VOZROZHDENIE BANK

International Financial Reporting Standards
Consolidated Financial Statements
and Independent Auditor's Report
31 December 2015

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Independent Auditor's Report

To the Shareholders and Board of Directors of Vozrozhdenie Bank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

AO PricewaterhouseCoopers Audit

4 April 2016

Moscow, Russian Federation

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In millions of Russian Roubles	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	7	31 263	35 627
Mandatory cash balances with the Bank of Russia		1 122	1 865
Trading securities	8	5 349	13 203
Due from other banks	9	3 408	1 167
Loans and advances to customers	10	157 454	155 719
Investment securities available for sale	11	11 789	8 871
Other financial assets	12	1 814	1 417
Other assets	13	4 525	5 434
Non-current assets held for sale	13	365	373
Premises and equipment	14	5 317	3 210
Deferred income tax asset	24	1 482	1 036
TOTAL ASSETS		**223 888**	**227 922**
LIABILITIES			
Due to other banks	15	19 811	19 116
Customer accounts	16	169 658	174 218
Debt securities in issue	17	7 433	6 073
Other financial liabilities	18	491	647
Other liabilities		554	501
Subordinated loans	19	3 730	3 563
TOTAL LIABILITIES		**201 677**	**204 118**
EQUITY			
Share capital	20	250	250
Share premium	20	7 306	7 306
Retained earnings	20	12 003	15 792
Revaluation reserve for investment securities available for sale		766	456
Revaluation reserve for premises	14	1 886	-
TOTAL EQUITY		**22 211**	**23 804**
TOTAL LIABILITIES AND EQUITY		**223 888**	**227 922**

Approved for issue and signed on 4 April 2016.

K. V. Basmanov
Chairman of the Management Board

E. V. Volik
Chief Accountant

The notes set out on pages 5 to 81 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	2015	2014
Interest income	21	23 735	20 255
Interest expense	21	(13 675)	(10 469)
Net interest income		**10 060**	**9 786**
Provision for loan impairment	10	(9 451)	(3 192)
Net interest income after provision for loan impairment		**609**	**6 594**
Fee and commission income	22	4 571	4 720
Fee and commission expense	22	(765)	(756)
Gains less losses from trading securities		198	(145)
Gains less losses from trading in foreign currencies		805	(58)
Foreign exchange translation gains less losses		(333)	468
Gains less losses from disposals of investment securities available for sale		140	3
Other operating income		348	361
Administrative and other operating expenses	23	(9 146)	(9 364)
Recovery / (Charge) of provision for losses on credit and non-credit related commitments	18	49	(92)
Provision for impairment of other assets	13	(1 023)	(238)
Losses from revaluation of premises	14	(182)	-
(Loss) / profit before tax		**(4 729)**	**1 493**
Income tax	24	954	(289)
(LOSS) / PROFIT FOR THE YEAR		**(3 775)**	**1 204**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available for sale investments:			
- Change in revaluation reserve	24	411	286
- Income tax recorded directly in other comprehensive income	24	(101)	(38)
Items that will not be reclassified to profit or loss:			
Premises:			
- Change in revaluation reserve	14	2 358	-
- Income tax recorded directly in other comprehensive income	24	(472)	-
Other comprehensive income for the year		**2 196**	**248**
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(1 579)**	**1 452**
(Loss) / earnings per share for profit attributable to the equity holders of the Group, basic and diluted (expressed in RR per share)			
Ordinary shares	25	(151)	48

In millions of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total
Balance at 1 January 2014		**250**	**7 306**	**208**	**-**	**14 602**	**22 366**
Profit for the year		-	-	-	-	1 204	1 204
Other comprehensive income for the year		-	-	248	-	-	248
Total comprehensive income for the year		-	-	248	-	1 204	1 452
Dividends declared	26	-	-	-	-	(14)	(14)
Balance at 31 December 2014		**250**	**7 306**	**456**	**-**	**15 792**	**23 804**
Loss for the year		-	-	-	-	(3 775)	(3 775)
Other comprehensive income for the year	14	-	-	310	1 886	-	2 196
Total comprehensive income for the year		-	-	310	1 886	(3 775)	(1 579)
Dividends declared	26	-	-	-	-	(14)	(14)
Balance at 31 December 2015		**250**	**7 306**	**766**	**1 886**	**12 003**	**22 211**

In millions of Russian Roubles	Note	2015	2014
Cash flows from operating activities			
Interest received		23 558	20 213
Interest paid		(14 010)	(10 534)
Fees and commissions received		4 572	4 707
Fees and commissions paid		(792)	(803)
Net income received/(losses paid) from trading in trading securities		35	(34)
Net income received/(losses paid) from trading in foreign currencies		805	(58)
Other operating income received		407	305
Administrative and other operating expenses paid		(9 116)	(8 984)
Income tax paid		(81)	(255)
Cash flows from operating activities before changes in operating assets and liabilities		**5 378**	**4 557**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Bank of Russia		743	(85)
Net decrease /(increase) in trading securities		8 972	(3 827)
Net increase in due from other banks		(1 955)	(62)
Net (increase)/decrease in loans and advances to customers		(10 894)	4 125
Net (increase)/decrease in other financial assets		(215)	11
Net decrease/(increase) in other assets		751	(158)
Net increase in due to other banks		704	9 402
Net decrease in customer accounts		(10 742)	(4 657)
Net decrease in other borrowed funds		-	(3 000)
Net increase/(decrease) in debt securities in issue		1 392	(4 232)
Net (decrease)/increase in other financial liabilities		(66)	215
Net increase/(decrease) in other liabilities		36	(114)
Net cash (used in)/ from operating activities		**(5 896)**	**2 175**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(11 998)	(9 818)
Proceeds from disposal of investment securities available for sale		10 685	8 875
Acquisition of premises and equipment	14	(310)	(471)
Proceeds from disposal of premises and equipment		21	76
Proceeds from disposal of non-current assets held for sale		392	261
Proceeds from disposal of investment properties		-	12
Dividend income received		16	3
Net cash used in investing activities		**(1 194)**	**(1 062)**
Cash flows from financing activities			
Receipt of subordinated loans		-	243
Repayment of subordinated loans		-	(958)
Repayment of funding from international financial institution	15	(379)	(631)
Dividends paid	26	(14)	(14)
Net cash used in financing activities		**(393)**	**(1 360)**
Effect of exchange rate changes on cash and cash equivalents		**3 119**	**6 543**
Net (decrease)/increase in cash and cash equivalents		**(4 364)**	**6 296**
Cash and cash equivalents at the beginning of the year	7	35 627	29 331
Cash and cash equivalents at the end of the year	7	**31 263**	**35 627**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2015 for Vozrozhdenie Bank (the "Bank"), its subsidiaries and its securitisation structured entities, ZAO IAV 1, ZAO IAV 2, ZAO IAV 3 and OOO IAV 4 (together referred to as the "Group").

The Bank was incorporated and operates in the Russian Federation. The Bank is a public joint-stock company.

Principal activity. The Bank's principal business activity is banking and other operations within the Russian Federation. The Bank has operated under a general banking license issued by the Bank of Russia since 1991. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand (before 29 December 2014: RR 700 thousand) per individual if a licence is withdrawn from a bank or the Bank of Russia has imposed moratorium on payments.

The Bank has 53 (2014: 53) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The number of the Bank's employees at 31 December 2015 was 6 010 (2014: 6 516).

The Bank's Head Office is located at the following address: 7/4 Luchnikov Pereulok, Bldg. 1, Moscow 101000, Russian Federation.

Mr D.L. Orlov, the Bank's founder and previous principal shareholder, died on 5 December 2014. The succession was opened as at 31 December 2014. In the second six months of 2015, the Orlovs decided to sell the controlling equity stake to Promsvyaz Capital B.V. (the Netherlands).

Therefore, as at 31 December 2015, the Bank's principal shareholder is Promsvyaz Capital B.V. (the Netherlands) holding 52.73% of ordinary shares. The owners of Promsvyaz Capital B.V. (the Netherlands) are Antracite Investment Limited (UK) and Urgula Platinum Limited (UK), each holding a 50% interest. Antracite Investment Limited (UK) is owned by Mr A.N. Ananyev. Urgula Platinum Limited (UK) is owned by Mr D.N. Ananyev.

At 31 December 2015, the Bank also has the following shareholders:

	Percentage of the total number of ordinary shares, %
OOO VectorInvest (Limited Liability Company)	10.53
Victor Alexandrovich Pichugov	10.00
MOSCOW CREDIT BANK (Open Joint-Stock Company)	7.61
Nikolai Dmitrievich Orlov	6.98
Other shareholders owning less than 5%	12.15

Due to the change of the Bank's principal shareholder, the new Board of Directors was elected and Mr K.V. Basmanov was appointed the Chairman of the Bank's Management Board in November 2015.

In December 2015, the Board of Directors approved the members of the Audit Committee, Human Resources and Compensation Committee, Strategy Committee, Non-performing Loans Committee and Integration Committee.

1 Introduction (Continued)

The Bank intends to keep its current business strategy aimed at maintaining optimal balance between the nature and level of accepted risks and profitability of transactions.

The change of the principal shareholder means a number of changes in the Bank's business model and development strategy. For additional information refer to Note 36.

The Bank is the head credit unit of the banking group (the Group) which includes the following members:

Name of the member	Location	Interest held rounded to the nearest whole number, %
ZAO IAV 1	Moscow	0
ZAO IAV 2	Moscow	0
ZAO IAV 3	Moscow	0
OOO IAV 4	Moscow	0
OOO Vozrozhdenie-Finance	Moscow	100
ZAO V-REGISTER	Moscow	100
OAO YUNOST	Moscow Region	55
OOO Baltic Resort	Kaliningrad Region	51

Presentation currency. These consolidated financial statements are presented in millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). During 2015, the Russian economy was negatively impacted by low oil prices and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available for sale financial assets and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 33.

3 Summary of Significant Accounting Policies (Continued)

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 in the consolidated statement of financial position.

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.

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.

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 on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 expired 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 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 needing to impose restrictions on the sale.

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

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 the Bank's 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 financial assets 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 in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending 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. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other liabilities.

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.

3 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year 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.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- 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 an 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; or
- 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 in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets 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 exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset, in full or in part, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The acquired non-financial assets are initially recognised at fair value and are included in premises and equipment, long-term assets held for sale, investment property or inventories within other assets depending on their nature and the Group's intention in respect of use of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The acquired financial and non-financial assets are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Inventories. Inventories include the assets acquired or held for sale in the normal course of business and also those intended for the use in the course of service provision.

On initial recognition inventories are measured at cost. Subsequently, inventories are measured at the lower of cost and possible net realisable value. Cost of inventories includes all costs of acquisition and other costs of their conditioning for the intended use. Acquisition costs include purchase price, transportation costs and other costs directly attributable to the acquisition. The costs that are excluded from the cost of inventories and are recognised as expenses in the period when they are incurred include: holding costs, administrative overhead costs that are not associated with bringing inventories to their current location and condition; costs to sell. Possible net realisable value is an estimated sales price in the course of normal business less possible costs of work and possible costs to sell.

Write-off of inventories to possible net realisable value is recognised as an expense within profit or loss during the period of write-off or the period of loss. If possible net realisable value increases the written down value of inventories is recovered within the amount not exceeding the earlier recognised loss.

3 Summary of Significant Accounting Policies (Continued)

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. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans 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; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on debt securities debt securities available for sale is calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on equity instruments available for sale are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Premises and equipment. Premises 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, less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Revaluation

Operating real estate is subject to revaluation on a regular basis by independent appraisers. Regularity of revaluation depends on changes in fair value of buildings and land, but not less than once a year. An increase from revaluation of buildings and land is recorded directly in other comprehensive income, unless the prior decrease from revaluation of these buildings, which is recorded in profit or loss, is reversed. In this case the revaluation result is recorded in profit or loss. A decrease from revaluation of buildings and land is recorded in profit or loss, unless the prior increase from revaluation of these buildings, which is recorded in other comprehensive income, is reversed. In this case the decrease from revaluation is also recorded in other comprehensive income.

The carrying amount of the asset under revaluation is reduced by the amount of accumulated depreciation at the revaluation date and restated to fair value.

Upon write-off or disposal of an asset the realised gain from revaluation, which is recorded in other comprehensive income, is transferred directly to retained earnings.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2%;
Office and computer equipment	15-20%;
Intangible assets	20%.

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

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences 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. 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 expected useful lives of 5 years.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

3 Summary of Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures 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 retirement of debt.

Mortgage backed bonds in issue. Mortgage backed bonds are bonds secured by mortgage loans collateralised by mortgage certificates. Mortgage backed bonds are recorded at amortised cost and are to be redeemed when the mortgage loans are repaid or can be redeemed pre-maturely.

Subordinated loans. Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Group, the repayment of these loans is subordinated to all other creditors of the Group. Subordinated loans are included in the calculation of capital in accordance with Russian Accounting Rules.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts are carried at their fair value.

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of a reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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 capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the share capital. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, 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.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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.

Foreign currency translation. The Group's functional and presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

3 Summary of Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities into the Group's functional currency at year-end official exchange rates of the Bank of Russia are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The following official exchange rates were used to translate balances of foreign currency-denominated accounts at 31 December:

	2015	2014
RR/USD 1	72.8827	56.2584
RR/EUR 1	79.6972	68.3427

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 such activities are shown in fee and commission income.

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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, contributions to non-budget 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. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 28.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain professional judgements, apart from those involving estimations, in the process of applying the accounting policies. Professional judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, 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 before the decrease can be identified with an individual loan 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.

