AO UniCredit Bank

Consolidated Financial Statements
Year ended 31 December 2015

AO UniCredit Bank

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AO UniCredit Bank

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

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2015, and the related consolidated statements of comprehensive income for the year then ended, changes in shareholder's equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements as at 31 December 2015 were approved by the Supervisory Board of AO UniCredit Bank on 14 March 2016 based on the decision of Board of Management of AO UniCredit Bank dated 1 March 2016.

I. Glavchovski	G. Chernysheva
Acting Chairman of the Board of Management	Chief Accountant

14 March 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To: Shareholder and Supervisory Board of AO UniCredit Bank.

We have audited the accompanying consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

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

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

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

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

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

We report our findings below:

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

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

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

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

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

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

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

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

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

Deloitte & Touche

14 March 2016
Moscow, Russian Federation

Ponomarenko E.V., General director
(certificate no. 01-000190 dated November 28, 2011)

ZAO Deloitte & Touche CIS

AO UniCredit Bank

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

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and cash balances	5	22 730 813	42 873 396
Trading securities	6		
- held by the Group		3 652 106	4 184 948
- pledged under repurchase agreements		-	263 368
Amounts due from credit institutions	7	336 744 808	332 555 937
Derivative financial assets	8	65 526 002	81 685 033
Derivative financial assets designated for hedging	8	7 042 056	12 003 652
Changes in fair value of portfolio hedged items	8	998 710	(8 117 984)
Loans to customers	9	867 295 074	826 851 401
Investment securities:	10		
- available-for-sale			
- held by the Group		54 895 759	32 553 782
- pledged under repurchase agreements		14 841 932	21 815 961
- held-to-maturity		16 130 748	-
Fixed assets	12	5 612 240	6 001 364
Intangible assets	13	5 350 637	3 443 831
Current income tax assets		1 858 930	176 292
Other assets	15	4 445 843	4 081 974
TOTAL ASSETS		**1 407 125 658**	**1 360 372 955**
LIABILITIES			
Amounts due to credit institutions	16, 19	193 922 309	209 956 341
Derivative financial liabilities	8	49 246 075	104 534 651
Derivative financial liabilities designated for hedging	8	19 306 086	20 464 088
Changes in fair value of portfolio hedged items	8	404 256	(697 554)
Amounts due to customers	17	931 426 988	810 620 505
Debt securities issued	18	32 979 085	62 007 167
Deferred income tax liabilities	14	7 390 616	2 597 149
Current income tax liabilities		-	506 631
Other liabilities	15	7 922 980	8 317 953
TOTAL LIABILITIES		**1 242 598 395**	**1 218 306 931**
EQUITY			
Share capital	20	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(765 540)	(1 541 487)
Revaluation reserve for available-for-sale securities		(2 902 933)	(9 070 231)
Retained earnings		125 970 649	110 452 655
TOTAL EQUITY		**164 527 263**	**142 066 024**
TOTAL LIABILITIES AND EQUITY		**1 407 125 658**	**1 360 372 955**

I. Glavchovski
Acting Chairman of the Board of Management

14 March 2016

G. Chernysheva
Chief Accountant

АКЦИОНЕРНОЕ ОБЩЕСТВО "ЮНИКРЕДИТ БАНК" ОГРН 1027739082106 ИНН 7710030411 AO UniCredit Bank г. МОСКВА

The accompanying notes on pages 9 to 79 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the Year Ended 31 December 2015
(in thousands of Russian Roubles)

