



ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО  
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АУДИТ-ЦЕНТР»**  
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CLOSE COMPANY  
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## **AUDITORS' REPORT**

On annual consolidated financial statements  
of Public Joint Stock Company "The Ural Bank for Reconstruction and Development",  
prepared in accordance with  
**International Financial Reporting Standards  
2015**

To the Shareholders of Public Joint Stock Company "The Ural Bank for Reconstruction and Development"

### **Information on the audited entity:**

*Name:* Public Joint Stock Company "The Ural Bank for Reconstruction and Development"

*Primary State Registration Number:* 1026600000350

*Location:* 67 Sacco and Vanzetti St., Ekaterinburg, Sverdlovsk region, Russian Federation, 620014

### **Information on the auditor:**

*Name of organization:* Ekaterinburg Audit-Center, Closed Joint Stock Company

*Location:* 60a Lenina Ave., Ekaterinburg, Sverdlovsk region, Russian Federation, 620062

*Primary State Registration Number:* 1036604386367

### **Membership in the self-regulatory organization of auditors:**

A member of the self-regulating organization of auditors Audit Chamber of Russia (the Association), main registration number of entry in the state register of auditors and audit organizations 10201046624.

We have audited the accompanying annual consolidated financial statements of Public Joint Stock Company "The Ural Bank for Reconstruction and Development" (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.



## **Audited Entity's Responsibility for the Annual Consolidated Financial Statements**

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

## **Auditors' Responsibility**

Our responsibility is to express an opinion on the fair presentation of these annual consolidated financial statements based on our audit. We conducted our audit in accordance with the Federal Auditing Standards. Those standards require that we comply with the current ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the annual consolidated financial statements in order to select the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these annual consolidated financial statements pursuant to Federal Law *On Banks and Banking Activity*.

## **Opinion**

In our opinion, the annual consolidated financial statements present fairly, in all material respects, the financial position of the Group, the parent credit institution of which is Public Joint Stock Company "The Ural Bank for Reconstruction and Development" as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with the International Financial Reporting Standards.

## **Emphasis of matter**

Without qualifying our opinion on the fair presentation of these annual consolidated financial statements, we draw attention to the following information:

Note 33 to the consolidated financial statements deals with the analysis of geographical concentration for 2015, according to which there is a significant concentration of claims towards non-resident legal entities.

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

The Bank's management is responsible for compliance of the Group, the parent credit institution of which is the Bank, with the mandatory ratios established by the Bank of Russia and for maintaining





internal control and organizing the Bank's risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of the Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity*, during the audit of the annual consolidated financial statements of the Bank for 2015, we have performed procedures to assess:

compliance of the Group, the parent credit institution of which is the Bank, with the mandatory ratios as at 1 January 2016 as established by the Bank of Russia;

compliance of internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, with the requirements established by the Bank of Russia.

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

Our findings from the procedures performed are reported below:

1) with respect to the Group's compliance with the mandatory ratios as established by the Bank of Russia:

we found that the mandatory ratios of the Group, the parent credit institution of which is the Bank, as at 1 January 2016 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, the parent credit institution of which is the Bank, other than those which we considered necessary to enable us to express an opinion as to whether the Bank's annual consolidated financial statements present fairly, in all material respects, the financial position of the Group, the parent credit institution of which is the Bank, as at 1 January 2016, and its financial performance and its cash flows for 2015 in accordance with the International Financial Reporting Standards:

2) with respect to compliance of internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, with the requirements established by the Bank of Russia, we found that:

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

b) the Bank's internal documentation, effective on 31 December 2015, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

c) as at 31 December 2015, the Bank maintained a system for reporting on the significant credit, operational, market, interest rate, legal, liquidity and reputational risks to the Group, the parent credit institution of which is the Bank, and on the equity (capital) of Group, the parent credit institution of which is the Bank;

d) frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2015, which cover the credit, operational, market, interest rate, legal, liquidity and reputational risk management for the Group, the parent credit institution of which is the Bank, was in compliance with the Bank's internal documentation. Those reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

e) as at 31 December 2015, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the compliance of the Group, the parent credit institution of which is the Bank, with risk limits and capital adequacy ratios as established by the Bank's internal documentation.



With the objective of monitoring effectiveness of the risk management procedures of the Group, the parent credit institution of which is the Bank, and their consistent application during 2015 the Board of Directors and Executive Management of the Bank periodically discussed the reports prepared by the Bank's risk management and internal audit functions, and considered the proposed corrective actions.

Our procedures with respect to internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, were performed solely for the purpose of examining whether the internal control and organization of risk management systems of the Group, the parent credit institution of which is the Bank, are in compliance with the requirements established by the Bank of Russia.

Deputy Director General of Audit  
of Ekaterinburg Audit-Center, Closed Joint Stock Company  
(Power of Attorney No. 3 dated January 11, 2016)

Kornoukhova, Tatyana Ivanovna

June 1, 2016





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**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of financial position**

<i>in thousands of Russian Roubles</i>	Notes	31 December 2015	31 December 2014 (restated)
<b>ASSETS</b>			
Cash and cash equivalents	6	49 035 483	27 951 963
Mandatory cash balances with the Bank of Russia		1 583 269	1 565 338
Other securities at fair value through profit or loss	7	51 539 054	11 470 736
Securities available-for-sale	8	10 000	-
Investment securities held to maturity	9	33 738 981	28 324 182
Due from other banks	10	6 524 750	4 402 169
Loans and advances to customers	11	145 256 113	144 168 684
Finance lease receivables	12	1 818 904	1 417 298
Goodwill		162 122	162 122
Property and equipment	13	5 566 782	5 772 968
Intangible assets	14	256 030	273 325
Investment property	15	5 841 056	5 805 432
Advances to real estate developers	16	1 448 581	2 163 158
Receivables under commission and sale and purchase agreements	17	16 996 256	7 516 673
Current income tax asset		457 404	12 288
Deferred tax asset	31	655 728	526 184
Other assets	18	12 076 207	5 440 943
Assets held for sale	19	782 418	664 443
<b>TOTAL ASSETS</b>		<b>333 749 138</b>	<b>247 637 906</b>
<b>LIABILITIES</b>			
Due to other banks	21	96 952 302	52 195 971
Customer accounts	22	189 554 871	149 104 314
Debt securities in issue	23	12 709 747	19 259 085
Current income tax liability		12 127	145 748
Deferred tax liability	31	1 422 438	437 661
Other liabilities	24	2 357 191	1 565 959
Other borrowed funds	25	16 057 138	12 726 969
<b>TOTAL LIABILITIES</b>		<b>319 065 814</b>	<b>235 435 707</b>
<b>EQUITY</b>			
Share capital	26	3 634 812	3 634 812
Share premium	26	1 581 956	1 581 956
Additional capital	26	3 423 503	3 423 503
Revaluation reserve for property and equipment		1 078 872	1 207 532
Cumulative translation reserve		(94 822)	(100 169)
Retained earnings		5 059 003	2 454 565
<b>TOTAL EQUITY</b>		<b>14 683 324</b>	<b>12 202 199</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>333 749 138</b>	<b>247 637 906</b>

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 1 June 2016.



Soldovyev A.U.  
President

Sirazov M.R.  
Chief Accountant



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of profit or loss**

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014 (restated)</b>
Interest income	28	29 236 203	26 689 640
Interest expense	28	(30 365 413)	(16 554 284)
Fee and commission income	29	3 989 193	5 001 361
Fee and commission expense	29	(652 412)	(586 176)
Net losses arising from trading securities		-	(930)
Net gains/(losses) arising from other securities at fair value through profit or loss		2 750 076	(984 589)
Net gains arising from securities available-for-sale		115 574	-
Net gains arising from trading in foreign currencies		15 477 158	2 215 068
Net losses arising from operations with precious metals		(49 674)	(258 414)
Foreign exchange translation gains		3 341 602	5 385 351
Rental income		14 199	17 217
Loss from revaluation of property and equipment	13	(15 058)	-
Loss from investment property	15	(27 086)	(99 490)
Income/(loss) from assignment of loans		138 121	(76 748)
Other operating income		165 234	153 765
<b>Net operating income</b>		<b>24 117 717</b>	<b>20 901 771</b>
Administrative and other operating expenses	30	(6 468 748)	(7 367 683)
(Provision for)/recovery of the allowance for impairment:			
- Loans and advances to customers	11	(12 927 932)	(12 705 068)
- Finance lease receivables	12	(64 656)	(19 844)
- Investment securities held to maturity	9	(1 097 649)	-
- Due from other banks	10	-	82
<b>Profit before tax</b>		<b>3 558 732</b>	<b>809 258</b>
Income tax expense	31	(1 035 166)	(315 909)
<b>Profit for the period</b>		<b>2 523 566</b>	<b>493 349</b>



Solov'yev A.V.  
President

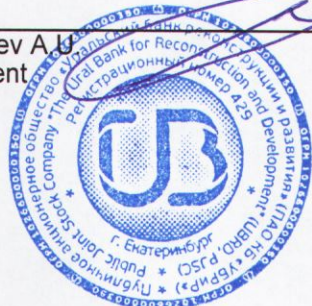
Sirazov M.R.  
Chief Accountant



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of comprehensive income**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
<b>Profit for the period</b>	<b>2 523 566</b>	<b>493 349</b>
<b>Other comprehensive loss for the period net of deferred income tax</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation effect	5 347	(67 205)
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation of property and equipment	(47 788)	-
<b>Other comprehensive loss net of deferred income tax</b>	<b>(42 441)</b>	<b>(67 205)</b>
<b>Total comprehensive income</b>	<b>2 481 125</b>	<b>426 144</b>

Solovyev A.I.  
President



Sirazov M.R.  
Chief Accountant



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of changes in equity**

<i>in thousands of Russian Roubles</i>		Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Cumulative translation reserve	Retained earnings	Total equity
<b>Balance as at 1 January 2014</b>			<b>3 634 812</b>	<b>1 581 956</b>	<b>2 379 203</b>	<b>1 297 849</b>	<b>(32 964)</b>	<b>2 271 481</b>	<b>11 132 337</b>
<b>Other comprehensive (loss)/income net of deferred income tax</b>									
<i>Items that are or may be reclassified subsequently to profit or loss:</i>									
Foreign currency translation effect			-	-	-	-	(67 205)	-	(67 205)
<i>Items that will not be reclassified to profit or loss:</i>									
Realised revaluation reserve for property and equipment			-	-	-	(90 317)	-	90 317	-
<b>Other comprehensive (loss)/income net of deferred income tax</b>			-	-	-	(90 317)	(67 205)	90 317	(67 205)
Profit for the period (restated)			-	-	-	-	-	493 349	493 349
<b>Total comprehensive (loss)/income (restated)</b>			-	-	-	(90 317)	(67 205)	583 666	426 144
<b>Transactions with owners, recorded directly in equity</b>									
Dividends declared	27		-	-	-	-	-	(400 582)	(400 582)
Additional funding from the controlling shareholder	26		-	-	1 044 300	-	-	-	1 044 300
<b>Balance as at 31 December 2014 (restated)</b>			<b>3 634 812</b>	<b>1 581 956</b>	<b>3 423 503</b>	<b>1 207 532</b>	<b>(100 169)</b>	<b>2 454 565</b>	<b>12 202 199</b>

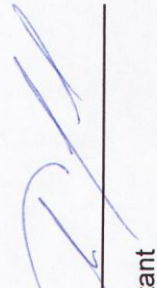
Notes on pages 13-92 form an integral part of these consolidated financial statements.



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of changes in equity**

in thousands of Russian Roubles							
Notes	Share capital	Share premium	Additional capital	Revaluation reserve for property and equipment	Cumulative translation reserve	Retained earnings	Total equity
<b>Other comprehensive (loss)/income net of deferred income tax</b>							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Foreign currency translation effect	-	-	-	-	5 347	-	5 347
<i>Items that will not be reclassified to profit or loss:</i>							
Property and equipment:	-	-	-	(47 788)	-	-	(47 788)
- revaluation	-	-	-	(80 872)	-	80 872	-
- realised revaluation reserve for property and equipment	-	-	-	-	-	-	-
<b>Other comprehensive (loss)/income net of deferred income tax</b>							
	-	-	-	(128 660)	5 347	80 872	(42 441)
Income for the period							
	-	-	-	-	-	2 523 566	2 523 566
<b>Total comprehensive (loss)/income</b>							
	-	-	-	(128 660)	5 347	2 604 438	2 481 125
<b>Balance as at 31 December 2015</b>							
	3 634 812	1 581 956	3 423 503	1 078 872	(94 822)	5 059 003	14 683 324

  
**Solov'yev A. U.**  
 President

  
**Sirazov M.R.**  
 Chief Accountant



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of cash flows**

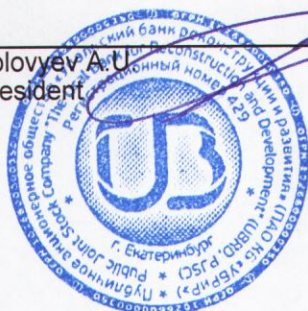
<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Interest received		28 029 570	25 987 033
Interest paid		(29 473 263)	(16 399 453)
Fees and commissions received		3 982 206	5 009 544
Fees and commissions paid		(658 793)	(579 308)
Net losses incurred from trading securities		-	(3 392)
Net gains received/(losses incurred) from other securities at fair value through profit or loss		1 013 844	(720 050)
Net gains received from other securities		115 574	-
Net gains received/(losses incurred) from trading in foreign currencies		6 780 662	(3 896 009)
Net losses incurred from operations with precious metals		(13 709)	(62 402)
Administrative and other operating expenses paid		(5 804 176)	(6 400 638)
Income tax paid		(748 060)	(265 499)
Proceeds from assignment of loans		469 046	1 399 802
Other operating income received		211 046	169 588
<b>Cash flows provided by operating activities before changes in operating assets and liabilities</b>			
		<b>3 903 947</b>	<b>4 239 216</b>
<b>(Increase)/decrease in operating assets</b>			
Mandatory cash balances with the Bank of Russia		(17 931)	(340 894)
Other securities at fair value through profit or loss		(38 970 735)	6 904 962
Securities available-for-sale		(10 000)	-
Due from other banks		(864 689)	8 482 122
Loans and advances to customers		1 650 337	(27 438 587)
Finance lease receivables		(454 029)	65 592
Advances to real estate developers		(144 107)	156 025
Receivables under commission and sale and purchase agreements		(9 479 583)	(5 781 010)
Other assets		2 785 401	(933 897)
Assets held for sale		230 843	141 540
<b>Increase/(decrease) in operating liabilities</b>			
Due to other banks		41 835 324	10 235 066
Customer accounts		33 200 221	13 033 568
Promissory notes and deposit certificates in issue (included in debt securities in issue)		(6 622 573)	2 260 126
Other liabilities		(6 845 329)	(287 779)
<b>Net cash flows provided by operating activities</b>			
		<b>20 197 097</b>	<b>10 736 050</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities held to maturity		(15 087 909)	(3 340 880)
Proceeds from sale of investment securities held to maturity		20 698 928	3 515 580
Acquisition of property and equipment		(404 136)	(669 702)
Proceeds from disposal of property and equipment		26 134	36 327
Acquisition of investment property		(180 697)	(10 127)
Proceeds from disposal of investment property		34 901	26 779
Acquisition of intangible assets		(56 078)	(71 346)
<b>Net cash flows provided by/(used in) investing activities</b>			
		<b>5 031 143</b>	<b>(513 369)</b>



**Public Joint Stock Company "The Ural Bank for Reconstruction and Development"**  
**Consolidated statement of cash flows**

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(342)	(400 159)
Additional funding from the controlling shareholder	26	-	1 044 300
Proceeds from bonds issued on domestic market (included in debt securities in issue)		5 479 346	5 153 614
Redemption/repurchase of bonds issued on domestic market (included in debt securities in issue)		(6 723 035)	(7 281 585)
Repayment of euro commercial papers (included in debt securities in issue)		-	(1 738 779)
Subordinated loans received (included in other borrowed funds)		-	2 616 002
Syndicated loans received (included in other borrowed funds)		-	1 148 542
Repayment of syndicated loans (included in other borrowed funds)		(391 401)	(144 076)
<b>Net cash flows (used in)/provided by financing activities</b>		<b>(1 635 432)</b>	<b>397 859</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(2 509 288)</b>	<b>1 935 308</b>
<b>Net increase in cash and cash equivalents</b>		<b>21 083 520</b>	<b>12 555 848</b>
Cash and cash equivalents at the beginning of the reporting period		27 951 963	15 396 115
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>6</b>	<b>49 035 483</b>	<b>27 951 963</b>

Solov'ev A.U.  
President



Sirazov M.R.  
Chief Accountant



## **1 Introduction**

These consolidated financial statements of Public Joint Stock Company “The Ural Bank for Reconstruction and Development” (the Bank) and its subsidiaries, structured entities and mutual investment funds (together referred to as the Group) are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a public joint-stock company set up in accordance with regulations of the Russian Federation.

Due to the coming into force from 1 September 2014 of the Federal law No. 99-FZ On modification of chapter 4 part one of the Civil code of the Russian Federation and on expiry of separate provisions of acts of the Russian Federation dated 5 May 2014, the name of the Bank was changed. From 24 February 2015 a new full trade name of the Bank is Public Joint Stock Company “The Ural Bank for Reconstruction and Development” (short trade name is UBRD, PJSC). The previous full trade name is Joint Stock Company “The Ural Bank of Reconstruction and Development” (short trade name of UBRD, JSC).

**Principal activity.** The Bank’s principal business activity is commercial and retail banking transactions within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the Bank of Russia) on 16 August 2012. Due to the change of the Bank’s trade name the license was renewed on 6 February 2015. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law No.177-FZ On deposits of individuals insurance in Russian Federation as at 23 December 2003 (as amended on 13 July 2015). The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RUB 1 400 thousand per individual in case of the withdrawal of a license of a bank or Bank of Russia imposed moratorium on payments.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

As at 31 December 2015 the ultimate controlling parties of the Bank are Mr. I.A. Altushkin, Mr. V.V. Pechenko, Mr. A.V. Semkin, Mr. S.V. Skubakov and Mrs. I.N. Gayvoronskaya.

The Bank has 13 (2014: 13) branches and 154 (2014: 346) additional and operational offices in the Russian Federation.

The average number of employees during 2015 was 4 682 (2014: 6 750).

**Registered address and place of business.** The Bank’s registered address and place of business is 620014, 67, Sacco and Vanzetti St., Yekaterinburg, Russian Federation.

**Presentation currency.** These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand).

## **2 Operating environment**

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this country. The Government continues implementation of economic reforms and development of its legal, tax and regulatory legislation. Current actions of the Government are focused on modernization of the Russian economy, aimed at increasing productivity and product quality, as well as increasing the share of industries producing high-tech products and services. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The stability of the Russian economy in the future is dependent significantly upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2015 the pace of economic growth continued to slow down along with a decreasing consumer demand and capital investments. Moreover, political uncertainty in Ukraine had a significant influence on Russian economy. 2015 saw a variety of trends in exchange rate dynamics. The strengthening of the Russian national currency in relation to the main world currencies observed during the first half of 2015 stemmed from oil prices recovery, geopolitical environment stabilisation and decrease of foreign currency demand. By the end of June the Rouble exchange rates achieved the level as of December 2014. But after the significant oil prices decrease since mid-2015 national currency continued to weaken. At the year end the dollar exchange rate exceeded 70 roubles. In 2015 the Bank of Russia continues to carry out policy within the inflation targeting regime. In the first half of 2015 in the environment of decreasing inflationary risks as well as increasing risks of economic slowdown the Bank of Russia has been decreasing the key rate from 17% to 11.50%. In the second half of 2015 the Bank of Russia decreased the key rate by 50 basis points to 11%.



## **2 Operating environment (continued)**

In January 2015 Standard & Poor's has decreased country's rating, thus inhibiting access to foreign capital markets for Russian companies. According to the Ministry of Economic Development of the Russian Federation in 2015 banking sector assets increased by 6.9%, the growth rate of lending to corporate clients amounted to 12.7%, and retail lending market experienced a 5.7% decline. The amount of deposits from individuals increased by 25.2%, and from legal entities - by 11.8%.

There is still uncertainty about the future growth of the Russian economy and the ability of the Group and its counterparties to raise new borrowings at reasonable rates, which in turn can affect the financial position, results of operations and business prospects. As the Russian economy is sensitive to the negative trends on the global markets, there is still a risk of increased volatility on the Russian financial markets. Despite this, management believes that in the current situation they have taken all necessary measures to support the sustainability and growth of the business. The Consolidated Financial Statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

## **3 Summary of significant accounting policies**

**Basis of preparation.** These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, except that land and premises stated at revalued amounts, and financial instruments at fair value through profit or loss stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

**Consolidated financial statements.** Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Operations between participants of the Group, the balances on the corresponding accounts and the unrealised income on operations between the enterprises of the Group are mutually excluded. Unrealised expenses also are mutually excluded, except cases when expenses cannot be compensated. The Bank and all its subsidiaries apply the uniform principles of accounting policies according to policy of the Group.

**Main approaches to an assessment.** Financial instruments are reflected at fair value or the amortised cost depending on their classification. The description of these assessment methods is given below.

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



### **3 Summary of significant accounting policies (continued)**

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

If an asset or a liability valued at a fair value, has both bid and ask prices, then short-term and long-term positions are valued at the ask price.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of assets and liabilities.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount of instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss for the period.