A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 796 million (2014: RR 722 million), respectively.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016, and which the Group has not early adopted.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

6 New Accounting Pronouncements (Continued)

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard is expected to have a significant impact on the Group's loan impairment provisions. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14 "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- "Accounting for Acquisitions of Interests in Joint Operations" - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- "Clarification of Acceptable Methods of Depreciation and Amortisation" - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- "Agriculture: Bearer plants" - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- "Equity Method in Separate Financial Statements" - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

6 New Accounting Pronouncements (Continued)

- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- "Investment Entities: Applying the Consolidation Exception" Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2015**	**2014**
Cash on hand	10 388	14 878
Correspondent accounts and overnight placements with banks		
- Russian Federation	965	1 739
- other countries	14 306	10 885
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	5 604	8 125
Total cash and cash equivalents	**31 263**	**35 627**

The credit quality of cash and cash equivalents balances may be summarised as follows:

In millions of Russian Roubles	Cash balances with the CBRF, other than mandatory reserves **2015**	**Correspondent accounts and overnight placements with banks** 2015	Cash balances with the CBRF, other than mandatory reserves**2014**	Correspondent accounts and overnight placements with banks 2014
Neither past due nor impaired				
- the Bank of Russia	5 604	-	8 125	-
- AA- to AA+ rated	-	9 476	-	1 349
- A- to A+ rated	-	1 010	-	9 144
- BBB- to BBB+ rated	-	3 477	-	700
- BB- to BB+ rated	-	1 199	-	672
- B- to B+ rated	-	18	-	-
- unrated	-	91	-	759
Total cash and cash equivalents, excluding cash on hand	**5 604**	**15 271**	**8 125**	**12 624**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Cash and cash equivalents were not used as collateral or pledged.

At 31 December 2015 the total amount of five major aggregated balances on correspondent accounts and overnight placements with other banks was RR 13 930 million or 92% (2014: RR 11 357 million or 90%) of cash balances on correspondent accounts and overnight placements with banks.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 28.

7 Cash and Cash Equivalents (continued)

Transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In millions of Russian Roubles	2015	2014
Non-cash operating activities		
Other assets acquired by the Group in settlements of overdue loans and advances to customers	1 057	71
Repayment of loans and advances to customers by non-cash assets	(1 057)	(71)
Non-cash operating activities	-	-

Additional information on non-cash transactions is disclosed in Note 13 with a detailed description of assets acquired by the Group in settlements of overdue loans and advances to customers.

8 Trading Securities

In millions of Russian Roubles	2015	2014
Corporate Eurobonds	4 898	8 109
Corporate bonds	445	466
Russian Federation Eurobonds	-	4 252
Russian Federation bonds	-	376
Total debt securities	**5 343**	**13 203**
Corporate shares	6	-
Total trading securities	**5 349**	**13 203**

Analysis by credit quality of debt trading securities is as follows at 31 December 2015:

In millions of Russian Roubles	Corporate Eurobonds	Corporate bonds	Russian Federation Eurobonds	Russian Federation bonds	Total
Neither past due nor impaired (at fair value)					
- BB- to BB+ rated	4 898	445	-	-	5 343
Total debt trading securities	**4 898**	**445**	**-**	**-**	**5 343**

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities is as follows at 31 December 2014:

In millions of Russian Roubles	Corporate Eurobonds	Russian Federation Eurobonds	Corporate bonds	Russian Federation bonds	Total
Neither past due nor impaired (at fair value)					
- BBB- to BBB+ rated	7 827	4 252	466	376	12 921
- BB- to BB+ rated	111	-	-	-	111
- B- to B+ rated	171	-	-	-	171
Total trading securities	**8 109**	**4 252**	**466**	**376**	**13 203**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro, issued by large Russian and foreign companies and banks, and freely tradable internationally.

Corporate bonds are interest bearing securities denominated in Russian roubles issued by large Russian companies and freely tradable in the Russian Federation.

Maturities, coupon rates and yields to maturity of the debt trading securities at 31 December 2015 are presented below:

	Maturity date		Annual coupon rate		Annual yield to maturity	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Corporate Eurobonds	February 2016	October 2016	5.0%	7.5%	1.8%	3.1%
Corporate bonds	September 2016	September 2016	11.7%	11.7%	12.2%	12.2%

Maturities, coupon rates and yields to maturity of the debt trading securities at 31 December 2014 are presented below:

	Maturity date		Annual coupon rate		Annual yield to maturity	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Corporate Eurobonds	February 2015	October 2016	4.3%	8.3%	5.7%	9.6%
Russian Federation Eurobonds	April 2015	March 2030	3.6%	7.5%	3.2%	6.2%
Corporate bonds	February 2015	March 2015	8.2%	8.4%	14.1%	16.7%
Russian Federation bonds	June 2015	June 2015	7.0%	7.0%	12.2%	12.2%

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. The debt securities are not collateralised.

At 31 December 2015 trading securities in the amount of RR 3 201 million (2014: RR 9 219 million) were pledged under direct sale and repurchase agreements with the Bank of Russia. Refer to Notes 15 and 31.

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

8 Trading Securities (Continued)

Trading securities are used by the Group basically for managing liquidity risk.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 28.

9 Due from Other Banks

In millions of Russian Roubles	2015	2014
Short-term placements with other banks	2 209	242
Insurance deposits with non-resident banks	1 199	925
Total due from other banks	**3 408**	**1 167**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2015, is as follows:

In millions of Russian Roubles	Short-term placements with other banks	Insurance deposits with non-resident banks	Total
Neither past due nor impaired			
- AA- to AA+ rated	-	410	410
- BBB- to BBB+ rated	1 000	789	1 789
- BB- to BB+ rated	1 004	-	1 004
- unrated	205	-	205
Total due from other banks	**2 209**	**1 199**	**3 408**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2014, is as follows:

In millions of Russian Roubles	Short-term placements with other banks	Insurance deposits with non-resident banks	Total
Neither past due nor impaired			
- AA- to AA+ rated	-	316	316
- A- to A+ rated	-	609	609
- B- to B+ rated	142	-	142
- unrated	100	-	100
Total due from other banks	**242**	**925**	**1 167**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Amounts due from other banks are not collateralised or pledged.

At 31 December 2015, in compliance with the requirements of payment systems, the Group placed insurance deposits of RR 1 199 million at LIBOR rate with non-resident banks located in the United Kingdom for the purpose of banking card settlements (2014: RR 925 million).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of amounts due from other banks.

10 Loans and Advances to Customers

In millions of Russian Roubles	2015	2014
Corporate loans – large	51 071	54 519
Corporate loans - medium and small	69 637	69 423
Mortgage loans	35 938	31 870
Other loans to individuals	16 733	14 339
Total loans and advances to customers before provision for loan impairment	**173 379**	**170 151**
Less: Provision for loan impairment	(15 925)	(14 432)
Total loans and advances to customers less impairment provision	**157 454**	**155 719**

Corporate loans are divided on the basis of total amount owed by the customer to the Bank into the following categories: large – in excess of RR 750 million, medium and small – RR 750 million and below.

Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans.

At 31 December 2015, mortgage loans include loans securitised in 2011-2015 amounting to RR 8 739 million (less impairment provision), at 31 December 2014 – amounting to RR 7 135 million (less impairment provision). Management of the Group determined that the Group had not transferred main risks with respect to the transferred assets, and, consequently, such transfer was not the ground for their derecognition. Refer to Notes 17 and 31.

The Group classifies loans with principal and/or interest overdue more than 90 days into the non-performing loans category.

The non-performing loans at 31 December 2015 are as follows:

In millions of Russian Roubles	Loans before provision for impairment	Impairment loss provision	Loans less provision for impairment	Provision-to-loan ratio before provision
Corporate loans – large	5 422	(3 997)	1 425	73.7%
Corporate loans - medium and small	7 353	(6 288)	1 065	85.5%
Mortgage loans	547	(475)	72	86.8%
Other loans to individuals	787	(777)	10	98.7%
Total non-performing loans	**14 109**	**(11 537)**	**2 572**	**81.8%**

The non-performing loans at 31 December 2014 are as follows:

In millions of Russian Roubles	Loans before provision for impairment	Impairment loss provision	Loans less provision for impairment	Provision-to-loan ratio before provision
Corporate loans – large	7 517	(7 517)	-	100.0%
Corporate loans - medium and small	3 564	(2 817)	747	79.0%
Mortgage loans	245	(243)	2	99.2%
Other loans to individuals	553	(533)	20	96.4%
Total impaired loans	**11 879**	**(11 110)**	**769**	**93.5%**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2015 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium and small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2015	**8 964**	**4 529**	**330**	**609**	**14 432**
Provision for impairment during the year	3 711	5 262	208	547	9 728
Loans and advances to customers written off during the year	(2 719)	(1 405)	(1)	(2)	(4 127)
Result from disposal of loans under cession agreements	(3 924)	-	-	(184)	(4 108)
Provision for loan impairment at 31 December 2015	**6 032**	**8 386**	**537**	**970**	**15 925**

The provision for loan impairment during 2015 differs from the amount presented in profit or loss for the year due to RR 277 million recovery of provision for loans previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Movements in the provision for loan impairment during 2014 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium and small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2014	**7 602**	**3 963**	**261**	**547**	**12 373**
Provision for impairment during the year	1 362	1 951	69	212	3 594
Loans and advances to customers written off during the year	-	(1 038)	-	(1)	(1 039)
Result from disposal of loans under cession agreements	-	(347)	-	(149)	(496)
Provision for loan impairment at 31 December 2014	**8 964**	**4 529**	**330**	**609**	**14 432**

The provision for loan impairment during 2014 differs from the amount presented in profit or loss for the year due to RR 402 million recovery of provision for loans previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In millions of Russian Roubles	2015				2014			
	Loans	%	Provision	%	Loans	%	Provision	%
Individuals	52 671	30	1 507	9	46 209	27	939	6
Manufacturing	39 856	23	6 208	39	47 977	28	5 012	35
Trade	27 357	16	3 578	22	27 874	16	1 986	14
Construction	11 290	7	2 240	14	12 525	7	1 632	11
State and municipal organisations	10 571	6	92	1	1 129	1	9	-
Real estate	8 993	5	460	3	10 398	6	2 088	14
Agriculture	7 598	4	441	3	6 284	4	82	1
Finance	3 636	2	104	1	1 636	1	287	2
Transport and communication	3 599	2	1 000	6	5 321	3	2 178	15
Other	7 808	5	295	2	10 798	7	219	2
Total	**173 379**	**100**	**15 925**	**100**	**170 151**	**100**	**14 432**	**100**

State and municipal organisations exclude government owned profit oriented businesses.

At 31 December 2015, loans and advances to customers include loans with the carrying amount of RR 3 585 million (2014: RR 5 575 million) with the rights of claim pledged as collateral with respect to term placements of AO MSP Bank. Refer to Notes 15 and 30.

At 31 December 2015, loans and advances to customers include loans with the carrying amount of RR 2 966 million with the rights of claim pledged as collateral with respect to term placements of the Bank of Russia (2014: RR 1 579 million). Refer to Notes 15 and 30.

At 31 December 2015, the Group had 33 large borrowers, the total aggregate amount of these loans was RR 51 071 million or 29% of the gross loan portfolio.

At 31 December 2014, the Group had 35 large borrowers, the total aggregate amount of these loans was RR 54 519 million or 32% of the gross loan portfolio.

The disclosure of corporate and retail loan portfolios by credit quality has been changed to ensure more informative presentation of the provisioning levels by loan class and quality category. Comparatives for 2014 are presented in the new format.

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans before provision for impairment	Impairment loss provision	Loans less provision for impairment	Provision-to-loan ratio before provision
Corporate loans – large				
Not individually impaired loans	**36 410**	**(556)**	**35 854**	**1.5%**
Loans with signs of impairment individually assessed for impairment but not impaired	**6 576**	**(993)**	**5 583**	**15,1%**
Individually impaired loans				
- not past due	1 463	(462)	1 001	31.6%
- less than 30 days overdue	1 200	(25)	1 175	2.1%
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	986	(882)	104	89.5%
- 181 to 360 days overdue	1 232	(270)	962	21.9%
- over 360 days overdue	3 204	(2 845)	359	88.8%
Total individually impaired loans	**8 085**	**(4 484)**	**3 601**	**55,5%**
Total corporate loans – large	**51 071**	**(6 033)**	**45 038**	**11.8%**
Corporate loans - medium and small				
Not impaired loans	**60 226**	**(1 191)**	**59 035**	**2.0%**
Impaired loans				
- not past due	1 114	(643)	471	57.7%
- less than 30 days overdue	69	(8)	61	11.6%
- 31 to 60 days overdue	748	(201)	547	26.9%
- 61 to 90 days overdue	127	(54)	73	42.5%
- 91 to 180 days overdue	1 788	(1 197)	591	66.9%
- 181 to 360 days overdue	1 225	(751)	474	61,3%
- over 360 days overdue	4 340	(4 340)	-	100,0%
Total impaired loans	**9 411**	**(7 194)**	**2 217**	**76.4%**
Total corporate loans - medium and small	**69 637**	**(8 385)**	**61 252**	**12.0%**
Total corporate loans	**120 708**	**(14 418)**	**106 290**	**11.9%**

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans before provision for impairment	Impairment loss provision	Loans less provision for impairment	Provision-to-loan ratio before provision
Total corporate loans - large				
Not individually impaired loans	**38 827**	**(822)**	**38 005**	**2.1%**
Loans with signs of impairment individually assessed for impairment but not impaired	**6 483**	**(315)**	**6 168**	**4,9%**
Individually impaired loans				
- not past due	1 232	(226)	1 006	18.3%
- less than 30 days overdue	460	(84)	376	18.3%
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	-	-	-	-
- over 360 days overdue	7 517	(7 517)	-	100.0%
Total individually impaired loans	**9 209**	**(7 827)**	**1 382**	**85.0%**
Total corporate loans - large	**54 519**	**(8 964)**	**45 555**	**16.4%**
Corporate loans - medium and small				
Not impaired loans	**63 885**	**(968)**	**62 917**	**1.5%**
Impaired loans				
- not past due	416	(174)	242	41.8%
- less than 30 days overdue	69	(39)	30	56.5%
- 31 to 60 days overdue	277	(157)	120	56.6%
- 61 to 90 days overdue	1 212	(374)	838	30.9%
- 91 to 180 days overdue	637	(326)	311	51.2%
- 181 to 360 days overdue	1 180	(744)	436	63.1%
- over 360 days overdue	1 747	(1 747)	-	100.0%
Total impaired loans	**5 538**	**(3 561)**	**1 977**	**64.3%**
Total corporate loans - medium and small	**69 423**	**(4 529)**	**64 894**	**6.5%**
Total corporate loans	**123 942**	**(13 493)**	**110 449**	**10.9%**