	Notes	2015	2014
Interest income and similar revenues			
Loans to customers		72 099 950	57 945 916
Derivative financial instruments		30 455 475	24 001 895
Amounts due from credit institutions		11 861 813	4 446 421
Margin from derivative financial instruments designated for hedging	8	9 837 917	3 144 382
Trading and investment securities		5 686 136	5 379 612
		129 941 291	**94 918 226**
Interest expense and similar charges			
Amounts due to customers		(44 980 932)	(22 058 280)
Derivative financial instruments		(26 826 598)	(22 358 842)
Amounts due to credit institutions		(13 731 620)	(9 989 969)
Debt securities issued		(4 041 374)	(4 894 659)
		(89 580 524)	**(59 301 750)**
Net interest income		**40 360 767**	**35 616 476**
Fee and commission income	23	8 704 076	7 826 024
Fee and commission expense	23	(4 324 696)	(1 405 754)
Net fee and commission income		**4 379 380**	**6 420 270**
Dividend income		3	1
Gains / (losses) on financial assets and liabilities held for trading	22	5 257 463	(2 050 921)
Fair value adjustments in portfolio hedge accounting	8	(960 816)	1 329 662
Gains/ (losses) on disposal of:			
- loans		53 118	62 296
- available-for-sale financial assets		(118 562)	(19 444)
OPERATING INCOME		**48 971 353**	**41 358 340**
(Impairment) / recovery on:			
- loans	9	(14 620 828)	(4 414 311)
- other financial transactions		11 781	20 728
NET INCOME FROM FINANCIAL ACTIVITIES		**34 362 306**	**36 964 757**
Personnel expenses	24	(7 793 018)	(7 142 619)
Other administrative expenses	24	(5 553 486)	(4 648 099)
Depreciation of fixed assets	12	(716 931)	(691 455)
Amortization of intangible assets	13	(879 794)	(719 545)
Other provisions		(180 976)	2 017
Net other operating expenses		(263 268)	(237 665)
Operating costs		**(15 387 473)**	**(13 437 366)**
Gains on disposal of fixed assets		8 264	58 124
PROFIT BEFORE INCOME TAX EXPENSE		**18 983 097**	**23 585 515**
Income tax expense	14	(3 465 103)	(4 766 174)
PROFIT FOR THE YEAR		**15 517 994**	**18 819 341**
OTHER COMPREHENSIVE INCOME/ (LOSS)			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes	14	662 625	(434 339)
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	14	113 322	52 373
Revaluation reserve for available-for-sale securities, net of tax:			
- fair value changes	14	5 814 273	(8 649 297)
- reclassification adjustment relating to available-for-sale financial assets disposed of in the year	14	353 025	(9 113)
Other comprehensive income / (loss) for the period, net of tax		**6 943 245**	**(9 040 376)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22 461 239**	**9 778 965**

I. Glavchovski
Acting Chairman of the Board of Management

G. Chernysheva
Chief Accountant

14 March 2016

The accompanying notes on pages 9 to 79 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2015
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2014	**41 787 806**	**437 281**	**(1 159 521)**	**(411 821)**	**91 390 954**	**132 044 699**
Total comprehensive income						
Profit for the year	-	-	-	-	18 819 341	18 819 341
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	(381 966)	-	-	(381 966)
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	(8 658 410)	-	(8 658 410)
Total other comprehensive income	**-**	**-**	**(381 966)**	**(8 658 410)**	**-**	**(9 040 376)**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(381 966)**	**(8 658 410)**	**18 819 341**	**9 778 965**
Transactions with owner, directly recorded in equity						
Acquisition of subsidiary under common control (Note 25)	-	-	-	-	242 360	242 360
Total transactions with owner	**-**	**-**	**-**	**-**	**242 360**	**242 360**
31 December 2014	**41 787 806**	**437 281**	**(1 541 487)**	**(9 070 231)**	**110 452 655**	**142 066 024**
1 January 2015	**41 787 806**	**437 281**	**(1 541 487)**	**(9 070 231)**	**110 452 655**	**142 066 024**
Total comprehensive income						
Profit for the year	-	-	-	-	15 517 994	15 517 994
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	775 947	-	-	775 947
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	6 167 298	-	6 167 298
Total other comprehensive income	**-**	**-**	**775 947**	**6 167 298**	**-**	**6 943 245**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**775 947**	**6 167 298**	**15 517 994**	**22 461 239**
31 December 2015	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**

I. Glavchovski
Acting Chairman of the Board of Management

14 March 2016

G. Chernysheva
Chief Accountant

The accompanying notes on pages 9 to 79 are an integral part of these consolidated financial statements.

