JSC Development Capital Bank

Financial statements

for the year ended 31 December 2015
with independent auditors' report

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Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the shareholders and Board of Directors of Joint Stock Company Development Capital Bank

We have audited the accompanying financial statements of Joint Stock Company Development Capital Bank, which comprise the statement of financial position as at 31 December 2015, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2015, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the fairness of these 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 whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the 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 of the audited entity, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of Joint Stock Company Development Capital Bank as at 31 December 2015, and its financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLC

1 June 2016

Moscow, Russia

Statement of financial position

as at 31 December 2015

(Thousands of Russian rubles)

	Notes	2015	2014
Assets			
Cash and cash equivalents	5	2,457,274	1,809,340
Trading securities	6	1,231,109	603,457
Amounts due from credit institutions	7	51,331	92,186
Available-for-sale investment securities		120	120
Loans to customers	8	10,021,919	10,855,715
Property and equipment	9	22,091	36,154
Intangible assets	10	20,274	–
Current income tax assets		3,747	3,882
Other assets	12	99,458	68,546
Total assets		**13,907,323**	**13,469,400**
Liabilities			
Amounts due to credit institutions	13	796,005	1,210,430
Amounts due to customers	14	4,918,460	4,696,814
Debt securities issued	15	566,645	626,490
Deferred income tax liabilities	11	805,411	724,756
Provision for contingencies	17	770,000	385,000
Other liabilities	12	21,426	30,461
Total liabilities		**7,877,947**	**7,673,951**
Equity			
Share capital	16	3,053,865	3,053,865
General reserve		307,243	307,243
Retained earnings		2,668,268	2,434,341
Total equity		**6,029,376**	**5,795,449**
Total equity and liabilities		**13,907,323**	**13,469,400**

Signed and authorized for release on behalf of the Management Board of the Bank

Dmitry V. Klushin — Chairman of the Management Board

Tatiana V. Dorovskikh — Chief Accountant

29 April 2016

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2015

(Thousands of Russian rubles)

	Notes	*2015*	*2014*
Interest income			
Loans to customers		1,640,969	1,454,817
Amounts due from credit institutions		281	57,744
		1,641,250	**1,512,561**
Trading securities		83,860	76,461
		1,725,110	**1,589,022**
Interest expense			
Amounts due to credit institutions		(90,603)	(127,985)
Amounts due to customers		(157,717)	(78,975)
Debt securities issued		(30,763)	(50,639)
		(279,083)	**(257,599)**
Net interest income		**1,446,027**	**1,331,423**
Allowance for loan impairment	8	(1,394,692)	(1,154,897)
Net interest income after allowance for loan impairment		**51,335**	**176,526**
Net fee and commission income	18	32,279	58,270
Net gains/(losses) from revaluation and operations with financial assets at fair value through profit or loss	19	126,096	(55,822)
Net (losses)/gains from translation of assets and liabilities denominated in foreign currencies and from operations with foreign currencies and foreign exchange derivatives:			
- dealing		(68,201)	624,642
- translation differences		968,483	572,116
Loss on initial recognition	8	(75,837)	(172,735)
Charge of provision for contingencies	17	(385,000)	(385,000)
Other income	20	12,301	9,060
Non-interest income less expense		**610,121**	**650,531**
Personnel expenses	21	(201,836)	(224,144)
Depreciation and amortization	9, 10	(4,990)	(6,792)
Other administrative expenses	21	(139,913)	(141,016)
Profit before income tax expense		**314,717**	**455,105**
Income tax expense	11	(80,791)	(93,210)
Profit for the year		**233,926**	**361,895**
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		**233,926**	**361,895**

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2015

(Thousands of Russian rubles)

	Share capital	*General reserve*	*Retained earnings*	*Total equity*
31 December 2013	**3,053,865**	**307,243**	**2,072,446**	**5,433,554**
Total comprehensive income for the year	–	–	361,895	**361,895**
31 December 2014	**3,053,865**	**307,243**	**2,434,341**	**5,795,449**
Total comprehensive income for the year	–	–	233,926	**233,926**
31 December 2015	**3,053,865**	**307,243**	**2,668,268**	**6,029,376**

The accompanying notes are an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2015

(Thousands of Russian rubles)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		1,599,103	1,591,626
Interest paid		(208,982)	(292,354)
Fees and commissions received	18	66,128	94,979
Fees and commissions paid	18	(33,849)	(36,709)
Gains less losses from trading securities		7,829	(32,220)
Realized gains less losses from dealing in foreign currencies		(68,201)	616,023
Other income received		12,301	9,060
Personnel expenses paid		(198,830)	(226,546)
Other administrative expenses paid		(130,423)	(141,430)
Cash flows from operating activities before changes in operating assets and liabilities		**1,045,076**	**1,582,429**
Net (increase)/decrease in operating assets			
Trading securities		(291,245)	1,093,571
Amounts due from credit institutions		47,649	383,403
Loans to customers		92,877	206,330
Other assets		53,880	23,986
Net decrease in operating liabilities			
Amounts due to credit institutions		(433,924)	(3,184,396)
Amounts due to customers		(599,866)	(1,282,280)
Promissory notes issued		(126,165)	(811,951)
Other liabilities		(13,672)	(1,344)
Net cash flows from operating activities before income tax		**(225,390)**	**(1,990,252)**
Income tax paid		–	(26,694)
Net cash used in operating activities		**(225,390)**	**(2,016,946)**
Cash flows from investing activities			
Purchase of property and equipment	9	(2,194)	(513)
Disposal of property and equipment	9	4,193	–
Purchase of intangible assets	10	(20,406)	–
Net cash used in investing activities		**(18,407)**	**(513)**
Effect of exchange rate changes on cash and cash equivalents		891,731	555,290
Net decrease in cash and cash equivalents		**647,934**	**(1,462,169)**
Cash and cash equivalents, beginning		**1,809,340**	**3,271,509**
Cash and cash equivalents, ending	5	**2,457,274**	**1,809,340**

The accompanying notes are an integral part of these financial statements.