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Mortgage loans				
- not past due	34 725	(36)	34 689	0.1%
- less than 30 days overdue	567	(5)	562	0.9%
- 31 to 60 days overdue	99	(21)	78	21.2%
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	258	(186)	72	72.1%
- 181 to 360 days overdue	96	(96)	-	100.0%
- over 360 days overdue	193	(193)	-	100.0%
Total mortgage loans	**35 938**	**(537)**	**35 401**	**1.5%**
Other loans to individuals				
Consumer loans				
- not past due	13 583	(31)	13 552	0.2%
- less than 30 days overdue	236	(44)	192	18.6%
- 31 to 60 days overdue	105	(55)	50	52.4%
- 61 to 90 days overdue	55	(40)	15	72.7%
- 91 to 180 days overdue	117	(110)	7	94.0%
- 181 to 360 days overdue	216	(216)	-	100.0%
- over 360 days overdue	279	(279)	-	100.0%
Total consumer loans	**14 591**	**(775)**	**13 816**	**5.3%**
Car loans				
- not past due	120	-	120	0.0%
- less than 30 days overdue	13	(1)	12	7.7%
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	1	(1)	-	100.0%
- over 360 days overdue	34	(34)	-	100.0%
Total car loans	**168**	**(36)**	**132**	**21.4%**
Bank card loans				
- not past due	1 782	(5)	1 777	0.3%
- less than 30 days overdue	31	(5)	26	16.1%
- 31 to 60 days overdue	13	(6)	7	46.2%
- 61 to 90 days overdue	8	(6)	2	75.0%
- 91 to 180 days overdue	19	(16)	3	84.2%
- 181 to 360 days overdue	35	(35)	-	100.0%
- over 360 days overdue	86	(86)	-	100.0%
Total bank card loans	**1 974**	**(159)**	**1 815**	**8.1%**
Total other loans to individuals	**16 733**	**(970)**	**15 763**	**5.8%**
Total loans to individuals	**52 671**	**(1 507)**	**51 164**	**2.9%**

10 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans before provision for impairment	Provision for impairment	Loans less provision for impairment	Provision-to-loan ratio before provision
Mortgage loans				
- not past due	31 035	(64)	30 971	0.2%
- less than 30 days overdue	570	(10)	560	1.8%
- 31 to 60 days overdue	-	-	-	-
- 61 to 90 days overdue	20	(13)	7	65.0%
- 91 to 180 days overdue	40	(38)	2	95.0%
- 181 to 360 days overdue	51	(51)	-	100.0%
- over 360 days overdue	154	(154)	-	100.0%
Total mortgage loans	**31 870**	**(330)**	**31 540**	**1.0%**
Other loans to individuals				
Consumer loans				
- not past due	11 519	(15)	11 504	0.1%
- less than 30 days overdue	187	(9)	178	4.8%
- 31 to 60 days overdue	27	(14)	13	51.9%
- 61 to 90 days overdue	28	(17)	11	60.7%
- 91 to 180 days overdue	59	(50)	9	84.7%
- 181 to 360 days overdue	88	(79)	9	89.8%
- over 360 days overdue	206	(206)	-	100.0%
Total consumer loans	**12 114**	**(390)**	**11 724**	**3.2%**
Car loans				
- not past due	213	-	213	0%
- less than 30 days overdue	1	-	1	0%
- 31 to 60 days overdue	1	-	1	0%
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	1	(1)	-	100.0%
- over 360 days overdue	35	(35)	-	100.0%
Total car loans	**251**	**(36)**	**215**	**14.3%**
Bank card loans				
- not past due	1 756	(6)	1 750	0.3%
- less than 30 days overdue	34	(4)	30	11.8%
- 31 to 60 days overdue	9	(4)	5	44.4%
- 61 to 90 days overdue	11	(7)	4	63.6%
- 91 to 180 days overdue	19	(17)	2	89.5%
- 181 to 360 days overdue	27	(27)	-	100.0%
- over 360 days overdue	118	(118)	-	100.0%
Total bank card loans	**1 974**	**(183)**	**1 791**	**9.3%**
Total other loans to individuals	**14 339**	**(609)**	**13 730**	**4.1%**
Total loans to individuals	**46 209**	**(939)**	**45 270**	**2.0%**

10 Loans and Advances to Customers (Continued)

The Group's policy is to classify each loan as 'neither past due nor impaired' until objective evidence of impairment of the loan is identified. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, debt restructuring due to the client's financial difficulties and realisability of related collateral. The Group has no past due but not impaired loans.

In the retail loan portfolio, the amounts less than 30 days overdue are normally repaid during the month following the reporting date. As at 31 December 2015, mortgages and other loans to individuals less than 30 days overdue were RR 847 million, of which 89% was repaid in the subsequent month (2014: RR 792 million, of which 82% was repaid in the subsequent month). The Group applied the portfolio provisioning methodology prescribed by IAS 39 "Financial Instruments: Recognition and Measurement", and set up portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date.

Provision is calculated individually for large loans with impairment indicators and for loans that are subject to oversight by the specialised units of the Group and have indicators of impairment.

The Group estimates loan impairment provision, for which no impairment indicators have been identified on an individual basis, based on its past experience with actual losses incurred and after considering the industry of the borrowers.

The Group estimates provision for impairment of the retail loan portfolio by credit product on the basis of historical migration matrix for actual losses incurred over the last 12 months.

The Group usually issues loans in case there is a liquid and sufficient collateral that is documented in accordance with legally established procedures (except for some credit products used for lending to individuals, overdrafts without collateral, loans to RF constituents and municipal organisations, factoring financing, loans assessed on an individual basis and authorised for issue without collateral). Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- motor vehicles;
- goods in turnover;
- guarantee deposit;
- banking guarantee;
- state (municipal) guarantee;
- own promissory notes;
- highly liquid securities;
- refined precious metals (gold, silver, platinum and palladium);
- vested interest (for demand) implied from commitments under an agreement.

Loans collateralised by third parties may be issued once the third parties provide their guarantees as collateral. In this case:

- the financial position of a legal entity guarantor should be classified as not worse than average in accordance with the Group's internal methodologies on evaluation of financial position;
- the financial position of an individual guarantor should be classified as good in accordance with the Group's internal methodologies on evaluation of financial position.

Pledged real estate property (except for land), equipment, motor vehicles and inventory items should be insured. The insured amount of the collateral should be not less than its collateral value, the term of the insurance contract should expire not earlier than one month after the loan maturity date.

10 Loans and Advances to Customers (Continued)

Loans to individuals may be collateralised by the following:

- real estate purchased under the sale and purchase agreement with use of credit sources, provided by the Group, and burdened with a mortgage by law;
- pledge of rights under the contract on acquisition of residential real estate at a construction stage;
- pledge of a share - for the residential real estate purchased under the contract on participation in housing cooperative;
- real estate owned by individuals or legal entities, burdened with a mortgage;
- motor vehicles;
- guarantees of third parties, in particular employers of the individual borrower;
- pledge of right of claim on the individual's deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk, the Group uses insurance by borrowers of the pledged item, the individual borrower's life and disability or accident and illness insurance, and also insurance of the risks connected with loss of work.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Group's potential expenses associated with the fulfilment of debtor's obligations.

The collateral value of property is determined when a loan is issued in accordance with the Group's effective procedure.

In addition, the Group has a right for write-off from the borrower's settlement and current accounts with the Group in case of non-fulfilment of loan contract obligations by the borrower.

Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of property is confirmed by the report on real estate market valuation prepared by a valuation company.

Depending on the credit limit, profession and current employer of the borrower, life and disability insurance can be taken as security for bank card loans. The Group can also require additional collateral.

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment provisions recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

In millions of Russian Roubles	2015	2014
Corporate loans – large	5 414	4 000
Corporate loans - medium and small	1 758	1 567
Other loans to individuals	-	-

Mortgage loans are not included in the table above as the Group issues such loans without any collateral. Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers.

Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

In millions of Russian Roubles	2015	2014
Corporate bonds	4 713	7 670
Corporate Eurobonds	3 936	217
Russian Federation Eurobonds	1 762	-
Municipal bonds	186	74
Total debt investment securities available for sale	**10 597**	**7 961**
Corporate shares	1 192	910
Total investment securities available for sale	**11 789**	**8 871**

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

In millions of Russian Roubles	Corporate bonds	Corporate Eurobonds	Russian Federation Eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)					
- BBB- to BBB+ rated	3 914	-	-	-	3 914
- BB- to BB+ rated	799	3 936	1 762	186	6 683
Total debt investment securities available for sale	**4 713**	**3 936**	**1 762**	**186**	**10 597**

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

In millions of Russian Roubles	Corporate bonds	Corporate Eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)				
- BBB- to BBB+ rated	4 899	217	-	5 116
- BB- to BB+ rated	2 771	-	74	2 845
Total debt investment securities available for sale	**7 670**	**217**	**74**	**7 961**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Corporate bonds are interest bearing securities denominated in Russian roubles issued by large Russian companies and banks and freely tradable in the Russian Federation.

Corporate Eurobonds are interest bearing securities denominated in USD and EUR, issued by large Russian and foreign companies and banks, and freely tradable internationally.

Russian Federation Eurobonds represent interest-bearing securities denominated in USD.

Municipal bonds are interest bearing securities denominated in Russian roubles issued by Russian regional authorities and are freely tradable in Russia.

11 Investment Securities Available for Sale (Continued)

Maturities, coupon rates and yields to maturity of the debt securities available for sale at 31 December 2015 are presented below:

	Maturity date		Annual coupon rate		Annual yield to maturity	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Corporate bonds	January 2016	April 2017	7.7%	17.0%	10.4%	13.8%
Corporate Eurobonds	February 2016	April 2017	3.8%	5.7%	3.3%	4.8%
Russian Federation Eurobonds	April 2017	April 2017	3.3%	3.3%	3.3%	3.3%
Municipal bonds	June 2016	June 2016	7.0%	7.0%	10.9%	10.9%

Maturities, coupon rates and yields to maturity of the debt securities available for sale at 31 December 2014 are presented below:

	Maturity date		Annual coupon rate		Annual yield to maturity	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Corporate bonds	March 2015	September 2044	7.7%	12.2%	7.8%	18.4%
Corporate Eurobonds	February 2015	April 2017	5.1%	8.1%	5.7%	9.6%
Municipal bonds	June 2015	July 2015	8.8%	8.8%	10.7%	10.7%

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. Debt investment securities available for sale are carried at fair value which also reflects any credit risk related write-downs. Debt securities available for sale are not collateralised.

At 31 December 2015 investment securities available for sale in the amount of RR 1 477 million (2014: nil) were pledged under direct sale and repurchase agreements with the Bank of Russia. Refer to Notes 15 and 31.

Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 28.

12 Other financial assets

In millions of Russian Roubles	2015	2014
Receivables	760	76
Settlements with currency and stock exchanges	729	844
Banking cards receivables	320	492
Other	5	5
Total other financial assets	**1 814**	**1 417**

Other financial assets are not overdue, not impaired and are not collateralised.

Geographical, currency and maturity analyses of financial assets are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of other financial assets.

13 Other Assets

In millions of Russian Roubles	2015	2014
Inventory	5 267	4 353
Non-current assets held for sale	425	483
Current income tax prepayment	288	272
Prepayments	282	404
Investment properties	62	961
Other	399	444
Total other assets before provision for impairment of other assets	**6 723**	**6 917**
Less: Provision for impairment of other assets	(1 833)	(1 110)
Total other assets	**4 890**	**5 807**

To ensure operational management of the repossessed assets, the Group has a separate business unit – Non-core assets department – responsible for dealing with the property, determining the most efficient areas and forms of dealing with property, attracting independent experts and appraisers to determine the actual value of property, and analysing the sales market in order to attract potential buyers and lessees

Inventories represent real estate assets, equipment and property rights acquired by the Group in settlement of overdue loans. The assets do not meet the definition of investment property and non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at cost when acquired. All of the above assets are expected to be realised within more than twelve months after the year-end.

Under IAS 40, investment property includes non-residential premises and land plots repossessed by the Group in settlements of overdue loans and leased out under operating lease or retained until the growth of their value.

Movements in the carrying value of investment properties were as follows:

In millions of Russian Roubles	2015	2014
Investment properties at carrying amount at 1 January	**961**	**1 189**
Additions	-	-
Reclassifications / Disposals	(898)	(319)
Depreciation	(1)	(1)
(Provision)/recovery of provision for impairment	(8)	92
Investment properties at carrying amount at 31 December	**54**	**961**

At 31 December 2015, the fair value of investment properties was RR 118 million (2014: RR 1 130 million). To assess the fair value of investment properties, the specialised valuation company used the comparative approach. Under the comparative approach the specialised valuation company analysed prices and other information with regards to similar properties. The sources of information included Internet publications containing advertisements on the sale of similar properties, web-sites of real estate agencies and other information.

13 Other Assets (Continued)

The rental income from investment properties was RR 7 million (2014: RR 4 million). Direct operating expenses for investment properties that generate rental income amounted to RR 7 million (2014: RR 7 million) and consisted of costs related to property tax, land tax, insurance, security, valuation, utility services and other payments, as well as depreciation charges. The Group had no direct operating expenses related to investment properties that did not generate any rental income in 2015 (2014: no direct operating expenses).

The portfolio of assets held for sale (IFRS 5) consists of real estate, vehicles and equipment acquired by the Group in settlements of overdue loans. The Group is actively marketing these assets and expects the sale to complete by December 2016.

Tangible assets acquired by the Group in settlements of overdue loans did not require the use of cash and cash equivalents and therefore were not included in the consolidated statement of cash flows. Refer to Note 7.