AO UniCredit Bank

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2015
(in thousands of Russian Roubles)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		128 650 468	91 910 059
Interest paid		(72 552 924)	(48 047 335)
Fees and commissions received		8 835 164	7 863 854
Fees and commissions paid		(4 224 189)	(1 210 718)
Net receipts / (payments) from trading securities		408 153	(614 287)
Net (payments) / receipts from derivatives and dealing in foreign currencies		(53 202 919)	945 543
Salaries and benefits paid		(7 212 036)	(5 913 089)
Other operating expenses paid		(5 472 350)	(3 943 374)
Cash flows (used in) / from operating activities before changes in operating assets and liabilities		**(4 770 633)**	**40 990 653**
Net decrease / (increase) in operating assets			
Obligatory reserve with the CBR		2 019 558	(1 056 517)
Trading securities		926 595	6 967 650
Amounts due from credit institutions		49 511 762	(6 173 697)
Loans to customers		68 619 686	(103 835 772)
Other assets		1 087 152	(1 120 873)
Net (decrease) / increase in operating liabilities			
Amounts due to credit institutions		(71 041 904)	22 974 537
Amounts due to customers		(40 631 443)	67 258 327
Other liabilities		15 282	224 890
Net cash from operating activities before income tax		**5 736 055**	**26 229 198**
Income tax paid		(2 596 717)	(2 093 819)
Net cash from operating activities		**3 139 338**	**24 135 379**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary	25	-	(1 163 400)
Dividends received		3	1
Purchase of available-for-sale investment securities		(17 877 038)	(24 026 860)
Proceeds from redemption and sale of available-for-sale investment securities		11 403 471	11 353 260
Purchases of held-to-maturity investment securities		(15 875 673)	-
Proceeds from sale of fixed and intangible assets		9 005	86 684
Purchase of fixed and intangible assets		(2 319 113)	(2 317 035)
Net cash used in investing activities		**(24 659 345)**	**(16 067 350)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds	18	4 000 000	25 000 000
Proceeds from sale of repurchased bonds		-	156 001
Redemption of bonds issued under put option		(31 736 538)	(14 254 779)
Redemption of bonds issued on maturity		(626 813)	(1)
Proceeds from subordinated debt received		27 761 347	-
Redemption of subordinated debt		-	(3 503 430)
Net cash (used in) / from financing activities		**(602 004)**	**7 397 791**
Effect of exchange rates changes on cash and cash balances		1 979 428	1 699 387
Net (decrease) / increase in cash and cash balances		**(20 142 583)**	**17 165 207**
CASH AND CASH BALANCES, beginning of the year		**42 873 396**	**25 708 189**
CASH AND CASH BALANCES, ending of the year	5	**22 730 813**	**42 873 396**

I. Glavchovski
Acting Chairman of the Board of Management

G. Chernysheva
Chief Accountant

14 March 2016

The accompanying notes on pages 9 to 79 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the “Bank”) and it’s subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License No. 1 of the Central Bank of Russia (hereinafter – the “CBR”) to conduct banking operations reissued on 22 December 2014. The Bank also possesses licenses for the securities market for dealing, brokerage and depository activities issued by the Federal Service for the Financial Markets on 25 April 2003, the CBR license for operations with precious metals reissued on 22 December 2014, as well as authorized to speak to the customs authorities as a guarantor on the basis of the notification of the Federal Customs Service of the Russian Federation dated 1 November 2013. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 December 2015 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing, a leasing company as it’s subsidiary (see Note 25 for details).

In February 2014 in addition to the existing 40% participation AO UniCredit Bank acquired the remaining 60% share participation in LLC UniCredit Leasing from UniCredit Leasing S.p.A. LLC UniCredit Leasing owns 100% of the shares in AO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market. The transaction was accounted for as a transaction under common control since both the Bank and UniCredit Leasing S.p.A have the same ultimate shareholders.

The consolidated financial statements include the following subsidiary:

	Ownership, %			
Entities	**2015**	**2014**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2015 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredt Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

As at 31 December 2015 the Bank has 13 branches and 12 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

Accounting standards. The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (hereinafter – "RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

Principles of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

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

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

2. Significant accounting policies (continued)

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries and associates to bring their accounting policies into line with the Group's accounting policies.

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

Changes in the Group's ownership interests in subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control over the subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, or when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2. Significant accounting policies (continued)

The results and assets and liabilities of associates are incorporated using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Financial assets

Initial recognition. Financial assets in the scope of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* 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 recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss*.* Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

2. Significant accounting policies (continued)

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

***Held-to-maturity investments*.** Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- Intends to sell immediately or in the near term;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation 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 recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

Available-for-sale assets are subsequently measured at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

***Determination of fair value*.** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm’s length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

2. Significant accounting policies (continued)

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

***Offsetting*.** Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are 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, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

2. Significant accounting policies (continued)

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

Repurchase and reverse repurchase agreements and securities lending. Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated 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 repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") 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 repurchase agreements using the effective interest method.

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

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings. Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 asset for a fixed number of its own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

2. Significant accounting policies (continued)

Leases

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

When the Group enters into finance lease as a lessor the present value of lease payments are recognised as loans to customers at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease. Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

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

Impairment of financial assets. The Group 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 reorganisation 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 amortised cost, the Group first assesses individually 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 Group 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, recognised 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 amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the allowance account in profit or loss.

2. Significant accounting policies (continued)

The Group estimates impairment for loans to corporate customers based on the following approach:

- For exposures for which no identifications of impairement has been identified on an individual basis, the calculation is based on portfolio (statistical) assessment which takes into account historical loss experience, probability of default and loss given default.
- For impaired exposures the calculation is done on individual assessment and is based on the analysis of discounted future cash flows.

The Group estimates impairement for loans to retails customers based on portfolio (statistical) assessment which takes into account historical loss experience for each type of loans, probability of default and loss given default.

