does not exist. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The Group's management does not expect that application of the amendments to IFRSs may have a material impact on the annual financial statements of the Group.

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, and therefore, the Group ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations as at 31 December 2003 and further are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

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(in thousands of Russian Roubles)

e) *Reconciliation of RAS and IFRS equity and net income*

	31 December 2015		31 December 2014	
	Equity	Net profit	Equity	Net profit
RAS	**2,374,089**	**168,408**	**2,162,852**	**331,885**
Additional allowance for loans, investments in lease	149,762	(58,330)	140,911	(64,187)
Interest expense/income	63,426	35,943	26,101	1,054
Recovered fixed assets	34,282	15,109	31,477	12,748
Revaluation of fixed assets	26,783	13,563	28,261	(679)
Income tax expense	26,304	17,875	11,767	50,797
Reassessment of investments in financial lease	12,696	(10,001)	(13,792)	1,129
Recognition of financial assets at amortised cost	(17)	23	(40)	248
Write-off low value assets	(1,550)	(507)	(1,043)	(575)
Recognition of derivative financial instruments	(2,111)	(2,111)	-	157
Revaluation of securities for selling	(2,560)	-	-	-
Allowance for financial leasing	(3,733)	(2,890)	(843)	(843)
Revaluation of financial assets at fair value through profit or loss at fair value	(6,851)	69,683	(77,013)	(77,013)
Repairs of rented premises	(7,443)	(3,813)	(3,630)	384
Commission on guarantees issued	(8,501)	22,610	(31,111)	(22,730)
Deposit insurance system	(10,262)	(813)	(9,449)	(1,618)
Additional allowance for due from banks	(15,567)	(6,256)	(9,311)	(9,311)
Additional depreciation	(24,235)	(21,659)	(15,078)	(12,362)
Staff expenses	(26,974)	(1,200)	(25,774)	(4,926)
Additional allowance for other assets	(57,871)	13,359	32,440	(7,946)
Other	(1,723)	-	30,001	4
IFRS	**2,517,944**	**248,993**	**2,276,726**	**196,216**

f) *Offsetting*

Financial assets and liabilities are offset and the net amount is 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 either settle assets and liabilities net or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and other Comprehensive Income except when required or permitted by accounting standards or a related interpretation and such cases are disclosed in the Group's accounting policy.

4. Significant Accounting Policies

a) Consolidation

Subsidiaries and associates are represented by companies the financial and operational policies of which the Bank controls directly or indirectly. Subsidiaries are included in the consolidated financial statements from the date of transfer of control of their operations to the Group and are excluded from consolidated financial statements effective from the date of loss of control. Subsidiaries are included in the consolidated financial statements using the acquisition method. The cost of the acquisition is estimated at fair value of net assets for the date of the acquisition taking into consideration the cost of expenses for the company acquisition. The excess of acquisition cost over fair value of net assets acquired by the subsidiary is reflected as Goodwill. The transactions between companies of the Group, balances on corresponding accounts including the retained earnings and inter-company balances of the Group are excluded.

The accounting policies of the subsidiaries were changed wherever necessary in accordance with the policies of the Group.

b) Recognition of Financial Instruments

The Group recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Profit or Loss and other Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with CBRF

Mandatory balances represent mandatory reserve assets which 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 cash flow statement

e) Due from Banks

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

f) Financial Assets at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term

holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value.
All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Profit or Loss and other Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Profit or Loss and other Comprehensive Income as interest income on securities.

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Available for Sale ("AFS") financial assets

AFS financial assets are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly. AFS financial assets are initially recognised at cost (which includes transaction costs) and are subsequently valued at market value with gains and losses taken through the Statement of Changes in Equity except for losses arising from impairment.

When a decline in fair value of AFS financial assets has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the Statement of Profit or Loss and other Comprehensive Income. Impairment losses recognised in this way for equity instruments are not reversed through the Profit or Loss and other Statement of Comprehensive Income.

In exceptional cases when market value is not available they are carried at fair value as assessed by Management. All regular way purchases and sales of investment financial assets available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

h) Financial Assets Held to Maturity ("HTM")

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the consolidated financial statements. At each reporting date the Group also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of Profit or Loss and other comprehensive income for the period.

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as

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appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

k) Loans and Advances to Customers

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Profit or Loss and other Comprehensive income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

l) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;

- Deterioration of the borrowers' competitive position;
- Deterioration in the value of collateral;
- Information on the extent and tendency to violations of the conditions of the contract for similar financial assets by the issuer or borrower; and
- Downgrading in the CBR credit rating below III category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss and other Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Profit or Loss and other Comprehensive Income in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Profit or Loss and other Comprehensive Income – is removed from equity and recognised in the Statement of Profit or Loss and other Comprehensive Income. Impairment losses recognised in the Statement of Profit or Loss and other Comprehensive Income on equity instruments are not reversed through the Statement of Profit or Loss and other Comprehensive Income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Profit or Loss and other Comprehensive Income, the impairment loss is reversed through the Statement of Profit or Loss and other Comprehensive Income.

(iii) Renegotiated loans

When possible, the Group seeks to restructure loans rather than seizing collateral. Such restructuring may include an extension of maturity term and the arrangement of new loan conditions. After the renegotiation the loan is no longer overdue. Management continually reviews renegotiated loans to ensure that all conditions are met and and future payments are likely to occur. The loans continue to be reviewed for impairment individually or collectively.

m) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The recognised amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4l. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

n) Property, Plant and Equipment

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Profit or Loss and other Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the

"Мазар Аудит" "Mazars Audit" ИНН 7707835399 МОСКВА balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicles	3 – 7

Land belonging to the Group on the basis of the right of ownership is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Profit or Loss and other Comprehensive Income in line "Gains less losses from disposal of property, plant and equipment" at the moment of their occurence.

o) Investment Property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered appraiser. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Profit or Loss and other Comprehensive Income.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

p) Operating Leases

Leases of assets under which all the risks and rewards of ownership are retained by the lessor are classified as operating leases.
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Profit or Loss and other Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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q) Financial Leasing

In case the Group acts as a lessor, the discounted cost of leasing payments ('net investments in leasing') correspond to claims on receiving lease payments and are represented in the article "Net investments in financial leasing". The discrepancy between gross amount of claims on receiving lease payments and their discounted cost is disclosed as unearned finance income.

Leasing income is distributed over the course of the leasing period using the method of effective interest rate, which reflects a constant rate of profitability. Leasing income is reflected in consolidated Statement of Profit or Loss and other Comprehensive Income under "Interest income from leasing Investments". Net investments to financial leasing are reflected in the Statement of Financial Position less allowance for their impairment.

r) Due to Banks and Customers Accounts

Amounts due to credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of Profit or Loss and other Comprehensive Income over the period of borrowings using the effective interest method.

s) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

t) Provisions

Provisions for legal claims or other purposes are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to passage of time is recognised as interest expense.

u) Retirement and Other Benefit Obligations

Employee benefits in respect of services rendered during the reporting period, including accrued vacation pay and bonuses, as well as the corresponding payroll taxes, are recognized as an expense in the period in which they arise.

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

v) Share Capital

Share capital, share premium and treasury shares are recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

w) Dividends

Dividends are recognised as a reduction in equity in the period in which they are paid. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Group are the basis for profit distribution and other appropriations.

x) Taxation

The income tax charge in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

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

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

y) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the Statement of Profit or Loss and other Comprehensive Income using the effective interest method.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

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y) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Profit or Loss and other Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2015 and 31 December 2014 were 72.8827 RUB and 56.2584 RUB to 1 USD, respectively, and 79.6972 RUB and 68.3427 RUB to 1 EUR, respectively.

5. Cash and Cash Equivalents

	2015	2014
Cash on hand	785,080	729,500
Cash balances with the CBRF (other than mandatory reserve deposits)	318,822	442,587
Correspondent accounts with other banks		
Russian Federation	58,825	90,976
Other countries	154,664	47,141
	213,489	138,117
Other market placements	269,327	173,389
	1,586,718	**1,483,593**

As at 31 December 2015 the aggregate amount of NOSTRO accounts with the biggest counterparty (VTB BANK (DEUTSCHLAND) AG) amounted to 154,664 or 72.45% of total NOSTRO accounts (2014: OCB "Metallurgicheskyi Investitsionnyi Bank" (PJSC) 75,711 or 54.82%).

As at 31 December 2015 most of the balances of Other market placements are placements in NSCA "Payment Center" (LLC) amounted to 256,688 or 95.31% (2014: in NSCA "Payment Center" (LLC) 136,243 or 78.58%).

Information about the credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	2015	2014
Rated BBB	22,921	-
Rated BB+	39	58,493
Rated BB	166,666	-
Rated BB-	1,222	97
Rated B	22,639	78,997
Other (including banks that do not have a credit rating)	2	530
	213,489	**138,117**

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 29.

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6. Mandatory balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Group's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from Banks

	2015	2014
Interbank loans	200,000	100,000
Promissory notes of credit institutions	72,110	-
Correspondent accounts with limited rights of use	67,692	29,880
Security deposits in other credit institutions	3,479	3,362
	343,281	**133,242**
Provision for impairment	(15,567)	(9,311)
	327,714	**123,931**

As at 31 December 2015 promissory notes of credit institutions were included into due from banks, the maturity date of promissory notes are from 07.01.16 to 11.04.16, nominal rates of interest are 5.55% and 14.00%.

As at 31 December 2015 the aggregate amount of due from banks balances with the biggest counterparty (JSC "Sberbank" 100,000 and PJSC "Bank Otkritie Financial Corporation" 100,000) amounted to 200,000 or 61.03% of total due from banks.

As at 31 December 2015 the provision for impairment is created in the amount of 100.00% on balances in the amount of 15,567 in KB "SB Bank" (LLC).

As at 31 December 2014 the aggregate amount of due from banks balances with the biggest counterparty (JSC "Sberbank") amounted to 100,000 or 80.69% of total due from banks.

As at 31 December 2014 the provision for impairment is created in the amount of 100.00% on balances in the amount of 9,311 in KB "SB Bank" (LLC).

Movements in the allowance for impairment due from banks are disclosed in Note 24.

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 29.

(in thousands of Russian Roubles)

8. Financial Assets at Fair Value through Profit or Loss

	2015	2014
Credit organisation bonds	1,273,360	1,073,118
Corporate bonds	929,954	421,950
Government and municipal bonds	493,352	391,958
Promissory notes	-	282,388
Eurobonds	455,651	218,500
Corporate equity securities	1,910	1,845
Shares in credit organizations	1,188	1,651
	3,155,415	**2,391,410**

The following table provides details of the Group's FVPL securities portfolio as at 31 December 2015:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Credit organizations bonds	18.08.2016	11.11.2025	8.25	18.5	B+	BBB-
Corporate Bonds	23.09.2016	07.11.2028	7.7	18.75	B+	BBB-
Government and municipal bonds	20.05.2016	23.06.2021	6.2	12.65	Without rating	BBB-
Eurobonds	31.01.2016	27.12.2017	4.95	8.5	BB-	BBB-

As at 31 December 2014 promissory notes comprise promissory notes issued by leading credit institutions of Russia nominated in roubles with coupon rates from 10.25% to 22.00% and maturity from 15 January 2015 till 25 March 2015.