Movements in the provision for impairment of other financial assets during 2015 are as follows:

In millions of Russian Roubles	**Inventory**	**Non-current assets held for sale**	**Investment property**	**Total**
Provision for impairment at 1 January 2015	**1 000**	**110**	**-**	**1 110**
Provision for / (Recovery of) impairment during the year	1 021	(6)	8	1 023
Disposals	(204)	(96)	-	(300)
Transfer to non-current assets held for sale	(52)	52	-	-
Provision for impairment at 31 December 2015	**1 765**	**60**	**8**	**1 833**

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In millions of Russian Roubles	**Inventory**	**Non-current assets held for sale**	**Investment property**	**Total**
Provision for impairment at 1 January 2014	**765**	**25**	**92**	**882**
Provision for / (Recovery of) impairment during the year	263	(25)	-	238
Disposals	(10)	-	-	(10)
Transfer to non-current assets held for sale	(110)	110	-	-
Transfer to inventory	92	-	(92)	-
Provision for impairment at 31 December 2014	**1 000**	**110**	**-**	**1 110**

14 Premises and Equipment

In millions of Russian Roubles	Note	Premises and land	Office and computer equipment	Total premises and equipment
Carrying amount at 1 January 2014		**2 346**	**778**	**3 124**
Cost at 1 January 2014				
Balance at the beginning of the year		2 940	3 642	6 582
Additions		74	397	471
Disposals		(29)	(371)	(400)
Cost at the end of the year		**2 985**	**3 668**	**6 653**
Accumulated depreciation				
Balance at the beginning of the year		594	2 864	3 458
Depreciation charge	23	69	279	348
Disposals		-	(363)	(363)
Balance at the end of the year		**663**	**2 780**	**3 443**
Carrying amount at 31 December 2014		**2 322**	**888**	**3 210**
Cost at 31 December 2014				
Balance at the beginning of the year		2 985	3 668	6 653
Additions		-	310	310
Disposals		(18)	(392)	(410)
Cost at the end of the year		**2 967**	**3 586**	**6 553**
Accumulated depreciation				
Balance at the beginning of the year		663	2 780	3 443
Depreciation charge	23	70	286	356
Disposals		-	(387)	(387)
Balance at the end of the year		**733**	**2 679**	**3 412**
Revaluation recognised in other comprehensive income		**2 358**	**-**	**2 358**
Revaluation recognised in profit or loss		**(182)**	**-**	**(182)**
Carrying amount at 31 December 2015		**4 410**	**907**	**5 317**

In order to ensure consistency with the accounting policies of the Group's parent company the Bank introduced changes to its accounting policies in connection with transfer to the method of recognition of premises and equipment as related to operating assets (premises, land plots) at revalued amount. The Group used the exemption of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and prospectively applied the change in the accounting policy and did not perform a retrospective recalculation.

15 Due to Other Banks

In millions of Russian Roubles	2015	2014
Cash received under sale and repurchase agreements with the Bank of Russia	9 503	8 000
Placements of other banks	7 230	9 331
Deposits of the Bank of Russia	2 809	1 486
Correspondent accounts of other banks	269	299
Total due to other banks	**19 811**	**19 116**

At 31 December 2015 the total amount of five major aggregated balances of amounts due to other banks was RR 19 534 million or 98.6% (2014: RR 18 801 million or 98.4%) of the total amount of due to other banks.

At 31 December 2015 placements of other banks include a deposit attracted under the program on providing government support to SME from AO MSP Bank of RR 3 769 million at a rate from 6.4% to 10.3% p.a. with maturity from December 2016 to November 2022 (2014: RR 5 532 million at a rate from 6.0% to 9.3% p.a. with maturity from November 2015 to December 2021). The rights of claim for the loans issued under this agreement with carrying value of RR 3 585 million (2014: RR 5 575 million) were pledged for the Group's obligations to the creditor. Refer to Notes 10 and 30.

At 31 December 2015 the rights of claim for the loans with carrying value of RR 2 966 million (2014: RR 1 579 million) were pledged for the Group's obligations to the Bank of Russia. Refer to Notes 10 and 30.

In April 2015, the Group repaid deposits in the amount of RR 379 million attracted under the program of the European Bank for Reconstruction and Development for lending to small and medium businesses (2014: RR 415 million).

Refer to Notes 8, 11 and 31 for the debt securities transferred under sale and repurchase agreements with the Bank of Russia.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of amounts due to other banks.

16 Customer Accounts

In millions of Russian Roubles	2015	2014
State and municipal organisations		
- Current/settlement accounts	239	275
Other legal entities		
- Current/settlement accounts	25 839	28 563
- Term deposits	16 343	22 536
Individuals		
- Current/demand accounts	18 270	18 161
- Term deposits	108 967	104 683
Total customer accounts	**169 658**	**174 218**

State and municipal organisations exclude government owned profit oriented businesses.

16 Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	2015 Amount	2015 %	2014 Amount	2014 %
Individuals	127 237	75	122 844	71
Trade and services	15 443	9	15 702	9
Manufacturing	7 285	5	7 560	4
Finance	5 267	3	12 737	7
Construction	4 676	3	6 944	4
Transport and communication	4 020	2	2 576	1
Real estate	2 540	1	2 943	2
Agriculture	1 584	1	1 465	1
State and municipal organisations	239	1	275	-
Other	1 367	1	1 172	1
Total customer accounts	**169 658**	**100**	**174 218**	**100**

At 31 December 2015, the Group had 25 customers with balances above RR 300 million. The aggregate balance of these customers was RR 13 245 million or 8% of total customer accounts.

At 31 December 2014, the Group had 16 customers with balances above RR 300 million. The aggregate balance of these customers was RR 17 286 million or 10% of total customer accounts.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of customer accounts.

Information on related party balances is disclosed in Note 35.

17 Debt Securities in Issue

In millions of Russian Roubles	2015	2014
Mortgage backed bonds, including issued:	5 869	4 809
in June 2015	2 581	-
in March 2014	1 894	2 438
in April 2013	1 071	1 598
in December 2011	323	773
Promissory notes	1 427	1 102
Deposit certificates	137	162
Total debt securities in issue	**7 433**	**6 073**

At 31 December 2015, promissory notes in issue had maturity dates from January 2016 to October 2018 (2014: from January 2015 to October 2018) and effective interest rates from 0.0% to 16.5% p.a. (2014: from 0.0% to 19.0% p.a.).

17 Debt Securities in Issue (continued)

Terms of issue of mortgage backed bonds under securitisation transactions are as follows:

Issue date	Maturity date	Amount of issue RR million	Class A notes RR million	Class B notes RR million	Coupon rate %	Rating on Moody's scale
June 2015	27 January 2048	3 450	3 000	450	9.00%	Baa3
March 2014	26 October 2046	3 450	3 000	450	9.00%	Baa2
April 2013	25 August 2045	4 000	2 960	1 040	8.50%	Baa3
December 2011	10 August 2044	4 071	2 931	1 140	8.95%	Baa2

Class A notes were placed through open subscription on the Closed Joint Stock Company MICEX Stock Exchange and class B notes were bought out by the Group and, therefore, were not shown in these consolidated financial statements. Under the terms of issue of bonds, any funds received from early repayment of mortgage loans are to be used to repay the balance of nominal value of Class A notes.

The terms of issue of bonds assume discharge of obligations on class B notes only when obligations on class A notes are discharged.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of debt securities in issue.

18 Other Financial Liabilities

In millions of Russian Roubles	2015	2014
Trade payables	382	369
Banking cards payables	71	157
Settlements on conversion operations	1	2
Provision for credit related commitments	-	92
Other liabilities	37	27
Total other financial liabilities	**491**	**647**

In 2015, the Group discharged its obligation on the guarantee issued for the amount of RR 251 million and therefore the provision for this commitment was recovered. Refer to Note 30.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of each class of other financial liabilities.

19 Subordinated Loans

Subordinated loans represent long-term deposits of the Group's customers. The subordinated debt ranks after of all other creditors in case of the Group's liquidation. The details of subordinated loans attracted by the Group are disclosed in the table below:

No.	Start date	Maturity	Currency	2015 Contractual interest rate, %	2015 Value, RR million	2014 Contractual interest rate, %	2014 Value, RR million
1	August 2010	August 2018	USD	8.00	219	8.00	169
2	July 2012	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
3	December 2012	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
4	February 2013	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
5	January 2014	January 2022	USD	8.50	511	8.50	394
Total subordinated loans					**3 730**		**3 563**

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 28.

Refer to Note 33 for the estimated fair value of subordinated loans.

As a result of the change of the Group's shareholder (refer to Note 1) subordinated loans 1 and 5 are no more loans from a related party (2014: subordinated loans 1 and 5 were received by the Group from a related party. Refer to Note 35).

20 Share Capital and Retained Earnings

In millions of Russian Roubles	Number of outstanding shares	Ordinary shares	Preference shares with a determined dividend amount	Share premium	Total
At 1 January 2014	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2014	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2015	**25 043 199**	**237**	**13**	**7 306**	**7 556**

The registered amount of the Bank's share capital at 31 December 2015 is RR 250 million (2014: RR 250 million). At 31 December 2015 and 31 December 2014, all of the Bank's outstanding shares were paid in.

The total amount of the authorised ordinary shares is 23 748 694 shares (2014: 23 748 694 shares). All ordinary shares have a nominal value of RR 10 per share (2014: RR 10 per share). Each share carries one vote.

The total amount of the authorised preference shares is 1 294 505 shares (2014: 1 294 505 shares). All issued preference shares are fully paid. The preference shares have a nominal value of RR 10 (2014: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation.

20 Share Capital and Retained Earnings (Continued)

The preference shares give the holders the right to participate in general shareholders' meetings with the voting right in instances where decisions are made in relation to reorganisation and liquidation of the Bank, where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed, in relation to application on delisting of preference shares, addressing the Bank of Russia with an application to relieve the Bank of the duty of disclosing or providing information stipulated by the securities' legislation of the Russian Federation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. of nominal value (2014: 20% p.a. of nominal value) and rank above ordinary dividends. Dividends on preference share are not cumulative. Preference shareholders have the right to participate in general shareholders' meetings with voting rights on all matters within its competence, starting from the meeting following the meeting where (irrespective of the reasons) a decision on dividend payment was not taken at all or a decision on partial payment of dividends on preference shares was taken. The right of preference shareholders to participate in general shareholders' meetings is terminated from the moment of the first full payment of dividends on the preference shares.

The Bank's ordinary shares were included into the quotation list of the first level of Closed Joint Stock Company MICEX Stock Exchange.

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

At 31 December 2015, 370 553 (2014: 372 553) ordinary shares of the Bank were circulating on international markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with a nominal value of RR 10.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with the Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2015 amount to RR 10 500 million (2014: RR 15 221 million).

21 Interest Income and Expense

In millions of Russian Roubles	2015	2014
Interest income		
Loans and advances to customers - legal entities	14 666	12 345
Loans and advances to customers - individuals	7 583	6 813
Investment securities available for sale	791	550
Trading securities	361	292
Correspondent accounts and due from other banks	334	255
Total interest income	**23 735**	**20 255**
Interest expense		
Term deposits of individuals	9 698	6 583
Term deposits of legal entities	1 982	1 796
Due to other banks	785	694
Debt securities in issue	763	945
Subordinated loans	338	337
Other borrowed funds	-	63
Current/settlement accounts of legal entities	109	51
Total interest expense	**13 675**	**10 469**
Net interest income	**10 060**	**9 786**

Information on related party balances is disclosed in Note 35.

22 Fee and Commission Income and Expense

In millions of Russian Roubles	2015	2014
Fee and commission income		
Bank cards and cheques settlements	1 399	1 431
Settlement transactions	1 200	1 127
Cash transactions	824	945
Guarantees issued	341	337
Payroll projects	232	317
Cash collection	211	219
Other	364	344
Total fee and commission income	**4 571**	**4 720**
Fee and commission expense		
Bank cards and cheques settlements	597	571
Settlement transactions	85	87
Settlements with currency and stock exchanges	37	30
Cash transactions	16	26
Other	30	42
Total fee and commission expense	**765**	**756**
Net fee and commission income	**3 806**	**3 964**

23 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2015	2014
Staff costs	35	5 183	5 572
Administrative expenses		714	740
Other costs of premises and equipment		669	602
Contributions to the State Deposit Insurance Agency		489	450
Depreciation of premises and equipment	14	356	348
Rent expenses		350	354
Taxes other than on income		333	349
Advertising and marketing services		122	158
Repair of premises and equipment		88	134
Other		842	657
Total administrative and other operating expenses		**9 146**	**9 364**

Included in staff costs are statutory contributions to non-budget funds of RR 1 038 million (2014: RR 1 037 million).

Information on related party transactions is disclosed in Note 35.

24 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In millions of Russian Roubles	2015	2014
Current tax	65	146
Deferred tax	(1 019)	143
Income tax (benefit) / expense for the year	**(954)**	**289**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

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

In millions of Russian Roubles	2015	2014
IFRS (loss) / profit before tax	**(4 729)**	**1 493**
Theoretical tax charge at statutory rate (2014 – 2015: 20%)	(946)	299
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income on government securities taxed at different rates	(23)	(23)
- Non-deductible expenses/other non-temporary differences	15	13
Income tax (benefit)/expense for the year	**(954)**	**289**

Deferred taxation relating to the fair value remeasurement of investment securities available for sale is charged or credited directly to other comprehensive income and is subsequently recorded in other comprehensive income when the gain or loss on the securities is realised.

(c) Deferred taxes analysed by type of temporary difference

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.

24 Income Taxes (Continued)

The tax effect of the movements in these temporary differences is detailed below.

In millions of Russian Roubles	2013	Recognised in profit or loss	Recognised in other comprehensive income	2014	Recognised in profit or loss	Recognised in other comprehensive income	2015
Tax effect of temporary deductible/ (taxable) temporary differences							
Premises and equipment	(52)	5	-	(47)	41	(472)	(478)
Provision for loan impairment	109	15	-	124	(231)	-	(107)
Written-off loans that do not represent bad debt for taxation purposes	-	418	-	418	(173)	-	245
Fair valuation of trading securities	(11)	(9)	-	(20)	33	-	13
Fair valuation of investment securities available for sale	(51)	-	(38)	(89)	-	(101)	(190)
Currency revaluation of securities	-	(532)	-	(532)	250	-	(282)
Differences in valuation of investment securities available for sale	14	(26)	-	(12)	15	-	3
Accrued income and expenses	928	(127)	-	801	77	-	878
Deferred fee and commission income	112	10	-	122	(1)	-	121
Provision for non-credit related commitments	-	18	-	18	(9)	-	9
Provision for impairment of other assets	176	46	-	222	145	-	367
Tax loss carry forward	-	-	-	-	916	-	916
Other	(8)	39	-	31	(44)	-	(13)
Net deferred tax asset / (liability)	**1 217**	**(143)**	**(38)**	**1 036**	**1 019**	**(573)**	**1 482**

The net deferred tax asset represents income taxes recoverable through future income. The assessment of recoverability of the deferred tax asset is performed by the management of the Group and is based on a medium term business plan.