### **3 Summary of significant accounting policies (continued)**

**Cash and cash equivalents.** Cash and cash equivalents comprise cash, correspondent accounts with Bank of Russia and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value these include interbank placements and receivables on repurchase agreements with other banks with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with the Bank of Russia.** Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

**Trading securities.** Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

**Other securities at fair value through profit or loss.** Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

**Securities available-for-sale.** This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available-for-sale are carried at fair value.

**Investment securities held to maturity.** Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that according to intention and ability of the Group will be held to maturity. Management determines the classification of investment securities held to maturity at the time of initial recognition. Investment securities held to maturity are carried at amortised cost.

**Due from other banks.** Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** The credits and advance payments to clients are reflected in financial statements when the Group provides money to clients in the form of advance payments for the purpose of acquisition or creation of the receivables which are not connected with derivative financial instruments and not having quotations in the open market, subject to repayment on the determined or defined date, and thus the Group has no intention to carry out trade operations with these receivables. The credits and advance payments to clients are considered at the amortised cost.

If at revision of conditions concerning financial assets the reconsidered conditions considerably differ from previous, the new asset originally admits at fair value.

The Group sales various loan portfolios. In case these transactions do not satisfy the derecognition criteria according to the IFRS, the Group continues to recognise the sold loans in the consolidated statement of financial position at the amortised cost and recognises liabilities for the sold loans in the amount of the consideration received. Subsequently the Group recognises interest income on the transferred assets and interest expenses on the recognised liabilities.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.



### **3 Summary of significant accounting policies (continued)**

The following principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment of principal or interest is overdue
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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 from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not have influence on the current period.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

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. 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, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the period. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

**Credit related commitments.** The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

**Transactions on contracts of sale and return repayment of securities.** Sale and repurchase agreements (repo agreements) which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities acquired under repo agreements are classified as receivables under reverse repo agreements or due from other banks. The corresponding liabilities are presented within amounts due to other banks.

**Promissory notes purchased.** Promissory notes purchased are included in trading securities or in due from other banks or in loans and advances to customers, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

### **3 Summary of significant accounting policies (continued)**

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without imposing additional restrictions on the sale.

**Goodwill.** Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses (if any). An impairment loss in respect of goodwill is not reversed.

The Group tests goodwill for impairment at each reporting date and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a reporting segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

The Group's premises are regularly revaluated. Frequency of revaluation depends on change of fair value of these objects. The increase in balance cost of buildings as a result of revaluation is reflected in structure of the other cumulative income. However, this increase is subject to recognition in profit or loss to the extent in which it reverses the loss from revaluation on the same asset which is earlier recognised in profit or loss.

Reduction of balance cost of buildings as a result of revaluation is subject to recognition in profit or loss. However, the loss from revaluation has to be reflected in structure of the other cumulative income to the extent in which it reverses the previous increase in cost on the same asset which is earlier recognised in other cumulative income.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period.

**Depreciation.** Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	1.3 - 2.5%
Equipment	11.8 – 33.3%



### **3 Summary of significant accounting policies (continued)**

**Intangible assets.** All intangible assets (except for goodwill) have a definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 4 years.

**Investment property.** The property intended for receiving profit on leasing and/or increase in its market cost, instead of for sale in the course of usual economic activity, use by production or delivery of goods, rendering services or for administrative activity belongs to investment real estate. The investment real estate is estimated at acquisition cost less the saved-up depreciation and losses from depreciation (if any). If nature of using an item of investment real estate changes, it is subject to reclassification in category of fixed assets at balance cost for date of reclassification. The depreciation calculation method and depreciation rates on investment properties are similar to the method and rates of depreciation accrual on items of fixed assets from the category "Premises"

**Non-financial assets impairment.** Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the consolidated financial statements.

**Advances to real estate developers.** Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less impairment where required. Upon completion the real estate items are included in investment property or assets held for sale, depending on the Group's intentions in respect of these items.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

**Finance leases.** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at the date of emergence of the rent relations using a discount rate defined at the date of the rent transaction (the date of the rent transaction is a date of the lease contract or date of confirmation by participants of the rent relations of basic rent provisions depending on which date came earlier).

The difference between not discounted cost of future rent payments and the sum of receivables represents the uncollected financial income. This income is recognised during the rent term using a method of an effective interest rate (before taxation) which assumes a fixed rate of return during all period of validity of the lease contract. The additional expenses which are directly connected with arranging rent relations are included in the initial sum of receivables on financial lease and reduce the income recognised during the lease period. The financial income on lease is recognised in "Interest income" item in profit or loss for the period.

### **3 Summary of significant accounting policies (continued)**

Losses from impairment are recognised in profit or loss for the period as they occur as a result of one or more events (loss events) which occurred after initial recognition of financial lease receivables. For definition of existence of objective evidences of a loss from impairment the Group uses the same main criteria as for the above described loans and advances to customers carried at the amortised cost.

**Assets held for sale.** Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their carrying value and fair value less costs to sell as at the reclassification date. Assets held for sale are not depreciated.

**Due to other banks.** Amounts due to other banks are represented in the consolidated financial statements when cash or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortised cost.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Debt securities in issue.** Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

**Other borrowed funds.** Other borrowed funds include the subordinated and syndicated loans which are presented in the consolidated statement of financial position at amortised cost. Interest expenses on these liabilities are recorded in profit or loss. Subordinated loans rank after all other creditors in case of the Group's liquidation.

**Derivative financial instruments.** Derivative financial instruments are carried at their fair value. All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

**Forward transactions with precious metals.** Forward transactions with precious metals include forward contracts for purchase/sale of precious metals denominated in cash. Balances on these transactions are measured at fair value changes of which are recognised in profit or loss for the period on gain / losses arising from transactions with precious metals.

**Income tax.** Income tax comprises current and deferred tax. Income tax is recognised in profit or loss in full except amounts related to transactions recognised in other comprehensive income or transactions with shareholders recognised directly in equity, which are recognised within other comprehensive income or directly within equity respectively.

Operating costs on income tax are represented in the consolidated financial statements according to requirements of the legislation of the Russian Federation, using tax rates and legislative norms which are in the effect or actually came into force for reporting date. The current income tax is calculated based on the amounts payable to tax authorities or subject to be compensated by tax authorities concerning taxable profit or loss for current and previous periods. The taxable profit or loss are based on estimated indicators if the consolidated financial statements are approved before submission of the relevant tax declarations. Other tax expenses, except for income tax, are recognised in administrative and other operating expenses.

The deferred income tax is calculated in terms of temporary differences between the taxable base of assets and liabilities and their balance cost according to the consolidated financial statements. The deferred tax is not considered in terms of temporary differences arising at the initial recognition of an asset or liability if this transaction at the initial recognition does not have an impact neither on accounting, nor taxable income, except cases of the initial recognition resulting from the merger of companies.

Assets and liabilities for the deferred taxation are measured at tax rates of the taxation enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences or the deferred tax losses will be utilised. Deferred tax assets and liabilities are offset only within each separate company of the Group. Deferred tax assets for temporary differences reducing taxable base, and deferred tax losses are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.



### **3 Summary of significant accounting policies (continued)**

The deferred income tax is calculated in terms of retained income of subsidiaries made after their acquisition except those cases when the Group controls the subsidiary's policy concerning dividends and there is a probability that temporary differences will not be reckoned in the near future in dividends or otherwise.

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

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

**Share premium.** When shares are issued, the excess of contributions received (net of transaction costs), over the nominal value of the shares issued is recorded as share premium in equity.

**Other reserves.** Other reserves of the Group comprise revaluation reserve for property and equipment and cumulative translation reserve. The revaluation reserve for property and equipment included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. In case of a subsidiary or special purpose entity disposal, the functional currency of which differs from the presentation currency of these consolidated financial statements, foreign currency differences, previously recognised in cumulative translation reserve, are reclassified to profit or loss for the period.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

**Income and expense recognition.** Interest income and expense are recorded in profit or loss for all financial instruments on an accrual basis. This method includes, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

The Group does not designate loan commitments as financial liabilities at fair value through profit or loss for the period.

The Bank receipts fee and commission income from the sale of package of banking services to customers, which are borrowers on consumer loans. Within purchase of package of services the customer has the right to join to the collective insurance programs, where the Bank is the policyholder and the insurance company assumes the insurance risk associated with the life, health and ability, job loss. Borrower determines for himself (herself) the necessity to purchase a package of banking services. The decision of the borrower in respect of the purchase of such package does not affect the interest rate offered to him (her). In case of purchase by a customer the package of banking services the Bank has a fee and commission income from the sale of this package, which is not an integral part of the overall profitability of consumer loans and recognised in profit or loss immediately at the moment the payment from the customers for banking services was made.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### **3 Summary of significant accounting policies (continued)**

**Foreign currency translation.** The functional currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, the Russian Rouble. Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; and except for differences recognised cumulative translation reserve.

Foreign currency differences arising on retranslation of balances in the statement of financial position and profit and loss accounts of a subsidiary or SPE from its functional currency to presentation currency of these consolidated financial statements are recognised in cumulative translation reserve in other comprehensive income.

At 31 December 2015 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RUB 72.8827 (31 December 2014: USD 1 = RUB 56.2584).

**Fiduciary assets.** Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown as fee and commission income in profit or loss for the period.

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

**Staff costs and related contributions.** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

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



### 3 Summary of significant accounting policies (continued)

**Change of accounting policies and comparative data representation.** Some comparative data were reclassified to comply with changes in presentation of the consolidated financial statements in the current year.

In particular, to increase the validity and reliability of disclosed information the following changes were made to these consolidated financial statements:

- in the "Loans and advances to customers" note loans to small and medium size businesses were partially transferred from loans to individuals to loans to legal entities in accordance with the economic substance. In these consolidated financial statements the Group does not present the third comparative statement of financial position as at 1 January 2014 as above-referred reclassification does not impact materially the statement of financial position as at 1 January 2014;
- receivables under commission and sale and purchase agreements have been shown separately from "Other assets" in the consolidated statement of financial position due to significant increase in certain assets;
- in the consolidated statement of profit or loss items "Loss from termination of lease agreements" and "Other operating income" were aggregated due to immateriality;
- revaluation related to the first part of swap deals is reclassified to "Net gains arising from trading in foreign currencies" line of the consolidated statement of profit or loss as certain line already includes financial result from the second part of swap deals.

	Balance as at 1 January 2015 (previously reported)	Adjustment	Balance as at 1 January 2015 (restated)
<i>in thousands of Russian Roubles</i>			
<b>Consolidated statement of financial position</b>	144 143 402	25 282	144 168 684
Loans and advances to customers	-	7 516 673	7 516 673
Receivables under commission and sale and purchase agreements	12 957 616	(7 516 673)	5 440 943
Total assets	247 612 624	25 282	247 637 906
Deferred tax liability	432 605	5 056	437 661
Total liabilities	235 430 651	5 056	235 435 707
Retained earnings	2 434 339	20 226	2 454 565
Total equity	12 181 973	20 226	12 202 199
Total liabilities and equity	247 612 624	25 282	247 637 906

	2014 (previously reported)	Adjustment	2014 (restated)
<i>in thousands of Russian Roubles</i>			
<b>Consolidated statement of profit or loss</b>			
Provision for impairment:			
- loans and advances to customers	(12 730 350)	25 282	(12 705 068)
Net interest income/(expense) after provision for impairment	(2 614 756)	25 282	(2 589 474)
(Loss)/profit arising from trading in foreign currencies	(3 196 480)	5 411 548	2 215 068
Foreign exchange translation gains	10 796 899	(5 411 548)	5 385 351
Other operating income	159 587	(5 822)	153 765
Loss from termination of lease agreements	(5 822)	5 822	-
Profit before tax	758 694	50 564	809 258
Income tax expense	(310 853)	(5 056)	(315 909)
Profit for the period	447 841	45 508	493 349

### 3 Summary of significant accounting policies (continued)

	Balance as at 1 January 2015 (previously reported)	Adjustment	Balance as at 1 January 2015 (restated)
<i>in thousands of Russian Roubles</i>			
<b>Loans to legal entities</b>			
- Related parties	11 456 981	-	11 456 981
- Corporate loans	69 767 408	-	69 767 408
- Small and medium-sized businesses	6 270 177	3 030 496	9 300 673
<b>Total loans to legal entities</b>	<b>87 494 566</b>	<b>3 030 496</b>	<b>90 525 062</b>
<b>Loans to individuals</b>			
- Express loans	16 469 798	-	16 469 798
- Loans to employees participating in payroll projects	7 220 531	-	7 220 531
- Unsecured consumer loans	40 812 181	-	40 812 181
- Collateralised consumer loans	6 262 147	(3 030 496)	3 231 651
<b>Total loans to individuals</b>	<b>70 764 657</b>	<b>(3 030 496)</b>	<b>67 734 161</b>
<b>Total loans and advances to customers before allowance for impairment</b>	<b>158 259 223</b>	<b>-</b>	<b>158 259 223</b>
Allowance for impairment	(14 115 821)	25 282	<b>(14 090 539)</b>
<b>Total</b>	<b>144 143 402</b>	<b>25 282</b>	<b>144 168 684</b>

Due to significant increase in the Group's assets and liabilities new threshold values were set in the notes for risks concentration:

- for Loans and advances to customers (Note 11) number of borrowers with total loan amount above RUB 1 500 000 thousand is disclosed (previous threshold is RUB 500 000 thousand);
- for Customer accounts (Note 22) number of counterparties with balances over RUB 700 000 thousand is disclosed (previous threshold is RUB 300 000 thousand)

### 4 Critical accounting estimates and judgements in applying accounting policies

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in accordance with IFRS. Actual results could differ from those estimates. Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

**Revaluation of land and premises.** Over 7% (31 December 2014: 9%) of equity is represented by revaluation reserve for property and equipment. As at 1 December 2015 by the management decision assessment of fair value of property was carried out by the independent appraiser (see Note 13).

**Impairment losses on loans and advances to customers.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, 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 a portfolio of loans and leases before the decrease can be identified with an individual loan or lease in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (see Note 11).

**Structured entities.** Information on professional judgements in respect of assessment of control over special purpose entities is disclosed in Note 38.



#### **4 Critical accounting estimates and judgements in applying accounting policies (continued)**

**Fee and commission income from the sale of package of banking services.** Information on the basis on which this commission income is recognised in profit or loss is disclosed in Note 3

#### **5 New or revised standards and interpretations**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. Analysis of possible impact of new standards on consolidated financial statement of the Group has not been performed yet.

IFRS 9 *Financial Instruments*, published in July 2014, is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

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

#### **6 Cash and cash equivalents**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Correspondent accounts and overnight placements with banks:		
- Russian Federation	13 184 448	681 856
- other countries	2 940 758	3 535 638
Balances with the Bank of Russia (other than mandatory cash balances)	12 485 516	5 546 040
Placements with other banks with original maturities of less than three months	6 802 802	11 528 356
Agreements for purchase and re-sale of the securities to other banks with original maturities of less than three months	6 586 842	-
Cash on hand	5 609 988	6 515 750
Settlement accounts with trading systems	1 425 129	144 323
<b>Total</b>	<b>49 035 483</b>	<b>27 951 963</b>

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks with ratings from "not rated" to "A-" (31 December 2014: ratings from "not rated" to "AA-"). The ratings are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 33.

**7 Other securities at fair value through profit or loss**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Corporate eurobonds	50 460 455	-
Corporate bonds	944 138	11 306 293
Russian government bonds	134 461	153 941
Municipal bonds	-	617
<b>Total debt securities</b>	<b>51 539 054</b>	<b>11 460 851</b>
Corporate shares	-	9 885
<b>Total</b>	<b>51 539 054</b>	<b>11 470 736</b>

The Group irrevocably classified these securities, which are not a part of the trading portfolio, as securities at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that management evaluates results from these investments based on their fair value in accordance with a documented strategy.

As at 31 December 2015 corporate eurobonds are represented by the securities issued by the foreign companies with face value in USD. The repayment periods of these bonds are from May 2016 till April 2021, the coupon yield is from 3.16% to 7.87% p.a. and market yield to maturity as at 31 December 2015 is from 3.93% to 6.92% p.a. depending on the type of bond issue.

As at 31 December 2015 corporate bonds are represented by the securities issued by the company from transport sector with face value in Russian roubles. The repayment period of these bonds is June 2032, the coupon yield is up to 17.90% p.a. and market yield to maturity as at 31 December 2015 is 15.8% p.a. depending on the type of bond issue.

As at 31 December 2015 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds mature in October 2018, the coupon yield is up to 12.20% p.a. and market yield to maturity as at 31 December 2015 is 7.06% p.a.

As at 31 December 2014 corporate bonds are represented by the securities issued by the Russian banks, the mortgage lending agency, the companies operating in ferrous and nonferrous metallurgy, energy, transport, oil and gas and other economic sectors with face value in Russian roubles. The repayment periods of these bonds are from March 2015 till June 2032, the coupon yield is from 7.90% to 12.15% p.a. and market yield to maturity as at 31 December 2014 is from 6.88% to 17.49% p.a. depending on the type of bond issue.

As at 31 December 2014 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds mature in October 2018, the coupon yield is up to 5.00% p.a. and market yield to maturity as at 31 December 2014 is 7.13% p.a.

As at 31 December 2014 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of Moscow and the Government of the Republic of Bashkortostan. These bonds mature from September 2016 till November 2016, the coupon yield is from 7.00% to 8.75% p.a. and market yield to maturity as at 31 December 2014 is from 8.13% to 9.04% p.a.

As at 31 December 2014 corporate shares are represented by shares of Russian regional energy, mining and oil companies traded on the domestic market.



**7 Other securities at fair value through profit or loss (continued)**

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2015 is as follows:

	Corporate eurobonds	Corporate bonds	Russian government bonds	Total
<i>in thousands of Russian Roubles</i>				
- Rated from BBB- to BBB+	19 434 675	944 138	134 461	20 513 274
- Rated from BB- to BB+	31 025 780	-	-	31 025 780
<b>Total</b>	<b>50 460 455</b>	<b>944 138</b>	<b>134 461</b>	<b>51 539 054</b>

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2014 is as follows:

	Corporate bonds	Russian government bonds	Municipal bonds	Corporate shares	Total
<i>in thousands of Russian Roubles</i>					
- Rated from A- to A+	1 057	-	-	-	1 057
- Rated from BBB- to BBB+	11 292 167	153 941	617	5 354	11 452 079
- Rated from BB- to BB+	4 380	-	-	3 799	8 179
- Rated from B- to B+	8 689	-	-	-	8 689
- Not rated	-	-	-	732	732
<b>Total</b>	<b>11 306 293</b>	<b>153 941</b>	<b>617</b>	<b>9 885</b>	<b>11 470 736</b>

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

The table below shows carrying amount of other securities at fair value through profit or loss pledged under sale and repurchase agreements as at 31 December 2015 and 2014 (see Note 20).

<i>in thousands of Russian Roubles</i>	2015	2014
Corporate eurobonds	47 061 536	-
Corporate bonds	944 138	11 289 535
Russian government bonds	-	153 941
<b>Total</b>	<b>48 005 674</b>	<b>11 443 476</b>

Geographical, currency, maturity and interest rate analyses of other securities at fair value through profit and loss are disclosed in Note 33.

## **8 Securities available-for-sale**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Corporate shares	10 000	-
<b>Total</b>	<b>10 000</b>	<b>-</b>

As at 31 December 2015 corporate shares were represented by shares of the JSC VUZ-bank (see Note 38).

Analysis by credit quality of securities available-for-sale at 31 December 2015 and 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
- Not rated	10 000	-
<b>Total</b>	<b>10 000</b>	<b>-</b>

Securities available-for-sale are not pledged under sale and repurchase agreements as at 31 December 2015.

Geographical, currency and maturity analyses of securities available-for-sale are disclosed in Note 33.

## **9 Investment securities held to maturity**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Corporate bonds	23 183 935	27 178 955
Russian government bonds	10 145 260	-
Municipal bonds	872 172	1 145 227
<b>Total</b>	<b>34 201 367</b>	<b>28 324 182</b>
Allowance for impairment	(462 386)	-
<b>Total</b>	<b>33 738 981</b>	<b>28 324 182</b>

As at 31 December 2015 corporate bonds are represented by the securities issued by the mortgage lending agency, Russian corporation of nanotechnologies, banks and financial institutions, the companies operating in telecommunications, transport, oil and gas sectors with face value in Russian roubles. These bonds have maturity dates ranging from February 2016 till September 2032, the coupon yield is from 7.5% to 18.3% p.a. and market yield to maturity as at 31 December 2015 is from 7.88% to 16.85% depending on the type of the bond issue.

As at 31 December 2015 Russian government bonds are represented by Rouble denominated securities issued by Ministry of Finance of the Russian Federation. These bonds have maturity dates ranging from March 2023 till January 2028, the coupon yield is from 7.0% to 8.15% p.a. and market yield to maturity as at 31 December 2015 is from 9.51% to 9.77% p.a.

As at 31 December 2015 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of the Republic of Sakha (Yakutia), administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tver areas. These bonds have maturity dates ranging from May 2016 till June 2020, the coupon yield is from 7.49% to 12.4% p.a. and market yield to maturity as at 31 December 2015 is from 9.57% to 12.32% p.a.