The following table provides details of the Group's FVPL securities portfolio as at 31 December 2014:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Credit organizations bonds	03.03.2015	07.10.2024	7.7	12	B	BBB+
Corporate Bonds	21.09.2015	07.11.2028	7.7	9.5	Without rating	BBB
Government and municipal bonds	20.05.2016	31.07.2020	7.95	11.5	B+	BBB-
Eurobonds	25.04.2017	30.06.2035	6.25	9.25	B	B+

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. The hierarchy is as follows:

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• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2015 based on data obtained from the sources of information about their fair values:

	Level 1	Level 3	Total
Credit organisations bonds	1,273,360	-	**1,273,360**
Corporate Bonds	929,954	-	**929,954**
Government and municipal bonds	493,352	-	**493,352**
Promissory notes	-	-	**-**
Eurobonds	455,651	-	**455,651**
Corporate equity securities	1,908	2	**1,910**
Shares of credit organizations	1,188	-	**1,188**
	3,155,413	**2**	**3,155,415**

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2014 based on data obtained from the sources of information about their fair values:

	Level 1	Level 3	Total
Credit organisations bonds	1,073,118	-	1,073,118
Corporate Bonds	421,950	-	421,950
Government and municipal bonds	391,958	-	391,958
Promissory notes	-	282,388	282,388
Eurobonds	218,500	-	218,500
Corporate equity securities	1,841	4	1,845
Shares of credit organisations	1,651	-	1,651
	2,109,018	**282,392**	**2,391,410**

(in thousands of Russian Roubles)

Reconciliation of Level 3 items in 2015 is presented below:

	Promissory notes	Corporate equity securities	Total
At 1 January 2015	**282,388**	**4**	**282,392**
Profit or loss (accrued income)	27,770	-	27,770
Revaluation because of changes foreign rates of exchange	21,077		21,077
Purchases	504,638	-	504,638
Settlements	(835,873)	(2)	(835,875)
At 31 December 2015	**-**	**2**	**2**

Reconciliation of Level 3 items in 2014 is presented below:

	Promissory notes	Corporate equity securities	Total
At 1 January 2014	**88,708**	**4**	**88,712**
Profit or loss (accrued income)	11,954	-	11,954
Purchases	641,256	-	641,256
Settlements	(459,530)	-	(459,530)
At 31 December 2014	**282,388**	**4**	**282,392**

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 29.

9. Financial Assets Available for sell

	2015	2014
Corporate Bonds	41,383	-
Eurobonds	47,851	-
	89,234	**-**

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The following table provides details of the Group's securities held for selling as at 31 December 2015:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Government and municipal bonds	15.10.2025	15.10.2025	12.3	12.3	BB	BB
Corporate Bonds	13.02.2018	13.02.2018	7.75	7.75	BB+	BB+

As at 31 December 2015 Financial Assets Held for selling, according to sources of information about their fair value, apply to Level 1.

10. Financial Assets Held to Maturity

	2015	2014
Government and municipal bonds	2,501	13,847
	2,501	**13,847**

The following table provides details of the Group's HTM securities as at 31 December 2015:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Government and municipal bonds	29.11.2016	29.11.2016	8.5	8.5	BB+	BB+

The following table provides details of the Group's HTM securities as at 31 December 2014:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Government and municipal bonds	05.11.2015	29.11.2016	8.75	9	BB+	BB+

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 29.

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11. Loans and Advances to Customers

	2015	2014
Loans to individuals		
- Consumer credits	2,553,373	2,272,277
- Credit on property	457,523	455,639
- Overdrafts	212,315	163,621
- Other	48	-
Gross loans and advances to customers	**3,223,259**	**2,891,537**
Loans to legal entities		
- Loans to small and medium enterprisers	5,408,652	6,077,629
- Loans to major corporate clients	2,436,093	2,033,298
- Federal and state structure, local government	734,625	
- Factoring	52,895	92,407
- Other	84,783	81,492
Gross loans and advances to legal entities	**8,717,048**	**8,284,826**
Gross loans and advances (before allowance for impairment)	**11,940,307**	**11,176,363**
Less: Allowance for impairment	**(1,527,643)**	**(1,034,214)**
	10,412,664	**10,142,149**

As at 31 December 2015 Loans and Advances to Customers included 6 clients, whose debts less the allowance impairment on loans in amount of 10% and more by the Group's capital, the general amount of debt was 1,892,651 (2014: 2 clients - 628,229).

The aggregate value of collateral received by the Group in respect of its lending operations amounts to 13,591,998 (2014: 13,097,327).

In the normal course of business the Group sells mortgage loans to LLC "Regional Investment Agency" (41.91% of total sales in 2015) and OJSC "Kirov Regional Mortgage Corporation (58.09% of total sales in 2015).

(in thousands of Russian Roubles)

The loan portfolio has been assigned to finance the following economic sectors:

	2015		2014	
Sector	**Amount**	**Provision**	**Amount**	**Provision**
Individuals	2,765,736	418,147	2,435,897	268,917
Trade	2,709,171	340,627	3,216,387	213,509
Manufacturing industry	2,165,517	158,556	1,857,333	94,021
Construction	1,119,923	159,504	1,171,134	56,115
Municipal operation organs	734,625	34,228	-	-
Operations with immovable property, lease	547,660	122,858	609,508	96,741
Agriculture	415,080	25,645	326,542	16,792
Transport and communication	371,907	185,818	530,948	212,594
Production and distribution of electricity, gas and water	156,079	32,781	75,271	29,228
Light industry	113,087	3,393	188,640	5,972
Medicine and tourism	80,938	4,490	11,247	562
Hotels	75,292	7,336	77,447	3,872
Car manufacturing	66,837	2,009	62,658	1,880
Maintenance of residential properties	61,646	3,082	26,551	1,328
Timber	41,885	19,674	71,608	18,175
Financial	26,269	1,351	27,476	1,374
Social and personal services, culture	16,777	856	19,022	1,493
Fuel and energy sector	6,321	316	8,678	1,242
Chemical	2,914	87	-	-
Publishing	1,903	57	338	17
Polygraph	1,042	1,001	998	981
Professional legal assistance	1,007	1,007	936	834
Sport	660	33	968	48
Insurance	196	196	196	196
Education	174	9	365	18
Security services	138	7	576	29
	11,482,784	**1,523,068**	**10,720,724**	**1,025,938**
Mortgage loans for sale	457,523	4,575	455,639	8,276
	11,940,307	**1,527,643**	**11,176,363**	**1,034,214**

Loans classified as current and unimpaired that had been subject to re-negotiation and would otherwise had been categorised as overdue comprised 47 loans for a total amount of 53,329 (2014: 10 loans for a total amount of 60,293).

Movements in the allowance for impairment on loans to customer are disclosed in Note 24.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. Information on loans provided by the Group to related parties is disclosed in Note 31.

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12. Net Investment in Financial Lease

	2015	2014
Minimum lease payments to be received	134,447	265,972
Less: future interest	(23,018)	(55,874)
	111,429	**210,098**
Less provision for losses	**(3,733)**	**(843)**
	107,696	**209,255**

The future minimum lease payments at 31 December 2015 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	78,853	62,836
Between 1 and 5 years	55,594	48,593
	134,447	**111,429**

The future minimum lease payments at 31 December 2014 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	125,547	92,041
Between 1 and 5 years	140,425	118,057
	265,972	**210,098**

13. Other Assets

	2015	2014
Debtors and prepayments	69,694	76,178
Repossessed collateral	60,925	180,750
Settlements with the budget	14,206	8,188
Other	8,212	2,863
	153,037	**267,979**
Less: Provision for impairment	(46,937)	(43,274)
	106,100	**224,705**

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land, which were obtained by the Group as repossessed collateral in respect of making recoveries for its lending operations for a total of 37,774 (2014: 149,437). These assets are considered for selling in future.

(in thousands of Russian Roubles)

As at 31 December 2015 part of assets costed 241,501, applied to repossessed collateral, was reclassified in investment properties Note 14.
As at 31 December 2015 debtors and prepayments included receivables by four suppliers of properties according to agreements of financial lease with LLC "Leasing-Khlynov" on 26,542. The allowance for impairment was 100%.

Movements in the allowance for impairment on other assets are disclosed in Note 24.

Geographical, currency and maturity analyses of other assets are disclosed in Note 29.

14. Property, Plant and Equipment

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost or valuation							
31 December 2013	**3,787**	**310,533**	**14,470**	**95,477**	**56,556**	**209**	**481,032**
Additions	-	760	2,005	17,955	10,349	-	**31,069**
Transfer	-	-	-	-	-	-	**-**
Disposals	-	-	(10,474)	(1,235)	(1,269)	(209)	**(13,187)**
Revaluation	-	4,953	-	-	-	-	**4,953**
Modernisation	-	-	-	-	-	-	**-**
31 December 2014	**3,787**	**316,246**	**6,001**	**112,197**	**65,636**	**-**	**503,867**
Additions	-	840	76	29,948	7,274	-	**38,138**
Transfer	-	-	-	3,465	(3,465)	-	**-**
Disposals	-	-	-	(870)	(1,956)	-	**(2,826)**
Revaluation	-	(8,466)	-	-	-	-	**(8,466)**
Modernisation	-	-	-	-	-	-	**-**
31 December 2015	**3,787**	**308,620**	**6,077**	**144,740**	**67,489**	**-**	**530,713**
Depreciation							
31 December 2013	-	**(20,616)**	**(5,785)**	**(43,754)**	**(40,128)**	**-**	**(110,283)**
Charge for the year	-	(5,231)	(2,389)	(19,130)	(6,158)	-	(32,908)
Depreciation of revalued part	-	(571)	-	-	-	-	(571)
Disposals	-	-	4,190	1,145	1,266	-	6,601
31 December 2014							
Charge for the year	-	**(26,418)**	**(3,984)**	**(61,739)**	**(45,020)**	**-**	**(137,161)**
Depreciation of revalued part	-	(11,327)	(1,347)	(27,308)	(6,013)	-	(45,995)
Disposals	-	683	-	-	-	-	683
	-	-	-	870	1,891	-	2,761
31 December 2015	-	**(37,062)**	**(5,331)**	**(88,177)**	**(49,142)**	**-**	**(179,712)**
Net Book Values							
31 December 2015	**3,787**	**271,558**	**746**	**56,563**	**18,347**	**-**	**351,001**
31 December 2014	**3,787**	**289,828**	**2,017**	**50,458**	**20,616**	**-**	**366,706**
31 December 2013	**3,787**	**289,917**	**8,685**	**51,723**	**16,428**	**209**	**370,749**

(in thousands of Russian Roubles)

Property, plant and equipment was insured to a value of 45,069 (2014: 41,959).

On 31 December 2015 the Group revalued buildings held by and used by the Group. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

If buildings had been carried at historical cost the carrying value would be 183,380 (2014: 182,540).

On 31 December 2015 the property, plants and equipment in amount 90,427 were fully depreciated (2014: 69,454).

On 31 December 2015 and 31 December 2014 the Group didn't transfer any property, plants and equipment's as collateral.

	Investment properties
Cost or Valuation	
31 December 2013	**3,059**
Additions	-
Transfer	1,341
Disposals	-
Revaluation	(44)
31 December 2014	**4,356**
Additions	-
Transfer	241,501
Disposals	-
Revaluation	18,499
31 December 2015	**264,356**

The Group revalued investment property on 31 December 2015. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

Accounting of investment property is carried at fair value, therefore no depreciation is charged during 2015 and 2014.

Investment properties consist of 7 premises, 26 buildings, bus stop, transforming substation, railway, 18 land properties (2014: 2 premises), the first one was purchased under contract of sale, other properties were repossessed by the Group in respect of making recoveries for its lending operations. As at the reporting date 2 premises, 6 buildings, 1 land property, bus stop, transforming substation are leased to third parties.

On 31 December 2015 in investment properties from other assets (Repossessed collateral) objects were carried on 241,501. The revaluation was made on the basis of open market value 18,499.

Rental income from investment properties was 648 (2014: 0). Direct operating expenses related to investment properties amounted to 654 in the year 2015 (2014: 64).