24 Income Taxes (Continued)

(d) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2015			2014		
In millions of Russian Roubles	**Before-tax amount**	**Income tax expense**	**Net of-tax amount**	**Before-tax amount**	**Income tax expense**	**Net of-tax amount**
Investment securities available for sale:						
- Gains / (Losses) arising during the year	411	(101)	310	286	(38)	248
Premises and equipment:						
- Gains / (Losses) arising during the year	2 358	(472)	1 886	-	-	-
Other comprehensive income	**2 769**	**(573)**	**2 196**	**286**	**(38)**	**248**

25 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares.

In millions of Russian Roubles	Note	2015	2014
Profit / (loss) for the year		(3 775)	1 204
Less dividends on preference shares	26	(3)	(3)
Undistributed (loss) / profit for the year		**(3 778)**	**1 201**
Profit/(loss) for the year attributable to ordinary shareholders based on terms of the shares		(3 583)	1 139
Profit/(loss) for the year attributable to preference shareholders based on terms of the shares		(195)	62
Weighted average number of ordinary shares in issue (millions)		23.7487	23.7487
Weighted average number of preference shares in issue (millions)		1.2945	1.2945
Basic and diluted (loss) / earnings per ordinary share (expressed in RR per share)		**(151)**	**48**

26 Dividends

In millions of Russian Roubles	2015 Ordinary shares	2015 Preference shares	2014 Ordinary shares	2014 Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	11	3	11	3
Dividends paid during the year	(11)	(3)	(11)	(3)
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year (in RR per share)	**0.5**	**2.0**	**0.5**	**2.0**

All dividends are declared and paid in Russian Roubles.

27 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

For the purpose of management, the Group's operations are split by types of products and services and by classes of clients acquiring them, into the following operating segments:

- Corporate business – representing settlement and cash services of settlement and current accounts of organizations, collection services, attraction of deposits of legal entities, issue of bills and deposit certificates, carrying out of factoring operations, lending, guarantees, overdrafts, credit lines and other types of financing, operation with foreign currency and derivative financial instruments.
- Retail business – representing private banking services on opening and maintaining settlement accounts, settlement and cash services, attraction of deposits and lending to individuals, operations with foreign currency, retail investment products, services in safe custody of values.
- Bank cards business – representing remote bank services for bank cards holders, settlement and cash services with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll project services, acquiring, self-service operations at ATMs, information service to bank cards holders.
- Financial business – representing interbank and financial markets transactions, including securities transactions.
- Liquidity – representing reallocation of funds between operating segments.

27 Segment Analysis (Continued)

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic lines of business that focus on different categories of customers. For the purposes of these consolidated financial statements each operating segment of the Bank is presented as a reportable segment. The "other" category includes unallocated items.

(c) Measurement of operating segment profit or loss, assets and liabilities

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are based on market indicators.

Segment assets and liabilities include operating assets and liabilities representing a major part of the Bank's assets and liabilities, as well as funds reallocated between operating segments, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(ii) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on the regulations of the Bank of Russia, rather than based on the incurred loss model prescribed in IAS 39;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method;

(vi) liabilities for the Bank's unused vacation payments are not recognised.

The CODM evaluates performance of each segment based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information on allocating reportable segment assets at 31 December 2015 and 2014 is set out below. Total assets and liabilities do not include the adjusting subsequent events.

27 Segment Analysis (Continued)

The Bank does not disclose geographical information in its segment analysis as the majority of transactions and revenues of the reportable segments are concentrated in Russia. The analysis of the reportable segments is based on the banking products and services but not on the geographical factors.

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transactions	Financial business	Other	Total
at 31 December 2015						
Total reportable segment assets	**110 702**	**44 055**	**6 988**	**38 116**	**15 714**	**215 575**
Total reportable segment liabilities	**51 786**	**109 273**	**18 031**	**15 990**	**677**	**195 757**
at 31 December 2014						
Total reportable segment assets	**114 913**	**38 991**	**7 315**	**41 459**	**20 723**	**223 401**
Total reportable segment liabilities	**60 485**	**106 051**	**18 370**	**13 556**	**573**	**199 035**

27 Segment Analysis (Continued)

The table below represents information on income and expenses per reportable segment for the year ended 31 December 2015. The Bank's management considers operating income before provision for loan impairment as a key measurement of reportable segments results.

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transactions	Financial business	Liquidity	Other	Total
2015							
Interest income	14 635	6 532	365	1 797	-	-	23 329
Non-interest income	2 728	785	1 707	303	-	(2)	5 521
Transfer income	4 306	12 177	782	404	601	16	18 286
Total income	**21 669**	**19 494**	**2 854**	**2 504**	**601**	**14**	**47 136**
Interest expense	(3 126)	(9 581)	(148)	(435)	-	(13)	(13 303)
Non-interest expense	(119)	(41)	(589)	(58)	-	(45)	(852)
Transfer expenses	(12 583)	(4 722)	(199)	(782)	-	-	(18 286)
Total expenses	**(15 828)**	**(14 344)**	**(936)**	**(1 275)**	**-**	**(58)**	**(32 441)**
Operating income before provision for loan impairment	**5 841**	**5 150**	**1 918**	**1 229**	**601**	**(44)**	**14 695**
Provision for loan impairment	(3 924)	(121)	(7)	(1)	-	1	(4 052)
Operating income	**1 917**	**5 029**	**1 911**	**1 228**	**601**	**(43)**	**10 643**
Administrative and other operating expenses	(3 690)	(2 740)	(1 730)	(135)	-	(276)	(8 571)
Depreciation of premises and equipment	(153)	(101)	(84)	(7)	-	(2)	(347)
Financial result from cession	(6 341)	(121)	(81)	-	-	71	(6 472)
Profit / (loss) before tax (segment result)	**(8 267)**	**2 067**	**16**	**1 086**	**601**	**(250)**	**(4 747)**

27 Segment Analysis (Continued)

Segment information for the Bank's major reportable segments for the year ended 31 December 2014 is set out below:

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transactions	Financial business	Liquidity	Other	Total
2014							
Interest income	11 967	5 516	374	906	-	-	18 763
Non-interest income	3 122	1 235	1 809	128	-	99	6 393
Transfer income	4 077	8 080	586	425	2 349	16	15 533
Total income	**19 166**	**14 831**	**2 769**	**1 459**	**2 349**	**115**	**40 689**
Interest expense	(2 963)	(6 513)	(142)	(310)	-	-	(9 928)
Non-interest expense	(148)	(68)	(554)	(35)	-	(66)	(871)
Transfer expenses	(10 850)	(4 063)	(145)	(475)	-	-	(15 533)
Total expenses	**(13 961)**	**(10 644)**	**(841)**	**(820)**	**-**	**(66)**	**(26 332)**
Operating income before provision for loan impairment	**5 205**	**4 187**	**1 928**	**639**	**2 349**	**49**	**14 357**
Provision for loan impairment	(2 981)	(268)	(6)	(2)	-	(26)	(3 283)
Operating income	**2 224**	**3 919**	**1 922**	**637**	**2 349**	**23**	**11 074**
Administrative and other operating expenses	(3 884)	(2 831)	(1 833)	(111)	-	(168)	(8 827)
Depreciation of premises and equipment	(150)	(106)	(74)	(5)	-	(1)	(336)
Financial result from cession	(827)	(129)	(41)	-	-	-	(997)
Profit / (loss) before tax (segment result)	**(2 637)**	**853**	**(26)**	**521**	**2 349**	**(146)**	**914**

27 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit, loss and assets and liabilities

The reconciliation of reportable segment assets and liabilities of the Bank is as follows:

Reconciliation of reportable segment assets:

In millions of Russian Roubles	2015	2014
Total reportable segment assets	**215 575**	**223 401**
Adjustment of provision for impairment of financial assets	1 390	823
Adjustment of provision for impairment of other assets	(265)	232
Recognition of financial instruments using the effective interest method	(403)	(342)
Adjustment of the carrying amount of premises and equipment	1 599	(569)
Differences in deferred tax asset	41	(291)
Consolidation	5 813	4 698
Other	138	(30)
Total assets under IFRS	**223 888**	**227 922**

Reconciliation of reportable segment liabilities

In millions of Russian Roubles	2015	2014
Total reportable segment liabilities	**195 757**	**199 035**
Accrued expenses	429	435
Recognition of fee and commission income on temporary basis	165	164
Provision for credit related commitments	-	92
Recovery of deferred tax liability	(332)	(281)
Consolidation	5 658	4 632
Other	-	41
Total liabilities under IFRS	**201 677**	**204 118**

27 Segment Analysis (Continued)

Reconciliation of income or expense before tax of the reportable segments

Reconciliation of profit before tax and other material income or expenses for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the year ended 31 December 2015 is as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Non-interest income	Interest expense	Non-interest expense	Provision for impairment of loans and other assets	Administrative and other operating expenses
Total amount for all reportable segments	**(4 747)**	**23 329**	**5 521**	**(13 303)**	**(852)**	**(10 524)**	**(8 918)**
Recognition of interest income from lending using the effective interest method	(10)	(10)	-	-	-	-	-
Recognition of fees and commissions by reference to completion of the specific transaction	(1)	-	(1)	-	-	-	-
Adjustment of provision for loan impairment	119	-	-	-	(133)	252	-
Accrued liabilities for unused vacations	(5)	-	-	-	-	-	(5)
Differences in depreciation charge on premises and equipment	(10)	-	-	-	-	-	(10)
Loss from impairment of premises and equipment	(182)	-	-	-	-	(182)	-
Provision for impairment of other assets and credit related commitments	(10)	-	-	-	-	(10)	-
Reclassification of management accounts items	-	(257)	208	149	193	(143)	(150)
Consolidation	90	673	1	(521)	-	-	(63)
Other	27	-	-	-	27	-	-
Total under IFRS	**(4 729)**	**23 735**	**5 729**	**(13 675)**	**(765)**	**(10 607)**	**(9 146)**

27 Segment Analysis (Continued)

Reconciliation of profit before tax and other material income or expenses for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the year ended 31 December 2014 is as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Non-interest income	Interest expense	Non-interest expense	Provision for impairment of loans and other assets	Administrative and other operating expenses
Total amount for all reportable segments	**914**	**18 763**	**6 393**	**(9 928)**	**(871)**	**(4 280)**	**(9 163)**
Recognition of interest income from lending using the effective interest method	(74)	(74)	-	-	-	-	-
Recognition of fees and commissions by reference to completion of the specific transaction	13	-	13	-	-	-	-
Adjustment of provision for loan impairment	214	-	-	-	(74)	288	-
Accrued liabilities for unused vacations	(46)	-	-	-	-	-	(46)
Differences in depreciation charge on premises and equipment	(13)	-	-	-	-	-	(13)
Provision for impairment of other assets and credit related commitments	425	-	-	-	-	425	-
Reclassification of management accounts items	-	955	(1 052)	(1)	142	45	(89)
Consolidation	26	611	(2)	(540)	-	-	(43)
Other	34	-	(3)	-	47	-	(10)
Total under IFRS	**1 493**	**20 255**	**5 349**	**(10 469)**	**(756)**	**(3 522)**	**(9 364)**

28 Financial Risk Management

The operations of the Group's members are affected by a wide range of risks, among which, due to the nature of the Group's business, the most significant are: credit risk, market risk (including currency, interest rate and other price risk), liquidity risk, operational risk.

Key planned measures of risk mitigation policy are established within the scope of the Group's strategy, which complies with the Group members' strategic goals and is aimed at further improvement of risk management system in accordance with the business objectives, the number and the size of accepted risks and the optimal balance between profitability and risk level.

The Group's risk management system ensures timely risk identification, analysis, measurement and assessment of risk positions and also application of risk management methods (prevention, mitigation, distribution and absorption). Risk assessment and management procedures are integrated into current operations.

28 Financial Risk Management (Continued)

To measure each significant risk and its gross capital requirement the Group regularly (once in six months) conducts stress testing, which is an assessment of potential impact on the Group's financial position of certain changes in the factors of risks, which correspond to exceptional but probable events. Stress testing is primarily used to assess the potential of the Group's capital to compensate possible large losses resulting from a crisis situation.

In stress testing procedures the Group uses a scenario analysis based on historic and hypothetic events.

The purpose, objectives and principles of the risk assessment and management system are stipulated in the Regulation on the Risk Management System in Vozrozhdenie Bank approved by the Board of Directors of the Group's head credit unit.

Risk management is performed by allocating authority and responsibility through the system of management reports about the results of control over significant risks and procedures for their management, as well as feedback (corrective actions) based upon the results of control.

Control over the level and condition of the risk management system is exercised by a department of the Group's head credit unit - the Credit Risk Monitoring Department.

Independent assessment of completeness and efficiency of the procedures for management of banking risks is performed by the Internal Audit Function in the course of internal audits.

Risk management system of the Group's structured entities corresponds to the nature and scope of their operations and allows to identify, prevent and limit the risks significant for the Group.

Each Group member operates in accordance with its charter, established internal procedures for transaction (deal) approval and execution, as well as for compliance of the necessary procedures of control over the accepted risks by the management and control bodies. Additional control over the operation of the Group members is organised at the level of the Group's head credit unit.

All material terms and conditions of the transactions (deals) intended for execution by mortgage agents and contracts intended for conclusion are agreed in advance with the Group's head credit unit. All decisions about allocation and spending of the funds required for those business activities are taken upon approval by the Inspector - Head of the Internal Audit Function of the Group's head credit unit.

The level of operational risk of the Group's structured entities was significantly reduced at the stage of their establishment by:

- detailed development of the securitisation scheme and contractual base with involvement of international consulting entities having significant experience in such transactions;
- proper segregation of rights and obligations between the participants of securitisation transactions (service agent, back-up servicer, management company, the bank where the account for payment collection is kept, settlement agent, the bank where the issuer account and the account for mortgage coverage are kept).