## **9 Investment securities held to maturity (continued)**

As at 31 December 2014 corporate bonds are represented by the securities issued by the mortgage lending agency, Russian corporation of nanotechnologies, banks and financial institutions, the companies operating in the ferrous metallurgy, the mining industry, telecommunications, transport, oil and gas sectors with face value in Russian roubles. These bonds have maturity dates ranging from February 2015 till September 2032, the coupon yield is from 7.25% to 14.50% p.a. and market yield to maturity as at 31 December 2014 is from 5.50% to 25.56% depending on the type of the bond issue.

As at 31 December 2014 municipal bonds are represented by the securities with face value in Russian roubles issued by the Government of the Republic of Sakha (Yakutia), administration of Krasnoyarsk, Samara, Nizhny Novgorod and Tver areas. These bonds have maturity dates ranging from December 2015 till December 2017, the coupon yield is from 7.49% to 9.55% p.a. and market yield to maturity as at 31 December 2014 is from 13.24% to 18.96% p.a.

Movements in the allowance for impairment for investment securities held to maturity are as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Allowance for impairment as at 1 January</b>	-	-
Charge of provision	1 097 649	-
Write-offs	(635 263)	-
<b>Allowance for impairment as at 31 December</b>	<b>462 386</b>	<b>-</b>

Analysis by credit quality of investment securities held to maturity before allowance for impairment outstanding at 31 December 2015 is as follows:

	<b>Corporate bonds</b>	<b>Russian government bonds</b>	<b>Municipal bonds</b>	<b>Total</b>
<i>in thousands of Russian Roubles</i>				
- Rated from BBB- to BBB+	12 034 370	10 145 260	63 082	22 242 712
- Rated from BB- to BB+	7 523 731	-	809 090	8 332 821
- Rated from B- to B+	3 058 387	-	-	3 058 387
- Not rated	105 061	-	-	105 061
<b>Total</b>	<b>22 721 549</b>	<b>10 145 260</b>	<b>872 172</b>	<b>33 738 981</b>

Analysis by credit quality of other securities held to maturity before allowance for impairment outstanding at 31 December 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>Corporate bonds</b>	<b>Municipal bonds</b>	<b>Total</b>
- Rated from A- to A+	608 256	-	608 256
- Rated from BBB- to BBB+	12 885 819	125 987	13 011 806
- Rated from BB- to BB+	8 381 534	960 851	9 342 385
- Rated from B- to B+	5 303 346	58 389	5 361 735
<b>Total</b>	<b>27 178 955</b>	<b>1 145 227</b>	<b>28 324 182</b>

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's.

## **9 Investment securities held to maturity (continued)**

The table below shows carrying amount of investment securities held to maturity pledged under sale and repurchase agreements as at 31 December 2015 and 2014 (see Note 20).

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Corporate bonds	21 062 695	27 178 955
Russian government bonds	9 860 924	-
Municipal bonds	872 173	1 145 227
<b>Total</b>	<b>31 795 792</b>	<b>28 324 182</b>

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 33.

## **10 Due from other banks**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Short-term placements with other banks with original maturities of more than three months	5 446 681	4 406 749
Other allocated funds	1 082 649	-
Allowance for impairment	(4 580)	(4 580)
<b>Total</b>	<b>6 524 750</b>	<b>4 402 169</b>

At 31 December 2015 and 2014 short-term placements with other banks are represented by the current term deposits and promissory notes of other banks with face value in Russian roubles placed in the Russian Federation. Other allocated funds are represented by individual clearing collateral for operations in currency and stock markets.

Movements in the allowance for impairment for due from other banks are as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Allowance for impairment as at 1 January</b>	<b>4 580</b>	<b>4 662</b>
Recovery of provision	-	(82)
<b>Allowance for impairment as at 31 December</b>	<b>4 580</b>	<b>4 580</b>

# **10 Due from other banks (continued)**

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2015 is as follows:

<i>in thousands of Russian Roubles</i>	<b>Short-term placements with other banks with original maturities of more than three months</b>	<b>Other allocated funds</b>	<b>Total</b>
- Rated from A- to A+	491 164	-	491 164
- Rated from BBB- to BBB+	4 534 367	1 082 649	5 617 016
- Rated from B- to B+	416 570	-	416 570
- Not rated	4 580	-	4 580
<b>Total due from other banks before allowance for impairment</b>	<b>5 446 681</b>	<b>1 082 649</b>	<b>6 529 330</b>

An analysis by credit quality of due from other banks (before allowance for impairment) as at 31 December 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>Short-term placements with other banks with original maturities of more than three months</b>
- Rated from A- to A+	2 821 389
- Rated from BBB- to BBB+	3 627
- Rated from BB- to BB+	94 482
- Rated from B- to B+	1 482 671
- Not rated	4 580
<b>Total due from other banks before allowance for impairment</b>	<b>4 406 749</b>

As at 31 December 2015 the Group has 1 counterparties (31 December 2014: 2 counterparties) with balances over RUB 1 000 000 thousand. The aggregate balances from these counterparties as at 31 December 2015 amount to RUB 3 659 774 thousand (31 December 2014: RUB 3 896 378 thousand), or 56% (31 December 2014: 88%) of total balances from other banks.

The ratings given in the table above are defined according to the criteria accepted by the international rating agency Standard & Poor's or equivalent ratings of agencies of Fitch and Moody's. Due from other banks are not collateralised.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 33.



## 11 Loans and advances to customers

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
<b>Loans to legal entities</b>		
- Related parties	11 225 299	11 456 981
- Corporate loans	85 698 705	69 767 408
- Small and medium-sized businesses	4 863 160	9 300 673
<b>Total loans to legal entities</b>	<b>101 787 164</b>	<b>90 525 062</b>
<b>Loans to individuals</b>		
- Express loans	16 238 408	16 469 798
- Loans to employees participating in payroll projects	7 410 184	7 220 531
- Unsecured consumer loans	28 784 535	40 812 181
- Collateralised consumer loans	3 223 481	3 231 651
<b>Total loans to individuals</b>	<b>55 656 608</b>	<b>67 734 161</b>
<b>Total loans and advances to customers before allowance for impairment</b>	<b>157 443 772</b>	<b>158 259 223</b>
Allowance for impairment	(12 187 659)	(14 090 539)
<b>Total</b>	<b>145 256 113</b>	<b>144 168 684</b>

Information concerning the loans and advances to customers transferred without derecognition is represented in Note 20.

In 2015 the Group sold under assignment agreements loan receivables from individuals overdue over 360 days with the total loan amount before impairment allowance of RUB 2 330 705 thousand (2014 overdue over 211 days: RUB 7 065 947 thousand). The allowance for impairment of these receivables at the date of sale was RUB 2 027 232 thousand (2014: RUB 5 599 223 thousand). Receipts from sale of these loans are RUB 54 934 thousand (2014: RUB 1 399 442 thousand), the loss on these operations recognised in the consolidated statement of profit or loss for 2015 is RUB 248 539 thousand (2014: profit RUB 67 282 thousand).

Movements in the allowance for impairment for loans to legal entities during 2015 financial year are as follows:

	<b>Related parties</b>	<b>Corporate loans</b>	<b>Small and medium-sized businesses</b>	<b>Total</b>
<i>in thousands of Russian Roubles</i>				
<b>Allowance for impairment as at 1 January 2015</b>	<b>29 255</b>	<b>723 614</b>	<b>2 284 292</b>	<b>3 037 161</b>
Charge of provision	7 536	153 302	930 204	1 091 042
Write offs	-	(268 405)	(2 010 720)	(2 279 125)
<b>Allowance for impairment as at 31 December 2015</b>	<b>36 791</b>	<b>608 511</b>	<b>1 203 776</b>	<b>1 849 078</b>

## 11 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to individuals during 2015 financial year are as follows:

	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
<i>in thousands of Russian Roubles</i>					
<b>Allowance for impairment as at 1 January 2015</b>	<b>4 773 593</b>	<b>257 373</b>	<b>5 904 890</b>	<b>117 522</b>	<b>11 053 378</b>
Charge of provision	5 705 401	347 785	5 709 306	74 398	11 836 890
Write offs	(5 021 236)	(278 820)	(7 144 815)	(106 816)	(12 551 687)
<b>Allowance for impairment as at 31 December 2015</b>	<b>5 457 758</b>	<b>326 338</b>	<b>4 469 381</b>	<b>85 104</b>	<b>10 338 581</b>

Movements in the allowance for impairment for loans to legal entities during 2014 financial year are as follows:

	Related parties	Corporate loans	Small and medium- sized businesses	Total
<i>in thousands of Russian Roubles (restated)</i>				
<b>Allowance for impairment as at 1 January 2014</b>	<b>21 042</b>	<b>532 032</b>	<b>829 460</b>	<b>1 382 534</b>
Charge of provision	8 213	226 909	1 458 986	1 694 108
Write offs	-	(35 327)	(4 154)	(39 481)
<b>Allowance for impairment as at 31 December 2014</b>	<b>29 255</b>	<b>723 614</b>	<b>2 284 292</b>	<b>3 037 161</b>

Movements in the allowance for impairment for loans to individuals during 2014 financial year are as follows:

	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
<i>in thousands of Russian Roubles (restated)</i>					
<b>Allowance for impairment as at 1 January 2014</b>	<b>3 953 631</b>	<b>157 684</b>	<b>2 267 944</b>	<b>394 072</b>	<b>6 773 331</b>
Charge/(recovery) of provision	5 623 781	203 233	5 454 771	(270 825)	11 010 960
Write offs	(4 803 819)	(103 544)	(1 817 825)	(5 725)	(6 730 913)
<b>Allowance for impairment as at 31 December 2014</b>	<b>4 773 593</b>	<b>257 373</b>	<b>5 904 890</b>	<b>117 522</b>	<b>11 053 378</b>

### **Key assumptions and judgments for estimating the loan impairment**

#### *Loans to legal entities*

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated.

## **11 Loans and advances to customers (continued)**

The objective indicators of loan impairment for loans to legal entities include the following:

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

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management makes following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows comprises mainly real estate, equipment and vehicles. For loans not assessed on an individual basis valuations for real estate are estimated at market value with discount rates from 0.2 to 0.4
- the historic actual recovery rate of loans overdue more than 90 days was taken into account when estimating future recoveries on overdue loans including economic sectors specifics
- the value of real estate, equipment and vehicle collateral used in discounted future cash flows for the calculation of the allowance on individually assessed impaired loans is based on the valuation prepared by an independent appraiser or by the Risk management department of the Bank without any discount rate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to legal entities as at 31 December 2015 would be lower/higher than RUB 999 381 thousand (31 December 2014: RUB 874 879 thousand).

### *Loans to individuals*

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan.

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 12 months
- the historic actual recovery rate of overdue loans has been taken into account when estimating future recoveries on overdue loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to individuals as at 31 December 2015 would be lower/higher than RUB 453 180 thousand (31 December 2014: RUB 566 808 thousand).

The loan portfolio structure by economic sectors as at 31 December 2015 and 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>		<b>2014 (restated)</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	55 656 608	35.4	67 734 161	42.8
Trade	50 061 875	31.8	47 281 667	29.9
Metallurgy and metals trade	23 087 660	14.7	15 884 507	10.0
Services	9 957 147	6.3	15 029 525	9.5
Manufacturing	8 708 800	5.5	5 427 254	3.4
Construction	4 426 709	2.8	1 038 147	0.7
Other	5 544 973	3.5	5 863 962	3.7
<b>Total loans and advances to customers before allowance for impairment</b>	<b>157 443 772</b>	<b>100.0</b>	<b>158 259 223</b>	<b>100.0</b>



## **11 Loans and advances to customers (continued)**

As at 31 December 2015 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RUB 11 225 299 thousand, or 7% of the gross loan portfolio (31 December 2014: RUB 11 456 981 thousand, or 7% of the gross loan portfolio).

At 31 December 2015 the Group has 16 borrowers (31 December 2014: 16 borrowers) with aggregated loan amounts above RUB 1 500 000 thousand. The total aggregate amount of these loans is RUB 77 322 384 thousand (31 December 2014: RUB 61 534 927), or 49% (31 December 2014: 39%) of the gross loan portfolio.

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

	<b>Express loans</b>	<b>Loans to employees participating in payroll projects</b>	<b>Unsecured consumer loans</b>	<b>Collateralised consumer loans</b>	<b>Total loans to individuals</b>
<i>in thousands of Russian Roubles</i>					
<b>Loans to individuals</b>					
Current and not overdue:	7 419 722	6 737 844	20 752 371	3 056 839	37 966 776
- with credit history of less than 90 days	2 903 267	728 408	1 846 630	1 556 336	7 034 641
- with credit history of more than 90 days	4 516 455	6 009 436	18 905 741	1 500 503	30 932 135
overdue:	8 818 686	672 340	8 032 164	166 642	17 689 832
- loans overdue less than 30 days	879 196	173 156	887 866	68 486	2 008 704
- loans overdue 31 to 90 days	2 643 995	119 704	1 226 009	12 098	4 001 806
- loans overdue 91 to 210 days	2 200 388	144 199	1 818 354	21 857	4 184 798
- loans overdue 211 to 360 days	2 579 355	185 425	3 229 726	4 221	5 998 727
- loans overdue over 360 days	515 752	49 856	870 209	59 980	1 495 797
<b>Total loans to individuals before allowance for impairment</b>	<b>16 238 408</b>	<b>7 410 184</b>	<b>28 784 535</b>	<b>3 223 481</b>	<b>55 656 608</b>
Allowance for impairment	(5 457 758)	(326 338)	(4 469 381)	(85 104)	(10 338 581)
<b>Total</b>	<b>10 780 650</b>	<b>7 083 846</b>	<b>24 315 154</b>	<b>3 138 377</b>	<b>45 318 027</b>
Allowance for impairment to gross loans, %	33.61	4.4	15.53	2.64	18.58

**11 Loans and advances to customers (continued)**

	Related parties	Corporate loans	Small and medium-sized businesses	Total loans to legal entities
<i>in thousands of Russian Roubles</i>				
<b>Loans to legal entities</b>				
Current and individually not impaired	11 225 299	84 981 740	2 241 010	98 448 049
overdue:	-	716 965	2 622 150	3 339 115
- loans overdue less than 30 days	-	55 991	174 601	230 592
- loans overdue 31 to 90 days	-	-	183 179	183 179
- loans overdue 91 to 180 days	-	-	236 355	236 355
- loans overdue 181 to 360 days	-	59 641	847 602	907 243
- loans overdue over 360 days	-	601 333	1 180 413	1 781 746
<b>Total loans to legal entities before allowance for impairment</b>	<b>11 225 299</b>	<b>85 698 705</b>	<b>4 863 160</b>	<b>101 787 164</b>
Allowance for impairment	(36 791)	(608 511)	(1 203 776)	(1 849 078)
<b>Total</b>	<b>11 188 508</b>	<b>85 090 194</b>	<b>3 659 384</b>	<b>99 938 086</b>
Allowance for impairment to gross loans, %	0.33	0.71	24.75	1.82

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
<i>in thousands of Russian Roubles (restated)</i>					
<b>Loans to individuals</b>					
Current and not overdue:	7 790 561	6 601 473	28 620 771	3 003 364	46 016 169
- with credit history of less than 90 days	2 821 328	758 862	1 946 300	682 305	6 208 795
- with credit history of more than 90 days	4 969 233	5 842 611	26 674 471	2 321 059	39 807 374
overdue:	8 679 237	619 058	12 191 410	228 287	21 717 992
- loans overdue less than 30 days	1 506 243	214 525	1 945 056	73 695	3 739 519
- loans overdue 31 to 90 days	1 961 270	139 859	2 787 904	6 619	4 895 652
- loans overdue 91 to 210 days	1 833 349	137 721	3 395 019	13 306	5 379 395
- loans overdue 211 to 360 days	2 700 608	76 455	3 401 114	3 655	6 181 832
- loans overdue over 360 days	677 767	50 498	662 317	131 012	1 521 594
<b>Total loans to individuals before allowance for impairment</b>	<b>16 469 798</b>	<b>7 220 531</b>	<b>40 812 181</b>	<b>3 231 651</b>	<b>67 734 161</b>
Allowance for impairment	(4 773 593)	(257 373)	(5 904 890)	(117 522)	(11 053 378)
<b>Total</b>	<b>11 696 205</b>	<b>6 963 158</b>	<b>34 907 291</b>	<b>3 114 129</b>	<b>56 680 783</b>
Allowance for impairment to gross loans, %	28.98	3.56	14.47	3.64	16.32

**11 Loans and advances to customers (continued)**

<i>in thousands of Russian Roubles (restated)</i>	<b>Related parties</b>	<b>Corporate loans</b>	<b>Small and medium- sized businesses</b>	<b>Total loans to legal entities</b>
<b>Loans to legal entities</b>				
Current and individually not impaired	11 456 981	68 867 046	5 091 433	85 415 460
overdue:	-	900 362	4 209 240	5 109 602
- loans overdue less than 30 days	-	35 399	540 352	575 751
- loans overdue 31 to 90 days	-	-	611 868	611 868
- loans overdue 91 to 180 days	-	2 878	565 146	568 024
- loans overdue 181 to 360 days	-	203 207	1 184 553	1 387 760
- loans overdue over 360 days	-	658 878	1 307 321	1 966 199
<b>Total loans to legal entities before allowance for impairment</b>	<b>11 456 981</b>	<b>69 767 408</b>	<b>9 300 673</b>	<b>90 525 062</b>
Allowance for impairment	(29 255)	(723 614)	(2 284 292)	(3 037 161)
<b>Total</b>	<b>11 427 726</b>	<b>69 043 794</b>	<b>7 016 381</b>	<b>87 487 901</b>
Allowance for impairment to gross loans, %	0.26	1.04	24.56	3.36

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit needs. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the loans to individuals as current and not impaired if there is no overdue amount as at the reporting date, and no evidence that individuals will not be able to meet their obligations to repay of the loans in full and on time.

The Group assesses the credit quality of current and not impaired loans to legal entities by analysing the following factors:

- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower
- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower
- the borrower is not sued for defaults on loans granted by other credit institutions
- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

Current and individually not impaired loans to legal entities are mostly represented by loans issued to large corporate entities which have a long credit history with the Group.

The amount reported as overdue under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are overdue.



## **11 Loans and advances to customers (continued)**

### **Analysis of collateral**

The Group performs a valuation of fair value of real estate, vehicles and equipment pledged under loans to corporate customers every six months. Also the Group monitors the market value of properties on a regular basis and adjusts the fair value of collateral if significant changes in market prices are observed. The fair value of the collateral is determined by the Risk Department of the Bank based on market data and internal guidelines of the Group. As part of the assessment the comparative method is mainly used. The fair value of commodities in circulation is determined on the date of the loan by the Risk Department of the Bank and is not subsequently updated.

The fair value of collateral in respect of loans to legal entities as at 31 December 2015 is described below.

Loans without collateral and unsecured portions of partially secured exposures are presented in the category "No collateral or other credit enhancement".

Corporate guarantees represented in the tables below are unrated at the international level. These guarantees are represented by large and medium sized Russian and international companies in trading, production, construction, metallurgy and other industries.

<i>in thousands of Russian Roubles</i>	<b>Carrying amount of loans to customers</b>	<b>Fair value of collateral (for collateral assessed as at reporting date)</b>	<b>Fair value of collateral (for collateral assessed as at loan inception date)</b>
<b>Current and individually not impaired</b>			
Securities	11 248 474	11 248 474	-
Real estate	2 535 029	2 535 029	-
Motor vehicles	204 860	120 451	84 409
Finished goods and inventories	107 093	72 895	34 198
Equipment	1 730 376	1 700 367	30 009
Property rights	3 792 279	3 383 927	408 352
Share of the charter capital	2 838 452	2 838 452	-
Deposits	300 000	300 000	-
Corporate guarantees	16 414 134	-	-
Guarantees of individuals	5 043 353	-	-
No collateral or other credit enhancement	54 073 986	-	-
<b>Total</b>	<b>98 288 036</b>	<b>22 199 595</b>	<b>556 968</b>
<b>Overdue</b>			
Real estate	470 211	468 438	1 773
Motor vehicles	253 453	103 847	149 606
Equipment	6 731	4 878	1 853
Finished goods and inventories	12 068	10 008	2 060
Guarantees of individuals	481 745	-	-
Corporate guarantees	160 301	-	-
No collateral or other credit enhancement	265 541	-	-
<b>Total</b>	<b>1 650 050</b>	<b>587 171</b>	<b>155 292</b>
<b>Total loans to legal entities net of allowance for impairment</b>	<b>99 938 086</b>	<b>22 786 766</b>	<b>712 260</b>

## **11 Loans and advances to customers (continued)**

The fair value of collateral in respect of loans to corporate customers as at 31 December 2014 is as follows:

<i>in thousands of Russian Roubles (restated)</i>	<b>Carrying amount of loans to customers</b>	<b>Fair value of collateral (for collateral assessed as at reporting date)</b>	<b>Fair value of collateral (for collateral assessed as at loan inception date)</b>
<b>Current and individually not impaired</b>			
Securities	15 209 815	11 696 075	3 513 740
Real estate	3 646 291	3 634 424	11 867
Motor vehicles	493 350	257 431	235 919
Finished goods and inventories	353 559	206 582	146 977
Equipment	2 183 959	2 156 553	27 406
Property rights	2 431 447	2 387 688	43 759
Corporate guarantees	12 111 649	-	-
Guarantees of individuals	5 695 134	-	-
No collateral or other credit enhancement	43 130 122	-	-
<b>Total</b>	<b>85 255 326</b>	<b>20 338 753</b>	<b>3 979 668</b>
<b>Overdue</b>			
Real estate	471 895	471 038	857
Motor vehicles	233 818	107 684	126 134
Equipment	13 821	12 378	1 443
Finished goods and inventories	23 780	22 234	1 546
Guarantees of individuals	587 984	-	-
Corporate guarantees	241 474	-	-
No collateral or other credit enhancement	659 803	-	-
<b>Total</b>	<b>2 232 575</b>	<b>613 334</b>	<b>129 980</b>
<b>Total loans to legal entities net of allowance for impairment</b>	<b>87 487 901</b>	<b>20 952 087</b>	<b>4 109 648</b>

The tables above exclude the effects of over collateralisation.