15. Due to Banks

	2015	2014
Due from other banks	430,243	354,318
VOSTRO accounts	1,123	3,298
Due from CBR	-	-
	431,366	**357,616**

(in thousands of Russian Roubles)

As at 31.12.2015 and 31.12.2014 100% of the current term loans and deposits from other banks were represented by loans from OJSC "MSP Bank". Loans of OJSC "MSP Bank" are granted to finance lending to SMEs, providing the Bank meets the covenants of the rates of the funds, and of intended purpose utilization of the funds by SMEs (modernization of production, property, new equipment acquisition). Early termination of the loans is unlikely.

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 29.

16. Customer accounts

	2015	2014
Individuals		
Current accounts	1,015,819	706,247
Term deposits	9,162,827	8,086,870
	10,178,646	8,793,117
Other legal entities		
Current accounts	1,959,499	2,190,762
Term deposits	1,069,235	1,084,698
	3,028,734	3,275,460
State and budgetary organisations		
Current accounts	84,021	43,377
Term deposits	22,892	52,112
	106,913	95,489
	13,314,293	**12,164,066**

The breakdown of customer accounts per sector is presented in the following table:

	2015		2013	
	Amount	%	Amount	%
Individuals	10,178,646	76.5	8,793,117	72.3
Trade	950,363	7.1	958,426	7.9
Services	620,211	4.7	692,423	5.7
Industry	572,413	4.3	718,285	5.9
Construction	548,868	4.1	630,572	5.2
Transport and telecommunication	216,764	1.6	163,409	1.4
Agriculture	67,984	0.5	28,678	0.2
Financial	50,059	0.4	63,428	0.5
Health facilities	44,528	0.3	25,318	0.2
Education	20,045	0.2	23,567	0.2
Insurance	909	0.0	2,960	0.0
Fuel and energy	78	0.0	3,552	0.0
Other	43,425	0.3	60,331	0.5
Total customer accounts	**13,314,293**	**100.0**	**12,164,066**	**100.0**

On 31 December 2015 and on 31 December 2014 the Group did not have clients, who had balances on customer accounts in amount of 10% and more of Group's capital.

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 29. Balances of term deposits and current accounts of related parties are disclosed in Note 31.

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17. Debt securities issued

	2015	2014
Promissory notes	18,594	132,076
	18,594	**132,076**

As at 31 December 2015, promissory notes issued by the Group were held by 50 investors, the maximum share of one investor in total amount of issued promissory notes is 22.10% (2014: the maximum share of one investor in total amount of issued promissory notes is 74.83%. Promissory notes were purchased by 12 investors).

As at 31 December 2015 promissory notes issued in amount of 18,594 were used as guarantee of given by the Group bank guarantees (as at 31 December 2014: 131,558).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 29.

18.Taxation

The corporate income tax expense comprises:

	2015	2014
Current tax charge	94,278	100,693
Deferred tax relating to the origination and reversal of temporary differences	(17,875)	(50,797)
	76,403	**49,896**

The corporation tax rate applicable to the majority of the Group's income was 20% for 2015 (2014: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

	2015	2014
Profit before tax	**325,396**	**246,112**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	65,079	49,222
Tax on state securities income taxable at different rates	(3,103)	(2,254)
Nontaxable items	14,427	2,928
	76,403	**49,896**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2014: 20%).

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Deferred tax assets and (liabilities) comprise as at 31 December 2015:

Tax effect of deductible temporary differences	2015	Taken to equity	Movement in SOCI	2014
Assets				
Premises and equipment	(21,771)	(2,560)	5,519	(24,730)
Financial assets at fair value through profit or loss	(5,055)	-	(23,716)	18,661
Financial assets held for selling	(11)	5	(16)	-
Financial assets held to maturity	(4,208)	-	(3,966)	(242)
Loans and advances to customers	14,486	-	19,801	(5,315)
Due from banks	(4,521)		(4,521)	-
Investments in financing leasing	4,938	-	398	4,540
Investment properties	(4,155)	-	(4,010)	(145)
Debtors and prepayments	3,005	-	1,511	1,494
Obligations				
Provisions for impairment on loans and promissory notes	19,362	-	45,705	(26,343)
Provisions for impairment on other assets	(9,691)	-	(17,404)	7,713
Personnel expenses	-	-	(5,155)	5,155
Other	17,823	-	3,729	14,094
	10,202	**(2,555)**	**17,875**	**(5,118)**

Deferred tax assets and liabilities comprise as at 31 December 2014:

Tax effect of deductible temporary differences	2014	Taken to equity	Movement in SOCI	2013
Assets				
Premises and equipment	(24,730)	(8,057)	(2,320)	(14,353)
Financial assets at fair value through profit or loss	18,661	-	18,661	-
Financial assets held to maturity	(242)	-	(242)	-
Loans and advances to customers	(5,315)	-	(5,315)	-
Investments in financing leasing	4,540		422	4,118
Investment properties	(145)	-	(145)	-
Debtors and prepayments	1,494	-	(7,972)	9,466
Obligations				
Provisions for impairment on loans and promissory notes	(26,343)	-	38,639	(64,982)
Provisions for impairment on other assets	7,713	-	7,713	-
Personnel expenses	5,155	-	5,155	-
Other	14,094	-	(3,799)	17,893
	(5,118)	**(8,057)**	**50,797**	**(47,858)**

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19. Other Liabilities

	2015	2014
Deferred revenues	61,175	23,799
Other borrowings	50,000	-
Accounts payable	42,763	47,775
Accounts payable to staff	27,050	19,905
Operating taxes payable	18,903	21,899
Deferred income on guarantees issued	8,501	24,992
SWAP	2,111	-
Other	2,121	2,128
	212,624	**140,498**

Other borrowings are the loan of LLC "Leasing-Khlynov", received from LLC "Vytski Privoz" for 1 year, interest rate is 14%.

Geographical, currency and maturity analyses of other liabilities are detailed in Note 29.

20. Share capital

Statutory share capital authorised, issued and fully paid comprises:

	2015			2014		
	Number of shares ('000)	Par value	Value	Number of shares ('000)	Par value	Value
Common shares	12,100	0.05	605,000	12,100	0.05	605,000
Repurchased shares			(6,915)			(6,915)
IAS 29 adjustments			22,198			22,198
Total share capital			**620,283**			**620,283**

All ordinary shares have a nominal value of RUB 50 (not thousands) per share, rank equally and carry one vote. In 2015 no dividends were declared (2014: no dividends).

In 2015 and 2014 the Group did not increase share capital.

	2015	2014
Dividends payable at 1 January	-	13
Dividends declared during the year	-	-
Dividends paid during the year	-	(5)
Write-off of expired dividends	-	(8)
Dividends payable at 31 December	**-**	**-**

All dividends are paid and declared in Russian Roubles.

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Shareholders of the Group were as follows:

Shareholder	**2015** %	**2014** %
Rekha Holdings Limited	20.0	20.0
LLC «Strike»	10.0	10.0
LLC «Monolit»	10.0	10.5
Quest Advisory Restructing Ltd.	9.3	9.3
LLC «Avangard»	8.9	8.9
LLC «Konkurent»	8.8	8.8
LLC Norma	8.4	8.4
LLC «Standart»	7.8	7.8
LLL «NTI»	6.6	6.6
Individuals with less than 5% each (132)	7.8	8.1
Legal entities with less than 5% each (15)	2.4	1.6
	100.0	**100.0**

The control of Rekha Holdings Limited was implemented by Renfin Limited Fund. Renfin Limited Fund consists of major quantity of institutional and particular investors.

21. Commitments and Contingencies

Legal actions

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

Operating lease commitments

The following are the minimal amounts payable under non-cancellable operating leases over the relevant time periods where the Group acts as a tenant:

	2015	**2014**
Not later than 1 year	29,677	33,823
Later than 1 year and not later than 5 years	56,708	58,228
Later than 5 years	2,510	4,957
	88,895	**97,008**

Capital commitments

As at 31 December 2015 and 31 December 2014 the Group had not entered into any capital commitments which would require disclosure or recognition in the consolidated financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

Credit related commitments comprise:

	2015	2014
Undrawn loan commitments	689,448	485,168
Unused limits of overdrafts	517,111	483,407
Guarantees	1,426,211	1,196,591
Unutilized limits of guarantees	50,052	24,949
Letter of credit	-	16,450
	2,682,822	**2,206,565**

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2015 the Group had 7 financial instruments - SWAP transactions (2014: no financial instruments).

	Notional amount		Fair value		CBRF rate	
	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Buy RUB sell USD рублей						
Less than one month	182,207	-	(1,240)	-	72.8827	56.2584
Buy RUB sell EUR						
Less than one month	119,546	-	(871)	-	79.6972	68.3427

As at 31 December 2015 the corresponding fair value income (2,111) and liability 2,111 has been recorded in statement of Profit and Loss and other comprehensive income and in other liabilities.

22. Investment in subsidiaries

As at 31 December 2015 and 31 December 2014 the Bank had one consolidated subsidiary,LLC "Leasing-Khlynov" , a Russian domiciled company specialising in the provision of leasing services. As at 31 December 2015 and 31 December 2014 the Group's shareholding in the subsidiary was 100%.

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23. Investment in unconsolidated structured entities

In August 2014 LLC "Khlynov-Invest" was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of "Khlynov-Invest" are real estate transactions, including the enforcement of claims received from the Bank through novation agreements. The main source of financing of LLC "Khlynov-Invest" are loans from the Bank.

Due to the fact that the total assets of "Khlynov-Invest" is less than 1% of the total assets of the Bank, the impact of the reported data of "Khlynov-Invest" on the Group's consolidated financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.

Information about the carrying value of assets and liabilities, income and expenses of "Khlynov-Invest", recognized in the consolidated financial statements of the Group is presented below:

Consolidated Statement of financial position as at 31 December 2015

	31 December 2015
Assets	
Financial assets at fair value through profit or loss	
Loans and advances to customers	2
Total Assets	**2**
Liabilities	
Customer accounts	625
Total Liabilities	**625**
Credit related commitments	**22**

Consolidated Statement of profit or loss and comprehensive income for the period ended 31 December 2015

	2015
Interest income	
Loans and advances to legal entities	631
Net interest income	**631**
Provision for impairments on loans and advances to customers	(19,408)
Net interest income less after provision for losses	**(18,777)**
Commission income less commission expenses	17
Other operation income	4
Administrative and other operating expenses	(2,542)
Operating expenses	**(21,298)**
Profit for the period	**(21,298)**
Total comprehensive income for the year	**(21,298)**

Consolidated Statement of financial position as at 31 December 2014

	31 December 2014
Assets	
Financial assets at fair value through profit or loss	2
Loans and advances to customers	7,350
Total Assets	**7,352**
Liabilities	
Customer accounts	3
Total Liabilities	**3**
Credit related commitments	**-**

Consolidated Statement of profit or loss and comprehensive income for the period ended 31 December 2014

	2014
Interest income	
Loans and advances to legal entities	562
Net interest income	**562**
Provision for impairments on loans and advances to customers	8 087
Net interest income less after provision for losses	**8 649**
Commission income less commission expenses	13
Other operation income	19
Administrative and other operating expenses	(1,709)
Operating expenses	**(6,972)**
Profit for the period	**(6,972)**
Total comprehensive income for the year	**(6,972)**

The Group is not exposed to any other risks other than credit risk in respect of LLC "Khlynov-Invest".