(Thousands of Russian rubles)

1. Principal activities

Development Capital Bank (the "Bank") was formed on 3 August 1994 as Vizavi Bank under the laws of the Russian Federation, changed its name to Development Capital Bank in 2007 and operates as an open joint-stock company. The Bank operates under a banking license issued by the Central Bank of Russia ("CBR") on 7 May 2015, as well as licenses of a professional securities market participant for brokerage and dealing operations of 13 December 2000 issued by the Federal Service for the Financial Markets and license of professional security market participant for custody operations of 15 December 2000 issued by the Federal Service for the Financial Markets.

The documents for the state registration of amendments to the Charter of the Bank concerning the new name of the Bank were sent to the Bank of Russia. On 27 April 2015, a record was made in the Unified State Register of Legal Entities concerning the state registration of amendments to the Charter of the Bank. The new name of the Bank in Russian is AO Bank "Razvitie-Stolica". The name of the Bank in English remains unchanged – Development Capital Bank.

The Bank extends loans, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its head office is in Moscow. The Bank's registered legal address is Nizhny Susalny pereulok, 5, building 15, Moscow, Russia.

The Bank is a member of the obligatory deposit insurance system since 26 November 2008. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors in the amount up to RUB 1,400 thousand for each individual in case of business failure or revocation of the CBR banking license.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares.

Shareholders	***2015 %***	***2014 %***
Rustem M. Teregulov	39.01	39.01
OOO "Softservice-R"	20.00	20.00
Tatyana A. Kharitonova	19.66	19.66
OOO "SPECTR-2001"	19.33	19.33
Other	2.00	2.00
Total	**100.00**	**100.00**

The Bank is ultimately controlled by an individual, Mr. Rustem M. Teregulov.

2. Basis of preparation

General

These financial statements are presented in thousands of Russian rubles ("RUB thousand"), except per share amounts and unless otherwise indicated.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below. For example, trading and available-for-sale securities have been measured at fair value.

(Thousands of Russian rubles)

2. Basis of preparation (continued)

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Going concern

The Bank's management prepared these financial statements based on the assumption that the Bank will operate as a going concern in the foreseeable future and that it neither intends nor has to liquidate or significantly curtail its activities, and, therefore, its liabilities will be duly discharged.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. They include:

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Bank’s current accounting policy, and thus this amendment does not impact the Bank’s accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Bank did not record any revaluation adjustments during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Bank as it does not receive any management services from other entities.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Bank does not apply the portfolio exception in IFRS 13.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Bank, since the Bank is an existing IFRS preparer.

Fair value measurement

The Bank measures such financial instruments as trading and available-for-sale securities and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 23.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the statement of comprehensive income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as available-for-sale investment securities. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss within the statement of comprehensive income. However, interest calculated using the effective interest method is recognized in profit or loss within the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit and clearing institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repos”) are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from revaluation and operations with financial assets at fair value through profit or loss or net (losses)/gains from translation of assets and liabilities denominated in foreign currencies and from operations with foreign currencies and foreign exchange derivatives, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not themselves held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognized in profit or loss within the statement of comprehensive income.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying value based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows. The carrying value of the asset is reduced and the amount of the loss is recognized in profit or loss within the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of comprehensive income.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss within the statement of comprehensive income – is reclassified from other comprehensive income to profit or loss within the statement of other comprehensive income. Impairment losses on equity investments are not reversed through the profit or loss within the statement of comprehensive income; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying value and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of other comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is deemed impaired after this restructuring, the Bank recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying value before the restructuring as an expense for impairment in the reporting period. In case the loan is not impaired after restructuring, the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Bank could be required to repay.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying values is recognized in profit or loss.

Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognized in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and the city of Moscow.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded as a component of other administrative expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-30
Leasehold improvements	15
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles	4

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 50 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets received under collateral and compensation agreements

The Bank classifies assets received under collateral and compensation agreements as inventory in accordance with IAS 2 if their carrying value will be recovered principally through a sale transaction rather than through continuing use, but their sale period is over 1 year or management of the Bank did not approve a plan to sell the assets. Inventories are measured at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other employee benefit obligations

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

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying value of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying value is calculated based on the original effective interest rate and the change in carrying value is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying value.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a certain period of time are accrued over that period. These fees include commission income, fees for cash and settlement operations, acquiring, money transfers, etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of comprehensive income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2015 and 31 December 2014 were 72.8827 rubles and 56.2584 rubles to 1 USD, respectively.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Bank's financial statements.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(Thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates is as follows:

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in the 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 group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	***2014***
Current accounts with other credit institutions	1,313,942	615,760
Funds on clearing accounts	203,083	540,879
Current accounts with the CBR	72,403	435,201
Cash on hand	867,846	160,888
Time deposits with credit institutions up to 90 days	–	56,612
Cash and cash equivalents	**2,457,274**	**1,809,340**

Current accounts with the CBR include amounts deposited with the CBR related to daily settlements and other activities.

As at 31 December 2015, RUB 203,083 thousand were placed on the account with a clearing institution which is the main counterparty of the Bank in performing currency transactions (2014: RUB 540,879 thousand).

As at 31 December 2015, there were no time deposits (2014: time deposits included amounts denominated in US dollars of RUB 56,612 thousand placed with a non-resident bank).

(Thousands of Russian rubles)

6. Trading securities

Trading securities owned by the Bank comprise:

	2015	*2014*
Corporate Eurobonds	1,116,379	242,155
Corporate bonds	73,495	322,340
Corporate shares	41,235	38,962
Trading securities	**1,231,109**	**603,457**
Including:		
Corporate bonds and Eurobonds pledged under repurchase agreements	–	564,495

As at 31 December 2015, corporate bonds comprised securities issued by Russian banks. The bonds were denominated in rubles, with maturities from 2 months and bearing interest of 8%.

As at 31 December 2014, corporate bonds comprised securities issued by Russian banks and Russian companies. The bonds were denominated in rubles, with maturities from 3 months to 1 year and bearing interest ranging from 8% to 8.75%.

Corporate shares are mainly represented by ordinary and privileged shares of major Russian companies.

As at 31 December 2015, corporate Eurobonds comprised securities issued by Russian and foreign companies. The Eurobonds are denominated in US dollars, mature from April 2018 to January 2022 and bear interest ranging from 5.12% to 8.25%.