The recoverability of current and individually not impaired loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral. The current value of the collateral does not impact the impairment assessment.

Loans to individuals are mainly pledged by real estate, vehicles, guarantees and sureties. The fair value of collateral is estimated at inception of the loans. Subsequently the Group monitors market prices with the same frequency as for loans issued to legal entities and adjusts the fair value of collateral if significant changes in market prices are observed. The Group performs a valuation of the fair value of collateral for impaired loans to retail customers also every six months, using the same methods as for corporate loans.

Loans to individuals secured by real estate are mainly represented by mortgage loans and loans with a pledge of property and included in “Collateralised consumer loans”. Loans to individuals included in “Express loans” and “Loans to employees participating in payroll projects” are not secured.

## **11 Loans and advances to customers (continued)**

The analysis of the fair value of collateral in respect of loans to individuals overdue more than 30 days as at 31 December 2015 and 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Real estate	41 940	81 269
Motor vehicles	3 401	55 428
Other collateral	15 010	12 857
<b>Total</b>	<b>60 351</b>	<b>149 554</b>

The tables above show the fair value of collateral excluding the effects of over collateralisation.

As at 31 December 2015, for collateralised consumer loans that are not overdue or overdue less than 30 days management estimates that the fair value of collateral is at least equal to their carrying amounts. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The actual net realisable value of the collateral on loans to legal entities and individuals can significantly differ from the amounts disclosed in the table above due to possible unforeseeable difficulties in obtaining ownership rights over the borrower's property.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 33. Information on related party transactions is disclosed in Note 39.

## **12 Finance lease receivables**

Finance lease receivables as at 31 December 2015 of RUB 567 674 thousand (31 December 2014: RUB 1 012 820 thousand), RUB 1 900 356 thousand (31 December 2014: RUB 699 246 thousand), and RUB 76 161 thousand (31 December 2014: RUB 67 715 thousand) are represented by leases of motor vehicles, equipment and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2015 and 2014 are as follows:

<i>in thousands of Russian Roubles</i>	<b>Less than 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Finance lease payments receivable at 31 December 2015</b>	<b>858 164</b>	<b>1 612 556</b>	<b>73 471</b>	<b>2 544 191</b>
Unearned finance income	(64 495)	(589 010)	(43 756)	(697 261)
Allowance for impairment	(18 239)	(9 026)	(761)	(28 026)
<b>Present value as at 31 December 2015</b>	<b>775 430</b>	<b>1 014 520</b>	<b>28 954</b>	<b>1 818 904</b>
<b>Finance lease payments receivable at 31 December 2014</b>	<b>805 290</b>	<b>951 815</b>	<b>22 676</b>	<b>1 779 781</b>
Unearned finance income	(62 471)	(274 517)	(11 681)	(348 669)
Allowance for impairment	(9 428)	(4 384)	(2)	(13 814)
<b>Present value as at 31 December 2014</b>	<b>733 391</b>	<b>672 914</b>	<b>10 993</b>	<b>1 417 298</b>



## **12 Finance lease receivables (continued)**

Movements in the allowance for impairment of finance lease receivables are as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Allowance for impairment as at 1 January</b>	<b>13 814</b>	<b>18 180</b>
Charge of provision	64 656	19 844
Write offs	(50 444)	(24 210)
<b>Allowance for impairment as at 31 December</b>	<b>28 026</b>	<b>13 814</b>

Analysis by credit quality of finance lease receivables outstanding as at 31 December 2015 and 2014 is as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Not overdue finance lease receivables	1 721 850	1 231 231
Overdue finance lease receivables:	125 080	199 881
- overdue less than 30 days	11 889	102 381
- overdue 31-90 days	40 369	44 026
- overdue 91-210 days	19 733	40 251
- overdue 211-360 days	7 605	841
- overdue more than 360 days	45 484	12 382
<b>Total finance lease payments receivable before allowance for impairment</b>	<b>1 846 930</b>	<b>1 431 112</b>
Allowance for impairment	(28 026)	(13 814)
<b>Total</b>	<b>1 818 904</b>	<b>1 417 298</b>

Information about the fair value of collateral is as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Equipment	1 208 753	527 985
Motor vehicles	490 847	788 905
Premises	56 677	51 313
<b>Total</b>	<b>1 756 277</b>	<b>1 368 203</b>

The table above reflects the fair value of collateral excluding the effects of overcollateralization.

The fair value of collateral as at 31 December 2015 and 2014 is estimated by the Bank's Risk department based on current market prices.

Geographical, currency, maturity and interest rate analyses of finance lease receivables are disclosed in Note 33.

### 13 Property and equipment

	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
<i>in thousands of Russian Roubles</i>					
Cost or valuation as at 1 January 2014		3 854 120	2 046 942	596 597	6 497 659
Accumulated depreciation		(133 829)	(893 266)	-	(1 027 095)
<b>Carrying amount as at 1 January 2014</b>		<b>3 720 291</b>	<b>1 153 676</b>	<b>596 597</b>	<b>5 470 564</b>
Additions		293 008	461 574	62 692	817 274
Transfers		128 838	462 619	(591 457)	-
Transfer to "Investment Property"	15	19 607	-	-	19 607
Disposals – cost		(34 828)	(134 284)	-	(169 112)
Disposals - accumulated depreciation		403	102 509	-	102 912
Depreciation charge		(125 681)	(342 596)	-	(468 277)
<b>Carrying amount as at 31 December 2014</b>		<b>4 001 638</b>	<b>1 703 498</b>	<b>67 832</b>	<b>5 772 968</b>
Cost or valuation as at 31 December 2014		4 260 745	2 836 851	67 832	7 165 428
Accumulated depreciation		(259 107)	(1 133 353)	-	(1 392 460)
<b>Carrying amount as at 31 December 2014</b>		<b>4 001 638</b>	<b>1 703 498</b>	<b>67 832</b>	<b>5 772 968</b>
Additions		92 601	283 149	32 889	408 639
Transfers		4 264	61 077	(65 341)	-
Disposals – cost		(18 215)	(148 417)	-	(166 632)
Disposals - accumulated depreciation		1 761	115 900	-	117 661
Depreciation charge		(134 399)	(388 753)	-	(523 152)
Revaluation recognised in profit or loss		(15 058)	-	-	(15 058)
Revaluation recognized in other comprehensive income		(27 644)	-	-	(27 644)
<b>Carrying amount as at 31 December 2015</b>		<b>3 904 948</b>	<b>1 626 454</b>	<b>35 380</b>	<b>5 566 782</b>
Cost or valuation as at 31 December 2015		3 944 788	3 032 660	35 380	7 012 828
Accumulated depreciation		(39 840)	(1 406 206)	-	(1 446 046)
<b>Carrying amount as at 31 December 2015</b>		<b>3 904 948</b>	<b>1 626 454</b>	<b>35 380</b>	<b>5 566 782</b>

Construction in progress consists of construction and refurbishment of office premises. Upon completion, the assets are transferred to “Premises and land” or “Office and computer equipment”.

The fair value of premises is included in Level 3 in the fair value hierarchy (see Note 37).

Land and premises were revalued as at 1 December 2015 by an independent appraiser LCC “SRG-Appraisal” who has appropriate professional qualifications and recent experience in appraisal of similar objects of property.

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

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

### **13 Property and equipment (continued)**

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties' rental rates
- the vacancy rate of 7.7% was assumed for the properties located in Ekaterinburg, the Sverdlovsk Region as well as in other regions;
- capitalisation rates from 9.2% to 10.6% were assumed depending on size and location of the property.

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

Changes in the estimates above could affect the value of land and premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the valuation of land and premises as at 31 December 2015 would be RUB 108 715 thousand higher/lower (31 December 2014: RUB 107 671 thousand).

The decrease in carrying value of property of RUB 27 644 thousand with has been recognised in the revaluation reserve for property and equipment. As at 31 December 2015 the decrease in deferred tax liability of RUB 5 529 thousand has been recognised in other comprehensive income.

As at 31 December 2014 the Group analysed price dynamics on the office property market in 2014. Based on the results of the analysis there were no significant changes in fair value of land and premises during stated periods, so no revaluation was made as at 31 December 2014. As at 31 December 2014, the carrying value of land and premises approximately equals their fair value.

In case the premises were recognised at initial cost less the depreciation and losses from depreciation, their balance cost as at 31 December 2015 made RUB 2 380 978 thousand (as at 31 December 2014: RUB 2 350 119 thousand).

#### **14 Intangible assets**

<i>in thousands of Russian Roubles</i>	<b>Software licenses</b>
Cost as at 1 January 2014	392 996
Accumulated depreciation	(128 793)
<b>Carrying amount as at 1 January 2014</b>	<b>264 203</b>
Additions	71 346
Disposals – cost	(25 143)
Disposals - accumulated depreciation	25 143
Depreciation charge	(62 224)
<b>Carrying amount as at 31 December 2014</b>	<b>273 325</b>
Cost as at 31 December 2014	439 199
Accumulated depreciation	(165 874)
<b>Carrying amount as at 31 December 2014</b>	<b>273 325</b>
Additions	56 078
Disposals – cost	(32 517)
Disposals - accumulated depreciation	32 517
Depreciation charge	(73 373)
<b>Carrying amount as at 31 December 2015</b>	<b>256 030</b>
Cost as at 31 December 2015	462 760
Accumulated depreciation	(206 730)
<b>Carrying amount as at 31 December 2015</b>	<b>256 030</b>

Additions to intangible assets represent capitalised software and license costs related to a centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.



## 15 Investment property

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>Land and premises</b>
Cost as at 1 January 2014		6 152 980
Accumulated depreciation		(180 598)
<b>Carrying amount as at 1 January 2014</b>		<b>5 972 382</b>
Transfer from «Property and equipment»	13	(19 607)
Additions		10 127
Disposals – cost		(66 729)
Disposals - accumulated depreciation		847
Depreciation charge		(91 588)
<b>Carrying amount as at 31 December 2014</b>		<b>5 805 432</b>
Cost as at 31 December 2014		6 075 246
Accumulated depreciation		(269 814)
<b>Carrying amount as at 31 December 2014</b>		<b>5 805 432</b>
Transfer from «Assets held for sale»		3 217
Additions		180 697
Disposals – cost		(24 000)
Disposals - accumulated depreciation		991
Depreciation charge		(93 190)
Impairment recognized in other comprehensive income		(32 091)
<b>Carrying amount as at 31 December 2015</b>		<b>5 841 056</b>
Cost as at 31 December 2015		6 203 069
Accumulated depreciation		(362 013)
<b>Carrying amount as at 31 December 2015</b>		<b>5 841 056</b>

Information about the investment property of RUB 5 451 004 thousand (31 December 2014: RUB 5 586 861 thousand) transferred without derecognition is presented in Note 20.

The fair value of investment property as at 31 December 2015 is RUB 6 525 598 thousand (31 December 2014: RUB 6 686 627 thousand). Fair values are estimated based on actual market data by an independent appraiser with appropriate professional qualifications and recent experience in appraisal of similar objects of investment property.

The fair value of investment property is included in Level 3 in the fair value hierarchy (see Note 37).

The assessment was carried out with use of a market approach and income direct capitalisation approach (income method) weighed in a 50% / 50% basis.

The market approach is based upon an analysis of the results of comparable sales or offers of similar buildings. Adjustments were applied for size, condition, class and bargain discount.

## **15 Investment property (continued)**

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

- the rental rates applied by the Appraiser were calculated based on the analysis of comparable properties' rental rates;
- management and maintenance expenses, underutilisation of investment property and loss during collection of rent payments was assumed in the range from 18.6 % to 21.0 % depending on the item (31 December 2014: from 18.1 % to 22.2 %);
- capitalisation rates up to 8.39 % were assumed depending on function of property (31 December 2014: from 8.3 % to 14.4 %).

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

The following table shows profit and losses from operations with investment property for 2015 and 2014:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Income</b>		
Rental income	286 763	284 618
Income from disposal	34 901	26 779
<b>Total</b>	<b>321 664</b>	<b>311 397</b>
<b>Expenses</b>		
Property tax	113 207	116 467
Utility costs and repairs	93 695	108 967
Depreciation	93 190	91 588
Expenses from disposal	23 008	65 882
Advertising and marketing services	16 613	20 244
Rental expenses	7 430	7 717
Other	1 607	22
<b>Total</b>	<b>348 750</b>	<b>410 887</b>
<b>Loss from operations with investment property</b>	<b>(27 086)</b>	<b>(99 490)</b>

## **16 Advances to real estate developers**

Advances to real estate developers represent investments in investment contracts for construction of apartment buildings, business centres, hotels and other properties in Moscow, Yekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group generally intends to sell the majority of these investments close to completion stage. However, during 2014, the Group changed intentions concerning one project, and upon completion of construction the real estate object was transferred to the Group and transferred in assets held for sale. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts, which is recognised as interest income. The consolidated statement of profit or loss for 2015 as part of interest income includes the income in the amount of RUB 32 743 thousand relating to the above stated investments (31 December 2014: RUB 6 536 thousand).

Advances to real estate developers are neither overdue nor impaired as at 31 December 2015 and 2014. These investments are secured by the underlying real estate. Management of the Group believes that the fair value of collateral is at least equal to the carrying amount of each investment contract at the reporting date.

Geographical, currency, maturity and interest rate analyses of advances to real estate developers are disclosed in Note 33.

## **17 Receivables under commission and sale and purchase agreements**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
Receivables under commission agreements	10 723 665	7 516 673
Receivables under sale and purchase agreements	6 272 591	-
<b>Total</b>	<b>16 996 256</b>	<b>7 516 673</b>

As at 31 December 2015 receivables under commission agreements are non-overdue unsecured receivables for transferred commodities payment with maturity less than 1 year (31 December 2014: maturity less than 1 year).

As at 31 December 2015 the amount of RUB 6 159 205 thousand included in receivables under sale and purchase agreements is non-overdue unsecured receivables for transferred metallurgical and oil products with on “Demand and less than 1 month” maturity (31 December 2014: no receivables). Sale and purchase agreements are made with foreign companies that are world traders.

Income in the amount of RUB 24 971 thousand included in interest income of consolidated statement of profit or loss for 2015 relates to above-referred investments (2014: RUB 14 666 thousand).

Geographical, currency and maturity analyses of receivables under commission and sale and purchase agreements are disclosed in Note 33.

## **18 Other assets**

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
Foreign currency forward contracts	36	9 199 689	595 301
Credit and debit cards receivables		282 515	164 075
Settlements on cash and other operations		205 882	174 120
Investments in non-consolidated subsidiaries		125 000	89 000
Receivables from operations with securities, precious metals and foreign currencies		115 240	1 359 590
Settlements with Deposit Insurance Agency on insurance payments to depositors of other banks		10 725	-
Foreign currency options	36	1 573	82 387
Precious metals forward contracts	36	839	2 474
Other		776	776
<b>Total other financial assets</b>		<b>9 942 239</b>	<b>2 467 723</b>
Prepayments for administrative services		1 242 970	1 132 533
Prepaid taxes other than income tax		159 375	76 055
Prepayments for construction in progress		49 273	73 393
Precious metals		43 321	65 151
Deferred expenses		7 573	18 095
Equipment purchased for finance lease		2 346	1 246 735
Other		629 110	361 258
<b>Total other non-financial assets</b>		<b>2 133 968</b>	<b>2 973 220</b>
<b>Total</b>		<b>12 076 207</b>	<b>5 440 943</b>

As at 31 December 2014 receivables of RUB 1 341 898 thousand within receivables for operations with securities, precious metals and foreign currencies are non-overdue unsecured receivables on conversion operations with one counterparty with maturity less than 1 year.

## **18 Other assets (continued)**

As at 31 December 2015 receivables of RUB 123 163 thousand within prepayments on operating activities represented by advances given on supply agreements for equipment for further resale (31 December 2014: RUB 123 163 thousand).

Geographical, currency and maturity analyses of other assets are disclosed in Note 33. The information on related party transactions is disclosed in Note 39.

## **19 Assets held for sale**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Land and premises	743 171	641 969
Motor vehicles	24 694	15 729
Other property	14 553	6 745
<b>Total</b>	<b>782 418</b>	<b>664 443</b>

The property acquired as a result of transactions on settlement agreements and pledge agreements is recognised in assets held for sale.

Management believes that fair value of assets held for sale as at 31 December 2015 and 2014 is not different significantly from carrying amount. Fair value of assets held for sale is estimated based on market data and internal assessment of the Group. As part of the evaluation, the comparative method is mainly used.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted for in the consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2015 and 2014. These assets are expected to be sold within 1 year.

## **20 Transfer of financial and non-financial assets**

The financial and non-financial assets transferred without derecognition as at 31 December 2015 are shown in the table below:

<i>in thousands of Russian Roubles</i>	<b>Other securities at fair value through profit or loss</b>	<b>Investment securities held to maturity</b>	<b>Loans and advances to customers</b>	<b>Investment property</b>
Balance value of assets	54 592 516	31 795 792	10 070 580	5 451 004
Balance value of related liabilities	46 782 346	30 250 919	10 505 309	6 563 527

The financial and non-financial assets transferred without derecognition as at 31 December, 2014 are shown in the table below:

<i>in thousands of Russian Roubles</i>	<b>Other securities at fair value through profit or loss</b>	<b>Investment securities held to maturity</b>	<b>Loans and advances to customers</b>	<b>Investment property</b>
Balance value of assets	11 443 476	28 324 182	5 942 007	5 586 861
Balance value of related liabilities	10 482 396	24 417 243	6 029 817	7 066 205



## **20 Transfer of financial and non-financial assets (continued)**

### **Securities**

The Group has transactions to sell securities under sale and repurchase as well as purchase and resale agreements.

The securities sold under sale and repurchase agreements are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties even in the case of absence of default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 7 and 9. The Group recognises a financial liability for cash received within due to other banks (see Note 21). As at 31 December 2015 financial liabilities under second part of the sale and repurchase agreements amount to RUB 77 033 265 thousand (31 December 2014: RUB 34 899 639 thousand), including financial liabilities with the Bank of Russia of RUB 52 391 253 thousand (31 December 2014: RUB 26 452 879 thousand).

These transactions are conducted under generally accepted lending terms, as well as under the requirements determined by exchanges where the Group acts as intermediary.

### **Loans and advances to customers**

During 2015 and 2014 the Group sold under assignment agreements loans from "Express loans", "Loans to employees participating in payroll projects" and "Unsecured consumer loans" portfolios and received cash.

These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. The assignee has the right to demand repayment of the loan in case loan overdue over 1 day / 29 days depending on the terms of the assignment agreement.

Respectively, the Group continues to recognise these loans in the consolidated statement of financial position until the expiration of the loan/assignment agreement. For the received cash, the Group recognises financial liabilities within the due to other banks. As at 31 December 2015 the balance value of the loans sold without derecognition before allowance for impairment amounts to RUB 10 070 580 thousand (31 December 2014: RUB 5 942 007 thousand), the balance value of the corresponding liabilities recognised within due to other banks – RUB 10 505 309 thousand (31 December 2014: the balance value of the corresponding liabilities recognised within due to other banks - RUB 5 760 035 thousand, the balance value of the liabilities recognised within customer accounts as term deposits – RUB 269 782 thousand). See Notes 21 and 22.

### **Investment property**

In December 2015 the Group sold investment property with the balance value of RUB 5 451 004 thousand as at 31 December 2015 (31 December 2014: RUB 5 586 861 thousand) and at the same time signed the forward contract for repurchase of this property. These transactions do not satisfy derecognition criteria according to IFRS as the Group retained substantially all the risks and rewards of ownership of the transferred assets. Respectively, the Group continues to recognise these assets in the statement of financial position within investment property and recognises financial liabilities for the cash received from sale of these assets in customer accounts as other funds. Balance value of the recognised liabilities as at 31 December 2015 amounts to RUB 6 563 527 thousand (31 December 2014: 7 066 205 thousand). See Note 22.

## **21 Due to other banks**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Sale and repurchase agreements on securities	77 033 265	34 899 639
Short-term deposits	8 267 124	10 885 177
Correspondent accounts and overnight placements	1 146 604	651 120
Other funds	10 505 309	5 760 035
<b>Total</b>	<b>96 952 302</b>	<b>52 195 971</b>

## **21 Due to other banks (continued)**

As at 31 December 2015 the Group has 3 counterparties (31 December 2014: 4 counterparties) with balances over RUB 1 000 000 thousand. The aggregate balances from these counterparties amount to RUB 73 017 339 thousand (31 December 2014: RUB 38 012 500 thousand), or 75% of total balances to other banks (31 December 2014: 97%).