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24. Allowance for Impairment

The movements in allowance for impairment of assets were as follows:

	Due from Banks	Loans and advances to customers	Invest-ments in lease	Other assets	Total
At 31 December 2013	**-**	**902,800**	**-**	**25,925**	**928,725**
Charge	9,311	238,806	843	18,555	267,515
Written-off	-	(107,392)	-	(1,206)	(108,598)
At 31 December 2014	**9,311**	**1,034,214**	**843**	**43,274**	**1,087,642**
Charge	6,256	512,462	2,890	5,166	526,774
Written-off	-	(19,033)	-	(1,503)	(20,536)
At 31 December 2015	**15,567**	**1,527,643**	**3,733**	**46,937**	**1,593,880**

Allowance for losses on debit balance sheet items are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of an authorised body of the credit institution and, in certain cases, based on the authorized government body.

25. Gains less Losses from Trading with Securities

Gains less Losses from trading with securities comprises of the following elements:

	2015	2014
Fair value adjustments	95,907	(125,738)
Gains less losses from sales and redemptions	9,539	(8,461)
Other gain from trading with securities	(1,015)	27
	104,431	**(134,172)**

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26. Commission Income and Expenses

	2015	2014
Commission income		
Commission from payment operations	193,853	188,563
Cash operations	115,373	120,310
Commission from transaction with plastic cards	51,643	32,759
Commission on guarantees	47,002	16,692
Commission from insurance companies	43,398	54,314
Commission from loans to customers	4,685	4,263
Commission on other operations	1,117	685
	457,071	**417,586**
Commission expense		
Commission from transaction with plastic cards	(47,711)	(15,405)
Commission from payment operations	(15,807)	(16,332)
Commission on collection	(6,540)	(6,824)
Insurance premium for creditor life insurance	(4,051)	(4,981)
Cash operations	(749)	(1,102)
Commission on mortgages sale	-	(1,517)
Commission on transaction with securities	(516)	(591)
	(75,374)	**(46,752)**
	381,697	**370,834**

27. Staff, Administration and Other Operating Costs

	2015	2014
Salaries	(224,156)	(201,670)
Bonuses	(134,382)	(121,375)
Social funds	(98,761)	(86,424)
	(457,299)	**(409,469)**
Deposit insurance system payment	(39,064)	(35,841)
Buildings and land rent	(33,526)	(28,577)
Software expenses	(32,977)	(24,074)
Taxes other than income tax	(27,877)	(23,011)
Advertising and marketing	(23,523)	(26,067)
Maintenance of building	(19,274)	(14,692)
Stationery and personal computers	(18,740)	(14,304)
Repair of fixed assets	(16,045)	(25,146)
Postage, telephone, telegraph expenses	(13,624)	(11,422)
Related to computers, ATMs, vehicles and information service	(11,002)	(6,945)
Security	(9,938)	(9,564)
Printing expenses, document processing	(8,087)	(5,353)
Personnel training, travel and representative expenses	(6,092)	(4,927)
Collateralized property	(5,781)	-
State duty paid	(3,405)	(19,813)
Insurance of property	(539)	(432)
Rating	(212)	(213)
Personnel insurance	(104)	(39)
Write-off of doubtful accounts	(8)	(183)
Other	(17,771)	(30,784)
	(287,589)	**(281,387)**

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28. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms' length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Group, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment.

Although, for estimating the fair value of financial instruments, management uses the most up to date market information, it may not always represent the value that can be realized in current conditions.

Financial instruments held at fair value

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

For some securities external market quotes are not available. The fair value of such assets was measured according to the results of recent sale of shares to third parties, analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions

The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity. Management considers that the fair value of due from financial institutions does not differ from their book value as at 31 December 2015 and 31 December 2014. This is explained by an existing practice of revising the interest rates to reflect current market conditions, because of which, interest on the majority of balances are accrued under market interest rates.

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Management considers that the fair value of loans and advances to customers did not differ significantly from their book value as at 31 December 2015 and 31 December 2014. This is explained by an existing practice of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.

29. Financial Risk Management

Main risks

Considering the structure and the nature of the Group's activities it is mainly influenced by banking risks (the possibility of losses due to occurrence of adverse events related to the internal and / or external factors' impact inherent in banking activities).

In accordance with the Letter of the Bank of Russia dated 23 June 2004 № 70-T "On typical banking risks" the Group considers credit risk, liquidity risk, market risk (including currency, interest rate and stock market risks), operational risk, reputation risk, legal and strategic risks as the main types of risk that the Group undertakes.

The sources of occurrence of the most significant risks of the Group are:

For credit risk - late and / or incomplete execution of the counterparty's (debtor's) obligations to the Bank / Lease company under the contracts;

For liquidity risk - the imbalance of financial assets and liabilities or unexpected need for immediate and one-off performance of the Group of its financial obligations;

For market risk - adverse changes in the market value of the financial instruments of the trading portfolio of the Group (under the influence of factors related to both the issuers and the general fluctuations in market prices), as well as foreign exchange rates for open positions of the Group;

For interest rate risk of the Group's portfolio - adverse changes in interest rates of assets, liabilities and off-balance sheet instruments of the Group;

For operational risk - the discrepancy nature and scale of the Group's operations or the requirements of current legislation of internal rules and procedures of banking operations and other transactions, their violation by the Group 's employees or other persons, the lack of features of information, technological and other systems used by the Group or violation of their functioning, the impact of external events.

The main provisions of the strategy in the field of risk and capital management

As the main strategic goal of risk management and capital preservation the Group sees maintaining business and strengthening its position in the market by improving the quality of its corporate governance and internal processes. The most important task in this context is to ensure sufficient stocks of the economic capital of the Group, which will cover both receiving and previously adopted risks without the threat of termination of the activity, as well as ensuring an adequate supply of liquidity in the face of increasing market volatility.

In order to ensure an effective system of risk management and capital management the Group develops and implements:

- a documented risk management policy at the Group level defining goals and objectives of the risk management system, the key principles of organization and operation of said system;
- a set of guidelines governing the interaction of units and personnel in the implementation of the risk management process in the context of each type of risk, penalties for non-compliance with the established limits, restrictions or other regulations controlling risks;
- internal capital adequacy assessment procedures adopted to cover the potential risks of the Group;
- a system of methods for calculating the level of risk by risk objects, with an indication of risk mitigation techniques;
- information technologies of management accounting, data collection and processing;

- systems of stress testing portfolios and the Group 's operations on exposure to unlikely but significant in terms of potential loss events;
- contingency plans to restore the activity of the Group in the event of an emergency contingency.

The main objectives of the risk management of the Group:

- Maintaining received risk at a level consistent with the strategic objectives of the Group;
- Maximizing the profitability of the business lines of the Group to the level of risk taken on by the Group;
- ensure safety of assets and capital in the implementation of adverse events for the Group.

Thus, the basis of the Group's risk management system are the prudential requirements of the Bank of Russia, as well as internal risk management approaches, allowing to estimate the Group's ability to compensate for losses that may arise as a result of risks and identify a set of actions that must be taken to reduce the level of risks to financial sustainability, conservation and development of the Group's capital.

Information about the structure and organization of the units engaged in risk management.

The risk management process is integrated into all business processes and activities of the Group. Identification, assessment and risk minimization is carried out at all levels, from ordinary employees to members of the Board of the Parent company of the Group, under the coordination of a single centre, which is a specialized risk-division.

The activities of the Group's risk department is focused on creating united standards and principles of risk management at the level of the Group, the construction of a centralized risk management system, within which the identification, assessment, control and minimization of the entire spectrum of risks is inherent in the Group. The objective of the risk department is to limit the total possible losses of the Group and implementation of procedures to reduce risks, improve the reliability of processes to achieve strategic objectives and established performance indicators.

In the construction of the Group's risk management system the Group adheres to the following principles:

- integration of risk management into the overall management of the Group;
- introduction and development of management processes designed on an ongoing basis to identify, measure, monitor and control all the risks inherent in its activities;
- formation of the management structure that clearly delineates areas of responsibility, authority and accountability;
- identify and control the scope of potential conflicts of interest divisions and employees of the Group's decision-making and risk management transactions;
- providing units involved in risk management, adequate and comprehensive information of financial and operational nature, information on compliance with the regulatory requirements, as well as received from outside market information about events and conditions that are relevant to decision-making; timely updating of policies, methodologies, techniques and procedures for risk management in accordance with changes in the business environment;
- implementation of international risk management practices.

Description of control procedures of undertaken risks on the part of the Bank's management and banking group's participants

Control over compliance with established rules and procedures for the management of banking risks is carried out in the framework of the internal control system.

Risk management is an integral part of management decision-making both at the Bank's level and Group's level. Specialized risk unit of the Group provides comprehensive risk report, containing indicators, events and processes that characterize the significant risks to the Bank's management bodies on a regular basis with the internal frequency regulations. A part of this report analyses the key factors for the overall risk and capital, credit and market risk, liquidity risk and non-financial risks, as well as the external environment in the framework of macro-economic conditions, financial markets and the banking system as a whole. Managerial bodies of the other Group's participants carry out continuous monitoring of the undertaken risks in their areas of activity.

Information about significant risks arising in the Group's activities

The Group's risk management system involves the construction of a detailed risk classification, reflecting the specificity of the Group's operations and services in the financial markets.

The main parameters used for the identification of the significance of certain types of risks are:

- the volume of the transactions in certain areas of activity and the volume of income received from those activities;
- the potential level of losses that may be caused by the realization of the estimated type of risk (set according to the results of stress-testing).

Each existing and potential risk is identified and taken into account when assessing the capital adequacy of the Group through internal procedures for assessing capital adequacy.

To assess bank's risk, the Group uses qualitative and quantitative parameters based on an assessment of macroeconomic and microeconomic factors using the theory of financial instruments with fixed income, probability theory, mathematical statistics.

Monitoring of banking risks is performed by regular studies of the system of indicators (including statistical, financial) of the Group's activities. The frequency of monitoring of banking risks is determined on the basis of significance of the particular risk for the relevant activities, internal process and info-technological systems.

The main methods of controlling and minimizing the risks of the Group are:

- establishing limits - on the kinds and types of risks, assessment of which may be expressed numerically;
- diversification - distribution of the total risk by individual objects in order to prevent its concentration on a single object or counterparty;
- creating provision for possible loss of value of assets of the Group as a result of the events of risks;
- to maintain capital adequacy in order to ensure the stability of its operations and protection of depositors and other creditors against possible losses;
- insurance.

On an ongoing basis the Group performs stress-testing procedures to identify, evaluate and take action to prevent non-recurring significant potential losses that could have disastrous consequences for the Group (discontinued operations - both in general and in certain areas of business). Objectives and results of the stress-tests are:

- assessment of crisis preparedness;
- the opportunity to plan the volume of capital needed to cover the identified risks;
- the opportunity to adjust the business model.

The main methods of stress-testing in the Group are as follows:

- scenario analysis (based on historical and hypothetical events);
- sensitivity analysis of the Bank's asset portfolio to changes in risk factors and the calculation of the maximum losses.

In order to ensure its sustainable operation on a continuous basis in the long term, including in stressful conditions, the Group determines the maximum size of the aggregate risk it is willing to accept on the basis of the goals established in its development strategy, targets of business development, current and expected risk structure (risk potential).

Risk potential is determined by the Group in the form of a set of qualitative and quantitative indicators. As a key indicator of risk potential the Group considers the ultimate level of adequacy of equity (capital) needed to cover all major types of risks. Limit level of the aggregate amount the risks the Group is willing to undertake (risk potential) is defined as the ratio of capital available to the Group to the value of marginal adequacy of its equity.

Additionally, the Group carries out the self-assessment procedure (method of assessing the maturity of the process by its' direct participants) to assess the conformity of the management of each individual risk system to the nature, scope and conditions of the Group's activities as a whole.