As at 31 December 2014, corporate Eurobonds comprised securities issued by a Russian company. The Eurobonds are denominated in US dollars, mature in December 2017 and bear interest of 5.125%.

As at 31 December 2015, there were no securities pledged as a collateral under repurchase agreements with the CBR (2014: RUB 564,495 thousand) (refer to Note 13).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2015	*2014*
Obligatory reserve with the CBR	42,242	59,176
Special account for acquiring	–	2,814
Time deposits for more than 90 days	9,089	30,196
Amounts due from credit institutions	**51,331**	**92,186**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

8. Loans to customers

Loans to customers comprise:

	2015	*2014*
Corporate lending	10,822,588	10,075,736
Consumer lending	2,284,877	2,778,057
Gross loans to customers	**13,107,465**	**12,853,793**
Less: allowance for impairment	(3,085,546)	(1,998,078)
Loans to customers	**10,021,919**	**10,855,715**

(Thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Consumer lending*	*Total*
1 January 2015	**1,145,808**	**852,270**	**1,998,078**
Charge for the year	1,385,168	9,524	**1,394,692**
Sales and write-offs of loans	(306,372)	(852)	**(307,224)**
31 December 2015	**2,224,604**	**860,942**	**3,085,546**
Collectively assessed impairment allowances	383,848	112,795	**496,643**
Individually assessed impairment allowances	1,840,756	748,147	**2,588,903**
	2,224,604	**860,942**	**3,085,546**
Gross amount of individually assessed loans with signs of impairment	**4,222,014**	**787,357**	**5,009,371**

	Corporate lending	*Consumer lending*	*Total*
1 January 2014	**386,692**	**469,905**	**856,597**
Charge for the year	759,116	395,781	**1,154,897**
Sales and write-offs of loans	–	(13,416)	**(13,416)**
31 December 2014	**1,145,808**	**852,270**	**1,998,078**
Collectively assessed impairment allowances	137,169	159,176	**296,345**
Individually assessed impairment allowances	1,008,639	693,094	**1,701,733**
	1,145,808	**852,270**	**1,998,078**
Gross amount of individually assessed loans with signs of impairment	**3,963,588**	**1,199,194**	**5,162,782**

Interest income accrued on individually assessed loans with signs of impairment for the year ended 31 December 2015 comprised RUB 633,492 thousand (2014: RUB 407,365 thousand).

In 2015, the Bank issued a number of loans to customers with interest rates less than market interest rates at the moment of issuance; this resulted in loss on initial recognition in the amount of RUB 75,837 thousand (2014: RUB 172,735 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate, inventory and trade receivables
- For consumer lending, charges over real estate

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

(Thousands of Russian rubles)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2015, the Bank had a concentration of loans represented by RUB 9,133,054 thousand due from ten largest third party entities, or 70% of gross loan portfolio (2014: RUB 8,091,693 thousand, or 63% of gross loan portfolio). An allowance of RUB 1,906,167 thousand (2014: RUB 756,380 thousand) was recognized against these loans.

Loans are made principally within Russia in the following industry sectors:

	2015	*2014*
Operations with investment property (rentals)	7,040,341	5,931,568
Real estate construction	3,141,409	2,699,966
Individuals	2,284,877	2,778,057
Trading enterprises	280,493	1,078,314
Mining	260,000	260,000
Finance	–	84,388
Other	100,345	21,500
	13,107,465	**12,853,793**

9. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost						
31 December 2013	**1,369**	**27,226**	**15,476**	**3,018**	**47,225**	**94,314**
Additions	–	496	17	–	–	**513**
Disposals	–	–	–	–	–	**–**
31 December 2014	**1,369**	**27,722**	**15,493**	**3,018**	**47,225**	**94,827**
Additions	–	84	2,110	–	–	**2,194**
Disposals	(948)	(12,734)	(4,252)	(650)	(10,726)	**(29,310)**
31 December 2015	**421**	**15,072**	**13,351**	**2,368**	**36,499**	**67,711**
Accumulated depreciation						
31 December 2013	**591**	**20,140**	**15,374**	**2,023**	**13,753**	**51,881**
Depreciation charge	52	1,985	46	311	4,398	**6,792**
Depreciation written off	–	–	–	–	–	**–**
31 December 2014	**643**	**22,125**	**15,420**	**2,334**	**18,151**	**58,673**
Depreciation charge	50	286	404	311	3,807	**4,858**
Depreciation written off	(419)	(9,070)	(4,252)	(650)	(3,520)	**(17,911)**
31 December 2015	**274**	**13,341**	**11,572**	**1,995**	**18,438**	**45,620**
Net book value						
31 December 2013	**778**	**7,086**	**102**	**995**	**33,472**	**42,433**
31 December 2014	**726**	**5,597**	**73**	**684**	**29,074**	**36,154**
31 December 2015	**147**	**1,731**	**1,779**	**373**	**18,061**	**22,091**

As at 31 December 2015, the value of fully depreciated property and equipment in use was RUB 23,606 thousand (31 December 2014: RUB 26,539 thousand).

(Thousands of Russian rubles)

10. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Total*
Cost		
31 December 2014	**–**	**–**
Additions	20,406	**20,406**
Disposals	–	**–**
31 December 2015	**20,406**	**20,406**
Accumulated amortization		
31 December 2014	**–**	**–**
Amortization charge	132	**132**
Amortization written off	–	**–**
31 December 2015	**132**	**132**
Net book value		
31 December 2013	**–**	**–**
31 December 2014	**–**	**–**
31 December 2015	**20,274**	**20,274**

11. Taxation

The corporate income tax expense comprises:

	2015	*2014*
Current tax charge	136	19,958
Deferred tax expense	80,655	73,252
Income tax expense	**80,791**	**93,210**

Russian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies (including banks) comprised 20% for 2015 and 2014. Corporate income tax rate applicable to interest (coupon) income on state securities in 2015 and 2014 was 15%.

Dividends received by the Bank are taxed at the corporate income tax rate of 13%, which could be reduced to 0% subject to the requirements set out in the Russian Tax Code.