Information concerning obligations under sale and repurchase agreements on securities, as well as concerning the other funds is disclosed in Note 20.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 33.

## **22 Customer accounts**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>State and public organisations</b>		
- Current/settlement accounts	8 684	11 359
<b>Other legal entities</b>		
- Current/settlement accounts	9 348 989	12 480 339
- Term deposits	32 114 761	30 093 071
- Other funds	6 563 527	7 066 205
<b>Individuals</b>		
- Current/demand accounts	6 872 209	5 732 163
- Term deposits	134 646 701	93 721 177
<b>Total</b>	<b>189 554 871</b>	<b>149 104 314</b>

State and public organisations exclude government owned profit oriented businesses.

Information concerning the other funds is disclosed in Note 20.

At 31 December 2015 the Group has 6 customers (31 December 2014: 11 customers) with balances above RUB 700 000 thousand. The aggregate balances from these customers are RUB 10 115 932 thousand (31 December 2014: RUB 18 005 556 thousand), or 5% (31 December 2014: 12%) of total customer accounts.

At 31 December 2015 customer accounts included deposits in the amount of RUB 65 780 thousand (31 December 2014: RUB 620 173 thousand) held as collateral for irrevocable commitments under import letters of credit.

The economic sector concentrations as at 31 December within customer accounts are as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	141 518 910	74.7	99 453 340	66.7
Services	22 887 957	12.1	22 671 819	15.2
Trade	9 029 688	4.8	7 675 905	5.1
Manufacturing	6 676 121	3.5	7 512 268	5.0
Construction	4 023 342	2.1	4 380 047	2.9
Other	5 418 853	2.8	7 410 935	5.1
<b>Total</b>	<b>189 554 871</b>	<b>100.0</b>	<b>149 104 314</b>	<b>100.0</b>

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 33. The information on related party transactions is disclosed in Note 39.

## 23 Debt securities in issue

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Bonds issued on the domestic market	4 921 105	6 176 641
Loan participation notes	4 918 443	3 788 985
Promissory notes	2 014 834	9 189 032
Deposit certificates	855 365	104 427
<b>Total</b>	<b>12 709 747</b>	<b>19 259 085</b>

The following table provides information on the bonds issued on the domestic market:

Issuer	UBRD, PJSC	
Series	BO-5	BO-8
Issue, thousand roubles	2 000 000	3 000 000
Nominal value, roubles	1 000	1 000
Date of issue	April 2013	September 2013
Maturity date	April 2020	September 2016
Interest rate of the first two coupons, % p.a.	11.15	10.75
Interest rate of other coupons, % p.a.	determined by the issuer	determined by the issuer
Quantity of coupon periods	14	6
Coupon period	182 days	6 months
Date of offer	20.04.2016	-

In 2015 the Group repaid bonds of the BO-05 series submitted to the offer. As at 31 December 2015 the nominal value of the repaid bonds is RUB 26 141 thousand.

In 2015 and 2014 the Group repaid bonds of the BO-08 series submitted to the offer. As at 31 December 2015 the nominal value of the repaid bonds is RUB 182 570 thousand (31 December 2014: RUB 970 150 thousand).

At 29 September 2015 the bonds of BO-01 series have been redeemed at maturity in the amount of RUB 2 000 000 thousand.

As at 5 May 2014 the bonds of 02 series have been redeemed at maturity in the amount of RUB 2 000 000 thousand.

On 27 June 2013 the Group issued loan participation notes in the amount of USD 68 million for the period of 5.5 years at a fixed interest rate of 12% p. a. The issuer is the structured entity UBRD Capital Limited. As at 31 December 2015 these loan participation notes are stated at amortised cost of RUB 4 918 443 thousand (31 December 2014: RUB 3 788 985 thousand).

In 2014 the Group repaid at maturity three series of Euro commercial papers in the amount of USD 50.8 million.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 33. The information on related party transactions is disclosed in Note 39.

## **24 Other liabilities**

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014 (restated)</b>
Foreign currency forward contracts	36	768 709	114 623
Trade payables		611 709	624 448
Payables on mandatory insurance of deposits		137 200	93 105
Settlements on plastic cards		3 540	6 669
Precious metals forward contracts	36	125	3 859
Other		130 215	90 212
<b>Total other financial liabilities</b>		<b>1 651 498</b>	<b>932 916</b>
Advance payments under sale agreements		410 618	410 618
Taxes other than income tax payable		220 952	136 932
Provision for financial guarantee agreements		66 775	43 497
Advance payments under lease agreements		1 474	34 978
Settlements with staff		187	362
Other		5 687	6 656
<b>Total other non-financial liabilities</b>		<b>705 693</b>	<b>633 043</b>
<b>Total</b>		<b>2 357 191</b>	<b>1 565 959</b>

As at 31 December 2015 RUB 481 188 thousand included in trade payables is represented by trade payables on cession agreements (31 December 2014: RUB 481 188 thousand). As at 31 December 2014 this item included the amount of RUB 6 434 thousand related to trade payables on commission and equipment purchase agreements.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 33. The information on transactions with related parties is disclosed in Note 39.

## **25 Other borrowed funds**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Subordinated loans	14 390 079	11 089 323
Syndicated loans	1 667 059	1 637 646
<b>Total</b>	<b>16 057 138</b>	<b>12 726 969</b>



## 25 Other borrowed funds (continued)

The following table provides information about subordinated loans as at 31 December 2015 and 2014:

Amount of the loan in USD	25 000 000	40 000 000	30 000 000	20 000 000	30 000 000	50 000 000
Issue date	31.12.2014	20.06.2014	30.12.2013	28.02.2013	27.12.2012	21.12.2007
Maturity	6 years	6 years	6 years	6 years	6 years	10 years
Lender	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	XANGBO GLOBAL MARKETS PTE LTD	The Royal Bank of Scotland
Interest rate as at 31 December 2015, % p.a.	10.25	10.25	8.25	8.25	8.25	10.03
Interest rate as at 31 December 2014, % p.a.	10.25	10.25	8.25	8.25	8.25	9.83
Carrying value as at 31 December 2015 (in thousands of Russian Roubles)	1 822 149	2 925 266	2 187 028	1 499 270	2 189 138	3 767 228
Carrying value as at 31 December 2014 (in thousands of Russian Roubles)	1 406 460	2 257 293	1 688 134	1 146 332	1 689 373	2 901 731

In the event of the Bank's liquidation the creditors under these subordinated loans would be the last ones entitled to receive repayment.

In April 2014 the Group attracted a syndicated loan in the amount of USD 33.8 million for 5 years. The loan was granted by AKA Export Finance Bank and Commerzbank at the contract interest rate which is a cumulative rate of six-month's LIBOR and the margin equal to 2% p.a.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 33.

## 26 Share capital, share premium and additional capital

<i>in thousands of Russian Roubles</i>	<b>Number of outstanding shares</b>	<b>Ordinary shares</b>
At 1 January 2014	1 001 454 334	3 634 812
At 31 December 2014	1 001 454 334	3 634 812
At 31 December 2015	1 001 454 334	3 634 812

Share capital contributions made before 1 January 2003, are adjusted by RUB 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

As at 31 December 2015 and 2014 all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2015 all ordinary shares have a nominal value of RUB 3 per share (31 December 2014: RUB 3 per share). Each share carries one vote.

Share premium is the amount by which the contributions to share capital exceeded the nominal value of the shares issued.

In 2014 additional capital was increased by RUB 1 044 300 thousand represented by additional gratuitous finance contributions made by the controlling shareholder. As at 31 December 2015 additional capital amounts to RUB 3 423 503 thousand (31 December 2014: RUB 3 423 503 thousand).

## **27 Dividends**

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2015 are RUB 8 411 799 thousand (31 December 2014: RUB 8 411 762 thousand).

On 20 May 2014 at annual shareholders' meeting dividends on the results of 2013 were declared at the rate of RUB 0.40 to one issued ordinary share of the Bank. The total amount of dividends is RUB 400 582 thousand.

## **28 Interest income and expense**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Interest income</b>		
Loans and advances to customers	21 633 060	21 906 693
Investment securities held to maturity	6 038 481	2 326 255
Other securities at fair value through profit or loss	840 155	2 009 204
Due from other banks	313 846	73 402
Finance lease receivables	270 229	281 946
Correspondent accounts with other banks	107 689	85 604
Advances to real estate developers	32 743	6 536
<b>Total</b>	<b>29 236 203</b>	<b>26 689 640</b>
<b>Interest expense</b>		
Term deposits of individuals	15 901 865	7 370 963
Sale and repurchase agreements	5 788 332	3 263 608
Term placements of legal entities	2 925 124	1 762 041
Debt securities in issue	1 703 083	1 766 267
Subordinated loans	1 147 452	534 223
Term placements of other banks	1 138 350	992 676
Other attracted funds from banks	1 069 270	587 238
Current/settlement accounts	578 713	237 237
Syndicated loans	81 733	31 886
Correspondent accounts of other banks	31 491	8 145
<b>Total</b>	<b>30 365 413</b>	<b>16 554 284</b>
<b>Net interest (expense)/income</b>	<b>(1 129 210)</b>	<b>10 135 356</b>

## **29 Fee and commission income and expense**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Fee and commission income</b>		
Client service packages	1 177 075	2 727 571
Settlement transactions	955 364	614 490
Transactions with plastic cards and cheques	738 206	887 590
Trade finance transactions	416 267	392 166
Cash transactions	115 974	150 063
Guarantees issued	111 784	84 845
Cash collection	30 044	28 869
Transactions with securities	3 009	2 405
Other	441 470	113 362
<b>Total</b>	<b>3 989 193</b>	<b>5 001 361</b>
<b>Fee and commission expense</b>		
Transactions with plastic cards and cheques	414 020	297 781
Cash collection	82 005	85 164
Settlement transactions	70 450	69 155
Trade finance transactions	30 212	97 885
Currency transactions	28 808	18 666
Transactions with securities	22 892	13 717
Transactions with precious metals	3 922	3 168
Other	103	640
<b>Total</b>	<b>652 412</b>	<b>586 176</b>
<b>Net fee and commission income</b>	<b>3 336 781</b>	<b>4 415 185</b>

Fee and commission income included in line “Client service packages” is a commission for insurance services, granting access to the system of remote banking and other services (See Note 3).

## **30 Administrative and other operating expenses**

<i>in thousands of Russian Roubles</i>	<b>Notes</b>	<b>2015</b>	<b>2014 (restated)</b>
Staff costs		3 512 455	4 115 289
Operating lease expense for property and equipment		553 132	754 030
Depreciation of property and equipment	13	523 152	468 277
Contributions to State deposit insurance system		501 357	363 369
Advertising and marketing services		277 067	271 044
Other costs of property and equipment		215 394	314 234
Information and communication services		144 735	144 536
Acquisition of fittings and materials		124 220	92 879
Computer software maintenance		108 783	78 658
Taxes other than income tax		103 795	105 413
Professional services		100 170	222 386
Amortisation of intangible assets	14	73 373	62 224
Security services		41 767	14 540
Insurance of employees and business property		31 092	77 114
Other		158 256	283 690
<b>Total</b>		<b>6 468 748</b>	<b>7 367 683</b>

Included in staff costs are statutory social security and pension contributions of RUB 730 883 thousand (2014: RUB 852 365 thousand)

### **31 Income tax expense**

Income tax expense comprises the following:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
Current income tax	125 947	243 361
Income tax underprovided in prior years	43 376	81 298
Deferred income tax	865 843	(8 750)
<b>Income tax expense for the year</b>	<b>1 035 166</b>	<b>315 909</b>

The income tax rate applicable to the majority of income is 20% (2014: 20%). A reconciliation between the expected and the actual tax expense is provided below.

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
<b>Profit before tax</b>	<b>3 558 732</b>	<b>809 258</b>
Theoretical tax at applicable rate	711 746	161 851
Non-deductible costs	89 109	85 927
Income on state securities taxed at lower tax rates	(31 774)	(11 792)
Income tax underprovided in prior years	43 376	81 298
Recognition of previously unrecognised taxable temporary difference	213 045	-
Other differences	9 664	(1 375)
<b>Income tax expense</b>	<b>1 035 166</b>	<b>315 909</b>

As at 31 December 2015 increase in deferred tax asset of RUB 10 610 thousand (31 December 2014: increase in deferred tax asset of RUB 16 801 thousand) is recorded directly in other comprehensive income, of which increase in deferred tax asset of RUB 11 947 thousand is recognised in revaluation reserve for property and equipment (31 December 2014: 0) and decrease in deferred tax asset of RUB 1 337 thousand (31 December 2014: increase in deferred tax asset of RUB 16 801 thousand) is recognised in cumulative translation reserve.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2014: 20%).



**31 Income tax expense (continued)**

	Deferred tax asset		Deferred tax liability		Net position	
<i>in thousands of Russian Roubles</i>	2015	2014	2015	2014 (restated)	2015	2014 (restated)
Trading and other securities at fair value through profit or loss	-	7 885	(398 592)	(1 235 838)	(398 592)	(1 227 953)
Investment securities held to maturity	-	21 620	(3 559 906)	-	(3 559 906)	21 620
Due from other banks	926	977	-	-	926	977
Loans and advances to customers	237 893	227 600	(2 119 984)	(1 357 545)	(1 882 091)	(1 129 945)
Finance lease receivables	69 829	1 276	(77 308)	(51 685)	(7 479)	(50 409)
Property and equipment	42 020	43 841	(134 982)	(188 849)	(92 962)	(145 008)
Intangible assets	-	-	(30 151)	(36 099)	(30 151)	(36 099)
Investment property	152 771	175 523	(44 872)	-	107 899	175 523
Advances to real estate developers	-	-	(51 870)	(51 870)	(51 870)	(51 870)
Assets held for sale	55 958	56 354	(60)	-	55 898	56 354
Due to other banks	2 101 062	1 151 353	-	-	2 101 062	1 151 353
Customer accounts	1 312 705	1 467 197	-	-	1 312 705	1 467 197
Debt securities in issue	-	-	(467)	(3 892)	(467)	(3 892)
Other borrowed funds	964	1 535	-	(6 001)	964	(4 466)
Tax losses carried forward	2 028 179	119 032	-	-	2 028 179	119 032
Foreign currency translation difference	23 704	25 041	-	-	23 704	25 041
Other	7 759 776	20 520	(8 134 305)	(299 452)	(374 529)	(278 932)
<b>Total</b>	<b>13 785 787</b>	<b>3 319 754</b>	<b>(14 552 497)</b>	<b>(3 231 231)</b>	<b>(766 710)</b>	<b>88 523</b>
Including:						
Deferred tax asset					655 728	526 184
Deferred tax liability					(1 422 438)	(437 661)

The tax losses carried forward expire in year 2025.

### 31 Income tax expense (continued)

Movements in temporary differences during 2015 and 2014 are presented as follows.

	31 December 2014 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
<i>in thousands of Russian Roubles</i>				
Trading and other securities at fair value through profit or loss	(1 227 953)	829 361	-	(398 592)
Investment securities held to maturity	21 620	(3 581 526)	-	(3 559 906)
Due from other banks	977	(51)	-	926
Loans and advances to customers	(1 129 945)	(752 146)	-	(1 882 091)
Finance lease receivables	(50 409)	42 930	-	(7 479)
Property and equipment	(145 008)	40 099	11 947	(92 962)
Intangible assets	(36 099)	5 948	-	(30 151)
Investment property	175 523	(67 624)	-	107 899
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	56 354	(456)	-	55 898
Due to other banks	1 151 353	949 709	-	2 101 062
Customer accounts	1 467 197	(154 492)	-	1 312 705
Debt securities in issue	(3 892)	3 425	-	(467)
Other borrowed funds	(4 466)	5 430	-	964
Tax losses carried forward	119 032	1 909 147	-	2 028 179
Foreign currency translation difference	25 041	-	(1 337)	23 704
Other	(278 932)	(95 597)	-	(374 529)
<b>Total</b>	<b>88 523</b>	<b>(865 843)</b>	<b>10 610</b>	<b>(766 710)</b>

	31 December 2013	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014 (restated)
<i>In thousands of Russian Roubles</i>				
Trading and other securities at fair value through profit or loss	52 054	(1 280 007)	-	(1 227 953)
Investment securities held to maturity	18 483	3 137	-	21 620
Due from other banks	942	35	-	977
Loans and advances to customers	109 810	(1 239 755)	-	(1 129 945)
Finance lease receivables	(23 703)	(26 706)	-	(50 409)
Property and equipment	(258 536)	113 528	-	(145 008)
Intangible assets	(39 272)	3 173	-	(36 099)
Investment property	161 501	14 022	-	175 523
Advances to real estate developers	(51 870)	-	-	(51 870)
Assets held for sale	44 925	11 429	-	56 354
Due to other banks	-	1 151 353	-	1 151 353
Customer accounts	-	1 467 197	-	1 467 197
Debt securities in issue	18 026	(21 918)	-	(3 892)
Other borrowed funds	(2 129)	(2 337)	-	(4 466)
Tax losses carried forward	87 054	31 978	-	119 032
Foreign currency translation difference	8 240	-	16 801	25 041
Other	(62 553)	(216 379)	-	(278 932)
<b>Total</b>	<b>62 972</b>	<b>8 750</b>	<b>16 801</b>	<b>88 523</b>

In the context of the Group's current structure and Russian tax legislation tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same tax authority.

## 32 Segment analysis

The Group has four reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, and insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative financial instruments.
- Financial markets – representing financial instrument trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.
- Global markets – representing documentary operations and operations on attracting funds on international markets, such as eurobonds and Euro commercial papers.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee. Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

Segment information for the reportable segments as at and for the year ended 31 December 2015 is set out below.

<i>in thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Financial markets</b>	<b>Global markets</b>	<b>Total</b>
Interest income from external operations	8 795 337	7 553 264	8 792 775	4 215 435	29 356 811
Interest expense	(15 924 712)	(5 476 401)	(6 660 501)	(1 365 464)	(29 427 078)
Gains/(losses) from transactions with other segments	9 169 075	(4 431 392)	(4 354 385)	-	383 298
Fee and commission income/(expense)	2 200 006	934 437	(35 597)	(2 752)	3 096 094
Gain from transactions with securities	-	-	3 735 277	-	3 735 277
Gain from transactions with foreign currencies and precious metals	213 599	143 448	17 087 330	-	17 444 377
Other operating income	162 546	114 491	2	-	277 039
Administrative and other operating expenses	(2 336 817)	(1 161 523)	(38 013)	(11 263)	(3 547 616)
<b>Profit/(loss) before tax</b>	<b>2 279 034</b>	<b>(2 323 676)</b>	<b>18 526 888</b>	<b>2 835 956</b>	<b>21 318 202</b>
<b>Segment assets</b>	<b>56 380 722</b>	<b>104 464 049</b>	<b>79 279 272</b>	<b>39 671 117</b>	<b>279 795 160</b>
<b>Segment liabilities</b>	<b>137 447 449</b>	<b>51 973 316</b>	<b>82 259 284</b>	<b>16 558 097</b>	<b>288 238 146</b>

### 32 Segment analysis (continued)

Segment information for the reportable segments as at and for the year ended 31 December 2014 is set out below.

<i>in thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Financial markets</b>	<b>Global markets</b>	<b>Total</b>
Interest income from external operations	11 456 449	5 874 990	5 080 602	1 236 419	23 648 460
Interest expense	(7 404 206)	(2 908 734)	(5 020 937)	(739 190)	(16 073 067)
Gains/(losses) from transactions with other segments	5 115 288	(403 650)	1 244 767	-	5 956 405
Fee and commission income/(expense)	3 951 575	864 533	(8 777)	324 167	5 131 498
Loss from transactions with securities	-	-	(2 084 504)	-	(2 084 504)
Gain from transactions with foreign currencies and precious metals	258 038	397 641	5 925 002	-	6 580 681
Other operating income	322 451	40 849	-	-	363 300
Administrative and other operating expenses	(2 651 719)	(1 166 922)	(36 928)	(11 078)	(3 866 647)
<b>Profit before tax</b>	<b>11 047 876</b>	<b>2 698 707</b>	<b>5 099 225</b>	<b>810 318</b>	<b>19 656 126</b>
<b>Segment assets</b>	<b>62 474 268</b>	<b>86 289 505</b>	<b>38 856 791</b>	<b>27 160 479</b>	<b>214 781 043</b>
<b>Segment liabilities</b>	<b>95 047 063</b>	<b>45 986 647</b>	<b>51 442 814</b>	<b>13 603 120</b>	<b>206 079 644</b>

In the tables above, administrative and other operating expenses are allocated between the segments based on the percentage of the number of employees attributable to each segment. Property and equipment are not allocated between segments in management accounting. Income and expenses from transactions with other segments represent income and expenses from lending and borrowing between segments and is calculated by using a transfer rate determined by management. Pricing in transactions between segments are carried out on an arm's length.