Credit risk

The most significant for the Group is credit risk, which arises mainly in the process of lending and investment activities in the implementation of documentary operations.

Documented procedures for credit risk management of the Group include:

- the procedure for granting loans and making decisions about their issue;
- methodology for assessing the financial position of counterparties (borrowers), loan quality, the methodology for determining the size requirements for equity (capital);
- methodology for determining and setting limits;
- standard requirements for collateral.

Credit risk is managed using the following measures.

Internal regulatory documents outline procedures for initial and subsequent analysis of the borrower, the quality of the documents provided for analysis, quality of collateral with professional judgment about the degree of credit risk and the value of an allowance for possible losses.

Credit risk assessment is carried out in the process of loan application review, in the subsequent monitoring, as well as in the process of reviewing complaints related to changes in the conditions of the original contract of the loan.

The decision on granting loans is made by the collegial body - the Credit Committee (for loans with low credit risk a simplified procedure for the approval of the authority within the limits of persons responsible is provided).

Compliance with the terms of each loan agreement, security and liquidity of the mortgaged property, the financial position of the borrower are constantly monitored.

In order to comprehensively assess the credit risk of the individual borrower, the Group developed a method for analysing groups of related organizations.

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At the portfolio level lending operations are diversified by type of customer, industry sector of customers, types of collateral and so on.

Method of insurance is actively used (the mortgaged property, life and health of borrowers-individuals).

In order to minimize the effects of credit risks a specialized structural unit is formed to work with troubled assets.

Means of automatization of decision making can improve the quality and speed of the review process of loan applications without losing its reliability, create a friendly and transparent communication environment for the participants.

Programs of staff training can improve the quality of procedures and processes.

The Group strives to dissect the functions of loan officers by providing loans and functions for assigning internal credit rating of the borrower in order to eliminate conflicts of interest.

Information about the segmentation of credit risk by counterparty type and the structure of the concentration of customer loan portfolio by industries is shown in Note 11.

Impairment policies

The result of the assessment of credit risk is the distribution of loan assets by categories of credit quality in accordance with the rating scale that reflects the level of credit risk.

Credit quality of the borrower, which is a tool that facilitates the definition of existence of the objective evidence of impairment, is based on the following criteria:

- assessment of the financial position of the borrower;
- assessment of the quality of service of the debt;
- any other significant factors.

RAS provisions are created in accordance with the regulations of the Bank of Russia (on loan and similar debts – CBR Provision from 26.03.2004 № 254-P "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loans and Similar Debts", on other assets – CBR Regulation from 20.03.2006 № 283-P "On the Loss Provisioning Procedure for Credit Institutions") and internal documents of the Bank.

Impairment testing is performed for financial reporting purposes in accordance with IFRS only for losses arising on the date of the financial statements, based on objective evidence of impairment.

A provision for impairment shown in the balance sheet under RAS is determined on the basis of the five risk categories. The largest reserve is created for the last two categories.

(in thousands of Russian Roubles)

The table below shows the percentage of the Group's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

	31 December 2015			31 December 2014		
Risk category	**Loans and advances (%)**	**Provision for impairment (%)**	**Overall provision rate (%)**	**Loans and advances (%)**	**Provision for impairment (%)**	**Overall provision rate (%)**
I	0.75	0.00	0.00	0.43	0.00	0.00
II	70.65	14.54	2.54	71.22	12.54	1.80
III	19.30	14.33	9.17	20.21	16.81	8.50
IV	1.27	7.58	73.84	1.41	5.60	40.73
V	8.03	63.55	97.71	6.73	65.05	98.74
	100.00	**100.00**	**12.34**	**100.00**	**100.00**	**10.22**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below III category

The Group's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Group's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Group uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

(in thousands of Russian Roubles)

As of 31 December 2015 the analysis of credit quality of loans to legal entities portfolio is presented below:

Loans to legal entities 31 December 2015	**Loans**	**Impairment allowances**	**Loans less impairment allowances**	**Allowance for impairment to gross loans**
Collectively assessed				
No overdue:	7,897,822	(498,382)	7,399,440	6.3%
Overdue:				
Less than 30 days	32,297	(7,854)	24,443	24.3%
31- 60 days	17,693	(5,875)	11,818	33.2%
61- 90 days	47,396	(14,264)	33,132	30.1%
91 - 180 days	13,780	(3,753)	10,027	27.2%
More than 180 days	36,023	(8,539)	27,484	23.7%
Total collectively assessed	**8,045,011**	**(538,667)**	**7,506,344**	**6.7%**
Individually assessed				
No overdue:	161,846	(109,878)	51,968	67.9%
Overdue:				
Less than 30 days	-	-	-	-
31- 60 days	-	-	-	-
61- 90 days	54	(54)	-	100.0%
91 - 180 days	6,417	(4,754)	1,663	74.1%
More than 180 days	503,720	(451,568)	52,152	89.6%
Total individually assessed	**672,037**	**(566,254)**	**105,783**	**84.3%**
Total loans to legal entities	**8,717,048**	**(1,104,921)**	**7,612,127**	**12.7%**

(in thousands of Russian Roubles)

As of 31 December 2015 the analysis of credit quality of loans to individuals portfolio is presented below:

Loans to individuals 31 December 2015	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	2,740,870	(168,406)	2,572,464	6.1%
Overdue:				
Less than 30 days	111,663	(10,664)	100,999	9.6%
31- 60 days	15,049	(1,584)	13,465	10.5%
61- 90 days	14,597	(1,532)	13,065	10.5%
91 - 180 days	4,815	(130)	4,685	2.7%
More than 180 days	11,046	(1,782)	9,264	16.1%
Total collectively assessed	**2,898,040**	**(184,098)**	**2,713,942**	**6.4%**
Individually assessed				
No overdue:	24,000	(19,200)	4,800	80.0%
Overdue:				
Less than 30 days	1,539	(1,232)	307	80.1%
31- 60 days	93	(9)	84	10.0%
61- 90 days	565	(350)	215	62.1%
91 - 180 days	28,654	(14,345)	14,309	50.1%
More than 180 days	270,368	(203,488)	66,880	75.3%
Total individually assessed	**325,219**	**(238,624)**	**86,596**	**73.4%**
Total loans to individuals	**3,223,259**	**(422,722)**	**2,800,537**	**13.1%**

(in thousands of Russian Roubles)

As of 31 December 2014 the analysis of credit quality of loans to legal entities portfolio is presented below:

Loans to legal entities 31 December 2015	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	7,658,389	(359,063)	7,299,326	4.7%
Overdue:				
Less than 30 days	21,425	(1,757)	19,668	8.2%
31- 60 days	44,350	(8,800)	35,550	19.8%
61- 90 days	6,673	(1,436)	5,237	21.5%
91 - 180 days	36,030	(7,563)	28,467	21.0%
More than 180 days	28,508	(5,439)	23,069	19.1%
Total collectively assessed	**7,795,375**	**(384,058)**	**7,411,317**	**4.9%**
Individually assessed				
No overdue:	55,598	(49,743)	5,855	89.5%
Overdue:				
Less than 30 days	-	-	-	-
31- 60 days	3,891	(3,113)	778	80.0%
61- 90 days	900	(810)	90	90.0%
91 - 180 days	64,416	(46,628)	17,788	72.4%
More than 180 days	364,646	(272,669)	91,977	74.8%
Total individually assessed	**489,451**	**(372,963)**	**116,488**	**76.2%**
Total loans to legal entities	**8,284,826**	**(757,021)**	**7,527,805**	**9.1%**

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As of 31 December 2014 the analysis of credit quality of loans to individuals portfolio is presented below:

Loans to individuals 31 December 2015	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	2,573,818	(142,439)	2,431,379	5.5%
Overdue:				
Less than 30 days	94,389	(8,570)	85,819	9.1%
31- 60 days	26,891	(5,817)	21,074	21.6%
61- 90 days	13,199	(2,708)	10,491	20.5%
91 - 180 days	8,151	(2,853)	5,298	35.0%
More than 180 days	12,651	(4,420)	8,231	34.9%
Total collectively assessed	**2,729,099**	**(166,807)**	**2,562,292**	**6.1%**
Collectively assessed				
No overdue:	-	-	-	-
Overdue:				
Less than 30 days	4,199	(2,243)	1,956	53.4%
31- 60 days	1,750	(303)	1,447	17.3%
61- 90 days	439	(184)	255	41.9%
91 - 180 days	29,896	(14,916)	14,980	49.9%
More than 180 days	126,154	(92,740)	33,414	73.5%
Total individually assessed	**162,438**	**(110,386)**	**52,052**	**68.0%**
Total loans to individuals	**2,891,537**	**(277,193)**	**2,614,344**	**9.6%**

In 2015 the movement of the provision for impairment of loans to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
As at 1 January 2015	124,534	547,301	-	9,139	76,046	**757,020**
Charge for the period	37,934	289,567	2,641	25,089	8,737	**363,968**
Loans written-off	-	(16,067)	-	-	-	**(16,067)**
Amounts recovered	-	-	-	-	-	**-**
As at 31 December 2015	**162,468**	**820,801**	**2,641**	**34,228**	**84,783**	**1,104,921**

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In 2015 the movement of the provision for impairment of loans to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2015	18,768	250,150	8,276	-	**277,194**
Charge for the period	21,402	130,745	-	48	**152,195**
Loans written off	-	(2,966)	-	-	**(2,966)**
Amounts recovered	-	-	(3,701)	-	**(3,701)**
As at 31 December 2015	**40,170**	**377,929**	**4,575**	**48**	**422,722**

In summary (2015):

	Individuals	Legal entities	Total
As at 1 January 2015	277,194	757,020	1,034,214
Charge for the period	152,195	363,968	516,163
Loans written-off	(2,966)	(16,067)	(19,033)
Amounts recovered	(3,701)	-	(3,701)
As at 31 December 2015	**422,722**	**1,104,921**	**1,527,643**

In 2014 the movement of the provision for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
As at 1 January 2014	82,179	561,185	4,530	1,563	111,280	**760,737**
Charge for the period	52,792	75,156	-	7,576	-	**135,524**
Loans written-off	(10,437)	(89,040)	-	-	(1,397)	**(100,874)**
Amounts recovered	-	-	(4,530)	-	(33,837)	**(38,367)**
As at 31 December 2014	**124,534**	**547,301**	**-**	**9,139**	**76,046**	**757,020**

In 2014 the movement of the provision for impairment of loans to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2014	4,711	128,265	7,587	1,500	**142,063**
Charge for the period	14,057	128,403	689	-	**143,149**
Loans written off	-	(6,518)	-	-	**(6,518)**
Amounts recovered	-	-	-	(1,500)	**(1,500)**
As at 31 December 2014	**18,768**	**250,150**	**8,276**	**-**	**277,194**

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In summary (2014):

	Individuals	**Legal entities**	**Total**
As at 1 January 2014	142,063	760,737	**902,800**
Charge for the period	143,149	135,524	**278,673**
Loans written-off	(6,518)	(100,874)	**(107,392)**
Amounts recovered	(1,500)	(38,367)	**(39,867)**
As at 31 December 2014	**277,194**	**757,020**	**1,034,214**

Information about the amount of credit risk mitigation

The Group is developing a number of policies and practices to mitigate credit risk. The most traditional are collateral and guarantees, which are common practice. The main types of collateral for loans are real estate, vehicles, equipment, inventory, goods in turnover.
Deposits bearing market risk, occupy an insignificant share in the structure of collateral (as at 31 December 2015 0%; at 31 December 2014 1.19% of the book value of the assets accepted as collateral).