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

	2015	*2014*
Profit before tax	**314,717**	**455,105**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**62,943**	**91,021**
Tax effect of non-taxable income	(424)	(464)
Income tax related to other periods	136	–
Change in unrecognized deferred tax assets	14,564	12,597
Other	169	(9,944)
Income tax expense	**80,791**	**93,210**

(Thousands of Russian rubles)

11. Taxation (continued)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities under IFRS and their value for tax purposes. The tax effect on the movement on these temporary differences is recorded as deferred tax.

		Origination and reversal of temporary differences		Origination and reversal of temporary differences	
	2013	In the statement of comprehensive income	2014	In the statement of comprehensive income	2015
Tax effect of deductible temporary differences					
Tax losses carried forward	–	12,597	12,597	14,564	27,161
Provision for potential losses on contingent liabilities	–	77,000	77,000	(77,000)	–
Other liabilities	2,767	(695)	2,072	(224)	1,848
Property and equipment	–	1,610	1,610	354	1,864
Other	361	11,395	11,756	1,571	13,327
Deferred tax assets	**3,128**	**101,907**	**105,035**	**(60,835)**	**44,200**
Tax effect of taxable temporary differences					
Loans to customers	651,104	160,436	811,540	(43,559)	767,981
Trading securities	1,441	4,213	5,654	48,815	54,469
Property and equipment	1,282	(1,282)	–	–	–
Other	805	(805)	–	–	–
Deferred tax liability	**654,632**	**162,562**	**817,194**	**5,256**	**822,450**
Unrecognized deferred tax asset	–	(12,597)	(12,597)	(14,564)	(27,161)
Deferred tax liability, net	**651,504**	**73,252**	**724,756**	**80,655**	**805,411**

12. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Property received under compensation agreements (accounted for in accordance with IAS 2)	76,313	35,855
Settlements with suppliers	10,306	5,216
Spot deals	9,598	25,654
Intangible assets	278	214
Claims related to other operations	136	838
Prepaid operating taxes	21	343
Other	2,806	426
Other assets	**99,458**	**68,546**

Other liabilities comprise:

	2015	*2014*
Accrued expenses	7,305	1,984
Spot deals	4,769	18,184
Settlements on operating taxes	4,295	3,895
Settlements with employees	3,006	4,088
Deferred income	2,051	2,310
Other	–	–
Other liabilities	**21,426**	**30,461**

(Thousands of Russian rubles)

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2015	*2014*
Time deposits and loans	710,173	660,074
Current accounts	85,832	27,588
Repurchase agreements	–	522,768
Amounts due to credit institutions	**796,005**	**1,210,430**

As at 31 December 2015, the Bank received loans from three Russian banks for the amount of RUB 710,173 thousand. The loans were issued in rubles, mature in January 2016 and bear interest at rates ranging from 10.75% to 12% p.a.

As at 31 December 2014, the Bank received loans from three Russian banks for the amount of RUB 660,074 thousand. The loans were issued in rubles, mature in January-February 2015 and bear interest at rates ranging from 9.50% to 18.00% p.a.

As at 31 December 2014, the Bank received loans from the CBR collateralized by securities pledged under repurchase agreements for a total of RUB 522,768 thousand; the loans mature in January 2015 and bear interest at the rate of 17.5%. The fair value of securities provided as collateral for the loans amounted to RUB 564,495 thousand (refer to Note 6).

14. Amounts due to customers

Amounts due to customers include the following:

	2015	*2014*
Current accounts	**2,378,736**	**2,967,835**
Private enterprises	2,159,186	2,636,125
Individuals	208,957	235,557
Employees	10,593	96,153
Time deposits	**2,539,724**	**1,728,979**
Private enterprises	119,411	174,932
Individuals	2,210,870	1,376,646
Employees	209,443	177,401
Amounts due to customers	**4,918,460**	**4,696,814**

As at 31 December 2015 and 2014, amounts due to ten largest customers equaled to RUB 2,144,969 thousand and RUB 1,507,523 thousand, or 44% and 32% of the total amounts due to customers, respectively.

Time deposits include deposits of individuals in the amount of RUB 2,420,313 thousand (2014: RUB 1,554,047 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

15. Debt securities issued

Debt securities issued comprise discounted promissory notes:

	2015		*2014*	
	Nominal amount	*Carrying value*	*Nominal amount*	*Carrying value*
Interest-bearing debt securities issued that have not become due	535,729	530,516	628,128	618,443
Promissory notes that have become due but have not been presented for redemption	36,129	36,129	8,047	8,047
Debt securities issued	**571,858**	**566,645**	**636,175**	**626,490**

In 2015, promissory notes issued matured within 1 year (2014: 3 years).

(Thousands of Russian rubles)

16. Equity

Movements in shares outstanding, issued and fully paid, were as follows:

	Number of ordinary shares	*Nominal amount*	*Inflation adjustment*	*Total*
31 December 2015 and 2014	1,500,000	1,500,000	1,553,865	**3,053,865**

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

The Bank's reserves are represented by a general reserve fund in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

17. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of the Russian Federation raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Bank’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

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

In 2014, a claim was filed against the Bank to recover cash in the amount of RUB 770,000 thousand received from the entity in bankruptcy proceedings. As at 31 December 2014, the Bank assessed potential losses on this claim in the amount of RUB 385,000 thousand. In 2015, following the decision made by the Seventh Arbitration Appellate Court on 20 November 2015, the Bank made a decision to increase the provision up to RUB 770,000 thousand.

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation and performing tax reviews. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax field audits of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year in which the tax audit decision was made by the tax authorities. Under certain circumstances reviews may cover longer periods.