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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. For purposes of impairment calculation the Group takes into account liquid collateral, reduced by haircut for certain type of collateral.

Held-to-maturity financial investments. For held-to-maturity investments the Group 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 amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

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

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest 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 amortised cost. Future interest income is based on the reduced carrying amount 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 profit or loss. 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 recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, 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 impairment assessment, calculated using the loan's original effective interest rate.

2. Significant accounting policies (continued)

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

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Non-financial assets**.** Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

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

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

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 derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group 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 Group 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 recognised to the extent of the Group'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 amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another financial liability 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 amounts is recognised in profit or loss.

2. Significant accounting policies (continued)

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

There are various operating taxes in the Russian Federation that are assessed on the Group’s activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fixed assets. Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. 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	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

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

2. Significant accounting policies (continued)

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

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Impairment for credit-related commitments is recognized on exposures with customers, for which the probability of default is within the range from 50% to 100%.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

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

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

2. Significant accounting policies (continued)

Retirement and other employee benefit obligations. The Group makes contributions to 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.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised 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 consolidated financial statements are authorised for issue.

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

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

Recognition of income and expenses. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

***Interest and similar income and expense*.** For all financial instruments measured at amortised 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 amount 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 amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount 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 recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income. The Group 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:

<u>Fee income earned from services that are provided over a certain period of time.</u> Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. 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 recognised as an adjustment to the effective interest rate on the loan.

(Thousands of Russian Roubles)

2. Significant accounting policies (continued)

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 or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

***Dividend income*.** Dividend income is recognised in profit or loss on the date when the dividend is declared.

Foreign currency translation*.* Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate 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 recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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 or losses on financial assets and liabilities held for trading.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2015	**31 December 2014**
RUB/1 US Dollar	72.8827	56.2584
RUB/1 Euro	79.6972	68.3427

New standards effective starting from the current reporting period*.* The following new and revised standards and interpretations became effective for the Group from 1 January 2015.

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

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

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

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

2. Significant accounting policies (continued)

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

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

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

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

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

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

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

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

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

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

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

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

The application of these amendments does not have a significant effect on the consolidated financial statements.

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

(Thousands of Russian Roubles)

2. Significant accounting policies (continued)

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

New or amended standard or interpretation	Effective date[1] - for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 11 – *Accounting for Acquisition of Interests in Joint Operations*	1 January 2016
Amendments to IAS 1 – *Disclosure Initiative*	1 January 2016
Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41 – *Agriculture: Bearer Plants*	1 January 2016
Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined by the IASB[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception*	1 January 2016
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IAS 27 – *Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 *Financial Instruments.* The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

2. Significant accounting policies (continued)

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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

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

The five steps in the model are as follows:

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

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 *Leases.* IFRS 16 *Leases* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

2. Significant accounting policies (continued)

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IFRS 11 – ***Accounting for Acquisitions of Interests in Joint Operations.*** The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

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

Amendments to IAS 1 – ***Disclosure initiative project.*** The amendments to IAS 1 provide guidance on how to apply the concept of materiality in practice. The amendments are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – ***Clarification of Acceptable Methods of Depreciation and Amortisation.*** The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The management of the Group believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated 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 to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

2. Significant accounting policies (continued)

The amendments should be applied prospectively. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded. However, the earlier application continues to be permitted. The management of the Group anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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

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

Amendments to IAS 27 – ***Equity Method in Separate Financial Statements.*** The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Group does not expect a material impact of these amendments on the financial statements.

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

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

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

2. Significant accounting policies (continued)

Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits, and that when comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences. The amendments are to be applied retrospectively and are effective from 1 January 2017 with early application permitted.

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

3. Significant accounting judgements and estimates

Under the IFRS, management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the consolidated financial statements as at 31 December 2015, as required by the accounting policies and regulations. The processes adopted confirm the carrying values as at 31 December 2015. Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment. The parameters and information used to check the above-mentioned values were therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Uncertainty affecting estimates is generally inherent in the measurement of:

- fair value of financial instruments not listed in active markets;
- loans and receivables, investments and, in general, any other financial assets/liabilities;
- provisions for risks and charges;
- deferred tax assets and liabilities;
- whose assessment may significantly change over time according to the trend in: domestic and international socioeconomic conditions and subsequent impact on the Group’s profitability and customers’ creditworthiness; financial markets which affect changes in interest rates and prices; real estate market affecting the value of property received as collateral.