Credit risk. The Group takes exposure to credit risk, which is defined by the Group as the risk of losses as a result of the default, untimely or partial discharge of obligations by borrower under the contract terms.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The credit policy which is annually designed in view of the overall development strategy constitutes a basis of the credit risk management system of the Group.

28 Financial Risk Management (Continued)

The key elements of the credit risk management system include the following:

A. Initiation of the lending process and review of creditworthiness

The lending process and the related document flow are implemented in accordance with local internal regulations of the Group.

Creditworthiness of a borrower (principal, customer) is reviewed in accordance with the internal methodology of the Group. Creditworthiness of customers is reviewed using software and analytical systems. The Risk Management Department is a mandatory participant in the process of reviewing applications from branches to provide credit products.

The Group mostly offers credit products to legal entities and individual entrepreneurs from the real sector of the economy, which manufacture products that are in demand and render material services. As a rule, these are the Group's customers with solid business reputation, a positive credit history, a steady financial position and strong solvency ratios.

The Group is implementing a lending project for small and medium enterprises using target financial resources of AO MSP Bank.

Priorities in providing credit risk products to customers are set depending on:

- the borrower's significance, profitability and creditworthiness for the Group;
- industry structure of the borrower;
- regional policy;
- amount, type, method of disbursement and purpose of the requested loan.

When retail credit products are provided to customers or borrowers of the Group, their financial position, sources of income and business reputation are subject to a mandatory review. The Group prefers the following categories of borrowers:

- employees of large companies, which are corporate customers and partners of the Group;
- individuals who hold bank cards and depositors;
- employees of companies carrying out payroll projects, including payroll projects with other banks;
- individuals with confirmed high income, significant social status and reputation;
- customers with positive credit history with the Group.

The Group provides credit risk products where liquid collateral is available, which guarantees repayment by the borrower of the principal loan amount, interest, fees and expenses related to discharge of their obligations (other than certain credit products for individuals, unsecured overdraft loans, loans to Russian constituents and municipal formations and credit products, for which decisions were individually adopted that no collateral is required). When the Group estimates the value of collateral provided for lending transactions and evaluates assets previously provided as collateral, the Group engages appraiser entities with whom cooperation agreements have been signed.

The centralised appraisal of property expected to be pledged against large loans and the monitoring of assets already pledged against large loans are performed by a specialised department of the Group's head credit unit - the Collateral Management Department.

B. Limits compliance

The Group uses a system of limits to implement its credit policy.

Limits mean restrictions in providing credit products / setting guarantee limits, approved by local regulations of the Group, including the credit policy of the Group.

28 Financial Risk Management (Continued)

The system of limits is determined by the following factors:

- the Bank of Russia's regulatory requirements;
- corporate and retail lending strategy;
- limitations on high-risk transactions;
- diversification of risks taken.

Additionally to general limits, the Group's credit policy sets certain budgeted qualitative and quantitative indices representing the segment, industry and regional structure of the corporate loan portfolio and the structure of the loan portfolio in terms of currency and maturity.

The credit risk management tools (other than the system of authority and decision taking) applied by the Group also include a system of credit risk limits.

General limits restrictions aimed at reducing concentration risk and related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are annually approved by the Management Board of the Group in accordance with the credit policy of the Group:

- the maximum loan amount to one borrower;
- the level of loan portfolio concentration (the ratio of loans issued to 20 largest borrowers to equity of the Group);
- the maximum aggregate amount of guarantees or uncovered letters of credit issued by the Group;
- the maximum amount of all large loans (the amount of loans issued to one borrower exceeding 5% of the Group's equity);
- the maximum aggregate amount of loans and guarantees issued to the shareholders;
- the aggregate amount of risk related to insiders.

<u>C. Lending transaction authorisation</u>

Within the credit risk management framework there is a multilevel system of delegating authorities that enables independent decision-making on providing credit products and is divided into:

- authorities of the Group's Management Board;
- authorities of the Credit and Investment Committee of the Bank which comprise the authorities of:
  - the Credit Committee;
  - the Sub-Committee of the Credit Committee for Retail Lending (the first and second levels);
  - personal authorities on issuing loans to corporate customers of heads of the Corporate Lending Department and the Risk Management Department;
  - personal authorities on issuing retail loans of employees of the underwriting function of the Retail Business Department.

28 Financial Risk Management (Continued)

D. Credit risk monitoring

To monitor outstanding loans due from the borrowers, multiple monitoring tools have been developed, including:

- regular assessment of the borrower's financial position and economic effectiveness of the arrangements and projects financed;
- identification of the groups of related clients/borrowers to assess and mitigate possible credit risks;
- compliance with the current limits of the Group and the Bank of Russia's requirements for calculation of statutory ratios;
- assessment of liquidity and adequacy of the collateral provided;
- a methodology for rating assessment of financial position of insurance companies which insure property pledged as collateral to the Bank against loans issued by the Bank;
- ongoing monitoring of how borrowers meet their obligations to the Group and whether the collateral actually exists and is in the right condition;
- taking preventive measures within the loan portfolio management aimed at mitigation of default on loans for which individual risk factors are set;
- assessment of the credit quality of the credit products provided;
- a procedure for booking loan loss provisions and provisions for possible losses on other transactions;
- a procedure for identification and control over authorities of branches and authorised management bodies to provide credit products;
- mandatory regular client checks by the Economic Security Service of the Group;
- using external sources of databases (credit history bureaus, information and analytical systems, databases of arbitration courts, etc.) in the process of a borrower's credit risk evaluation.

E. Non-performing loans management

In 2015, for the purpose of centralised management of loans with the "non-performing" risk status the Group set up the Non-Performing Asset Management Department.

Its main objectives are the following:

- decreasing the level of bad debt;
- ensuring a unified approach to bad debt management;
- implementing a system of bad debt management;
- improving effectiveness of bad debt management;
- monitoring and controlling discharge of obligations on non-performing loans by borrowers, etc.

The management process includes analysis of feasibility and implementation of restructuring, strategy development and approval of an action plan on repayment.

If an outstanding loan cannot be settled it is written off from the statement of financial position against the provision for loan impairment.

Market risk. Market risk is defined by the Group as the risk of losses resulting from unfavourable movements in the market value of financial instruments of trade portfolio and derivative financial instruments of the credit organisation and also of foreign currency exchange rates and (or) precious metals. Market risk includes equity, currency and interest rate risks.

28 Financial Risk Management (Continued)

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. The market risk management system includes setting limits on the level of accepted risk and control over their compliance on a daily basis.

Currency risk. The Group is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Group manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2015:

In millions of Russian Roubles	RR	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	14 464	11 188	5 556	55	31 263
Mandatory cash balances with the Bank of Russia	841	192	88	1	1 122
Trading securities	444	3 456	1 443	-	5 343
Due from other banks	2 169	1 239	-	-	3 408
Loans and advances to customers	151 481	3 246	2 727	-	157 454
Investment securities available for sale	4 899	2 929	2 769	-	10 597
Other financial assets	1 012	734	68	-	1 814
Total monetary financial assets	**175 310**	**22 984**	**12 651**	**56**	**211 001**
Monetary financial liabilities					
Due to other banks	17 380	-	2 431	-	19 811
Customer accounts	136 747	22 404	10 337	170	169 658
Debt securities in issue	7 433	-	-	-	7 433
Other financial liabilities	480	4	7	-	491
Subordinated loans	3 000	730	-	-	3 730
Total monetary financial liabilities	**165 040**	**23 138**	**12 775**	**170**	**201 123**
Net balance sheet position	**10 270**	**(154)**	**(124)**	**(114)**	**9 878**

28 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2014:

In millions of Russian Roubles	RR	USD	EUR	Other	Total
Monetary financial assets					
Cash and cash equivalents	20 372	7 789	7 422	44	35 627
Mandatory cash balances with the Bank of Russia	1 311	382	172	-	1 865
Trading securities	842	6 825	5 536	-	13 203
Due from other banks	69	1 098	-	-	1 167
Loans and advances to customers	137 403	14 495	3 821	-	155 719
Investment securities available for sale	7 744	217	-	-	7 961
Other financial assets	412	915	89	1	1 417
Total monetary financial assets	**168 153**	**31 721**	**17 040**	**45**	**216 959**
Monetary financial liabilities					
Due to other banks	15 283	435	3 398	-	19 116
Customer accounts	129 721	30 701	13 774	22	174 218
Debt securities in issue	6 070	3	-	-	6 073
Other financial liabilities	634	3	10	-	647
Subordinated loans	3 000	563	-	-	3 563
Total monetary financial liabilities	**154 708**	**31 705**	**17 182**	**22**	**203 617**
Net balance sheet position	**13 445**	**16**	**(142)**	**23**	**13 342**

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.

At 31 December 2015, if the US Dollar exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, loss before tax for the year would have been RR 31 million higher (RR 31 million lower).

At 31 December 2014, if the US Dollar exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, profit before tax for the year would have been RR 3 million higher (RR 3 million lower).

At 31 December 2015, if the Euro exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, loss before tax for the year would have been RR 25 million higher (RR 25 million lower).

At 31 December 2014, if the Euro exchange rate had been 20.0% higher (or 20.0% lower) with all other variables held constant, profit before tax for the year would have been RR 28 million lower (RR 28 million higher).

28 Financial Risk Management (Continued)

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

Assessment of the Group's exposure to interest rate risk is managed upon gap analysis of financial instruments sensitive to changes in interest rates (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amounts. These carrying amounts are broken down by the earlier of contractual interest repricing or maturity dates.

Any changes in net interest income resulting from changes in the value of SFI at the date of their redemption or interest repricing determine the amount of interest rate risk exposure. Any changes in the amount of net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the annual reporting period. For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed time period.

The main methods used by the Group to mitigate its interest rate risk is balancing the assets and liabilities in terms of repricing/rescheduling as well as regular (at least quarterly) revision of current interest rates. The table below summarises the Group's exposure to interest rate risks at the annual reporting dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
31 December 2015					
Total financial assets exposed to interest rate movements	28 221	39 222	42 768	81 862	192 073
Total financial liabilities exposed to interest rate movements	72 696	57 181	28 447	42 304	200 628
Net interest sensitivity gap at 31 December 2015	**(44 475)**	**(17 959)**	**14 321**	**39 558**	**(8 555)**
Gap coefficient (aggregate relative cumulative gap)	**0.39**	**0.52**	**0.70**	**0.96**	
31 December 2014					
Total financial assets exposed to interest rate movements	40 387	47 531	40 688	70 193	198 799
Total financial liabilities exposed to interest rate movements	69 995	34 766	29 098	69 111	202 970
Net interest sensitivity gap at 31 December 2014	**(29 608)**	**12 765**	**11 590**	**1 082**	**(4 171)**
Gap coefficient (aggregate relative cumulative gap)	**0.58**	**0.84**	**0.96**	**0.98**	

At 31 December 2015, if interest rates at that date had been 200 basis points higher (2014: 600 basis points higher) with all other variables held constant, loss before tax for the year would have been RR 1 035 million higher (2014: profit before tax for the year would have been RR 986 million lower), mainly as a result of higher interest expense on term deposits of individuals and legal entities and due to other banks. At 31 December 2015, other components of equity would have been RR 43 million (2014: RR 238 million) higher, mainly as a result of an increase in the fair value of fixed rate financial instruments classified as available for sale.

28 Financial Risk Management (Continued)

Risk management comprises minimising net gap established in analysis of assets and liabilities sensitive to interest rate changes. Depending upon the net gap amount the Group takes the decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of changes in the market interest rate.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on effective interest rates at the end of the reporting period used for amortisation of the respective assets/liabilities. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date.

	2015			2014		
In % p.a.	RR	US Dollars	EUR	RR	US Dollars	EUR
Assets						
Cash and cash equivalents	0%	0%	0%	2%	0%	0%
Trading securities	12%	3%	2%	13%	5%	6%
Due from other banks	11%	0%	-	0%	4%	-
Loans and advances to customers						
- legal entities	14%	8%	6%	14%	7%	6%
- individuals	16%	11%	10%	15%	11%	12%
Investment securities available for sale	11%	4%	4%	13%	8%	-
Liabilities						
Due to other banks	11%	0%	1%	13%	6%	2%
Customer accounts						
- current and settlement accounts	0%	0%	0%	0%	0%	0%
- term deposits of legal entities	11%	2%	1%	13%	5%	1%
- term deposits of individuals	12%	4%	4%	14%	6%	6%
Debt securities in issue	9%	-	-	9%	1%	-
Subordinated loans	9%	8%	-	9%	8%	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. This risk is not significant for the Group as the Group has limited exposure to equity price risk.

The Group is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity for the year and at the reporting date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the early repayment amount is at or close to the amortised cost of loans and advances to customers.

28 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	16 956	14 306	1	31 263
Mandatory cash balances with the Bank of Russia	1 122	-	-	1 122
Trading securities	5 349	-	-	5 349
Due from other banks	2 209	1 199	-	3 408
Loans and advances to customers	157 421	-	33	157 454
Investment securities available for sale	10 957	832	-	11 789
Other financial assets	1 811	3	-	1 814
Total financial assets	**195 825**	**16 340**	**34**	**212 199**
Non-financial assets	**11 689**	**-**	**-**	**11 689**
Total assets	**207 514**	**16 340**	**34**	**223 888**
Financial liabilities				
Due to other banks	17 378	2 431	2	19 811
Customer accounts	168 572	524	562	169 658
Debt securities in issue	7 433	-	-	7 433
Other financial liabilities	491	-	-	491
Subordinated loans	3 000	-	730	3 730
Total financial liabilities	**196 874**	**2 955**	**1 294**	**201 123**
Non-financial liabilities	**554**	**-**	**-**	**554**
Total liabilities	**197 428**	**2 955**	**1 294**	**201 677**
Net balance sheet position	**10 086**	**13 385**	**(1 260)**	**22 211**
Credit related commitments (Note 30)	**20 175**	**-**	**-**	**20 175**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2014 is disclosed in table below:

In millions of Russian Roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	24 742	10 884	1	35 627
Mandatory cash balances with the Bank of Russia	1 865	-	-	1 865
Trading securities	13 203	-	-	13 203
Due from other banks	100	925	142	1 167
Loans and advances to customers	155 719	-	-	155 719
Investment securities available for sale	8 321	550	-	8 871
Other financial assets	1 401	15	1	1 417
Total financial assets	**205 351**	**12 374**	**144**	**217 869**
Non-financial assets	**10 053**	**-**	**-**	**10 053**
Total assets	**215 404**	**12 374**	**144**	**227 922**
Financial liabilities				
Due to other banks	15 317	3 799	-	19 116
Customer accounts	171 072	1 002	2 144	174 218
Debt securities in issue	6 073	-	-	6 073
Other financial liabilities	647	-	-	647
Subordinated loans	3 000	-	563	3 563
Total financial liabilities	**196 109**	**4 801**	**2 707**	**203 617**
Non-financial liabilities	**501**	**-**	**-**	**501**
Total liabilities	**196 610**	**4 801**	**2 707**	**204 118**
Net balance sheet position	**18 794**	**7 573**	**(2 563)**	**23 804**
Credit related commitments (Note 30)	**13 649**	**-**	**-**	**13 649**

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.