Reconciliations of reportable segment profit or loss for 2015 and 2014, assets and liabilities as at and for the years ended 31 December 2015 and 2014 are as follows:

**32 Segment analysis (continued)**

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
<b>Segment profit before tax</b>	<b>21 318 202</b>	<b>19 656 126</b>
Allowance for impairment of loans and advances to customers per management accounts	(13 002 245)	(10 818 319)
Elimination of revenues on transactions with other segments	(383 298)	(5 956 405)
Unallocated administrative and other operating expenses	(3 120 337)	(3 914 084)
Other revenues	96 720	220 465
IFRS accounting policy adjustments:		
- securities at fair value	(362 064)	1 178 040
- interest income on loans and advances to customers	(62 999)	2 588 830
- elimination of (profit)/loss from transactions with subsidiaries, structured entities and mutual funds	(146 230)	821 911
- assignment of loans	597 044	(342 162)
- allowance for impairment of loans and advances to customers, finance lease receivables, due from other banks and investment securities held to maturity	(1 083 538)	(1 906 511)
- administrative and other operating expenses on accrual basis	111 723	130 611
- securities at amortised cost	(110 041)	(14 551)
- depreciation and financial result from disposal of property and equipment, investment property, intangible assets and other property	(220 228)	(200 658)
- loss of subsidiaries, structured entities and mutual funds from transactions with third parties	(131 117)	(638 412)
- loss from revaluation of property and equipment	(19 279)	-
- other adjustments	76 419	4 377
<b>Consolidated profit before tax</b>	<b>3 558 732</b>	<b>809 258</b>

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014 (restated)</b>
<b>Segment assets</b>	<b>279 795 160</b>	<b>214 781 043</b>
Unallocated assets	40 913 927	18 291 303
Allowance for impairment of loans and advances to customers per management accounts	(18 137 288)	(14 926 705)
Deviation of average balances from balances at the period end	7 437 281	15 302 200
IFRS accounting policy adjustments:		
- assets of subsidiaries, structured entities and mutual funds from transactions with third parties	38 697 667	25 860 890
- elimination of balances with subsidiaries, structured entities and mutual funds	(29 543 221)	(17 704 569)
- allowance for impairment of loans and advances to customers, finance lease receivables, due from other banks and investment securities held to maturity	5 454 637	817 772
- loans and advances to customers transferred without derecognition	9 931 157	5 885 783
- securities at fair value	3 128 647	529 926
- securities at amortised cost	(219 807)	(108 064)
- revaluation of property and equipment, depreciation of property and equipment, investment property and intangible assets	(1 258 295)	(720 284)
- assets write-off against allowance for impairment	(1 854 725)	(1 066 245)
- administrative and other operating expenses on accrual basis	(868 005)	(908 041)
- interest income on loans and advances to customers	697 832	808 948
- intangible assets capitalisation	395 587	376 222
- deferred tax asset and current income tax asset	(254 766)	405 355
- goodwill	162 122	162 122
- derivatives at fair value	37 717	12 510
- other adjustments	(766 489)	(162 260)
<b>Consolidated assets</b>	<b>333 749 138</b>	<b>247 637 906</b>



### 32 Segment analysis (continued)

<i>in thousands of Russian Roubles</i>	2015	2014 (restated)
<b>Segment liabilities</b>	<b>288 238 146</b>	<b>206 079 644</b>
Unallocated liabilities	1 008 373	355 636
Deviation of average balances from balances at the period end	10 360 211	15 199 636
IFRS accounting policy adjustments:		
- elimination of balances with subsidiaries, structured entities and mutual funds	(10 798 143)	(11 699 124)
- liabilities of subsidiaries, structured entities and mutual funds from transactions with third parties	13 705 103	12 289 740
- liabilities for repurchase of loans and advances to customers transferred without derecognition	10 505 309	6 026 547
- liabilities for repurchase of investment property transferred without derecognition	6 374 752	6 535 647
- deferred tax liability and current income tax liability	(95 849)	517 664
- administrative and other operating expenses on accrual basis	178 354	99 695
- debt securities in issue at amortised cost	(11 573)	(20 676)
- derivatives at fair value	6 808	186
- other borrowed funds at amortised cost	4 818	(22 327)
- other adjustments	(410 495)	73 439
<b>Consolidated liabilities</b>	<b>319 065 814</b>	<b>235 435 707</b>

Adjustments for deviation of average assets and liabilities balances with balances at the period end caused by analysing average balances in management accounts in December 2015 and 2014. There were no changes in structure and composition of segments in 2015 year.

**Geographical segments.** The Group operates in the Russian Federation and foreign countries. Segment information for the main geographical segments is set out below for the years ended 31 December 2015 and 2014.

<i>in thousands of Russian Roubles</i>	Russia	Other countries	Total
<b>2015</b>			
Segment assets	170 830 514	108 964 646	279 795 160
External revenues	29 024 629	3 705 315	32 729 944
Credit related commitments	10 979 505	70 374	11 049 879
<b>2014</b>			
Segment assets	139 332 705	75 448 338	214 781 043
External revenues	26 278 433	2 864 825	29 143 258
Credit related commitments	9 154 229	2 269 605	11 423 834

In presenting geographical information the allocation of external revenues and assets as well as credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

### 33 Financial risk management, corporate governance and internal control

#### **Corporate governance framework**

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

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

### **33 Financial risk management, corporate governance and internal control (continued)**

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

Operational activities of the Bank are managed by the sole executive body of the Bank – President and collective executive body of the Bank – Management Board.

The Board of Directors elects the President for a term of five years. The Management Board of the Bank is formed by the decision of the Board of Directors of the Bank for a term of two years and acts on the basis of effective legislation of Russian Federation, the Charter of the Bank, as well as on the basis of the general shareholder's meeting approval of the Regulation on the Management Board of the Bank. The Management Board of the Bank is responsible for management of operational activities of the Bank except for resolving issues referred to the exclusive jurisdiction of general shareholder's meeting, the Board of Directors and the President of the Bank. The executive bodies of the Bank are responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank.

#### ***Internal control policies and procedures***

The Bank's internal control system represents the set of bodies and directions of internal control ensuring the maintenance of order of implementation and achievement of the objectives set by the legislation of the Russian Federation, the Bank of Russia and internal documents of the Bank.

The purpose of internal controls is to ensure:

- the efficiency and effectiveness of financial - economic activity related to banking operations and transactions, the effectiveness of asset and liability management, including the soundness of assets, management of banking risks
- reliability, completeness, objectivity and timeliness of drawing up and submission of financial, accounting, statistical and other statements (for external and internal users), and also information security (security of interests (objectives) of Bank in the information sphere representing a set of information, information infrastructure, the subjects which are carrying out collecting, formation, distribution and use of information, and also system of regulation of the relations arising thus)
- compliance with regulations, standards of the self-regulating organisations, constituent and internal documents of the Bank
- prevention of the Bank's involvement and participation of its employees in implementation of the illegal activity including connected with legalisation (laundering) of income gained in the criminal way, and financing of terrorism, and also timely submission of data to public authorities and the Bank of Russia according to the legislation of the Russian Federation.

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

- control by the Bank's management over organisation of its activities, including the following issues:
  - establishment and operation of effective internal control
  - establishment of effective systems of transmission and exchange of information
  - assessment of risks affecting the achievement of objectives.
- control over the functioning of the banking risk management and assessment of banking risks, providing the identification and analysis of internal (the complexity of the organisational structure, the level of qualifications of employees, organisational changes, staff turnover, etc.) and external (changes in economic environment of the credit institution, applied technologies etc.) factors that impact the Bank's activity

### **33 Financial risk management, corporate governance and internal control (continued)**

- control over the distribution of authorities in banking transactions and other transactions, which include both current control (material, physical, limits control, etc.) and subsequent control (carried out by appropriate inspections), as well as the development of systems coordination (approval) operations and transactions which exceed the limits, ensuring distribution of functions of employees to exclude the conflict of interests both between the Bank and its customers, and between the Bank and its employees
- control over the management of information flows (receipt and transmission of information) and information security, including overall control exercised to ensure the smooth and ongoing operation, and program control, which is performed manually and automated procedures controlling the processing of banking operations and other transactions
- ongoing monitoring of the internal control system in order to assess the degree of compliance with the objectives of the Bank, to identify gaps, develop proposals and control over the implementation of decisions on improvement of internal control system of the Bank.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit service. The results of Internal Audit service reviews are discussed with employees responsible for maintaining of financial and economic activities and for recognition of relevant transactions in accounting and analytical accounting of the Bank. Summaries submitted to the Board of Directors and the Management Board.

Since 1 October 2014, significant changes in internal control of the Bank were implemented. In accordance with the Provision of the Bank of Russia as at 24 April 2014 No.3241-U *On introduction of changes in Regulations of the Bank of Russia as at 16 December 2003 No.242-P On the organisation of internal control in credit organisations and banking groups*, the internal control function of the Bank was reorganised by separation of the internal audit service. As a result of reorganisation and in accordance with statutory acts of the Bank of Russia requirements functions of the internal control service in the Bank were rearranged as follows:

- The internal audit service performs functions relating to audit and assessment of the internal control system efficiency as a whole, including audit of existing in the Bank processes and procedures over operations, audit of certain Bank's lines of business, assessment of economic efficiency of operations and deals. In addition, the internal audit service performs audit of the internal control service and the risk management service activities. The Group's internal audit service is subordinated to, and reported to, the Board of Directors
- The internal control service (the compliance service) conducts functions relating to:
  - identification, monitoring and management of regulatory risk, i.e. risk of losses occurrence due to Russian Federation legislation and the Bank's internal documentation non-compliance, including consequences of sanctions and (or) other actions of supervising bodies
  - identification of conflicts of interest in the Bank's operations and employees work, including preparation and approval of internal documentation for its minimisation.

Thus, as at the date of preparation of the current statements, internal control in the Bank according to the authorities determined by constituent and internal documents of the Bank is carried out by the following bodies:

- the Bank's bodies (the general shareholders' meeting, the Board of Directors, the President and the Management Board)
- revision commission (controller)
- chief accountant (deputies) of the Bank
- financial monitoring department
- legal direction
- risk department
- corporate and personnel management department
- operational direction
- controller of professional securities market participant

### **33 Financial risk management, corporate governance and internal control (continued)**

- internal audit service
- internal control service (compliance service)
- controlling service
- treasury
- security service
- information system security function
- committees and commissions
- director (deputies) and chief accountants (deputies) of the Bank's branches
- heads (deputies) of additional and operational offices
- other departments and employees.

Information on the system of internal control, the order of its establishment and authorities are contained in the Charter of the Bank. The organisational structure of the Bank regarding distribution of authorities between officials, the bodies and divisions exercising internal control, corresponds to character and scales of the performed operations, level and a combination of the accepted risks.

Russian legislation, including:

- the Federal Law as at 2 December 1990 No.395-1 *On banks and banking activity*
- Regulations of the Bank of Russia as at 25 October 2013 No.408-P *On assessment of compliance with the professional qualifications and requirements to business reputation of bodies stated in article 11.1 of the Federal Law On banks and banking activity and article 60 of the Federal law On the Central Bank of Russian Federation (Bank of Russia) and order of database keeping in accordance with article 75 of the Federal law On the Central Bank of Russian Federation (Bank of Russia) as at 25 October 2013 No.408-P*
- Provision of the Bank of Russia as at 1 April 2014 No.3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation as at 1 April 2014 No.3223-U,*

establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet these requirements. The Bank sends to the Bank of Russia the notices over compliance with the requirements of the above mentioned personnel as the changes in management personnel and their data subjected to agreement with the Bank of Russia occur as required by regulatory acts of the Bank of Russia.

Management believes that the Bank complies with the Bank of Russia requirements related to risk management and internal control systems, including requirements related to the internal audit service, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations carried out by the Bank.

#### **Financial risk management**

Risk management is a cornerstone of the Bank's activity and is an essential element of operating activities of the Group. Risk management is carried out in relation to financial risks (credit, market, currency, other price risks, interest rate risk, geographical and liquidity risk) and non-financial (operational, legal, strategic risks, risk of loss of business reputation and regulatory risk). The specified risks are the main (significant) risks which the Group faces in the course of implementation of its activity. The system of the reporting on significant risks and the Group's equity (capital) is developed in the Group. The main purpose of financial risk management is identification of risk limits and further ensuring compliance with the set limits. Non-financial risk management has to provide appropriate compliance with internal regulations and procedures for minimisation of the specified risks.

The internal documents of the Group applicable as at 31 December 2014 establishing techniques of identification and management of risks, significant for the Group, implementation of stress testing on the specified risks are approved by authorised bodies of the Bank's management according to requirements and recommendations of the Bank of Russia.

### **33 Financial risk management, corporate governance and internal control (continued)**

The Board of Directors is responsible for appropriate risk management operation, significant risk management and also for approval of policies and procedures on risk management, as well as for approval of significant transactions.

The responsibilities of the Bank's Board of Directors and its executive bodies include monitoring the Group's compliance with the limit values of risks established by internal documents of the Group and the equity sufficiency (capital sufficiency). To control the efficiency of the risk management procedures and sequence of their application applied in the Group, the Bank's Board of Directors and its executive bodies discuss the reports prepared by the Bank's Risk Department and the internal audit service on a periodic basis, consider proposed measures on elimination of shortcomings and improvement of the risk control system.

The Management Board is responsible for monitoring and introduction of measures for risk decrease, as well as monitoring the Group's activity within the set risk limits. The Risk Department is responsible for the general risk management and control of compliance with applicable legislation, as well as for control of application of the general principles and methods on detection, assessment, management and drawing up reports both on financial, and on non-financial risks. The Risk Department is accountable directly to the President and indirectly to the Board of Directors. The Risk Department is not subordinated and is not accountable to the divisions accepting the corresponding risks.

**Credit risk.** The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. See Note 33.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning.

Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management).

#### **Issuing loans to corporate customers**

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group
- Credit Committee considers and approves credit limits for all other customers.

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

### **33 Financial risk management, corporate governance and internal control (continued)**

#### ***Work-out of problem corporate loans***

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as a problem loan on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days
- the borrower has one delay in interest payment exceeding 15 calendar days
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent
- a failure to fulfil, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement
- two consecutive delays in contractual lease payments
- violation of contractual requirements on the use of leased property
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay or impossibility to contact the borrower, or otherwise).

For effective work on collecting debt, two procedures of collecting problem debts of corporate borrowers are provided in the Group: voluntary and enforcement.

Voluntary repayment of loan by problem borrowers stipulates the actions of responsible staff described below if it is possible to contact the borrower during a certain period of time is possible.

If the loan is classified as a problem loan the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating
- reviewing the reasons for overdue balances (default)
- discussing payment options (methods, terms), check different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to the Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and evacuation of the problem borrower's property to the Group
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case it is not possible to contact with the problem borrower (guarantor) the Group initiates litigation against the problem borrower.

#### ***Issuing loans to individuals***

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products profitability using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount



### **33 Financial risk management, corporate governance and internal control (continued)**

- on the basis of a review of the relationship of net operating income received from gross loan placements, and actual losses (overdue amounts with consideration of the recovery coefficient).

Issuance of loans to individuals is carried out via a software system SAP CRM – client relationships management system, conceptual approach in business development with external environment and market participants.

The process of loan issuance includes the following basic elements (software modules/automated work stations - AWS):

1. Software SAP CRM (SAP CRM «Loans») - software module for automatic:

- identification of borrower/surety/pledger
- verification of existence/absence of loan debts of borrower/surety/pledger with the Bank
- generating and keeping of borrower/surety/pledger application (filled in by the Bank's specialist)
- export of borrower/surety/pledger application for the pre-issuance loan assessment
- generating "Account management agreement", "CBM agreement", "Application form", "loan contract/ agreement", "Surety agreement", "Pledge agreement", numbering, printing of agreements and etc.

2. Software AWS "Risk Manager" – adjustable in accordance with the Bank's Setting limits for retail loans methodology ("Methodology") software for borrower/surety creditworthiness assessment, collateral valuation and automatic calculation of credit limit amount for borrower based on application data and collateral.

Within the scope of the pre-issuance loan assessment preliminary credit limits are set in accordance with the methodology for client assessment.

Individual customers are evaluated based on scoring models developed with the help of special software using accumulated statistical data. These methods include procedures for calculation of scoring rates based on personal data as a separate borrower evaluation factor.

Security service specialist within the set period for applications verification performs check of data received from borrower/surety/pledger for reliability.

Security service specialist takes decision on every loan in SAP CRM and sets one of the statuses: "Loan issuance" or "Loan rejection".

Final decision is made taking into account security service opinion.

3. Software AWS "Risk Manager" contains information over taken decision of security service check. Security service decision is also reflected in SAP CRM module "Additional information"/"List of applications transferred to security services" for every borrower/surety/pledger.

In case of a positive decision from the security service and a non-zero loan limit employee of the point of sale continues with the loan issuance in SAP CRM «Loans» choosing one of the options: "Now" (loan to be issued in a current operational day) or "Later" (loan to be issued within time limits set in accordance with "Individual terms of consumer loan").

The Group applies the system of monitoring of the individuals loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the effectiveness of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

The Problem-Debt Collection Direction ("PDCD") starts work with individual loan on third loan or interest overdue day.

For overdue debts recovery complex of scoring models is developed based on accumulated statistical data. These models are used for loans segmentation by probability of recovery, type of loan product, instruments of debt recovery for management of collection strategies.

PDCD specialists work in software and hardware SAP CRM and SAP BCM.

### **33 Financial risk management, corporate governance and internal control (continued)**

For collection process optimisation the Bank implemented automotive processes of daily outgoing client calls (soft-collection), targets generation for hard-collection specialists, scenarios and screen forms containing necessary information for specialists work.

Score calculation and segmentation of loan agreements are performed daily in automatic mode.

On third day of overdue clients are sent sms with notice of overdue.

On fifth day of overdue all loan agreements are transferred to soft-collection service. Responsible specialists call to clients. This stage takes up to 25 days (or till recovery).

On 30th day of overdue depending on selected recovery strategy, loan agreements are transferred to pre-court management service or to collection agencies. Specialists of pre-court management service (hard-collection) work with entire set of measures – calls to clients, auto dial regime calls, sending written notice, sms and clients visits.

The Bank internal collection services usually work with overdue debts till 120 overdue days, then work is transferred to collection agencies.

If client does not repay the loan, it is transferred to collecting by judicial means. When loan is considered as uncollectable, it is written off the balance.

The Risk Department performs an ageing analysis of outstanding loans and follows up overdue balances. Management is provided with information on ageing analysis and other information relating to credit risk.

#### **Offsetting financial assets and financial liabilities**

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

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

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

These securities received as collateral / pledged, may be pledged or sold during the term of the transaction, but must be returned before the maturity of the transaction. Terms of the transaction also provide to each counterparty the right to terminate the relevant transactions as a result of failure of a counterparty to provide collateral.

### 33 Financial risk management, corporate governance and internal control (continued)

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

<i>in thousands of Russian Roubles</i>	<b>Gross amounts of recognised financial asset/liability</b>	<b>Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position</b>	<b>Net amount of financial assets/liabilities presented in the consolidated statement of financial position</b>	<b>Related amounts not offset in the consolidated statement of financial position</b>	<b>Net amount</b>
<b>Liabilities</b>					
Sale and repurchase agreements on securities	(77 033 265)	-	(77 033 265)	77 033 265	-
<b>Total financial liabilities</b>	<b>(77 033 265)</b>	<b>-</b>	<b>(77 033 265)</b>	<b>77 033 265</b>	<b>-</b>

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

<i>in thousands of Russian Roubles</i>	<b>Gross amounts of recognised financial asset/liability</b>	<b>Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position</b>	<b>Net amount of financial assets/liabilities presented in the consolidated statement of financial position</b>	<b>Related amounts not offset in the consolidated statement of financial position</b>	<b>Net amount</b>
<b>Liabilities</b>					
Sale and repurchase agreements on securities	(34 899 639)	-	(34 899 639)	34 899 639	-
<b>Total financial liabilities</b>	<b>(34 899 639)</b>	<b>-</b>	<b>(34 899 639)</b>	<b>34 899 639</b>	<b>-</b>

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

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

The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk.

### 33 Financial risk management, corporate governance and internal control (continued)

The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee holds a meeting in order to change the current portfolio management procedures.

**Currency risk.** Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2015.

<i>in thousands of Russian Roubles</i>	<b>RUB</b>	<b>USD</b>	<b>Euro</b>	<b>Precious metals</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	36 514 399	11 485 929	967 296	-	67 859	49 035 483
Mandatory cash balances with the Bank of Russia	1 583 269	-	-	-	-	1 583 269
Other securities at fair value through profit or loss	1 078 599	50 460 455	-	-	-	51 539 054
Securities available-for-sale	10 000	-	-	-	-	10 000
Investment securities held to maturity	33 738 981	-	-	-	-	33 738 981
Due from other banks	1 499 219	5 025 531	-	-	-	6 524 750
Loans and advances to customers	90 129 651	54 066 911	1 059 551	-	-	145 256 113
Finance lease receivables	1 818 904	-	-	-	-	1 818 904
Advances to real estate developers	1 448 581	-	-	-	-	1 448 581
Receivables under commission and sale and purchase agreements	113 386	16 882 870	-	-	-	16 996 256
Other financial assets	720 981	17 824	1 322	-	11	740 138
<b>Total monetary assets</b>	<b>168 655 970</b>	<b>137 939 520</b>	<b>2 028 169</b>	<b>-</b>	<b>67 870</b>	<b>308 691 529</b>
<b>Liabilities</b>						
Due to other banks	49 490 927	46 761 920	699 452	-	3	96 952 302
Customer accounts	162 509 301	21 411 934	5 290 318	275 251	68 067	189 554 871
Debt securities in issue	7 477 609	5 228 712	3 426	-	-	12 709 747
Other borrowed funds	-	16 057 138	-	-	-	16 057 138
Other financial liabilities	664 177	218 482	5	-	-	882 664
<b>Total monetary liabilities</b>	<b>220 142 014</b>	<b>89 678 186</b>	<b>5 993 201</b>	<b>275 251</b>	<b>68 070</b>	<b>316 156 722</b>
<b>Net position</b>	<b>(51 486 044)</b>	<b>48 261 334</b>	<b>(3 965 032)</b>	<b>(275 251)</b>	<b>(200)</b>	<b>(7 465 193)</b>
<b>Derivative financial instruments</b>	<b>49 058 193</b>	<b>(44 837 208)</b>	<b>3 988 844</b>	<b>221 278</b>	<b>2 160</b>	<b>8 433 267</b>
<b>Net position including derivative instruments</b>	<b>(2 427 851)</b>	<b>3 424 126</b>	<b>23 812</b>	<b>(53 973)</b>	<b>1 960</b>	<b>968 074</b>

### 33 Financial risk management, corporate governance and internal control (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2014.