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

(Thousands of Russian Roubles)

4. Operating segments

For management purposes, the Group has four reporting business segments:

Corporate and Investment banking *(*hereinafter – *"CIB")* includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and SME, credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2015	**31 December 2014**
Assets		
CIB	1 015 688 084	992 513 291
Retail banking	120 721 231	155 069 273
Leasing	14 001 241	13 876 890
Other	256 715 102	198 913 501
Total assets	**1 407 125 658**	**1 360 372 955**
Liabilities		
CIB	855 887 223	871 471 401
Retail banking	224 639 697	151 878 535
Leasing	11 186 533	11 332 545
Other	150 884 942	183 624 450
Total liabilities	**1 242 598 395**	**1 218 306 931**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the year ended 31 December 2015 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	26 128 113	10 309 738	836 617	3 086 299	40 360 767
Inter-segment income/ (expense)	485 389	(101 449)	-	(383 940)	-
Net interest income	**26 613 502**	**10 208 289**	**836 617**	**2 702 359**	**40 360 767**
Net fee and commission income/ (expense) from external customers	1 556 945	2 981 431	15 612	(174 608)	4 379 380
Dividend income	-	-	-	3	3
Gains/ (losses) on financial assets and liabilities held for trading from external customers	3 216 072	1 404 603	(5 772)	642 560	5 257 463
Fair value adjustments in portfolio hedge accounting	-	-	-	(960 816)	(960 816)
(Losses)/ gains on disposals of financial assets	(93 228)	27 784	-	-	(65 444)
Operating income	**31 293 291**	**14 622 107**	**846 457**	**2 209 498**	**48 971 353**
Impairment on loans and other financial transactions	(11 309 225)	(3 220 771)	(76 104)	(2 947)	(14 609 047)
Net income from financial activities	**19 984 066**	**11 401 336**	**770 353**	**2 206 551**	**34 362 306**
Operating costs including:	(5 419 716)	(8 876 262)	(417 198)	(674 297)	(15 387 473)
depreciation of fixed assets and amortization of intangible assets	(524 792)	(1 068 996)	(2 937)	-	(1 596 725)
Gains on disposal of fixed assets	-	-	-	8 264	8 264
Profit before income tax expense	**14 564 350**	**2 525 074**	**353 155**	**1 540 518**	**18 983 097**
Income tax expense					(3 465 103)
Profit for the year					**15 517 994**
Cash flow hedge reserve					775 947
Revaluation reserve for available-for-sale securities					6 167 298
Total comprehensive income					**22 461 239**

(Thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the year ended 31 December 2014 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income/ (expense) from external customers	21 618 878	16 825 454	719 982	(3 547 838)	35 616 476
Inter-segment (expense)/ income	(3 229 501)	(6 809 287)	-	10 038 788	-
Net interest income	**18 389 377**	**10 016 167**	**719 982**	**6 490 950**	**35 616 476**
Net fee and commission income/ (expense) from external customers	2 948 687	3 512 841	(10 854)	(30 404)	6 420 270
Dividend income	-	-	-	1	1
(Losses)/ gains on financial assets and liabilities held for trading from external customers	(2 109 861)	1 111 129	937	(1 053 126)	(2 050 921)
Fair value adjustments in portfolio hedge accounting	-	-	-	1 329 662	1 329 662
Gains on disposals of financial assets	21 277	21 575	-	-	42 852
Operating income	**19 249 480**	**14 661 712**	**710 065**	**6 737 083**	**41 358 340**
(Impairment)/ recovery of impairement on loans and other financial transactions	(2 812 665)	(1 530 291)	(58 810)	8 183	(4 393 583)
Net income from financial activities	**16 436 815**	**13 131 421**	**651 255**	**6 745 266**	**36 964 757**
Operating costs including:	(4 418 539)	(8 161 117)	(421 282)	(436 428)	(13 437 366)
depreciation of fixed assets and amortization of intangible assets	(453 241)	(954 253)	(3 506)	-	(1 411 000)
Gains on disposal of fixed assets	-	-	-	58 124	58 124
Profit before income tax expense	**12 018 276**	**4 970 304**	**229 973**	**6 366 962**	**23 585 515**
Income tax expense					(4 766 174)
Profit for the year					**18 819 341**
Cash flow hedge reserve					(381 966)
Revaluation reserve for available-for-sale securities					(8 658 410)
Total comprehensive income					**9 778 965**

(Thousands of Russian Roubles)

4. Operating segments (continued)

The following table represents an analysis by segments of the Group's net interest income from continuing operations from its major products and services:

	2015	2014
Medium and long term financing	11 306 794	8 272 410
Current accounts	7 406 607	6 061 024
Short-term financing	2 005 729	2 500 189
Consumer loans	1 531 857	2 225 393
Term deposits	1 483 790	789 560
Mortgage loans	265 345	715 147
Other lending	3 390 107	3 228 884
Other products	12 970 538	11 823 869
Net interest income	**40 360 767**	**35 616 476**