As at 31 December 2015, management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

(Thousands of Russian rubles)

17. Commitments and contingencies (continued)

Commitments and contingencies

As at 31 December, the Bank's commitments and contingencies comprised the following:

	2015	*2014*
Credit-related commitments		
Guarantees	452,795	1,010,388
Undrawn loan commitments	2,943	3,558
	455,738	**1,013,946**
Operating lease commitments		
Not later than 1 year	8,539	74,608
Later than 1 year but not later than 5 years	18,000	339,120
More than 5 years	69,200	1,372,494
	95,739	**1,786,222**
Non-credit related contingent liabilities	**770,000**	**385,000**
Commitments and contingencies	**1,321,477**	**3,185,168**

A reconciliation of the provision for non-credit related contingent liabilities is as follows:

	2015	*2014*
1 January 2015	**385,000**	**–**
Charge for the year	385,000	385,000
31 December 2015	**770,000**	**385,000**

As collateral against guarantees issued, the Bank accepts charges over real estate properties and personal guarantees.

The Bank has the right to change loan terms or refuse to extent a loan under undrawn loan commitments in case of changing economic conditions.

In November 2010, the Bank concluded a 30-year rent agreement of office premises with entities related to the major shareholder of the Bank; the monthly rent payment under the agreement was RUB 2,000 thousand. In August 2011, the agreement was amended, the monthly rent was changed to RUB 5,652 thousand. In June 2015, the agreement was amended once more, the monthly rent was changed to RUB 300 thousand. The agreement is classified as operating lease under IAS 17 *Leases*.

18. Net fee and commission income

Net fee and commission income comprises:

	2015	*2014*
Settlement operations	51,536	65,662
Guarantees	13,564	22,288
Currency conversion operations	554	6,596
Cash collection	387	424
Brokerage operations	87	9
Fee and commission income	**66,128**	**94,979**
Settlement operations	(20,874)	(19,498)
Currency conversion operations	(7,372)	(11,594)
Settlement operations – money transfers	(4,346)	(4,985)
Securities operations	(277)	(329)
Other	(980)	(303)
Fee and commission expense	**(33,849)**	**(36,709)**
Net fee and commission income	**32,279**	**58,270**

(Thousands of Russian rubles)

19. Net losses from revaluation and operations with financial assets at fair value through profit or loss

Net gains less losses from operations with securities carried at fair value through profit or loss recognized in the statement of comprehensive income comprise:

	2015	*2014*
Revaluation at fair value	118,267	(23,601)
Trading and redemption	7,829	(32,221)
Total	**126,096**	**(55,822)**

20. Other income

Other income comprises:

	2015	*2014*
Rental income	4,155	2,214
Property disposal	2,563	3,339
Dividend income	2,484	2,320
Penalties received	51	14
Other	3,048	1,173
Total other income	**12,301**	**9,060**

21. Personnel and other administrative expenses

Personnel expenses, other employee benefits and other administrative expenses comprise:

	2015	*2014*
Salaries and bonuses	160,125	183,165
Social security costs	41,711	40,979
Personnel expenses	**201,836**	**224,144**
Occupancy and rent	51,540	81,569
Disposal of property	16,459	2,133
Communications	12,773	10,180
Software support	12,530	6,333
Repair and maintenance of property and equipment	11,661	4,543
Insurance	9,273	6,487
Legal and professional services	9,163	12,059
Security	7,479	6,908
Entertainment expenses	4,913	5,202
Charity	814	921
Marketing and advertising	714	1,253
Penalties incurred	651	205
Operating taxes	141	1,685
Other	1,802	1,538
Other administrative expenses	**139,913**	**141,016**

(Thousands of Russian rubles)

22. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The Bank has Risk Management Unit which includes Department for Market Risk Management and Department for Counterparty Risk Management.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank. The Management Board has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Unit

The Risk Management Unit includes Department for Market Risk Management and Department for Counterparty Risk Management. Risk Management Unit is responsible for complying with risk management policies and procedures, setting adequate and objective risk limits by business process area, and maintaining the limit of aggregate risk inherent in banking activities including with respect to the equity.

Each business unit has an officer in charge of control functions, including risk control, which comprises monitoring the risk of exposures against limits and assessment of risks of new products and structured transactions.

Risk Management Unit accumulates the entire amount of information concerning the size and types of risks assumed by the Bank for subsequent analysis and reporting.

Bank Treasury

Bank Treasury is responsible for managing assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity risks and funding management.

Internal control

Risk management processes implemented in the Bank are tested annually by Department for Control over Risk Management System Operation, which is an independent structural subdivision within the Internal Control function. The testing covers compliance with the complete set of procedures required for objective analysis of banking risks. Upon completion of testing, all findings, conclusions and recommendations are communicated by the Internal Control function to the Bank's management and the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(Thousands of Russian rubles)

22. Risk management (continued)

Introduction (continued)

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected business process areas and operations. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to credit risks and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying values.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

(Thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk. Other borrowers with good financial position and good debt service are included in the standard grade. Substandard grade comprises loans below standard grade but not individually impaired.

		Neither past due nor impaired					
	Notes	***High grade as at 31 December 2015***	***Standard grade as at 31 December 2015***	***Substandard grade as at 31 December 2015***	***Past due but not individually impaired as at 31 December 2015***	***Individually assessed with signs of impairment as at 31 December 2015***	***Total as at 31 December 2015***
Amounts due from credit institutions	7	51,331	–	–	–	–	**51,331**
Loans to customers	8						
Corporate lending		2,335,161	655,819	3,609,595	–	4,222,013	**10,822,588**
Consumer lending		159,959	–	1,202,704	134,856	787,357	**2,284,877**
		2,495,120	**655,819**	**4,812,299**	**134,856**	**5,009,371**	**13,107,465**
Total		**2,546,451**	**655,819**	**4,812,299**	**134,856**	**5,009,371**	**13,158,796**

		Neither past due nor impaired					
	Notes	***High grade as at 31 December 2014***	***Standard grade as at 31 December 2014***	***Substandard grade as at 31 December 2014***	***Past due but not individually impaired as at 31 December 2014***	***Individually assessed with signs of impairment as at 31 December 2014***	***Total as at 31 December 2014***
Amounts due from credit institutions	7	92,186	–	–	–	–	**92,186**
Loans to customers	8						
Corporate lending		4,307,315	1,388,299	416,534	–	3,963,588	**10,075,736**
Consumer lending		213,543	–	1,076,519	288,801	1,199,194	**2,778,057**
		4,520,858	**1,388,299**	**1,493,053**	**288,801**	**5,162,782**	**12,853,793**
Total		**4,613,044**	**1,388,299**	**1,493,053**	**288,801**	**5,162,782**	**12,945,979**

An analysis of past due but non impaired loans, by age, is provided below:

	Less than 30 days 2015	***31 to 60 days 2015***	***61 to 90 days 2015***	***Total 2015***
Loans to customers				
Consumer lending	84,659	19,477	30,720	**134,856**
Total	**84,659**	**19,477**	**30,720**	**134,856**

	Less than 30 days 2014	***31 to 60 days 2014***	***61 to 90 days 2014***	***Total 2014***
Loans to customers				
Consumer lending	146,399	47,867	94,535	**288,801**
Total	**146,399**	**47,867**	**94,535**	**288,801**

See Note 8 for detailed information with respect to the allowance for impairment of loans to customers.