The proposed collateral in terms of property and property rights must comply with such requirements as: lack of legal prohibitions and restrictions of the Group to perform security transactions, no restrictions to the rights of the lender in the event of the need for the proposed foreclosure of the mortgaged property, the value of collateral should cover the amount owed and must be liquid.

In general collateral can be divided into the following risk groups: the collateral of high-risk group (goods for sale, raw materials, claims); average-risk group (unfinished construction, machinery and equipment, vehicles, etc.); low-risk group (property complexes, real estate, securities, etc.).

Depending on the object of collateral, requirements of the Group and the law, the evaluation of the collateral is provided by: department of the collateral, economists and independent appraisers.

Evaluation of collateral is carried out: pre (to determine the possibility of adopting the proposed customer property as collateral for a loan under consideration), and during the term of the loan agreement.

The frequency of collateral objects' inspection during the term of the loan agreement is defined by the economist and depends on the information available on the state, maintenance, usage of the collateral. In cases where there is no negative information about the content and operation with the collateral, the useful life of the collateral object is much higher than the period of the loan agreement, collateral object inspection is performed at least once a year. Mandatory inspection of availability and condition of the collateral is carried out when the borrower provides an application for renewal. Monitoring I and II category of quality collateral is carried out on a regular basis, but not less than once a quarter.

The following table shows the types of assets accepted as collateral as of December 31, 2015 and December 31, 2014 and their carrying value:

	2015	**2014**
Real estate	6,783,335	6,157,192
Goods in turnover	2,470,086	3,095,276
Vehicles	1,603,766	1,942,361
Fixed assets and equipment	1,643,843	947,622
Securities	1,090,968	954,876
Total amount of collateral	**13,591,998**	**13,097,327**

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The following table presents an analysis of the present value of loans to customers, by collateral:

	2015	2014
Loans secured by real estate and rights to it	3,449,985	3,349,513
Loans secured by vehicles	1,068,403	1,080,931
Other collateral (including manufacturing equipment, other equipment and inventory)	3,065,133	2,594,582
Unsecured loans	4,356,786	4,151,337
	11,940,307	**11,176,363**
Less: Provision for impairment	(1,527,643)	(1,034,214)
	10,412,664	**10,142,149**

During 2015 the Group foreclosed the collateral in order to recover from credit transactions in the amount of 121,770 (2014: 108,908). These assets are included in other assets (see Note 13). The Group's policy with regard to the realization of such collateral assets usually involves selling them to third parties at the highest possible fair value.

Geographical risk

Geographical risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Group operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Group are set out in Note 2. The Group has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible.

(in thousands of Russian Roubles)

The geographical concentration of the Group's assets and liabilities as at 31 December 2015 is set out below:

	Russia	OECD	Non - OECD	Total
Assets				
Cash and cash equivalents	1,432,054	154,664	-	**1,586,718**
Mandatory balances with the CBRF	81,220	-	-	**81,220**
Due from banks	327,714	-	-	**327,714**
Financial assets at FVPL	2,699,764	455,651	-	**3,155,415**
Financial assets AFS	41,382	47,852		**89,234**
Financial assets HTM	2,501	-	-	**2,501**
Loans and advances to customers	10,412,664	-	-	**10,412,664**
Net investment in finance lease	107,696	-	-	**107,696**
Other assets	106,100	-	-	**106,100**
Deferred tax assets	10,202	-		**10,202**
Property, plant and Equipment	351,001	-	-	**351,001**
Investment property	264,356	-	-	**264,356**
	15,836,654	**658,167**	**-**	**16,494,821**
Liabilities				
Due to banks	431,366	-	-	**431,366**
Customer accounts	13,308,458	252	5,583	**13,314,293**
Debt securities issued	18,594	-	-	**18,594**
Deferred tax liabilities	-	-	-	
Other liabilities	212,624	-	-	**212,624**
	13,971,042	**252**	**5,583**	**13,976,877**
Net balance sheet position	**1,865,612**	**657,915**	**(5,583)**	**2,517,944**

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

	Russia	OECD	Non - OECD	Total
Net balance sheet position	**2,014,575**	**265,297**	**(3,146)**	**2,276,726**

Market Risk

The Group takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

To assess the market risk such measurement methods as VaR, GAP, spread, estimating the change in net interest income, scenario analysis are used.

Market risk management of the Group is based on the following principles:

- the adequacy of the nature and extent of activities, in accordance with which the Group maintains its market risk management infrastructure in a state of sufficient quality for the organization of the process;
- segregation of the sources of market risk;
- responsibility for the accepted risk, according to which units empowered to carry out operations related to market risk, are responsible for the effective use of these powers;
- centralization of market risk management and continuous monitoring;
- limiting potential losses, according to which the total amount of the established limits should not exceed those of the Bank of Russia and regulatory ratios of the internal documents.

As the measures taken to minimize market risks, the Group:

- annually approves a common strategy of actions on the securities market, providing a number of constraints on the structure and quality of the trading portfolio;
- carries out periodic monitoring of the markets (money, foreign exchange, stock), by monitoring the magnitude and rate of change of market indicators according to the approved list;
- establishes and maintains constant monitoring of limits for issuers of securities that form the trading portfolio, carries out an assessment of risks of individual portfolio issuers' activities;
- limits the size of the open currency position (OCP) in volumes that allow limiting the scale of the negative impact on the Group's position on non-critical levels even in the case of the most negative scenarios in the foreign exchange market (sharp changes in exchange rates, devaluation of the ruble, etc.);
- supports the sign of the cumulative gap between interest-bearing assets and liabilities in accordance with the current trend of changes in interest rates (in terms of interest rate risk).

An important component of market risk limits is a system of limitations on the counterparties (the issuers), the volume and types of operations, liability limits and stop loss and stop out limits. All kinds of limits are established by the authorized body of the Group, which the attention of the information on their compliance is brought to. Monitoring the compliance with the limits is carried out on a regular basis.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

Identification of this risk involves monitoring the stock market price of the trading portfolio instruments, information about the volumes of trading in securities on the organized securities market, as well as gathering information on the key macro indicators, which may affect the change in market prices (price dynamics).

In order to manage price risk estimation and risk of the issuer and compliance with the limits monitoring is carried out.

Risk of the issuer is the risk of impairment of securities as a result of deterioration in the financial position of the issuer and (or) its business reputation. To minimize the risk of the issuer, these factors are monitored on a regular basis.

The main tool for managing price risk is a system of limits.
When forming a portfolio of securities, preference is given to highly reliable and liquid securities.

Securities transactions are a source of income assuming the investment risk tolerance and sustainable liquidity ratios of the Bank and Group as a whole.

The Group expects to use the securities portfolio as a tool to regulate liquidity, including the use of securities to raise funds in the interbank market and refinancing operations of the Bank of Russia.

(in thousands of Russian Roubles)

In this regard, the basis of the portfolio consists of securities included in the Lombard list of the Bank of Russia.

To ensure a balance of assets and liabilities by maturity during the formation of a portfolio of securities newly purchased securities must be evenly distributed by maturity (offers), without creating a concentration of the individual time intervals, except in cases when such a concentration is justified by the need to cover liquidity shortages.

The Group's assets subject to price risk are presented in Note 8 and 9.

An analysis of sensitivity of the Group's net profit before tax and equity to changes in quoted debt securities, based on positions existing as at 31 December 2015 and 31 December 2014 is presented in the table below. Sensitivity analysis is performed for three possible scenarios: fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation on the markets in financial instruments, taking into account the events that took place in the Russian economy in 2015.

	2015		2014	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
10% increase in quoted securities prices	315 232	259 324	238,791	191,033
20% increase in quoted securities prices	630 464	518 648	477,582	382,066
40% increase in quoted securities prices	1 260 928	1 037 297	955,164	764,132
10% decrease in quoted securities prices	(315 232)	(259 324)	(238,791)	(191,033)
20% decrease in quoted securities prices	(630 464)	(518 648)	(477,582)	(382,066)
40% decrease in quoted securities prices	(1 260 928)	(1 037 297)	(955,164)	(764,132)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The basic procedure to identify the factors of foreign exchange risk for individual operations and transactions, as well as in certain areas of activity is the monitoring of exchange rates, the prices of forward exchange instruments.

The main instruments of regulation of currency risk are single exchange rate policy and control system of OCP (open currency position). The Group performs daily assessment and monitoring OCP, carries out its forecast and regulation.

Single exchange rate policy is carried out for the appointment of exchange rates to the operations of the client conversion, rate of cash currency exchange at the box office box office and additional offices outside the vault, the conversion rate for calculation on plastic cards. The financial results of operations with foreign currencies are calculated daily, allowing to monitor the adequacy of the exchange rate policy of the authorized departments of the Group.

(in thousands of Russian Roubles)

OCP monitoring system includes the establishment and control of the following parameters:

- a set of pairs of currencies, which are allowed to conduct operations in;
- a list of types of operations with specific currencies (current, term, supplies, indices);
- limits on the size of the OCP, whose limit for banks in accordance with the requirements of the Bank of Russia is 10% of equity (capital). The Group pursues a conservative policy regarding OCP, holding OCP within 2% of the equity (capital). Compliance with limits of OCP is monitored on a daily basis. Any detected deviation is immediately brought to the attention of the authorized body of the Group. In practice, the Group seeks to minimize the risk by maintaining the OCP at a level below the required limits through foreign exchange transactions in the interbank market.

Foreign currency transactions in the interbank market are conducted primarily to meet the needs of customers during the currency exchange and non-cash exchange transactions. When carrying out its own foreign currency transactions the Group focuses on minimizing currency risk, priority is given to the mechanisms that hedge currency risks.

As at 31 December 2015, the Group had the following positions in currencies:

	RUB	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	1,138,492	171,407	254,042	22,777	**1,586,718**
Mandatory balances with the CBRF	81,220	-	-	-	**81,220**
Due from banks	252,622	75,092	-	-	**327,714**
Financial assets at AFS	89,234	-	-	-	**89,234**
Financial assets at FVPL	2,751,036	379,325	25,054	-	**3,155,415**
Financial assets HTM	2,501	-	-	-	**2,501**
Loans and advances to customers	10,412,664	-	-	-	**10,412,664**
Net investment in financial lease	107,696	-	-	-	**107,696**
Other assets	105,092	972	36	-	**106,100**
Deferred tax assets	10,202	-	-	-	**10,202**
Property, Plant and Equipment	351,001	-	-	-	**351,001**
Investment property	264,356	-	-	-	**264,356**
	15,566,116	**626,796**	**279,132**	**22,777**	**16,494,821**
Liabilities					
Due to banks	431,366	-	-	-	**431,366**
Customer accounts	12,688,466	444,187	158,874	22,766	**13,314,293**
Debt securities issued	18,594	-	-	-	**18,594**
Deferred tax liability	-	-	-	-	**-**
Other liabilities	210,483	1,270	871	-	**212,624**
	13,348,909	**445,457**	**159,745**	**22,766**	**13,976,877**
Net on-balance sheet position	**2,217,207**	**181,339**	**119,387**	**11**	**2,517,944**

As at 31 December 2014, the Group had the following positions in currencies:

	RUB	USD	EUR	Total
Net on-balance sheet position	**2,303,680**	**(28,719)**	**1,765**	**2,276,726**

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The table below shows the parameters characterizing the sensitivity of the Group's capital to the fluctuation of the ruble against the US dollar and the Euro in the range of 10% (increase or decrease) in the range of 20% (increase or decrease), and the range of 40% (increase or decrease) while all other variables remain constant. Fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation in the currency markets and is based on real events that took place in the Russian economy in 2015. The sensitivity analysis indicated below includes only the analysis of open foreign currency positions of the Bank at the balance sheet date and shows what effect would have currency fluctuations in the range of 10%, 20%, 40%.