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2015 is presented below:

	Net interest income	Assets
Russian Federation	22 301 298	1 035 819 539
OECD countries	15 515 051	303 084 506
Non-OECD countries	2 544 418	68 221 613
Total	**40 360 767**	**1 407 125 658**

Geographical information on net interest income and assets for 2014 is presented below:

	Net interest income	Assets
Russian Federation	26 801 034	1 057 071 636
OECD countries	6 819 115	249 091 729
Non-OECD countries	1 996 327	54 209 590
Total	**35 616 476**	**1 360 372 955**

(Thousands of Russian Roubles)

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2015	31 December 2014
Cash on hand	14 356 435	19 074 061
Current accounts with the CBR	8 374 378	23 799 335
Cash and cash balances	**22 730 813**	**42 873 396**

Included in cash and cash balances as at 31 December 2015 RUB 2 050 000 thousand (31 December 2014: RUB 1 000 000 thousand) was pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 and September 2015 (see Note 18 for details).

6. Trading securities

Trading securities comprise:

	31 December 2015	31 December 2014
USD denominated		
Russian Government Eurobonds	7 137	5 204
RUB denominated		
Russian Government Bonds	946 463	1 468 275
Corporate and bank bonds	2 698 506	2 974 837
Trading securities	**3 652 106**	**4 448 316**

As at 31 December 2015 approximately 94% of trading securities held by the Group were rated not lower than “BBB-” (31 December 2014: 92%).

As at 31 December 2015 there are no securities sold under repurchase agreements in the trading securities (31 December 2014: bank bonds in the amount of RUB 263 368 thousand) (see Notes 11 and 16 for details).

As at 31 December 2015 included in trading securities are corporate and bank bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 512 118 thousand (31 December 2014: RUB 869 114 thousand). As at 31 December 2015 and 31 December 2014 the Group has no “overnight” loans with the CBR.

Nominal interest rates and maturities of trading securities are as follows:

	31 December 2015		31 December 2014	
	%	**Maturity**	**%**	**Maturity**
Russian Government Bonds	2.5-7.05%	2023, 2028	6.2-8.15%	2016-2028
Russian Government Eurobonds	11-12.75%	2018, 2028	11-12.75%	2018, 2028
Corporate and bank bonds	7.5-11.49%	2016, 2018	7.5-10.57%	2016-2022

(Thousands of Russian Roubles)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014
Current accounts with credit institutions	60 609 432	94 243 731
Time deposits	254 059 273	181 983 768
Reverse repurchase agreements with credit institutions	18 201 246	50 434 023
Obligatory reserve with the CBR	3 874 857	5 894 415
Amounts due from credit institutions	**336 744 808**	**332 555 937**

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 Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2015 there are three counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2015, the aggregate amount of these balances is RUB 253 319 891 thousand (31 December 2014: six counterparties with aggregate amount of RUB 255 271 346 thousand).

As at 31 December 2015 and 31 December 2014 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2015 and 31 December 2014 comprise:

	31 December 2015		31 December 2014	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Government bonds	11 571 177	12 283 725	40 860 541	42 768 363
Corporate bonds	5 680 798	6 124 521	7 537 578	8 335 825
Bank bonds	949 271	1 018 936	2 035 904	2 340 373
Total	**18 201 246**	**19 427 182**	**50 434 023**	**53 444 561**

As at 31 December 2015 included in government bonds are securities in the amount of RUB 94 422 (31 December 2014: none) which were repledged under repurchase agreements with customers (see Note 17 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2015 approximately 84% (31 December 2014: 89%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2015 the Group has no term placements with the CBR (31 December 2014: RUB 35 000 000 thousand).

(Thousands of Russian Roubles)

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2015			31 December 2014		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cross-currency interest rate swaps	228 353 208	56 770 885	39 765 795	272 981 002	48 375 890	57 840 876
Interest rate swaps and options	251 888 460	7 044 837	7 333 570	569 907 604	10 444 854	14 867 984
Foreign exchange forwards and options	87 409 741	1 710 280	2 146 710	205 475 132	22 864 289	31 825 791
Futures on foreign exchange	-	-	-	962 500	-	-
Total derivative financial assets/ liabilities		**65 526 002**	**49 246 075**		**81 685 033**	**104 534 651**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a loss of RUB 1 089 893 thousand for the year ended 31 December 2015 (31 December 2014: loss of RUB 1 474 472 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2015			31 December 2014		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	321 333 127	380 446	345 545	33 615 277	108 611	704 822
Cross-currency interest rate swaps	100 927 028	2 084 247	11 372 356	74 416 922	629 821	14 767 014
Total cash flow hedge		**2 464 693**	**11 717 901**		**738 432**	**15 471 836**
Fair value hedge						
Interest rate swaps	704 837 888	4 577 363	7 588 185	518 761 072	11 265 220	4 992 252
Total fair value hedge		**4 577 363**	**7 588 185**		**11 265 220**	**4 992 252**
Total derivative financial assets/ liabilities designated for hedging		**7 042 056**	**19 306 086**		**12 003 652**	**20 464 088**