For credit enhancement purposes, the Bank accepts collateral. The main types of collateral that the Bank holds relating to loans provided to customers are charges over real estate properties and personal guarantees.

(Thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

Carrying value of financial assets whose terms have been renegotiated, by class

The table below shows the carrying value for renegotiated financial assets, by class.

	2015	*2014*
Loans to customers		
Corporate lending	5,663,343	5,301,362
Consumer lending	884,859	963,336
Total	**6,548,202**	**6,264,698**

The geographical concentration of the Bank's monetary assets and liabilities is as follows:

	2015			
	Russia	*OECD*	*CIS and other foreign countries*	*Total*
Assets				
Cash and cash equivalents	1,143,791	1,312,899	584	**2,457,274**
Trading securities	1,231,109	–	–	**1,231,109**
Amounts due from credit institutions	51,331	–	–	**51,331**
Available-for-sale investment securities	120	–	–	**120**
Loans to customers	7,680,115	–	2,341,804	**10,021,919**
Other assets	99,458	–	–	**99,458**
	10,205,924	**1,312,899**	**2,342,388**	**13,861,211**
Liabilities				
Amounts due to credit institutions	796,005	–	–	**796,005**
Amounts due to customers	4,729,348	13,907	175,205	**4,918,460**
Debt securities issued	566,645	–	–	**566,645**
Other liabilities	21,426	–	–	**21,426**
	6,113,424	**13,907**	**175,205**	**6,302,536**
Net statement of financial position	**4,092,500**	**1,298,992**	**2,167,183**	**7,558,675**

	2014			
	Russia	*OECD*	*CIS and other foreign countries*	*Total*
Assets				
Cash and cash equivalents	1,137,713	671,393	234	**1,809,340**
Trading securities	603,457	–	–	**603,457**
Amounts due from credit institutions	89,372	–	2,814	**92,186**
Available-for-sale investment securities	120	–	–	**120**
Loans to customers	8,576,266	–	2,279,449	**10,855,715**
Other assets	43,049	25,497	–	**68,546**
	10,449,977	**696,890**	**2,282,497**	**13,429,364**
Liabilities				
Amounts due to credit institutions	1,210,430	–	–	**1,210,430**
Amounts due to customers	4,525,914	65,835	105,065	**4,696,814**
Debt securities issued	626,490	–	–	**626,490**
Other liabilities	30,461	–	–	**30,461**
	6,393,295	**65,835**	**105,065**	**6,564,195**
Net statement of financial position	**4,056,682**	**631,055**	**2,177,432**	**6,865,169**

(Thousands of Russian rubles)

22. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

		Actual ratio	
	Statutory ratio	***2015, %***	***2014, %***
N2 “Instant Liquidity Ratio” (assets receivable or realizable within one day / liabilities repayable on demand) (min)	Min 15.0	167.49	46.57
N3 “Current Liquidity Ratio” (assets receivable or realizable within 30 days / liabilities repayable within 30 days) (min)	Min 50.0	153.08	61.78
N4 “Long-Term Liquidity Ratio” (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year) (max)	Max. 120.0	57.93	107.09

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities as at 31 December 2015	***Expired maturity***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Amounts due to credit institutions	85,832	713,496	–	–	**799,328**
Amounts due to customers	2,378,736	1,038,078	1,530,667	62,585	**5,010,066**
Debt securities issued	36,092	382,958	158,115	–	**577,165**
Other liabilities	–	21,426	–	–	**21,426**
Total undiscounted financial liabilities	**2,500,660**	**2,155,958**	**1,688,782**	**62,585**	**6,407,985**

Financial liabilities as at 31 December 2014	***Expired maturity***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Amounts due to credit institutions	27,588	1,199,599	–	–	**1,227,187**
Amounts due to customers	2,967,835	721,968	908,555	100,446	**4,698,804**
Debt securities issued	8,059	377,247	240,409	22,345	**648,060**
Other liabilities	–	891,296	–	–	**891,296**
Total undiscounted financial liabilities	**3,003,482**	**3,190,110**	**1,148,964**	**122,791**	**7,465,347**

(Thousands of Russian rubles)

22. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual maturity of the Bank's commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2015					
Outstanding credit facilities and guarantees	65,213	383,119	7,406	–	**455,738**
Operating lease commitments	926	7,614	18,000	69,200	**95,739**
2014					
Outstanding credit facilities and guarantees	107,326	882,036	21,026	–	**1,010,388**
Operating lease commitments	3,924	70,684	339,120	1,372,494	**1,786,222**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 14.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading and non-trading portfolios is managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net gains from trading securities for one year based on the fixed rate trading securities held at 31 December 2015.

Currency	*Increase/(decrease) in basis points 2015*	*Sensitivity of profit before tax 2015*
RUB	3.75%/(3.75%)	(636)/636
USD	0.50%/(0.12%)	(248)/248

As at 31 December 2014:

Currency	*Increase/(decrease) in basis points 2014*	*Sensitivity of profit before tax 2014*
RUB	3.99%/(3.99%)	(1,371)/1,371
USD	0.02%/(0.02%)	(12)/12

(Thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a possible movement of the currency rate against the ruble on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	***Increase in currency rate in % 2015***	***Effect on profit before tax 2015***	***Increase in currency rate in % 2014***	***Effect on profit before tax 2014***
USD	40.00%	45,313	28.54%	41,805
EUR	43.00%	(76,002)	29.58%	(27,998)

Currency	***Decrease in currency rate in % 2015***	***Effect on profit before tax 2015***	***Decrease in currency rate in % 2014***	***Effect on profit before tax 2014***
USD	-13.00%	(14,727)	-28.54%	(41,805)
EUR	-15.00%	26,512	-29.58%	27,998

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares.