	As at 31 December 2015		As at 31 December 2014	
	Effect on profit after tax	Effect on equity	Effect on profit after tax	Effect on equity
Strengthening of USD for 10%	18,134	14,507	(2,872)	(2,298)
Strengthening of USD for 20%	36,268	29,014	(5,744)	(4,595)
Strengthening of USD for 40%	72,536	58,028	(11,488)	(9,190)
Weakening of USD for 10%	(18,134)	(14,507)	2,872	2,298
Weakening of USD for 20%	(36,268)	(29,014)	5,744	4,595
Weakening of USD for 40%	(72,536)	(58,028)	11,488	9,190
Strengthening of Euro for 10%	11,939	9,551	177	141
Strengthening of Euro for 20%	23,877	19,102	353	282
Strengthening of Euro for 40%	47,755	38,204	706	565
Weakening of Euro for 10%	(11,939)	(9,551)	(177)	(141)
Weakening of Euro for 20%	(23,877)	(19,102)	(353)	(282)
Weakening of Euro for 40%	(47,755)	(38,204)	(706)	(565)

Liquidity Risk

Liquidity risk arises from the fact that the maturity of assets and liabilities does not match. Management of the Group actively monitors liquidity risk.

To identify the liquidity risk the Group determines a set of absolute and relative parameters. Their change during transactions related to in- and outflows of cash and other assets by maturity and by currency, identifies the change in liquidity risk.
The basic procedure of liquidity risk management by the Group, applied on a regular basis, includes the following steps:

- identification and assessment of risk factors for liquidity;
- analysis of the sources of liquidity risk and its impact on the Bank's and Group's activity;
- preparation of proposals to minimize liquidity risk;
- dissemination of information to the competent authorities of the Group;
- implementation of measures to reduce liquidity risk.

The Group continuously monitors threats to liquidity. In the event of their occurrence or the assumption of possible occurrence an action plan aimed at restoring liquidity gas been developed.

Identification of liquidity risk is carried out:

- during the preparation of the planned volume of active and passive operations;
- on the basis of the current volume of attracted and placed funds in terms by their structure and dynamics;
- on the basis of immediate, current, short, medium and long-term liquidity forecast for ensuring the continuity of the Bank's and Group's activities, as well as providing a source of coverage for liquidity risk;
- based on the values of instant, current and long-term liquidity for compliance with acceptable levels;

- in the implementation of activities by the interaction of all involved in the internal divisions of the Group;
- during stress testing of liquidity risk.

The following methods are used to assess and monitor liquidity:

- coefficient method (regulatory approach), which includes a daily calculation and analysis of the actual values of the required liquidity ratios established by the Bank of Russia, as well as assessment of instant, current and long-term liquidity;
- method of assessing the gap in maturities of assets and liabilities, including modelling of alternative scenarios with the calculation of liquidity indicators: excess (deficit) liquidity, ratio of surplus (deficit) liquidity and its limits;
- forecasting cash flows;
- balance sheet analysis for compliance with the optimal structure of assets grouped by areas of investments, and liabilities grouped by source of funds, with the calculation of liquidity ratios;
- stress testing - assessment of the sustainability of the Group, as well as putting individual portfolios in the "extreme" segment; the amount of equity capital required to cover the liquidity risk is determined on the basis of the results.

The main objective of the Group's operations in the financial markets is to provide a stable liquidity and solvency. Raising funds and assets' allocation is aimed at such times and under such conditions that will form a balanced structure of assets and liabilities in order to ensure the liquidity and solvency of the Group, as well as ensure compliance with liquidity ratios set by the Bank of Russia.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Group would indicate that deposits provide a relatively long-term and stable source of funding for the Group, although under crisis conditions this could change.

The Group calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year

The Group was in compliance with the above ratios during the year ended 31 December 2015 and year ended 31 December 2014.

(in thousands of Russian Roubles)

The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2015 and 31 December 2014:

	Requirement	31 December 2015	31 December 2014
Instant liquidity ratio (N2)	Minimum 15%	49.1%	46.7%
Current liquidity ratio (N3)	Minimum 50%	120.4%	104.6%
Long-term liquidity ratio (N4)	Maximum 120%	58.5%	72.0%

The Group's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Group performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2015. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Group manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	15,837	23,931	31,295	465,204	-	**536,267**
Customer accounts	4,914,579	4,480,842	2,254,472	2,210,734	-	**13,860,627**
Debt securities issued	3,145	9,109	4,256	2,717	-	**19,227**
Other liabilities	78,624	102,452	15,988	12,067	3,493	**212,624**
Deferred tax liability	-	-	-	-	-	**-**
Total liabilities	**5,012,185**	**4,616,334**	**2,306,011**	**2,690,722**	**3,493**	**14,628,745**
Assets held for managing liquidity risk	**5,835,672**	**3,991,160**	**3,689,240**	**3,805,820**	**1,091,506**	**18,413,398**
Credit Related Commitments	**114,415**	**757,099**	**676,821**	**1,134,487**	**-**	**2,682,822**

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(in thousands of Russian Roubles)

The tables below present the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2014.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	13,637	20,858	27,148	384,600	-	**446,243**
Customer accounts	3,872,615	3,389,171	3,012,292	2,555,491	-	**12,829,569**
Debt securities issued	100,448	8,606	16,882	8,933	-	**134,869**
Other liabilities	88,092	22,720	14,322	15,364	-	**140,498**
Deferred tax liability	-	-	-	-	5,118	**5,118**
Total liabilities	**4,074,792**	**3,441,355**	**3,070,644**	**2,964,388**	**5,118**	**13,556,297**
Assets held for managing liquidity risk	**4,515,495**	**3,025,637**	**3,867,708**	**4,686,854**	**1,004,218**	**17,099,912**
Credit Related Commitments	**296,246**	**333,564**	**624,693**	**952,062**	**-**	**2,206,565**

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2015 and at 31 December 2014, and IFRS 7 revised does not require such reconciliation. Management considers that loans should be included in assets held for managing liquidity risk.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Interest Rate Risk

Interest rate risk - the risk of adverse changes in interest rates when the maturities of assets, liabilities and off-balance sheet instruments are imbalanced.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The majority of the Group's assets and liabilities are priced on a fixed rate basis.

Identification of interest rate risk by the Group involves monitoring the monetary policy of the Bank of Russia, the current level of the key interest rate, inflation rate, information on the maximum interest rates of 10 largest credit institutions, attracting the largest amount of money, market interest rates in the region for all operations and activities.

(in thousands of Russian Roubles)

The main methods of assessment and monitoring of interest rate risk are:
• determining the amount of the interest margin (spread), the calculation and assessment of the current and sufficient spread;
• definition of the gap (GAP) between assets and liabilities sensitive to changes in interest rates, and evaluation of sensitivity to changes in interest rates.

Interest rate risk management of the Group is built on a common policy of setting interest rates, optimizing the structure of assets and liabilities, which are exposed to interest rate risk, compliance with the limits on active operations, control of size of sufficient interest spread and GAP.

Combining data on weighted average rate of borrowed and invested assets with the analysis of GAP-breaks and analysis of market conditions, the Group determines the areas, most vulnerable to interest rate risk and applies methods for their prevention, including determining the optimal value of the interest rates for its' instruments.

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2015 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	10.82	5.56	-	-	-
Financial assets at a fair value through profit or loss	10.93	-	-	-	-
Financial assets held to maturity	-	-	9.48	-	-
Financial assets available for sale	9.86	-	-	-	-
Loans and advances to customers	16.57	15.58	15.59	16.55	26.12
Net investment in financial lease	26.57	26.54	26.78	23.76	-
Liabilities					
Due to banks	8.85	8.00	8.00	8.87	-
Customer accounts	8.83	10.92	9.55	9.73	-
Debt securities issued	6.18	5.91	8.34	9.92	-
Other liabilities	-	14.00	-	-	-

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2014 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	17.00	-	-	-	-
Financial assets at a fair value through profit or loss	9.15	16.04	-	-	-
Financial assets held to maturity	-	-	9.20	9.48	-
Loans and advances to customers	13.53	13.71	13.31	15.25	25.41
Net investment in financial lease	25.55	25.48	25.07	23.54	-
Liabilities					
Due to banks	8.37	8.00	8.00	8.62	-
Customer accounts	10.30	10.84	9.64	10.20	-
Debt securities issued	11.91	8.06	8.41	8.38	-

Translation from the original in Russian language.

(in thousands of Russian Roubles)

Assuming the financial assets and liabilities as at 31 December 2015 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 5% in market interest rates across all maturities and currencies would decrease profit for the current year by approximately 93,869 as a result of higher interest expense (2014: decrease by 41,374 as a result of higher interest expense).

In the table below given is the analysis of the interest rate fluctuation risk to which the Group is exposed as at 31 December 2015. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	200,199	71,911	-	-	-	**272,110**
Financial assets at a fair value through profit or loss	3,152,316	-	-	-	-	**3,152,316**
Financial assets held to maturity	-	-	2,501	-	-	**2,501**
Financial assets available for sale	89,234	-	-	-	-	**89,234**
Loans and advances to customers	503,258	3,362,527	3,195,006	2,824,368	297,874	**10,183,033**
Net investment in financial lease	7,289	25,737	27,705	46,965	-	**107,696**
	3,952,296	**3,460,175**	**3,225,212**	**2,871,333**	**297,874**	**13,806,890**
Liabilities						
Due to banks	14,714	8,723	10,467	396,339	-	**430,243**
Customer accounts	1,946,786	4,345,809	2,277,099	2,297,488	-	**10,867,182**
Debt securities issued	2,693	8,885	3,906	2,401	-	**17,885**
Other liabilities	-	50,000	-	-	-	**50,000**
	1,964,193	**4,413,417**	**2,291,472**	**2,696,228**	**-**	**11,365,310**
Net liquidity	**1,988,103**	**(953,242)**	**933,740**	**175,105**	**297,874**	**2,441,580**
Accumulated gap as at 31 December 2014	**1,988,103**	**1,034,861**	**1,968,601**	**2,143,706**	**2,441,580**	
Accumulated gap as at 31 December 2013	**1,180,481**	**746,560**	**1,294,972**	**2,127,918**	**2,348,531**	

(in thousands of Russian Roubles)

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2015			2014		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Interest bearing assets						
Due from banks	9.43	-	-	17.00	-	-
Financial assets at a fair value through profit or loss	11.73	6.47	5.50	10.02	7.50	-
Financial assets held to maturity	9.48	-	-	9.35	-	-
Financial assets available for sale	9.86	-	-	-	-	-
Loans and advances to customers	16.71	-	-	14.75	-	-
Net investment in financial lease	25.45	-	-	24.37	-	-
Interest bearing liabilities						
Due to banks	8.83	-	-	8.58	-	-
Customer accounts	10.39	3.04	2.60	10.63	4.44	3.53
Debt securities issued	7.02	-	-	11.17	-	-
Other liabilities	14.00	-	-	-	-	-

Operational risk

Operational risk – defined as the risk of loss resulting from incompliance with the type and scale of the Group's activity and /(or) with requirements of current legislation of internal policies and from violations by the Group's employees and /(or) other individuals (due to incompetence, unintentional or deliberate acts), lack of functional capabilities of the Group's information, technological and other types of systems and /(or) their failures, and also from the influence of external events. When the control system stops functioning, operational risks can damage Group's reputation; have legal consequences or lead to financial loss.

The Group manages operational risk on an ongoing basis. The main method of measuring operational risk is - identification of operational risk events and evaluation of indicators (database of events and indicators of operational risk, as well as losses from the sale of operational risk is generated).