<i>in thousands of Russian Roubles (restated)</i>	<b>RUB</b>	<b>USD</b>	<b>Euro</b>	<b>Precious metals</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	15 325 829	11 610 246	945 115	-	70 773	27 951 963
Mandatory cash balances with the Bank of Russia	1 565 338	-	-	-	-	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	-	-	-	11 470 736
Investment securities held to maturity	28 324 182	-	-	-	-	28 324 182
Due from other banks	1 490 766	2 911 403	-	-	-	4 402 169
Loans and advances to customers	101 783 345	41 982 097	403 242	-	-	144 168 684
Finance lease receivables	1 417 298	-	-	-	-	1 417 298
Advances to real estate developers	1 531 083	632 075	-	-	-	2 163 158
Receivables under commission and sale and purchase agreements	-	7 516 673	-	-	-	7 516 673
Other financial assets	753 233	1 034 096	223	-	9	1 787 561
<b>Total monetary assets</b>	<b>163 661 810</b>	<b>65 686 590</b>	<b>1 348 580</b>	<b>-</b>	<b>70 782</b>	<b>230 767 762</b>
<b>Liabilities</b>						
Due to other banks	50 209 244	1 339 153	647 574	-	-	52 195 971
Customer accounts	121 681 399	22 223 994	4 874 141	251 831	72 949	149 104 314
Debt securities in issue	15 418 760	3 840 325	-	-	-	19 259 085
Other borrowed funds	-	12 726 969	-	-	-	12 726 969
Other financial liabilities	807 974	7	6 453	-	-	814 434
<b>Total monetary liabilities</b>	<b>188 117 377</b>	<b>40 130 448</b>	<b>5 528 168</b>	<b>251 831</b>	<b>72 949</b>	<b>234 100 773</b>
<b>Net position</b>	<b>(24 455 567)</b>	<b>25 556 142</b>	<b>(4 179 588)</b>	<b>(251 831)</b>	<b>(2 167)</b>	<b>(3 333 011)</b>
<b>Derivative financial instruments</b>	<b>21 228 705</b>	<b>(24 968 987)</b>	<b>4 114 230</b>	<b>182 657</b>	<b>5 075</b>	<b>561 680</b>
<b>Net position including derivative instruments</b>	<b>(3 226 862)</b>	<b>587 155</b>	<b>(65 358)</b>	<b>(69 174)</b>	<b>2 908</b>	<b>(2 771 331)</b>

Derivatives in each column represent the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 20% change in USD, euro and precious metals to Russian Rouble exchange rates is as follows.

**33 Financial risk management, corporate governance and internal control (continued)**

<i>in thousands of Russian Roubles</i>	2015		2014	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against RUB	547 860	547 860	93 945	93 945
20% depreciation of USD against RUB	(547 860)	(547 860)	(93 945)	(93 945)
20% appreciation of Euro against RUB	3 810	3 810	(10 457)	(10 457)
20% depreciation of Euro against RUB	(3 810)	(3 810)	10 457	10 457
20% appreciation of precious metals against RUB	(8 636)	(8 636)	(11 068)	(11 068)
20% depreciation of precious metals against RUB	8 636	8 636	11 068	11 068

Significant rouble devaluation against euro and USD occurred in 2014 and continued in 2015. In the current environment it's hard to evaluate potential future fluctuations and their influence on profit or loss and the equity of the Group.

**Other price risk.** The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day value at risk (VaR) with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms set by the Assets and Liabilities Management Committee for capital reduction thresholds, the Treasury develops and the Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% from a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules. As at 31 December 2015 limits on operation with a trading portfolio of securities were closed.

**Interest rate risk.** The bond portfolio's fair value is exposed to changes in interest rate. The Group manages the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio's value in case of a 300 b.p. increase in rates.

The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for transactions with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change of market rates.

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2015 and 2014 due to changes in interest rates.

<i>in thousands of Russian Roubles</i>	Exposure during 2015		Exposure during 2014	
	Profit or loss	Equity	Profit or loss	Equity
Changes in portfolio's fair value in case of a 300 b.p. increase in rates at year end	(1 677 656)	(1 677 656)	(501 068)	(501 068)

The table below reflects the eurobond portfolio's sensitivity for the year ended 31 December 2015 and 2014 due to changes in interest rates.

<i>in thousands of Russian Roubles</i>	Exposure during 2015		Exposure during 2014	
	Profit or loss	Equity	Profit or loss	Equity
Changes in portfolio's fair value in case of a 300 b.p. increase in rates at year end	(2 479 563)	(2 479 563)	-	-



### 33 Financial risk management, corporate governance and internal control (continued)

The sensitivity of financial assets and liabilities to changes in interest rates for financial assets and liabilities outstanding as at 31 December 2015 and 2014 is as follows.

<i>in thousands of Russian Roubles</i>	2015		2014	
	Profit or loss	Equity	Profit or loss	Equity
300 b.p. parallel rise	(973 558)	(973 558)	(539 163)	(539 163)
300 b.p. parallel fall	973 558	973 558	539 163	539 163

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the rate on liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, except subordinated debt, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. To manage the margin, management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2015				2014			
	RUB	USD	Euro	Other	RUB	USD	Euro	Other
<i>% p.a.</i>								
<b>Assets</b>								
Cash and cash equivalents	9.85	0.09	-	0.03	13.15	0.17	-	-
Other securities at fair value through profit or loss	5.76	-	-	-	9.28	-	-	-
Investment securities held to maturity	11.52	-	-	-	9.25	-	-	-
Due from other banks	2.91	0.62	-	-	3.07	0.54	-	-
Loans and advances to customers	18.93	9.97	8.17	-	20.40	8.02	7.00	-
Finance lease receivables	14.05	-	-	-	18.60	-	-	-
Advances to real estate developers	2.26	-	-	-	0.30	-	-	-
<b>Liabilities</b>								
Due to other banks								
- short-term deposits	11.41	0.15	1.50	-	14.71	0.51	1.74	-
- correspondent accounts and overnight placements	0.08	0.02	0.02	-	-	2.00	2.00	-
- sale and repurchase agreements on securities	11.27	2.16	-	-	17.72	-	-	-
- other funds	30.04	-	-	-	27.83	-	-	-
Customer accounts								
- current and settlement accounts	2.38	0.39	0.39	-	2.84	0.62	0.62	-
- term deposits	11.83	6.31	3.50	4.50	13.99	7.31	4.96	4.41
Debt securities in issue								
- promissory notes	9.74	5.04	6.27	-	10.89	4.90	-	-
- bonds issued on domestic market	13.00	-	-	-	12.17	-	-	-
- loan participation notes	-	12.75	-	-	-	12.75	-	-
Other borrowed funds								
- subordinated loans	-	9.37	-	-	-	9.32	-	-
- syndicated loans	-	2.53	-	-	-	2.32	-	-

### 33 Financial risk management, corporate governance and internal control (continued)

**Geographical risk concentrations.** The geographical concentration of assets and liabilities at 31 December 2015 is set out below.

<i>in thousands of Russian Roubles</i>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	39 291 923	9 743 560	49 035 483
Mandatory cash balances with the Bank of Russia	1 583 269	-	1 583 269
Other securities at fair value through profit or loss	51 539 054	-	51 539 054
Securities available-for-sale	10 000	-	10 000
Investment securities held to maturity	33 738 981	-	33 738 981
Due from other banks	1 499 219	5 025 531	6 524 750
Loans and advances to customers	76 620 477	68 635 636	145 256 113
Finance lease receivables	1 818 904	-	1 818 904
Advances to real estate developers	1 448 581	-	1 448 581
Receivables under commission and sale and purchase agreements	113 386	16 882 870	16 996 256
Other financial assets	1 265 190	8 677 049	9 942 239
<b>Total financial assets</b>	<b>208 928 984</b>	<b>108 964 646</b>	<b>317 893 630</b>
<b>Total non-financial assets</b>	<b>15 732 345</b>	<b>123 163</b>	<b>15 855 508</b>
<b>Total</b>	<b>224 661 329</b>	<b>109 087 809</b>	<b>333 749 138</b>
<b>Liabilities</b>			
Due to other banks	96 525 690	426 612	96 952 302
Customer accounts	181 548 516	8 006 355	189 554 871
Debt securities in issue	7 791 304	4 918 443	12 709 747
Other borrowed funds	-	16 057 138	16 057 138
Other financial liabilities	1 088 475	563 023	1 651 498
<b>Total financial liabilities</b>	<b>286 953 985</b>	<b>29 971 571</b>	<b>316 925 556</b>
<b>Total non-financial liabilities</b>	<b>1 729 640</b>	<b>410 618</b>	<b>2 140 258</b>
<b>Total</b>	<b>288 683 625</b>	<b>30 382 189</b>	<b>319 065 814</b>
<b>Net position</b>	<b>(64 022 296)</b>	<b>78 705 620</b>	<b>14 683 324</b>
<b>Credit related commitments</b>	<b>10 979 505</b>	<b>70 374</b>	<b>11 049 879</b>

### 33 Financial risk management, corporate governance and internal control (continued)

The geographical concentration of assets and liabilities at 31 December 2014 is set out below.

<i>in thousands of Russian Roubles (restated)</i>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	17 187 969	10 763 994	27 951 963
Mandatory cash balances with the Bank of Russia	1 565 338	-	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	11 470 736
Investment securities held to maturity	27 715 926	608 256	28 324 182
Due from other banks	1 490 766	2 911 403	4 402 169
Loans and advances to customers	92 469 703	51 698 981	144 168 684
Finance lease receivables	1 417 298	-	1 417 298
Advances to real estate developers	2 163 158	-	2 163 158
Receivables under commission and sale and purchase agreements	-	7 516 673	7 516 673
Other financial assets	518 692	1 949 031	2 467 723
<b>Total financial assets</b>	<b>155 999 586</b>	<b>75 448 338</b>	<b>231 447 924</b>
<b>Total non-financial assets</b>	<b>16 066 819</b>	<b>123 163</b>	<b>16 189 982</b>
<b>Total</b>	<b>172 066 405</b>	<b>75 571 501</b>	<b>247 637 906</b>
<b>Liabilities</b>			
Due to other banks	51 287 928	908 043	52 195 971
Customer accounts	140 715 763	8 388 551	149 104 314
Debt securities in issue	15 470 100	3 788 985	19 259 085
Other borrowed funds	-	12 726 969	12 726 969
Other financial liabilities	363 582	569 334	932 916
<b>Total financial liabilities</b>	<b>207 837 373</b>	<b>26 381 882</b>	<b>234 219 255</b>
<b>Total non-financial liabilities</b>	<b>805 834</b>	<b>410 618</b>	<b>1 216 452</b>
<b>Total</b>	<b>208 643 207</b>	<b>26 792 500</b>	<b>235 435 707</b>
<b>Net position</b>	<b>(36 576 802)</b>	<b>48 779 001</b>	<b>12 202 199</b>
<b>Credit related commitments</b>	<b>9 154 229</b>	<b>2 269 605</b>	<b>11 423 834</b>

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held. Securities are allocated based on the country in which the issuer is located.

**Liquidity risk.** Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Liquidity risk management process includes:

- consideration and limits setting for current operations influencing liquidity position, taking measures to ensure profitable work at optimal liquidity risk-level
- system monitoring by responsible departments of current operations in terms of liquidity ratios
- system monitoring of current and prospective liquidity in Russian roubles and foreign currencies

### **33 Financial risk management, corporate governance and internal control (continued)**

- assessment on a regular basis of excessive/deficit liquidity level
- regular control over effectiveness of liquidity management methods.

The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department daily monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes performing daily calculations of liquid assets necessary for covering resource base risks, reviewing the level and structure of liquid assets and available liquidity forming instruments, providing access to different finance sources, maintaining liquidity contingency plans and monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure the sufficient liquidity level of a credit organisation.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

Possible negative factors on interbank loans market, such as rates fluctuations, closing or changing credit limits and other negative market changes, do not significantly influence liquidity position of the Bank due to following factors:

- dependence on interbank loan market in terms of the whole balance risk is minimised as interbank loans fund only bonds portfolio. Almost all acquired bonds are in Lombard list of the Bank of Russia and the Bank can receive funding from the Bank of Russia;
- deterioration on financial markets in fact does not influence balance of portfolio and financial results of the Bank as speculative trading with currencies and shares is conducted in limited volumes.

The Group maintains liquidity management when the bond portfolio, composed of liquid securities of issuers which have high credit quality, is used as an instrument for regulation of cash liquidity gaps and can be converted into cash within 1 month. Therefore other securities at fair value through profit or loss as at 31 December 2015 and 2014 are classified as "Demand and less than 1 month" in the tables below. The fair value of securities which are classified in this category with maturity more than 12 months amounts to RUB 51 338 466 thousand (31 December 2014: RUB 10 795 663 thousand).

Management expects that contractual maturity dates of term deposits from individuals are not representative for analysis of liquidity position, as based on analysis of internal statistics, 80% of agreements are prolonged and based on past experience this ratio has never gone lower. Accordingly, 80% of term deposits from individuals in categories "On demand and less than 1 month", "From 1 to 3 month", "From 3 to 12 months" and "From 1 to 3 years" are classified in the category "Over 3 years" to present more accurately expected cash flows. However in accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most cases the accrued interest.

### **33 Financial risk management, corporate governance and internal control (continued)**

The table below shows analysis of term deposits from individuals as at 31 December 2015 and 2014 on the basis of possible contractual maturity.

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
On demand and less than 1 month	11 937 637	2 948 969
From 1 to 3 months	12 184 766	5 704 594
From 3 to 12 months	49 772 475	26 872 921
From 1 to 3 years	2 539 882	13 187 264
Over 3 years	58 211 941	45 007 429
<b>Total</b>	<b>134 646 701</b>	<b>93 721 177</b>

The Group uses investment securities held to maturity for cash management purposes. The Bank acquires only securities that meet the requirements of the Lombard list of the Bank of Russia, because of this the Group may raise cash using their securities through repurchase operations. As at 31 December 2015 investment securities held to maturity amounted to RUB 31 795 792 thousand (31 December 2014: RUB 28 324 182 thousand) were sold under agreements to repurchase, but the Group retains substantially all the risks and rewards related to these securities, and therefore has not derecognised them (see Note 9). Management believes that the contract terms of sale and repurchase agreements are not meaningful for liquidity analysis, because after termination of these agreements new agreements on the pledge of these securities will be concluded. Consequently the Group includes direct sale and repurchase agreements as a long-term source of funding. Expected maturity terms of underlying borrowing transactions are presented in accordance with relevant maturity of securities held to maturity, which are pledged under direct sale and repurchase agreements. The table below shows analysis of amounts of due to other banks as at 31 December 2015 and 2014 by contractual maturity.

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
On demand and less than 1 month	64 467 536	40 189 053
From 1 to 3 month	3 098 873	1 368 602
From 3 to 12 months	16 858 091	4 554 543
From 1 to 3 years	7 800 427	2 579 274
Over 3 years	4 727 375	3 504 499
<b>Total</b>	<b>96 952 302</b>	<b>52 195 971</b>

### 33 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2015

<i>in thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	42 471 824	6 563 659	-	-	-	49 035 483
Mandatory cash balances with the Bank of Russia	215 879	121 949	151 513	83 946	1 009 982	1 583 269
Other securities at fair value through profit or loss	51 539 054	-	-	-	-	51 539 054
Securities available-for-sale	10 000	-	-	-	-	10 000
Investment securities held to maturity	-	3 336 761	6 568 715	5 156 482	18 677 023	33 738 981
Due from other banks	1 082 649	-	5 025 531	-	416 570	6 524 750
Loans and advances to customers	7 692 250	12 747 069	58 071 903	34 378 818	32 366 073	145 256 113
Finance lease receivables	104 866	141 482	529 085	701 714	341 757	1 818 904
Advances to real estate developers	43 590	18 300	432 961	953 730	-	1 448 581
Receivables under commission and sale and purchase agreements	6 159 205	-	10 723 665	-	113 386	16 996 256
Other financial assets	2 131 802	10 725	562 456	1 892 025	5 345 231	9 942 239
<b>Total financial assets</b>	<b>111 451 119</b>	<b>22 939 945</b>	<b>82 065 829</b>	<b>43 166 715</b>	<b>58 270 022</b>	<b>317 893 630</b>
<b>Liabilities</b>						
Due to other banks	34 226 154	6 638 387	22 104 369	12 229 640	21 753 752	96 952 302
Customer accounts	25 845 817	14 600 152	18 139 743	10 050 326	120 918 833	189 554 871
Debt securities in issue	1 373 674	599 477	4 493 122	4 860 052	1 383 422	12 709 747
Other borrowed funds	-	184 361	1 617 154	7 667 193	6 588 430	16 057 138
Other financial liabilities	1 088 599	-	-	-	562 899	1 651 498
<b>Total financial liabilities</b>	<b>62 534 244</b>	<b>22 022 377</b>	<b>46 354 388</b>	<b>34 807 211</b>	<b>151 207 336</b>	<b>316 925 556</b>
<b>Net liquidity gap as at 31 December 2015</b>	<b>48 916 875</b>	<b>917 568</b>	<b>35 711 441</b>	<b>8 359 504</b>	<b>(92 937 314)</b>	<b>968 074</b>
<b>Cumulative liquidity gap as at 31 December 2015</b>	<b>48 916 875</b>	<b>49 834 443</b>	<b>85 545 884</b>	<b>93 905 388</b>	<b>968 074</b>	



### 33 Financial risk management, corporate governance and internal control (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2014.

<i>in thousands of Russian Roubles (restated)</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	20 885 699	7 066 264	-	-	-	27 951 963
Mandatory cash balances with the Bank of Russia	226 394	154 397	125 263	159 534	899 750	1 565 338
Other securities at fair value through profit or loss	11 470 736	-	-	-	-	11 470 736
Investment securities held to maturity	-	1 316 290	6 285 899	9 457 364	11 264 629	28 324 182
Due from other banks	-	-	2 824 847	97 453	1 479 869	4 402 169
Loans and advances to customers	8 106 844	7 159 021	51 735 521	41 339 969	35 827 329	144 168 684
Finance lease receivables	92 952	134 776	505 664	582 287	101 619	1 417 298
Advances to real estate developers	-	-	328 417	1 834 741	-	2 163 158
Receivables under commission and sale and purchase agreements	-	327 568	7 189 105	-	-	7 516 673
Other financial assets	1 036 046	1 341 901	-	-	89 776	2 467 723
<b>Total financial assets</b>	<b>41 818 671</b>	<b>17 500 217</b>	<b>68 994 716</b>	<b>53 471 348</b>	<b>49 662 972</b>	<b>231 447 924</b>
<b>Liabilities</b>						
Due to other banks	15 783 641	2 555 713	9 928 974	10 529 890	13 397 753	52 195 971
Customer accounts	21 564 865	14 706 933	11 931 732	15 196 205	85 704 579	149 104 314
Debt securities in issue	669 967	7 132 547	4 358 316	2 991 985	4 106 270	19 259 085
Other borrowed funds	-	186 297	1 201 179	4 630 496	6 708 997	12 726 969
Other financial liabilities	932 916	-	-	-	-	932 916
<b>Total financial liabilities</b>	<b>38 951 389</b>	<b>24 581 490</b>	<b>27 420 201</b>	<b>33 348 576</b>	<b>109 917 599</b>	<b>234 219 255</b>
<b>Net liquidity gap as at 31 December 2014</b>	<b>2 867 282</b>	<b>(7 081 273)</b>	<b>41 574 515</b>	<b>20 122 772</b>	<b>(60 254 627)</b>	<b>(2 771 331)</b>
<b>Cumulative liquidity gap as at 31 December 2014</b>	<b>2 867 282</b>	<b>(4 213 991)</b>	<b>37 360 524</b>	<b>57 483 296</b>	<b>(2 771 331)</b>	

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as at 31 December 2015 is as follows.