The effect on profit before tax (as a result of a change in the fair value of equity instruments held as trading at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	***Increase in equity price 2015***	***Effect on profit before tax 2015***	***Increase in equity price 2014***	***Effect on profit before tax 2014***
MICEX index	16.84%	18,186	23.59%	79,468

Market index	***Decrease in equity price 2015***	***Effect on profit before tax 2015***	***Decrease in equity price 2014***	***Effect on profit before tax 2014***
MICEX index	-16.84%	(18,186)	-23.59%	(79,468)

Operational risk

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

(Thousands of Russian rubles)

23. Fair value of financial instruments

Fair value measurement procedures

Bank Treasury determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

At each reporting date Bank Treasury reviews changes in the value of those assets and liabilities that require revaluation or reassessment according to the Bank's accounting policy. For the purposes of this analysis, Bank Treasury reviews key input data used in previous assessment by comparing information in the estimates with contracts and other relevant documents. Bank Treasury together with external appraisers compares every change in the fair value of assets and liabilities with the relevant external sources to determine appropriateness of the change. Regularly, Bank Treasury and external appraisers provide results to the Bank's independent auditors and discuss key assumptions used during the assessment.

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following table shows the analysis of financial instruments measured at fair value by level of the fair value hierarchy as at 31 December 2015:

		Fair value measurement using			
	Valuation date	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Trading securities		1,231,109	–	–	**1,231,109**
Available-for-sale investment securities		–	–	120	**120**
Assets for which fair values are disclosed					
Cash and cash equivalents		2,457,274	–	–	**2,457,274**
Amounts due from credit institutions		–	–	51,331	**51,331**
Loans to customers				9,951,298	**9,951,298**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions		–	–	796,005	**796,005**
Amounts due to customers		–	–	4,936,889	**4,936,889**
Debt securities issued		–	–	569,303	**569,303**

The following table shows the analysis of financial instruments measured at fair value by level of the fair value hierarchy as at 31 December 2014:

		Fair value measurement using			
	Valuation date	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Trading securities		603,457	–	–	**603,457**
Available-for-sale investment securities		–	–	120	**120**
Assets for which fair values are disclosed					
Cash and cash equivalents		1,809,340	–	–	**1,809,340**
Amounts due from credit institutions		–	–	92,186	**92,186**
Loans to customers		–	–	10,814,949	**10,814,949**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions		–	–	1,210,430	**1,210,430**
Amounts due to customers		–	–	4,655,923	**4,655,923**
Debt securities issued		–	–	627,376	**627,376**

(Thousands of Russian rubles)

23. Fair value of financial instruments (continued)

Fair value of financial assets and liabilities not recorded at fair value

Set out below is a comparison by class of the carrying values and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2015	*Fair value 2015*	*Unrecognized gain/(loss) 2015*	*Carrying value 2014*	*Fair value 2014*	*Unrecognized gain/(loss) 2014*
Financial assets						
Cash and cash equivalents	2,457,274	2,457,274	–	1,809,340	1,809,340	–
Amounts due from credit institutions	51,331	51,331	–	92,186	92,186	–
Loans to customers	10,021,919	9,951,298	(70,621)	10,855,715	10,814,949	(40,766)
Financial liabilities						
Amounts due to credit institutions	796,005	796,005	–	1,210,430	1,210,430	–
Amounts due to customers	4,918,460	4,936,889	18,429	4,696,814	4,655,923	40,891
Debt securities issued	566,645	569,303	2,658	626,490	627,376	(886)
Total unrecognized change in unrealized fair value			**(49,534)**			**(761)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying values approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed-rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debt instruments with similar credit risk and maturity. For quoted debt instruments issued the fair value is determined based on quoted market prices. For those bonds issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The financial instruments recorded at fair value are measured based on quoted market price.

Trading securities and available-for-sale investment securities

Trading securities and available-for-sale investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. Such assets are valued using valuation models which incorporate either only observable data or both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Russian rubles)

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 22 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	As at 31 December 2015					
	On demand and less than 1 month	***1 to 6 months***	***6 months to 1 year***	***Over 1 year***	***Past due***	***Total***
Financial assets						
Cash and cash equivalents	2,457,274	–	–	–	–	**2,457,274**
Trading securities	1,231,109	–	–	–	–	**1,231,109**
Amounts due from credit institutions	51,331	–	–	–	–	**51,331**
Available-for-sale investment securities	120	–	–	–	–	**120**
Loans to customers	336,635	2,470,474	685,160	6,276,768	252,882	**10,021,919**
Property and equipment	–	–	–	22,091	–	**22,091**
Intangible assets	–	–	–	20,274	–	**20,274**
Current income tax assets	–	–	3,747	–	–	**3,747**
Other assets	23,144	–	–	76,314	–	**99,458**
Total	**4,099,613**	**2,470,474**	**688,907**	**6,395,447**	**252,882**	**13,907,323**
Financial liabilities						
Amounts due to credit institutions	796,005	–	–	–	–	**796,005**
Amounts due to customers	2,633,221	1,143,509	848,885	292,845	–	**4,918,460**
Debt securities issued	399,337	162,391	4,917	–	–	**566,645**
Deferred income tax liabilities	–	–	–	805,411	–	**805,411**
Provision for contingencies	–	–	–	770,000	–	**770,000**
Other liabilities	21,426	–	–	–	–	**21,426**
Total	**3,849,989**	**1,305,900**	**853,802**	**1,868,256**	**–**	**7,877,947**
Net	**249,624**	**1,164,574**	**(164,895)**	**4,527,191**	**252,882**	**6,029,376**

(Thousands of Russian rubles)