The main methods the Group uses to minimise operational risk are the following:

- development of organizational structure, internal rules and procedures of banking operations and other transactions in such a way as to eliminate or minimise the possibility of operational risk. Observance of the principles of segregation of duties, authorisation procedure (approval) and reporting on Group's transactions;
- modernisation of banking systems automation and information protection. Minimisation of manual document processing;
- effective realisation of the Group's human resources practice in a sphere of personnel rationalisation, training, hiring, motivation and increasing of corporate culture of all Group's employees;
- organisation of work on developing employees' awareness of operational risk, that might arise from their working performance;
- usage of traditional types of property and life insurance by the Group;
- system of measures development to provide going concern of Group's operations, including plans of action in case of unexpected circumstances.

(in thousands of Russian Roubles)

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2015 is presented in the following table:

	2014	2013	2012
Net interest income	917,520	738,586	576,683
Net non-interest income	521,129	429,507	356,311
Income	**1,438,649**	**1,168,093**	**932,994**

Operational risk as at 31 December 2015 is 176,987.

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2014 is presented in the following table:

	2013	2012	2011
Net interest income	738,586	576,683	454,444
Net non-interest income	429,507	356,311	286,153
Income	**1,168,093**	**932,994**	**740,597**

Operational risk as at 31 December 2014 is 142,084.

30. Capital Management

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets capital requirements to the Group and monitors compliance with these requirements. Currently, under requirements of the Central Bank of the Russian Federation, the Group has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2015, this minimum level was 10% (2014: 10%).

(in thousands of Russian Roubles)

The regulatory capital on the basis of the Group's reports prepared under Russian legislation as at 31 December 2015 and 31 December 2014 is presented in the following table:

	31 December 2015	31 December 2014
Common Equity Tier 1	**2,090,343**	**1,735,935**
Share capital	590,327	590,327
Funds	90,775	90,775
Previous year's profit	1,449,586	1,117,258
Current year profit	-	-
Indicators, reducing the amount of base capital, incl.:	40,345	62,425
- current year loss	33,318	55,396
- the Bank's shares owned by subsidiary	6,915	6,915
- investments in the shares in equity of the subsidiary	100	100
- intangible assets	12	14
Additional Tier 1	**-**	**-**
Tier 1 capital	**2,090,343**	**1,735,935**
Tier 2 capital	**283,746**	**426,917**
Additional capital formed by capitalisation of property revaluation	14,773	14,773
Property surplus due to revaluation	79,244	69,596
Retained profit for the current year	191,511	343,714
Indicators, reducing the amount of capital and additional capital, incl.:	1,782	1,166
- overdue receivables more than 30 days	1,782	1,166
Total Group capital	**2,374,089**	**2,162,852**

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these consolidated financial statements is an additional provision for loans and other assets, recognised under the RAS.

During 2015 and 2014 the Group's capital adequacy ratio was in line with regulations.

Capital (net assets) deficit of a nonconsolidated structured entity LLC "Khlynov-Invest" on 31 December 2015 amounted to 13 263 (31 December 2014: 12 612).

The minimum values of capital adequacy requirements for banking groups, set by the Bank of Russia are as follows:

- base capital adequacy ratio, set at 5%,
- capital adequacy ratio, set at 6%,
- equity capital adequacy ratio, set at 10%.

(in thousands of Russian Roubles)

The values of capital adequacy ratios of the Group were as presented below:

Capital adequacy ratio	Value of the ratio as at 31 December 2015	Value of the ratio as at 31 December 2014
H20.1 base capital adequacy ratio	11.4%	10.5%
H20.2 capital adequacy ratio	11.4%	10.5%
H20.0 equity capital adequacy ratio	12.9%	13.0%

Information on the amount of the Group's assets, risk weighted (under RAS)

Indicator	31 December 2015	31 December 2014
Total assets, risk weighted for purposes of calculating the base capital adequacy ratio (Ap_1)	10,226,254	10,010,141
Ap11	-	-
Ap21	299,192	181,490
Ap31	121,061	67,835
Ap41	9,806,001	9,760,816
Ap51	-	-
Total assets, risk weighted for purposes of calculating the capital adequacy ratio (Ap_2)	10,226,254	10,010,141
Ap12	-	-
Ap22	299,192	181,490
Ap32	121,061	67,835
Ap42	9,806,001	9,760,816
Ap52	-	-
Total assets, risk weighted for purposes of calculating the equity capital adequacy ratio (Ap_0)	10,320,271	10,094,510
Ap10	-	-
Ap20	299,192	181,490
Ap30	121,061	67,835
Ap40	9,900,018	9,845,185
Ap50	-	-
Assets with high risk factor for the purposes of calculating the base capital adequacy ratio	1,462,175	839,143
Assets with high risk factor for the purposes of calculating the capital adequacy ratio	1,462,175	839,143
Assets with high risk factor for the purposes of calculating the equity capital adequacy ratio	1,462,175	839,143
Consumption loans - ПКр1	25,135	667,753
Consumption loans - ПКр2	25,135	667,753
Consumption loans - ПКр0	25,135	667,753
Market risk for the purposes of calculating the base capital adequacy ratio, including	2,844,174	1,673,666
interest rate risk	227,039	133,335
stock market risk	495	559
Market risk for the purposes of calculating the capital adequacy ratio, including	2,844,174	1,673,666
interest rate risk	227,039	133,335
stock market risk	495	559
Market risk for the purposes of calculating the equity	2,844,174	1,673,666

(in thousands of Russian Roubles)

capital adequacy ratio, including		
interest rate risk	227,039	133,335
stock market risk	495	559
Amount of credit risk for credit related commitments:	X	X
- for the purposes of calculating the base capital adequacy ratio	1,598,508	1,336,047
- for the purposes of calculating the capital adequacy ratio	1,598,508	1,336,047
- for the purposes of calculating the equity capital adequacy ratio	1,598,508	1,336,047
Amount of operational risk	176,987	142,084

The Group can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Group's long-term management plans and prospects are taking into calculation. The Group's capital management and its distribution are regularly analysed by the Directors of the Bank during the review and approval of annual budget.

Risk and Capital Management are carried out by the Group also through internal capital adequacy assessment procedures (VPODK). Acting as basis for the development of VPODK are guidelines for the development of business and planned (target) levels of capital as defined in the Group's development strategy. Results of VPODK, in turn, are used in the development of future policies and the establishment of the Group's risk potential.

In order to implement the current assessment of the Group's needs of capital the Group sets methods for determining the amount of capital required to cover possible losses from the realization of each of the major types of risks in their internal documents.

In order to assess the adequacy of internal capital, the Group uses standard (baseline) risk assessment techniques, the use of which is established by the Bank of Russia regulations, procedures and the results of stress testing the stability of the Group in relation to internal and external risk factors.

31. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the reporting period the Group entered into a number of banking transactions in the normal course of business with various related parties.

(in thousands of Russian Roubles)

The total outstanding balances as at 31 December 2015 and the related income and expense transactions during 2015 with related parties were as follows:

	Share-holders	Subsidiaries	Key manage-ment personnel	Other related parties	Total Related party balance/result	Total per category in the consolidated financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	21,723	327,545	**349,268**	**11,176,363**
Granted during the year	-	-	24,982	409,582	**434,564**	**-**
Repaid during the year	-	-	(31,153)	(283,741)	**(314,894)**	**-**
At the end of the year	**-**	**-**	**15,552**	**453,386**	**468,938**	**11,940,307**
Provision for losses	**-**	**-**	**(778)**	**(81,600)**	**(82,378)**	**(1,527,643)**
Current accounts						
At beginning of the year	177	-	6,759	3,527	**10,463**	**2,940,386**
Opened during the year	91,759	-	139,876	3,244,269	**3,475,904**	**-**
Repaid during the year	(91,292)	-	(137,396)	(3,234,736)	**(3,463,424)**	**-**
At the end of the year	**644**	**-**	**9,239**	**13,060**	**22,943**	**3,059,339**
Term deposits						
At beginning of the year	-	-	12,479	11,310	**23,789**	**9,223,680**
Opened during the year	-	-	29,148	24,102	**53,250**	**-**
Repaid during the year	-	-	(24,107)	(25,956)	**(50,063)**	**-**
At the end of the year	**-**	**-**	**17,520**	**9,456**	**26,976**	**10,254,954**
Guarantees issued	**-**	**-**	**-**	5,000	**5,000**	**1,426,211**
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans	-	-	2,717	35,812	**38,529**	**1,729,127**
Income from bank guarantees issuance	-	-	-	-	**-**	**47,002**
Commission income						
From settlement operations	31	-	39	3,283	**3,353**	**193,853**
Interest expense						
Term deposits	-	-	1,659	540	**2,199**	**980,132**
On current accounts	-	-	240	114	**354**	**17,075**
Salary and bonuses	**-**	**-**	73,888	2,361	**76,249**	**358,538**
Other operational income	-	-	-	4	**4**	**19,480**
Administrative and other operational expenses	2	-	226	6,041	**6,269**	**287,589**

(in thousands of Russian Roubles)

The total outstanding balances as at 31 December 2014 and the related income and expense transactions during 2014 with related parties were as follows:

	Share-holders	Subsidiaries	Key manage-ment personnel	Other related parties	Total Related party balance/result	Total per category in the consolidated financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	6,437	1,716	**8,153**	**10,461,074**
Granted during the year	-	-	31,054	463,482	**494,536**	**-**
Repaid during the year	-	-	(15,768)	(137,653)	**(153,421)**	**-**
At the end of the year	**-**	**-**	**21,723**	**327,545**	**349,268**	**11,176,363**
Provision for losses	**-**	**-**	**(1,042)**	**(56,184)**	**(57,226)**	**(1,034,214)**
Current accounts						
At beginning of the year	3,126	-	3,539	5,017	**11,682**	**3,760,754**
Opened during the year	154,498	-	144,833	1,795,993	**2,095,324**	**-**
Repaid during the year	(157,447)	-	(141,613)	(1,797,483)	**(2,096,543)**	**-**
At the end of the year	**177**	**-**	**6,759**	**3,527**	**10,463**	**2,940,386**
Term deposits						
At beginning of the year	-	-	5,945	-	**5,945**	**8,196,990**
Opened during the year	-	-	20,542	13,323	**33,865**	**-**
Repaid during the year	-	-	(14,008)	(2,013)	**(16,021)**	**-**
At the end of the year	-	-	**12,479**	**11,310**	**23,789**	**9,223,680**
Guarantees issued	**-**	**-**	**-**	5,000	**5,000**	**1,221,541**
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans	-	-	2,582	19,889	**22,471**	**1,446,615**
Income from bank guarantees issuance	-	-	-	81	**81**	**16,692**
Commission income						
From settlement operations	21	-	39	1,189	**1,249**	**188,563**
Interest expense						
Term deposits	-	-	634	77	**711**	**708,743**
On current accounts	-	-	150	67	**217**	**4,933**
Salary and bonuses	**-**	**-**	72,869	2,039	**74,908**	**323,045**

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ОГРН 1147746683124
"Мазар Аудит"
"Mazars Audit"
ИНН 7707835399
* МОСКВА *

In 2015 salaries and other short term payments to the members of Board of Directors and members of the Executive Board, Chief Accountant, who are employed with the Group, manager of consolidated company in 2015 amounted to 36,836 (2014: 35,821), including 11,384 (2014: 10,888) salaries, other short term payments 25,454 (2014: 24,933). Other short term payments to the members of the Executive Board and members of Executive Board, who are not employed with the Group, amounted to 3,451 (2013: 3,302).

Signed and authorized for release on behalf of the Executive Board of the Group on 27 April 2016

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

АО КБ «ХЛЫНОВ»

"Мазар Аудит"
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