**33 Financial risk management, corporate governance and internal control (continued)**

<i>in thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to other banks	34 342 043	6 682 032	22 262 431	12 679 493	21 831 672	97 797 671
Customer accounts, including term deposits	25 945 476	14 888 314	21 688 330	12 742 688	140 635 313	215 900 121
from individuals	9 320 502	2 644 380	13 049 589	831 985	138 747 860	164 594 316
Debt securities in issue	1 102 788	302 896	6 489 342	6 496 103	14 303	14 405 432
Other borrowed funds	-	186 890	1 701 834	9 314 341	9 707 976	20 911 041
Derivative financial instrument liabilities	768 834	-	-	-	-	768 834
Operating lease commitments	27 658	54 129	229 515	163 104	34 960	509 366
Guarantees issued	253 698	1 506 499	1 366 446	2 212 502	71 403	5 410 548
Import letters of credit	10 103	-	-	-	-	10 103
Unused commitments to extend credit	5 629 228	-	-	-	-	5 629 228
Other financial liabilities	1 088 599	-	-	-	562 899	1 651 498
<b>Total financial and contingent liabilities</b>	<b>69 168 427</b>	<b>23 620 760</b>	<b>53 737 898</b>	<b>43 608 231</b>	<b>172 858 526</b>	<b>362 993 842</b>

The analysis of financial liabilities and commitments taking into account undiscounted expected cash flows by maturity as at 31 December 2014 is as follows.

<i>in thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Due to other banks	16 000 146	2 580 958	10 161 601	10 601 117	13 700 236	53 044 058
Customer accounts, including term deposits from individuals	21 587 323	14 962 909	13 759 377	22 263 123	100 854 965	173 427 697
Debt securities in issue	6 337 906	1 217 590	7 002 804	4 583 834	98 214 949	117 357 083
Other borrowed funds	674 517	9 277 856	6 501 168	993 962	4 284 640	21 732 143
Derivative financial instrument liabilities	-	188 751	847 527	4 983 048	9 746 420	15 765 746
Operating lease commitments	118 482	-	-	-	-	118 482
Guarantees issued	60 555	108 582	423 562	207 703	41 326	841 728
Import letters of credit	444 994	806 839	1 065 774	1 141 801	83 209	3 542 617
Unused commitments to extend credit	324 553	51 758	2 017 970	-	-	2 394 281
Other financial liabilities	5 486 936	-	-	-	-	5 486 936
	959 357	-	-	-	-	959 357
<b>Total financial and contingent liabilities</b>	<b>45 656 863</b>	<b>27 977 653</b>	<b>34 776 979</b>	<b>40 190 754</b>	<b>128 710 796</b>	<b>277 313 045</b>

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

### **33 Financial risk management, corporate governance and internal control (continued)**

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 and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding.

Despite amounts of guarantees can be withdrawn at any moment, liquidity requirements to support calls under guarantees and standby letters of credit 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, since many of these commitments will expire or terminate without being funded.

### **34 Capital management**

The Group's objectives when managing capital are (i) to comply with capital requirements set by the Bank of Russia, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis.

Compliance with capital adequacy ratio is set by the Bank of Russia.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Since 1 January 2014 the Group calculates amounts of capital in accordance with Provision of the Bank of Russia dated 28 December 2012 No.395-P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)*.

The following table shows the minimum level of capital adequacy ratio of the Group as at 31 December 2015 and 2014:

<i>percentage</i>	<b>2015</b>	<b>2014</b>
Base capital adequacy ratio N20.1	5.00	5.00
Main capital adequacy ratio N20.2	6.00	5.50
Own funds (capital) adequacy ratio N20.0	10.00	10.00

The following table shows the calculation of capital adequacy of the Group based on requirements set by the Bank of Russia as at 31 December 2015 and 2014:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Base capital	14 603 632	12 219 978
Main capital	14 603 632	12 219 978
Additional capital	12 429 949	12 095 997
<b>Own funds (capital)</b>	<b>27 033 581</b>	<b>24 315 975</b>
Risk weighted assets for N20.1	229 812 540	183 349 664
Risk weighted assets for N20.2	229 807 824	183 342 608
Risk weighted assets for N20.0	229 893 219	183 428 049
Ratio N20.1, %	6.35	6.66
Ratio N20.2, %	6.35	6.67
Ratio N20.0, %	11.76	13.26

The Group maintains capital adequacy at level appropriate to the nature and volume of its operations. Mandatory ratios in accordance with the Bank of Russia requirements are calculated and controlled by the management on a daily basis. The Group submits on monthly basis as at 1 date of each month data of mandatory ratios calculation to territorial office of the Bank of Russia in the prescribed form.

### **34 Capital management (continued)**

In case values of capital adequacy ratios become close to set limits set by the Bank of Russia and Group's internal policy this information is communicated to the management of the Group. The Group is in compliance with the statutory capital ratios as at 31 December 2015 and 2014.

### **35 Contingencies and commitments**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

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

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

From 1 January 2012 the new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bringing them closer to the principles of the OECD. This also creates additional uncertainty due to the practical application of tax laws in some cases.

New transfer pricing rules require taxpayers to provide documentation of controlled transactions and defines new principles and tools for additional taxes and interest, if prices in controlled transactions differ from the market.

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under operating leases are as follows.

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Less than 1 year	311 302	592 699
From 1 to 5 years	193 480	239 651
More than 5 years	4 584	9 378
<b>Total</b>	<b>509 366</b>	<b>841 728</b>

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Credit related commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### **35 Contingencies and commitments (continued)**

Outstanding credit related commitments as at 31 December are as follows:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Guarantees issued	5 410 548	3 542 617
Commitments to extend credit	4 678 590	3 526 096
Unused limits on overdraft loans	950 638	1 960 840
Import letters of credit	10 103	2 394 281
<b>Total</b>	<b>11 049 879</b>	<b>11 423 834</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments as at 31 December are denominated in the following currencies:

<i>in thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Russian Roubles	10 624 777	8 649 706
USD	387 755	2 729 020
Euro	37 347	45 108
<b>Total</b>	<b>11 049 879</b>	<b>11 423 834</b>

**Funds management and trust activities.** The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements as it does not guarantee these investments.

**Custody activities.** The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

### **36 Financial derivatives**

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values of currencies receivable or payable under foreign exchange forward contracts entered into by the Group as at 31 December 2015 and 31 December 2014. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

**36 Financial derivatives (continued)**

<i>in thousands of Russian Roubles</i>	2015		2014	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<b>Foreign currency forward contracts: fair values, at the reporting date, of</b>				
- USD receivable on settlement	5 234 091	2 041 007	-	-
- USD payable on settlement	(47 470 908)	(4 422 407)	(18 626 594)	(6 240 738)
- Euro receivable on settlement	557 880	3 921 102	-	4 114 230
- Euro payable on settlement	(482 168)	(7 970)	-	-
- RUB receivable on settlement	56 631 738	91 627	19 216 820	2 011 885
- RUB payable on settlement	(5 270 944)	(2 394 228)	-	-
- Other currencies receivable on settlement	-	2 160	5 075	-
<b>Net fair value of foreign currency forward contracts</b>	<b>9 199 689</b>	<b>(768 709)</b>	<b>595 301</b>	<b>(114 623)</b>
<b>Precious metals forward contracts: fair values, at the reporting date, of</b>				
- USD receivable on settlement	-	190 035	259 731	123 718
- USD payable on settlement	(410 599)	-	(123 705)	(443 786)
- Precious metals receivable on settlement	411 438	-	124 206	440 415
- Precious metals payable on settlement	-	(190 160)	(257 758)	(124 206)
<b>Net fair value of precious metals forward contracts</b>	<b>839</b>	<b>(125)</b>	<b>2 474</b>	<b>(3 859)</b>
<b>Foreign currency options: fair values, at the reporting date</b>	<b>1 573</b>	<b>-</b>	<b>82 387</b>	<b>-</b>

Geographical, currency and maturity analyses of financial derivatives are disclosed in Note 33. Information on related party transactions is disclosed in Note 39.

**37 Fair value of financial instruments**

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgement. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore may not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

### 37 Fair value of financial instruments (continued)

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

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

<i>in thousands of Russian Roubles</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial instruments at fair value through profit or loss:			
- fixed income debt instruments	51 539 054	-	51 539 054
- derivative assets	-	9 202 101	9 202 101
- derivative liabilities	-	(768 834)	(768 834)
Financial assets available-for-sale			
- equity instruments	-	10 000	10 000
<b>Total</b>	<b>51 539 054</b>	<b>8 443 267</b>	<b>59 982 321</b>

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

<i>in thousands of Russian Roubles</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial instruments at fair value through profit or loss:			
- fixed income debt instruments	11 460 851	-	11 460 851
- equity instruments	9 885	-	9 885
- derivative assets	-	680 162	680 162
- derivative liabilities	-	(118 482)	(118 482)
<b>Total</b>	<b>11 470 736</b>	<b>561 680</b>	<b>12 032 416</b>

For more detailed information by types of financial instruments measured at fair value, please, see Notes 7 and 36.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. Discount rates were determined based on rates of the Group as at 31 December 2015 and 2014.

**Loans and receivables carried at amortised cost and investment securities held to maturity.** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values. To discount the future cash flows for loans to corporate customers and small and medium businesses the discount rates used were 15.79% and 19.41% respectively (31 December 2014: 15.02% and 17.08%).



### **37 Fair value of financial instruments (continued)**

To discount the future cash flows for loans to individuals, the discount rate used was 23.04% (31 December 2014: 27.14%).

The fair value of investment securities held to maturity based on active market prices as at 31 December 2015 is RUB 23 566 318 thousand (31 December 2014: RUB 27 407 489 thousand).

The estimated fair value of due from other banks as at 31 December 2015 and 2014 approximates their carrying values.

**Liabilities carried at amortised cost.** The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand discounted since the first day of potential notice.

The estimated fair value of term deposits of legal entities carried at amortised cost approximates their carrying values. To discount the future cash flows of term deposits of legal entities the Group used a discount rate of 11.64% (31 December 2014: 14.23%).

The estimated fair value of term deposits of individuals as at 31 December 2015 amounts to RUB 137 356 447 thousand (31 December 2014: RUB 92 624 559 thousand).

The estimated fair value of subordinated loans carried as at 31 December 2015 is not significantly different from their carrying value and amounts to RUB 14 242 147 thousand (31 December 2014: RUB 10 808 831 thousand).

The estimated fair values of due to other banks and syndicated loans as at 31 December 2015 and 2014 approximates their carrying values.

The fair value of loan participation notes as at 31 December 2015 is not significantly different from their carrying value (31 December 2014: the value is RUB 3 882 955 thousand). The estimated fair value of other debt securities in issue as at 31 December 2015 and 2014 approximates their carrying values.

**Derivative financial instruments.** All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices.

The objective of fair value estimation is to estimate the value for which the financial instrument may be exchanged between well-informed independent counterparties who have the real intention to make a deal, with most accuracy. However the fair value cannot be considered as the amount at which the immediate sale of assets or settlement of liabilities may be concluded due to uncertainties and subjective judgement.

### 38 Group companies

As at 31 December 2015 and 2014 the Group has the following main consolidated subsidiaries, structured entities and mutual funds:

The name	Country of incorporation	Principal activity	Share, %	
			31 December 2015	31 December 2014
Subsidiary				
UBRD Finance Limited	Ireland	issue of debt securities	100	100
Structured entities				
LLC “UBRiR-Finance”	Russian Federation	management of securities	-	-
LLC “UBRiR-leasing”	Russian Federation	leasing company	-	-
LLC “Fininvest K”	Russian Federation	ownership of property and equipment of the Group	-	-
Sebright Finance Limited	United Kingdom	ownership of property and equipment of the Group	-	-
LLC “Invest Techno”	Russian Federation	ownership of property and equipment of the Group	-	-
UBRD Capital Limited	Ireland	issue of debt securities	-	-
Mutual funds				
Closed unit investment fund “Invest-Ural Kommercheskaya nedvizhimost”	Russian Federation	ownership of property and equipment of the Group	-	-
Closed unit investment fund “UBRR -Nedvizhimost”	Russian Federation	ownership of items of investment property of the Group	-	-
Closed unit investment fund “Antey”	Russian Federation	ownership of items of investment property of the Group	-	-
Closed unit investment fund “NIKS”	Russian Federation	ownership of items of investment property of the Group	-	-
Open unit investment fund “Aktivnye investitsii”	Russian Federation	investments in securities	-	-
Open unit investment fund “Alternativniy protsent”	Russian Federation	investments in securities	-	-
Open unit investment fund “Bazovye otrasli”	Russian Federation	investments in securities	-	-
Open unit investment fund “Lombardniy spisok”	Russian Federation	investments in securities	-	-
Open unit investment fund “Mobilniy capital”	Russian Federation	investments in securities	-	-

Structured entity of the Group LLC “UBRiR-Finance” owns LLC UK “Invest-Ural Kommercheskaya nedvizhimost” and open unit investment funds.

As at 31 December 2015 and 2014 the financial statements of CJSC “Stozhok”, LLC “Uralstroyinvestservice” and LLC UK “Invest-Ural” were not included in the consolidated financial statements due to immateriality of assets and liabilities of these entities.

### **38 Group companies (continued)**

As at 31 December 2015 the financial statements of OUIF "Aktivnye investitsii", OUIF "Alternativniy protsent", OUIF "Bazovye otrasli", OUIF "Lombardniy spisok", OUIF "Mobilniy capital" were not included in the consolidated financial statements due to immateriality of assets and liabilities of these entities.

As at 31 December 2015 and 2014 all mutual funds are under the control of LLC UK "Invest-Ural".

#### **Financial support given to subsidiaries and structured entities**

In 2014 the Group met its obligations to holders of notes in full (see Note 23).

#### **Financial rehabilitation of JSC VUZ-Bank**

From October 2015, the Group has been involved in activities aimed at rehabilitation of JSC VUZ-Bank (the rehabilitated bank). Bank rehabilitation constitutes a procedure, the main purpose of which is the economic and financial recovery of a credit and financial institution (bank). Relying on the analysis of the financial standing of the rehabilitated bank, the state corporation Deposit Insurance Agency (SC DIA), together with the Bank of Russia, developed a Participation Plan for SC DIA to prevent the bankruptcy thereof. The Participation Plan was adopted by the Management Board of SC DIA and approved by the Banking Supervision Committee of the Bank of Russia in August 2015.

During the implementation of the Participation Plan in 2015, the following activities were carried out:

- On August 12, 2015, by order of the Bank of Russia, a temporary administration to manage the rehabilitated bank was introduced for a period of 6 months, the functions of which were assigned to SC DIA;
- On August 14, 2015, JSCB RUSSIAN CAPITAL (PJSC) granted a loan to the rehabilitated bank in the amount of 1,900,000 thousand roubles with maturity period of up to 1 year and interest rate of 6.01% per annum;
- On October 20, 2015, the rehabilitated bank repaid the above loan ahead of schedule;
- On September 15, 2015, pursuant to Part 4, Article 25.1 of Federal Law No. 395-1 dated December 2, 1990 On Banks and Banking Activity, the obligations of the rehabilitated bank under all Subordinated Loan (Deposit, Credit) Agreements that had been entered into before August 12, 2015 were terminated;
- On October 6, 2015, the temporary administration to manage the rehabilitated bank decided to necessarily reduce the size of the authorized capital up to one rouble and issue additional shares amounting to 10,000 thousand roubles;
- On October 16, 2015, SC DIA granted a loan to the rehabilitated bank in the amount of 5,700,000 thousand roubles for a period of 10 years with rate of 0.51% per annum;
- On November 23, 2015, the Bank of Russia registered an additional issue of ordinary registered shares of JSC VUZ-Bank in the amount of 220 billion pieces, with total nominal value of 10,000 thousand roubles;
- On November 25, 2015, the Group purchased 99.99% of the shares of the rehabilitated bank.

Pursuant to Federal Law No. 127-FZ dated October 26, 2002 On Insolvency (Bankruptcy), the following shall be suspended for the period of operation of the temporary administration to manage the bank: the powers of the bank's governing bodies related to the decision-making on matters falling within their competence, as specified by the federal laws and the bank's constituent documents, as well as the rights of the bank's founders (members) associated with the equity holding. Considering that on 31 December 2015, the rehabilitated bank was managed by the temporary administration and the Group had no possibility to maintain control, the investments into the rehabilitated bank were recorded in the line "Securities available-for-sale".

On February 11, 2016, in connection with the implementation of all planned activities, the Bank of Russia decided to cease the activities of the temporary administration. Therefore, the Group acquired control over the rehabilitated bank on February 11, 2016. The General Meeting of Shareholders of the rehabilitated bank, held on the same day, approved the composition of the new Board of Directors, which further formed the Management Board of JSC VUZ-Bank.

### **38 Group companies (continued)**

The fair value and type of purchase consideration transferred as at the date of acquisition is as following:

*(Unaudited)*  
*in thousands of Russian Roubles*

<b>Cash paid</b>	<b>10 000</b>
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<p>The initial accounting for business combination has not been finished by the end of this reporting period. The amounts presented in the tables below are preliminary and may be subject to change, as in accordance with IFRS 3 Business Combination the measurement period shall not exceed one year from the date on which the acquirer obtains control over the subsidiary.</p> <p>The information on fair values of the types of assets and liabilities recognized at the date of acquisition is as following:</p>	
<i>(Unaudited)</i>	<b>11 February</b>
<i>in thousands of Russian Roubles</i>	<b>2016</b>
Cash and cash equivalents	939 096
Mandatory cash balances with the Bank of Russia	88 817
Due from other banks	11 473 527
Loans and advances to customers	11 729 589
Property and equipment	122 706
Intangible assets	376
Other assets	2 017 135
Assets held for sale	5 165
<b>Total assets</b>	<b>26 376 411</b>
<hr/>	
Due to other banks	15 126 894
Customer accounts	9 271 043
Debt securities in issue	9 030
Other liabilities	154 621
Other borrowed funds	1 804 848
<b>Total liabilities</b>	<b>26 366 436</b>
<hr/>	
<b>Total fair value of identifiable net assets</b>	<b>9 975</b>
<hr/>	

Preliminary estimation of goodwill at the date of acquisition is as following:

*(Unaudited)*  
*in thousands of Russian Roubles*

	<b>11 February</b>
	<b>2016</b>
Fair value of purchase consideration transferred	10 000
Fair value of identifiable net assets	9 975
<hr/>	
<b>Goodwill from acquisition</b>	<b>25</b>
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### 39 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2015 the outstanding balances with related parties are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Gross amount of loans and advances to customers (contractual interest rates: 10%-18%)	249 859	11 225 299	28 892
Allowance for impairment of loans and advances to customers	(1 266)	(36 791)	(146)
Other assets	-	7 651 328	105
Customer accounts (contractual interest rates: 0%-16.5%)	263 110	2 100 893	101 489
Precious metals forward contracts	-	144	-
Other liabilities	-	627	-

The income and expense with related parties for the year ended 31 December 2015 are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Interest income	14 781	1 280 438	2 522
Interest expense	(561)	(248 610)	(1 234)
Fee and commission income	148	11 726	114
Fee and commission expense	(389)	-	(212)
Other operating income	13	8	8
Other operating expense	126	(9)	(250)
Gain from trading in foreign currencies	-	1 809 212	82
Gain/(loss) from trading in precious metals	34	(117 434)	-

At 31 December 2015 the other commitments with related parties are as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Guarantees issued by the Group	-	8 250	-

At 31 December 2014 the outstanding balances with related parties were as follows:

	Shareholders	Companies under common control	Other related parties
<i>in thousands of Russian Roubles</i>			
Gross amount of loans and advances to customers (contractual interest rates: 8%-22%)	205 038	11 456 981	17 845
Allowance for impairment of loans and advances to customers	(1 039)	(29 255)	(90)
Other assets	-	262 200	858
Customer accounts (contractual interest rates: 0%-25.5%)	217 174	3 533 532	95 299
Foreign exchange forward contracts	-	258 340	-
Other liabilities	-	3 860	-



### 39 Related party transactions (continued)

The income and expense with related parties for the year ended 31 December 2014 are as follows:

<i>in thousands of Russian Roubles</i>	Shareholders	Companies under common control	Other related parties
Interest income	12 333	911 292	1 587
Interest expense	(17 966)	(122 020)	(6 616)
Fee and commission income	256	6 379	152
Gain from trading in foreign currencies	-	191 800	14
Gain from trading in precious metals	-	256 169	-
Other operating income	13	46	8

At 31 December 2014 the other commitments with related parties are as follows:

<i>in thousands of Russian Roubles</i>	Shareholders	Companies under common control	Other related parties
Guarantees issued by the Group	-	66 526	-

Other related parties represent seven members of the Management Board and five members of the Board of Directors of the Bank. In 2015 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RUB 90 410 thousand (2014: RUB 93 720 thousand). Social security costs amount to RUB 14 385 thousand (2014: RUB 10 246 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2015.

### 40 Events after reporting date

On 8 February 2016 eurobonds of the Group were admitted to trading on the MICEX Stock Exchange. Eurobonds were issued by the structured entity UBRD Capital Ltd (Ireland) in June 2013 for the period of 5.5 years with maturity as at 27 December 2018.

On 8 February 2016 the control over following mutual funds have been lost due to sale CUIF "Antey", CUIF "Niks" and CUIF "UBRR-Nedvizhimost". The profit of the Group from sale of these subsidiaries is RUB 762 340 thousand.

On 11 February 2016 the powers of the temporary administration of JSC VUZ-bank have been removed under order of the CBRF, and on the resolution of the annual general meeting of JSC VUZ-bank shareholders new Management Board and the Board of Directors were elected. As a result, as at 11 February 2016 the control over JSC VUZ-bank was acquired by the Group.

Solov'yev A.V.  
President



Sirazov M.R.  
Chief Accountant