24. Maturity analysis of assets and liabilities (continued)

	As at 31 December 2014					
	On demand and less than 1 month	***1 to 6 months***	***6 months to 1 year***	***Over 1 year***	***Past due***	***Total***
Financial assets						
Cash and cash equivalents	1,809,340	–	–	–	–	**1,809,340**
Trading securities	603,457	–	–	–	–	**603,457**
Amounts due from credit institutions	33,010	–	–	59,176	–	**92,186**
Available-for-sale investment securities	–	–	–	120	–	**120**
Loans to customers	573,631	1,271,676	1,821,823	6,892,856	295,729	**10,855,715**
Property and equipment	–	–	–	36,154	–	**36,154**
Current income tax assets	–	–	3,882	–	–	**3,882**
Other assets	32,691	–	–	35,855	–	**68,546**
Total	**3,052,129**	**1,271,676**	**1,825,705**	**7,024,161**	**295,729**	**13,469,400**
Financial liabilities						
Amounts due to credit institutions	800,430	410,000	–	–	–	**1,210,430**
Amounts due to customers	3,215,156	697,695	683,645	100,318	–	**4,696,814**
Debt securities issued	252,232	126,301	228,555	19,402	–	**626,490**
Deferred income tax liabilities	–	–	–	724,756	–	**724,756**
Provision for contingencies	–	–	–	385,000	–	**385,000**
Other liabilities	30,461	–	–	–	–	**30,461**
Total	**4,298,279**	**1,233,996**	**912,200**	**1,229,476**	**–**	**7,673,951**
Net	**(1,246,150)**	**37,680**	**913,505**	**5,794,685**	**295,729**	**5,795,449**

(Thousands of Russian rubles)

24. Maturity analysis of assets and liabilities (continued)

The above analysis was based on expected maturities; therefore, the entire portfolio of trading securities is included in the *Within One Year* category in accordance with the results of management's assessment of the liquidity of this portfolio.

As at 31 December 2015, the Bank has a negative liquidity gap for the terms less than one year. However, taking into account historical data on minimum sustained balances on customers' accounts, the Bank possesses excessive liquidity both in the short-term and long-term perspective. These minimum sustained balances represent amounts deposited by individuals that are the related parties of the Bank or its reliable counterparties having an account in the Bank for several years. As at 31 December 2015, the share of minimum sustained balances amounts to 72% of the total amounts due to customers.

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2015				
	Shareholders	***Entities under common control***	***Key management personnel***	***Other***	***Total***
Loans outstanding at 1 January, gross	62	2,972,670	–	2,670	**2,975,402**
Loans outstanding at 31 December, gross	**683**	**3,195,648**	**705**	**1,897**	**3,198,933**
Less: allowance for impairment at 31 December	(12)	(1,593,750)	(12)	(33)	**(1,593,807)**
Loans outstanding at 31 December, net	**671**	**1,601,898**	**693**	**1,864**	**1,605,126**
Deposits at 1 January	–	–	396,514	–	**396,514**
Deposits at 31 December	–	–	210,855	8,693	**219,548**
Customers' current accounts	73,264	20,556	1,410	265	**95,495**
Other liabilities	–	–	4	–	**4**
Statement of comprehensive income					
Interest income	107	351,471	–	–	**351,578**
Interest expense	–	–	7,338	349	**7,687**
(Charge)/reversal of allowance for loan impairment	(11)	(986,826)	(12)	1	**(986,848)**
Net fee and commission income	474	328	50	8	**860**
Net gains/(losses) from foreign currencies					
- dealing	(20,183)	(1)	(66,699)	(678)	**(87,561)**
Other administrative expenses (occupancy and rent)	37,895	6,810	–	–	**44,705**

(Thousands of Russian rubles)

25. Related party disclosures (continued)

	2014				
	Shareholders	***Entities under common control***	***Key management personnel***	***Other***	***Total***
Loans outstanding at 1 January, gross	644	605,000	–	3,025	**608,669**
Loans outstanding at 31 December, gross	**62**	**2,972,670**	**–**	**2,670**	**2,975,402**
Less: allowance for impairment at 31 December	(1)	(606,924)	–	(34)	**(606,959)**
Loans outstanding at 31 December, net	**61**	**2,365,746**	**–**	**2,636**	**2,368,443**
Deposits at 1 January	374,879	–	264,935	–	**639,814**
Deposits at 31 December	–	–	396,514	–	**396,514**
Customers' current accounts	160,794	131,647	4,054	551	**297,046**
Other liabilities	–	–	3	–	**3**
Statement of comprehensive income					
Interest income	62	260,546	–	347	**260,955**
Interest expense	576	–	22,472	6	**23,054**
(Charge)/reversal of allowance for loan impairment	6	(603,408)	–	(3)	**(603,405)**
Net fee and commission income	473	27	229	9	**738**
Net gains/(losses) from foreign currencies					
- dealing	(18,082)	–	(130,380)	(197)	**(148,659)**
Other administrative expenses (occupancy and rent)	68,920	6,595	–	–	**75,515**

Loans granted to related parties as at 31 December 2015 had interest rates from 10% to 18% (2014: from 10% to 15%), loans were extended for the period from 3 months to 5 years (2014: from 3 months to 5 years). Interest rates on deposits received from related parties as at 31 December 2015 ranged from 3% to 14% (2014: from 2% to 13%), the deposits were accepted for the period from 1 month to 2 years (2014: from 1 month to 1 year).

Compensation to key management personnel comprised the following:

	2015	***2014***
Salaries and other short-term benefits	12,742	31,432
Social security costs	2,473	3,828
Total key management personnel compensation	**15,215**	**35,260**

26. Capital adequacy

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBR and to safeguard the Bank's ability to continue as a going concern.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to its shareholders, return capital to shareholders or issue capital securities.

According to effective capital requirements established by the CBR, banks should maintain a ratio of capital to risk-weighted assets ('capital adequacy ratio') at a level exceeding the mandatory minimum ratio.

		Actual ratio	
	Statutory ratio	***2015***	***2014***
Capital adequacy ratio (N 1.0)	Minimum 10.0%	19.9%	19.9%
Core capital adequacy ratio (N 1.1)	Minimum 5.0%	19.4%	19.6%
Main capital adequacy ratio (N 1.2)	Minimum 6.0%	19.4%	19.6%