The process of control over liquidity risk is regulated by the Bank of Russia's instructions and internal regulations of the Group.

28 Financial Risk Management (Continued)

Liquidity risk management function is allocated among collegial bodies of the Group and its structural units:

- The Board of Directors – defines and approves the Group's general strategy in liquidity risk management;
- The Bank's Management Board – performs general management and control;
- The Assets and Liabilities Management Committee – manages liquidity within requirements set by the Bank's Management Board.
- The Treasury – carries out operational liquidity management.

For the purpose of liquidity loss risk assessment and analysis, the Bank applies various methods, including the method of liquidity analysis based on cash flows.

Liquidity risk management is exercised through agreeing repayment dates for assets placed and liabilities attracted by the Bank and through maintaining a required volume of highly liquid funds. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 72.4% at 31 December 2015 (2014: 67.8%). At 31 December 2015 and 31 December 2014 the minimum required level for N2 ratio was 15%.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 80.9% at 31 December 2015 (2014: 94.9%). At 31 December 2015 and 31 December 2014 the minimum required level for N3 ratio was 50%.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to Bank's regulatory capital and liabilities maturing after one year. The ratio was 95.8% at 31 December 2015 (2014: 65.4%). At 31 December 2015 and 31 December 2014, the maximum required level for N4 ratio was 120%.

The Group monitors compliance with the liquidity ratios set by the Bank of Russia on a daily basis.

To analyse the liquidity risk the Group analyses its dependence on interbank market transactions, transactions of large customers and credit risk concentration. The Group seeks to maintain a stable resource base which primarily comprises deposits of legal entities, individual deposits and due to other banks. Special attention is given to quality and diversity of assets.

When forming its securities portfolio the Group focuses on the Bank of Russia's Lombard List to get access to refinancing instruments. In 2015, for the purpose of liquidity regulation the Group performed direct repo transactions with the Bank of Russia.

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows with consideration of all future payments (including future interest payments during the whole period of the asset or liability). Liabilities were classified into groups on the basis of the earliest date when the settlement requirement to the Group could arise. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

28 Financial Risk Management (Continued)

The maturity analysis of undiscounted cash flows of financial liabilities at 31 December 2015 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 2 years	From 2 year to 3 years	Over 3 years	Total
Financial liabilities							
Due to other banks	10 157	4 570	1 008	1 768	1 083	2 454	21 040
Customer accounts	62 923	55 316	29 192	31 425	1 649	31	180 536
Debt securities in issue	677	1 770	1 296	1 920	1 144	1 778	8 585
Other financial liabilities	491	-	-	-	-	-	491
Subordinated loans	-	169	170	338	550	4 068	5 295
Total potential future payments for financial obligations	**74 248**	**61 825**	**31 666**	**35 451**	**4 426**	**8 331**	**215 947**
Credit related commitments	20 175	-	-	-	-	-	20 175
Term deals:							
- outflows	-	477	-	-	-	-	477
- inflows	-	(482)	-	-	-	-	(482)

The maturity analysis of undiscounted cash flows of financial liabilities at 31 December 2014 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 2 years	From 2 year to 3 years	Over 3 years	Total
Financial liabilities							
Due to other banks	9 383	1 774	3 822	1 632	2 019	1 346	19 976
Customer accounts	60 868	36 109	28 279	55 230	6 891	631	188 008
Debt securities in issue	704	1 310	927	1 744	1 163	1 062	6 910
Other financial liabilities	647	-	-	-	-	-	647
Subordinated loans	-	161	163	325	324	4 409	5 382
Total potential future payments for financial obligations	**71 602**	**39 354**	**33 191**	**58 931**	**10 397**	**7 448**	**220 923**
Credit related commitments	13 649	-	-	-	-	-	13 649
Term deals:							
- outflows	-	474	-	-	-	-	474
- inflows	-	(479)	-	-	-	-	(479)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

28 Financial Risk Management (Continued)

The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement as a lump sum in full. In accordance with IFRS 7 "Financial Instruments: Disclosures" issued financial guarantee contracts are included at the maximum amount of the guarantee in the earliest period in which the guarantee could be called.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2015:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	31 263	-	-	-	31 263
Mandatory cash balances with the Bank of Russia	409	341	175	197	1 122
Trading securities	5 349	-	-	-	5 349
Due from other banks	2 169	-	40	1 199	3 408
Loans and advances to customers	5 129	37 411	40 362	74 552	157 454
Investment securities available for sale	309	1 811	2 366	7 303	11 789
Other financial assets	1 814	-	-	-	1 814
Total financial assets	**46 442**	**39 563**	**42 943**	**83 251**	**212 199**
Non-financial assets	**-**	**-**	**365**	**11 324**	**11 689**
Total assets	**46 442**	**39 563**	**43 308**	**94 575**	**223 888**
Financial liabilities					
Due to other banks	10 073	4 373	844	4 521	19 811
Customer accounts	61 993	51 257	26 534	29 874	169 658
Debt securities in issue	634	1 551	1 069	4 179	7 433
Other financial liabilities	491	-	-	-	491
Subordinated loans	-	-	-	3 730	3 730
Total financial liabilities	**73 191**	**57 181**	**28 447**	**42 304**	**201 123**
Non-financial liabilities	**-**	**43**	**-**	**511**	**554**
Total liabilities	**73 191**	**57 224**	**28 447**	**42 815**	**201 677**
Net liquidity gap of financial assets and financial liabilities	**(26 749)**	**(17 618)**	**14 496**	**40 947**	**11 076**
Cumulative liquidity gap	**(26 749)**	**(44 367)**	**(29 871)**	**11 076**	**-**
Credit related commitments (Note 30)	**20 175**	**-**	**-**	**-**	**20 175**

28 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The expected maturity of investment securities available for sale is based on offer agreement date.

The analysis by expected maturities at 31 December 2014 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Financial assets					
Cash and cash equivalents	35 627	-	-	-	35 627
Mandatory cash balances with the Bank of Russia	644	346	263	612	1 865
Trading securities	13 203	-	-	-	13 203
Due from other banks	242	-	-	925	1 167
Loans and advances to customers	6 193	41 187	35 406	72 933	155 719
Investment securities available for sale	-	4 445	3 299	1 127	8 871
Other financial assets	1 417	-	-	-	1 417
Total financial assets	**57 326**	**45 978**	**38 968**	**75 597**	**217 869**
Non-financial assets	**-**	**-**	**373**	**9 680**	**10 053**
Total assets	**57 326**	**45 978**	**39 341**	**85 277**	**227 922**
Financial liabilities					
Due to other banks	9 279	1 597	3 667	4 573	19 116
Customer accounts	60 035	32 035	24 674	57 474	174 218
Debt securities in issue	681	1 134	757	3 501	6 073
Other financial liabilities	647	-	-	-	647
Subordinated loans	-	-	-	3 563	3 563
Total financial liabilities	**70 642**	**34 766**	**29 098**	**69 111**	**203 617**
Non-financial liabilities	**-**	**-**	**-**	**501**	**501**
Total liabilities	**70 642**	**34 766**	**29 098**	**69 612**	**204 118**
Net liquidity gap of financial assets and financial liabilities	**(13 316)**	**11 212**	**9 870**	**6 486**	**14 252**
Cumulative liquidity gap	**(13 316)**	**(2 104)**	**7 766**	**14 252**	**-**
Credit related commitments (Note 30)	**13 649**	**-**	**-**	**-**	**13 649**

28 Financial Risk Management (Continued)

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 transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, 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 for the Group.

Operational risk. Operational risk is defined by the Group as the risk of losses arising from insufficient organisation of the Group's processes, deliberate or non-deliberate actions of employees or third parties, failure of information, technology or other systems and as a result of external events.

The organisational process of operational risk management, the structure, roles and functions of the process participants are set out in internal documents of the Group's head credit unit in accordance with the recommendations of the CBRF and the Basel Committee for Bank Supervision (Basel II).

The main stages of the operational risk management include:

- identification of operational risk factors, documentation of events (incidents);
- assessment of direct (monetary) and indirect (quality) losses;
- analysis and classification of risk factors into categories;
- development of measures intended to mitigate operational risk level;
- monitoring and control of the operational risk level and taking measures to mitigate it.

Operational risk exposure is identified by analysing data from all available sources for all main areas of the Group's activities in the context of availability of operational risk factors (reasons). To this end, information is collected about operational risk events and business processes and banking technological processes (including as part of the self-assessment process) are analysed.

The amount of capital required to cover operational risk exposure of the Group is calculated for the Group's head credit unit and for all group entities as required by the Bank of Russia.

The amount of operational risk is calculated on an annual basis. The amount of actual and potential losses arising from occurrence of operational risk events for 2015 and 2014 was significantly lower than the estimated amount of operational risk.

Main methods used by the Group to mitigate its operational risk exposure are as follows:

- clear documentation of rules and procedures for executing banking and other transactions;
- implementation of principles for segregation and restriction of personnel functions, authorities and duties;
- taking collegial decisions, setting risk limits for individual transactions;
- implementing internal controls over business processes and compliance with statutory and internal regulatory requirements;
- ensuring physical and information security of the Bank;
- ensuring required personnel qualification level and staff training;
- automation of bank processes and technologies, organisation of effective monitoring of IT-systems performance.

28 Financial Risk Management (Continued)

In order to reduce financial losses from operational risk occurrence, the Group's head credit unit has a comprehensive insurance programme providing for comprehensive insurance of financial institution's risks (BBB), directors' and officers' liability insurance (D&O), insurance of valuables in transit, insurance of electronic devices and cash therein, voluntary medical insurance of the Bank's employees, insurance of real estate, movable and other valuable property of the Bank. All the above insurance contracts have been entered into with leading Russian and international insurance companies.

The focus of the Group management on establishing of the effective operational risk management system has resulted in the fact that actual and potential losses from occurrence of operational risk events are insignificant for the Group and have no material impact on its operations.

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord.

In order to implement and achieve goals and objectives of the management of capital the Bank uses the following procedures:

- forecasting core performance indicators;
- planning capital requirements;
- capital adequacy monitoring.

At 31 December 2015, regulatory capital calculated in accordance with the technique to estimate equity (capital) of credit institutions ("Basel III") established by the Bank of Russia is RR 27 994 million, including RR 6 625 million received in the form of additional capitalisation through federal loan bonds (OFZ) (31 December 2014: RR 26 202 million).

Under the capital requirements set by the Bank of Russia, banks have to maintain the ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 10%. At 31 December 2015, this statutory capital ratio is 13.0% (31 December 2014: 12.0%).

In October 2015, the Bank joined the program for government support in the form of additional capitalisation through federal loan bonds (OFZ).

Under the subordinated loan agreement, executed with the State Corporation Deposit Insurance Agency, the Bank received five federal loan bond issues with the aggregate nominal value of RR 6 625 million with maturity dates from 2025 to 2034. Interest rates on these loans are equal to coupon rates under relevant OFZ issues plus 1% p.a.

The Bank also signed an agreement with the Deposit Insurance Agency to monitor its activities, and certain provisions of this Agreement were approved by the extraordinary general meeting of the Bank's shareholders. Under this Agreement the Bank undertakes the following obligations for the period of three years from the date of the funds' disbursement:

- to increase the aggregate amount of mortgage (housing) lending and/or the amount of lending to small and medium businesses and/or entities operating in industries covered by the Agreement by at least by 1% per month;
- not to exceed the level of compensation (payroll) to its key management personnel achieved at 1 January 2015.

The Agreement also provides for an increase in the Bank's capitalisation in the amount of at least 50% of the received subordinated liability at the expense of additional contributions from the Bank's shareholders and/or allocation of at least 75% of the Bank's profit to increase its capital till the target level is achieved.

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. The Group's management believes that the allowance of RR 43 million recognised at 31 December 2015 is sufficient for possible payments under legal proceedings. At 31 December 2014, the Group was engaged in litigation proceedings in relation to its commitments under the issued guarantee in the amount of RR 251 million. In 2015, the Group discharged this obligation.

Tax legislation. Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2015, the management has not made any provision for potential tax liabilities (31 December 2014: nil), as the management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2015 and 2014, the Group has no contractual capital expenditure commitments in respect of buildings renovation and premises and equipment acquisition.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	2015	2014
Due within 1 year	296	319
Due between 1 and 5 years	369	473
Due after 5 years	555	280
Total operating lease commitments	**1 220**	**1 072**

Compliance with covenants. At 31 December 2015, the Group repaid the deposits attracted under the program of the European Bank for Reconstruction and Development for lending to small and medium businesses, the agreement with which provided for compliance with covenants.

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.

30 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations by the Group's management 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.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

Outstanding credit related commitments and performance guarantees are as follows:

In millions of Russian Roubles	2015	2014
Unused limits on overdraft loans and credit lines with debt limit	18 357	12 585
Undrawn credit lines with a payment limit	1 487	926
Financial guarantees	331	109
Import letters of credit	-	29
Total credit related commitments	**20 175**	**13 649**
Performance guarantees	12 556	11 459
Undrawn limits on issuance of guarantees	260	2
Total credit related commitments and performance guarantees	**32 991**	**25 110**

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.

In November 2015, the Bank issued an irrevocable financial guarantee to a related party in the amount of RR 331 million. Refer to Note 35.

30 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

In millions of Russian Roubles	Note	2015 Asset pledged	2015 Related liability	2014 Asset pledged	2014 Related liability
Pledged debt securities under sale and repurchase agreements with the Bank of Russia	8, 11, 15	9 889[1]	9 503	9 219	8 000
Pledged loans on funds attracted from AO MSP Bank	10, 15	3 585	3 769	5 575	5 532
Pledged loans on funds attracted from the Bank of Russia	10, 15	2 966	2 809	1 579	1 486
Total		**16 440**	**16 081**	**16 373**	**15 018**

Mandatory cash balances with the Bank of Russia in the amount of RR 1 122 million (2014: RR 1 865 million) represent mandatory reserve deposits with the Bank of Russia which are not available to finance the Group's day-to-day operations.

31 Transfers of Financial Assets

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods.

Securitisation transaction. The Group transferred mortgage loans to securitisation structured entities as follows:

- OOO IAV 4 - RR 3 411 million in June 2015;
- ZAO IAV 3 - RR 3 481 million in December 2013;
- ZAO IAV 2 - RR 4 214 million in December 2012;
- ZAO IAV 1 - RR 3 853 million in December 2011.

At 31 December 2015, the carrying value of the mortgage loans (less impairment provision) was RR 8 739 million (2014: RR 7 135 million).

At 31 December 2015, within the scope of securitisation transactions with mortgage loans the total carrying value of the issued notes was RR 5 869 million (2014: RR 4 809 million). Refer to Note 17.

[1] This amount includes the following: debt securities of RR 4 678 million (Refer to Notes 8 and 11) and OFZ of RR 5 211 million received within the programme for government support (Refer to Notes 1 and 29).

31 Transfers of Financial Assets (Continued)

The following schedule summarises transfers where the Group continues to recognise all of the transferred financial assets and the risks and rewards related to these assets.

In millions of Russian Roubles	2015 Carrying amount of the assets*	2015 Carrying amount of the related borrowings*	2015 Net position	2014 Carrying amount of the assets*	2014 Carrying amount of the related borrowings*	2014 Net position
Securitised mortgage loans	9 669	9 490	179	7 934	7 843	91

* securitisation structured entities

The following schedule provides information about transfers where the counterparties to the associated liabilities have recourse only to the transferred assets. This is the case for the Group's securitisation transactions.

In millions of Russian Roubles	2015 Fair value of assets*	2015 Fair value of the related borrowings*	2015 Net position	2014 Fair value of assets*	2014 Fair value of the related borrowings*	2014 Net position
Securitised mortgage loans	9 475	8 330	1 145	7 768	7 617	151

* securitisation structured entities

Sale and repurchase transactions. At 31 December 2015, the Group had debt securities in the amount of RR 4 678 million and OFZ attracted within the programme for government support in the amount of RR 5 211 million that are subject to obligation to be repurchased by the Group for a fixed pre-determined price (2014: RR 9 219 million). Refer to Note 15 for the carrying value of obligations from these sale and repurchase transactions.

32 Derivative Financial Instruments and Term Deals

Derivative financial instruments and term deals entered into by the Group include foreign exchange contracts and term contracts for precious metals. 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 over time.

At 31 December 2015, the Group had outstanding liabilities related to term contracts for precious metals maturing in April 2016 (2014: in March – May 2015).

The fair value gain on these term deals at 31 December 2015 was RR 5 million (2014: RR 5 million). The contracts are short term in nature.

33 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

33 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the international accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2015			2014		
In millions of Russian Roubles	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Trading securities						
- Corporate Eurobonds	-	4 898	-	-	8 109	-
- Corporate bonds	-	445	-	-	466	-
Corporate shares	6	-	-			
- Russian Federation Eurobonds	-	-	-	4 252	-	-
- Bonds of constituents of the Russian Federation	-	-	-	-	376	-
Investment securities available for sale						
- Corporate bonds	-	4 713	-	-	7 670	-
- Corporate shares	833	-	359	551	-	359
- Corporate Eurobonds	-	3 936	-	-	217	-
- Russian Federation Eurobonds	1 762	-	-	-	-	-
- Municipal bonds	-	186	-	-	74	-
Other financial assets						
- Term deals	-	5	-	-	5	-
Total assets recurring fair value measurements	**2 601**	**14 183**	**359**	**4 803**	**16 917**	**359**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows:

	2015	2014
In millions of Russian Roubles	Securities available for sale	Securities available for sale
Fair value at 1 January	**359**	**304**
Reclassification	-	-
Recovery of provision for impairment	-	55
Fair value at 31 December	**359**	**359**
Revaluation losses less gains recognised in profit or loss for the year for assets held at 31 December	-	-

At 31 December 2015 and 2014, the fair value of non-quoted securities available for sale was assessed based on the amount calculated by an independent appraiser.

33 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2015			2014		
In millions of Russian Roubles	Level 2	Level 3	Carrying value	Level 2	Level 3	Carrying value
FINANCIAL ASSETS						
Due from other banks						
- Short-term placements with other banks	2 209	-	2 209	242	-	242
- Insurance deposits with non-resident banks	1 199	-	1 199	925	-	925
Loans and advances to customers						
- Corporate loans - large	-	44 059	45 038	-	43 705	45 555
Corporate loans - medium and small	-	62 002	61 252	-	62 955	64 894
- Mortgage loans	-	34 389	35 401	-	31 395	31 540
- Other loans to individuals	-	15 128	15 763	-	13 409	13 730
Other financial assets						
- Receivables	-	760	760	-	76	76
- Settlements with currency and stock exchanges	729	-	729	844	-	844
- Banking cards receivables	-	320	320	-	492	492
- Other assets	-	5	5	-	-	-
NON-FINANCIAL ASSETS						
Premises and land (Note 14)	-	-	4 410	-	-	-
TOTAL	**4 137**	**156 663**	**167 086**	**2 011**	**152 032**	**158 298**

33 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	2015			2014		
In millions of Russian Roubles	Level 2	Level 3	Carrying value	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES						
Due to other banks						
- Cash received under sale and repurchase agreements with the Bank of Russia	9 503	-	9 503	8 000	-	8 000
- Placements of other banks	6 706	-	7 230	9 067	-	9 331
- Deposits of the Bank of Russia	2 815	-	2 809	1 486	-	1 486
- Correspondent accounts of other banks	269	-	269	299	-	299
Customer accounts						
- Current/settlement accounts of state and municipal organisations	243	-	243	275	-	275
- Current/settlement accounts of other legal entities	25 835	-	25 835	28 563	-	28 563
- Current/demand accounts of individuals	18 270	-	18 270	18 161	-	18 161
- Term deposits of individuals	110 342	-	108 967	100 182	-	104 683
- Term deposits of other legal entities	16 440	-	16 343	22 464	-	22 536
Debt securities in issue						
- Promissory notes	1 434	-	1 427	1 090	-	1 102
- Mortgage backed bonds in issue	4 862	-	5 869	4 649	-	4 809
- Deposit certificates	137	-	137	162	-	162
Other financial liabilities						
- Trade payables	-	382	382	-	369	369
- Banking cards payables	-	71	71	-	157	157
- Provision for credit related commitments	-	-	-	-	92	92
- Settlements on conversion operations	-	1	1	-	2	2
- Other liabilities	-	37	37	-	27	27
Subordinated loans	-	3 620	3 730	-	2 940	3 563
TOTAL	**196 856**	**4 111**	**201 123**	**194 398**	**3 587**	**203 617**

The fair value of unquoted fixed interest rate instruments was estimated 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.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects this factor.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2015:

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Total
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	10 388	-	-	10 388
-Correspondent accounts	15 271	-	-	15 271
Cash balances with the Bank of Russia	5 604	-	-	5 604
Mandatory cash balances with the Bank of Russia	1 122	-	-	1 122
Trading securities				
- Corporate Eurobonds	-	-	4 898	4 898
- Corporate bonds	-	-	445	445
- Corporate shares	-	-	6	6
Due from other banks				
- Short-term placements with other banks	2 209	-	-	2 209
- Insurance deposits with non-resident banks	1 199	-	-	1 199
Loans and advances to customers				
- Corporate loans - large	45 038	-	-	45 038
Corporate loans - medium and small	61 252	-	-	61 252
- Mortgage loans	35 401	-	-	35 401
- Other loans to individuals	15 763	-	-	15 763
Investment securities available for sale				
- Corporate bonds	-	4 713	-	4 713
- Corporate Eurobonds	-	3 936	-	3 936
- Russian Federation Eurobonds	-	1 762	-	1 762
- Corporate shares	-	1 192	-	1 192
- Municipal bonds	-	186	-	186
Other financial assets				
- Receivables	760	-	-	760
- Settlements with currency and stock exchanges	729	-	-	729
- Banking cards receivables	320	-	-	320
- Other assets	-	-	5	5
TOTAL FINANCIAL ASSETS	**195 056**	**11 789**	**5 354**	**212 199**

34 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2014:

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Total
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	14 878	-	-	14 878
-Correspondent accounts	12 624	-	-	12 624
Cash balances with the Bank of Russia	8 125	-	-	8 125
Mandatory cash balances with the Bank of Russia	1 865	-	-	1 865
Trading securities				
- Corporate Eurobonds	-	-	8 109	8 109
- Russian Federation Eurobonds	-	-	4 252	4 252
- Corporate bonds	-	-	466	466
- Bonds of constituents of the Russian Federation	-	-	376	376
Due from other banks				
- Insurance deposits with non-resident banks	925	-	-	925
- Short-term placements with other banks	242	-	-	242
Loans and advances to customers				
- Corporate loans - large	45 555	-	-	45 555
- Corporate loans - medium	41 850	-	-	41 850
- Corporate loans - small	23 044	-	-	23 044
- Mortgage loans	31 540	-	-	31 540
- Other loans to individuals	13 730	-	-	13 730
Investment securities available for sale				
- Corporate bonds	-	7 670	-	7 670
- Corporate shares	-	910	-	910
- Corporate Eurobonds	-	217	-	217
- Municipal bonds	-	74	-	74
Other financial assets				
- Settlements with currency and stock exchanges	844	-	-	844
- Banking cards receivables	492	-	-	492
- Receivables	76	-	-	76
- Other assets	-	-	5	5
TOTAL FINANCIAL ASSETS	**195 790**	**8 871**	**13 208**	**217 869**

All Group's financial liabilities are carried at amortised cost.

35 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.

The outstanding balances with related parties were as follows:

	2015			2014		
In millions of Russian Roubles	**Share-holders with significant influence**	**Key manage-ment personnel**	**Related and other companies**	**Share-holders with significant influence**	**Key manage-ment personnel**	**Related and other companies**
Loans and advances to customers						
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2015: 10.0%-22.0%; 31 December 2014: 3.3%-17.0%)	-	11	2 160	-	25	587
Provision for loan impairment at 31 December	-	-	(185)	-	-	(69)
Customer accounts						
Current / settlement accounts (contractual interest rate: 31 December 2015: 0.0%; 31 December 2014: 0.0%)	-	21	3	12	14	9
Term deposits (contractual interest rate: 31 December 2015: 4.5%-16.0%; 31 December 2014: 4.0%-17.0%)	-	106	45	1 673	5 680	-
Subordinated loans (contractual interest rate: 31 December 2015: -; 31 December 2014: 8.0-8.5%;	-	-	-	563	-	-
Financial guarantee	331	-	-	-	-	-
Performance guarantees	-	-	48	-	-	-

35 Related Party Transactions (Continued)

The income and expense items with related parties for the years 2015 and 2014 were as follows:

	2015			2014		
In millions of Russian Roubles	Share-holders with significant influence	Key manage-ment personnel	Related and other compa-nies	Share-holders with significant influence	Key manage-ment personnel	Related and other compa-nies
Interest income:						
Loans and advances to customers	-	1	37	-	5	72
Interest expense:						
Term deposits	60	184	3	90	236	-
Subordinated loans	26	-	-	38	-	-
Fee and commission income						
Financial guarantee	6	-	-	-	-	-
Dividend income received	-	-	11	-	-	-

At 31 December 2014, subordinated loans in the amount of RR 563 million were received from a related party of the Bank. Due to the death of the Bank's previous shareholder D.L. Orlov and a subsequent change of the Bank's principal shareholder (refer to Note 1), at 31 December 2015, these subordinated loans are no longer attracted from the related party.

At 31 December 2014, term placements of RR 7 353 million were received from related parties of the Bank. Due to the change of the Bank's principal shareholder (refer to Note 1), at 31 December 2015, these placements are no longer attracted from a related party.

Aggregate amounts lent to and repaid by related parties during 2015 and 2014 were as follows:

	2015			2014		
In millions of Russian Roubles	Share-holders with significant influence	Key manage-ment personnel	Related and other compani es	Share-holders with significant influence	Key manage-ment personnel	Related and other compani es
Amounts lent to related parties during the period	-	2	1 921	-	-	172
Amounts repaid by related parties during the period	-	16	348	-	34	523

Key management personnel includes the members of the Management Board and of the Board of Directors.

In 2015, the total remuneration of the Group's key management personnel comprised salaries, discretionary bonuses and other short-term benefits of RR 232 million (2014: RR 342 million), including payments to social funds in 2015 of RR 27 million (2014: RR 32 million).

36 Events After the End of the Reporting Period

In March 2016, management of the Group approved the development plan for the Bank for 2016, which provides for an increase in assets in priority segments (mortgage lending, SME lending) by 10%-15% and expansion of the Bank's activities on financial markets.

In order to boost operating income, the Bank is to increase its fee and commission income, first and foremost, through expansion in the transaction banking segment, including remote service channels.

Management of the Group considers the opportunity to support the Bank's capital in the form of shareholders' contributions. However, the priority is to capitalise part of its profit and ensure dividend payouts.

Profit will be generated and performance indicators will be improved on the basis of further optimisation of operational processes and reallocation of released resources into development and integration of technologies with Promsvyazbank PJSC, which is a sister entity of the Bank.