8. Derivative financial instruments (continued)

Portfolio Fair Value Hedge Accounting (hereinafter – the “PFVHA”) is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 572 941 thousand recognised in portfolio hedge accounting as at 31 December 2015 (31 December 2014: RUB 7 472 459 thousand), presented as a loss of RUB 7 993 371 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2015 (31 December 2014: presented as gain RUB 8 867 043 thousand). The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 594 454 thousand as at 31 December 2015 (31 December 2014: negative changes in the amount if RUB 7 420 430 thousand), presented as gain of RUB 8 014 884 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2015 (31 December 2014: presented as a loss of RUB 8 879 032 thousand).

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2015, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 765 540 thousand (31 December 2014: RUB 1 541 487 thousand), net of tax RUB 191 385 thousand (31 December 2014: RUB 385 372 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 960 816 thousand for the year ended 31 December 2015 (31 December 2014: gain of RUB 1 329 662 thousand) and consists of a positive change in fair value of financial instruments designated for hedging purposes in the amount of RUB 21 513 thousand (31 December 2014: negative change of RUB 21 692 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 982 329 thousand for the year ended 31 December 2015 (31 December 2014: positive change of RUB 1 351 354 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Margin from derivative financial instruments designated for hedging amounted RUB 9 837 917 thousand for the year ended 31 December 2015 (31 December 2014: RUB 3 144 382 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 26 697 085 thousand (31 December 2014: RUB 16 833 163 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 16 859 168 thousand (31 December 2014: RUB 13 688 781 thousand).

(Thousands of Russian Roubles)

9. Loans to customers

Loans to customers comprise:

	31 December 2015	31 December 2014
Corporate customers	755 082 908	667 566 481
Retail customers, including SME	132 646 305	165 022 389
Lease receivables	12 481 464	12 485 745
Reverse repurchase agreements with companies	533 189	2 526 107
Gross loans to customers	**900 743 866**	**847 600 722**
Allowance for loan impairment	(33 448 792)	(20 749 321)
Loans to customers	**867 295 074**	**826 851 401**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2015 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2015	10 679 721	9 985 332	84 268	**20 749 321**
Charge for the year	11 328 787	3 215 937	76 104	**14 620 828**
Loans sold or recovered through acceptance of collateral during the year	(369 578)	(74 084)	-	**(443 662)**
Loans written-off during the year	(1 143 849)	(1 968 911)	(39 860)	**(3 152 620)**
Effect of exchange rate changes	859 089	815 836	-	**1 674 925**
At 31 December 2015	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2014 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2014	9 543 124	7 435 735	-	**16 978 859**
Charge for the year	2 753 889	1 601 612	58 810	**4 414 311**
Loans sold or recovered through acceptance of collateral during the year	(3 202 243)	(182 045)	-	**(3 384 288)**
Loans written-off during the year	(24 352)	(392 835)	(36 524)	**(453 711)**
Acquisition of subsidiary under common control	-	-	61 982	**61 982**
Effect of exchange rate changes	1 609 303	1 522 865	-	**3 132 168**
At 31 December 2014	**10 679 721**	**9 985 332**	**84 268**	**20 749 321**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2015:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	709 479 029	(3 213 961)	706 265 068
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	2 825 193	(43 836)	2 781 357
- Past due 31-90 days	1 057 786	(29 127)	1 028 659
Impaired loans			
- Not past due	11 827 914	(3 219 232)	8 608 682
- Past due less than 31 days	238 053	(63 420)	174 633
- Past due 31-90 days	1 341 986	(865 539)	476 447
- Past due 91-180 days	4 760 156	(1 734 228)	3 025 928
- Past due over 180 days	23 552 791	(12 184 827)	11 367 964
Total loans to corporate customers	**755 082 908**	**(21 354 170)**	**733 728 738**
Retail customers			
Standard loans, not past due	112 265 778	(506 288)	111 759 490
Standard loans, past due			
- Past due less than 31 days	2 472 982	(124 252)	2 348 730
- Past due 31-90 days	1 202 829	(205 656)	997 173
- Past due 91-180 days	580 467	(194 197)	386 270
- Past due over 180 days	80 144	(9 926)	70 218
Impaired loans			
- Not past due	173 481	(25 501)	147 980
- Past due less than 31days	86 260	(5 093)	81 167
- Past due 31-90 days	125 281	(27 099)	98 182
- Past due 91-180 days	1 065 294	(472 342)	592 952
- Past due over 180 days	14 593 789	(10 403 756)	4 190 033
Total loans to retail customers	**132 646 305**	**(11 974 110)**	**120 672 195**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 363 315	(56 942)	11 306 373
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	595 613	(4 244)	591 369
- Past due 31-90 days	400 320	(2 975)	397 345
Impaired loans			
- Not past due	45 847	(6 767)	39 080
- Past due less than 31days	12 043	(6 456)	5 587
- Past due 31-90 days	16 661	(4 652)	12 009
- Past due 91-180 days	16 144	(10 160)	5 984
- Past due over 180 days	31 521	(28 316)	3 205
Total lease receivables	**12 481 464**	**(120 512)**	**12 360 952**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	533 189	-	533 189
Total loans to customers	**900 743 866**	**(33 448 792)**	**867 295 074**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2014:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	640 879 818	(2 426 988)	638 452 830
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	4 081 311	(105 348)	3 975 963
- Past due 31-90 days	3 558 024	(106 471)	3 451 553
Impaired loans			
- Not past due	3 401 003	(603 643)	2 797 360
- Past due less than 31 days	6 921 573	(613 672)	6 307 901
- Past due 31-90 days	268 066	(232 792)	35 274
- Past due 91-180 days	1 037 755	(346 499)	691 256
- Past due over 180 days	7 418 931	(6 244 308)	1 174 623
Total loans to corporate customers	**667 566 481**	**(10 679 721)**	**656 886 760**
Retail customers			
Standard loans, not past due	148 483 157	(692 754)	147 790 403
Standard loans, past due			
- Past due less than 31 days	2 571 260	(127 968)	2 443 292
- Past due 31-90 days	1 548 390	(275 308)	1 273 082
Impaired loans			
- Not past due	10 893	(9 513)	1 380
- Past due less than 31days	554	(109)	445
- Past due 31-90 days	10 324	(2 043)	8 281
- Past due 91-180 days	1 367 141	(622 002)	745 139
- Past due over 180 days	11 030 670	(8 255 635)	2 775 035
Total loans to retail customers	**165 022 389**	**(9 985 332)**	**155 037 057**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 873 469	(52 609)	11 820 860
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	273 248	(1 768)	271 480
- Past due 31-90 days	237 015	(1 132)	235 883
Impaired loans			
- Not past due	29 366	(7 330)	22 036
- Past due less than 31days	18 979	(4 834)	14 145
- Past due 31-90 days	30 957	(7 793)	23 164
- Past due 91-180 days	12 589	(5 311)	7 278
- Past due over 180 days	10 122	(3 491)	6 631
Total lease receivables	**12 485 745**	**(84 268)**	**12 401 477**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	2 526 107	-	2 526 107
Total loans to customers	**847 600 722**	**(20 749 321)**	**826 851 401**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The following table provides analysis of minimum lease payments as at 31 December 2015:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	6 748 575	5 364 509
From 1 to 5 years	7 757 144	6 565 361
Over 5 years	457 087	431 082
	14 962 806	**12 360 952**
Less unearned finance income	(2 601 854)	-
Present value of minimum lease payments receivable (net investment in the lease)	**12 360 952**	**12 360 952**

The following table provides analysis of minimum lease payments as at 31 December 2014:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	6 361 912	5 026 441
From 1 to 5 years	7 991 350	6 820 417
Over 5 years	561 549	554 619
	14 914 811	**12 401 477**
Less unearned finance income	(2 513 334)	-
Present value of minimum lease payments receivable (net investment in the lease)	**12 401 477**	**12 401 477**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2015 amounted to RUB 1 997 566 thousand (year ended 31 December 2014: RUB 1 780 507 thousand).

Renegotiated loans. As at 31 December 2015 and 31 December 2014 loans to customers included loans totaling RUB 36 099 625 thousand and RUB 16 985 917 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

(Thousands of Russian Roubles)

9. Loans to customers (continued)

Collateral and other credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Loans to corporate customers		
Real estate	79 970 676	67 841 175
Motor vehicles	-	727 509
Guarantees	99 821 558	85 346 669
Other collateral	699 221	5 683 814
No collateral or other credit enhancement	553 237 283	497 287 593
Total loans to corporate customers	**733 728 738**	**656 886 760**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Loans to retail customers		
Real estate	31 330 903	33 633 203
Motor vehicles	47 357 656	69 435 737
No collateral or other credit enhancement	41 983 636	51 968 117
Total loans to retail customers	**120 672 195**	**155 037 057**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Lease receivables		
Real estate	654 876	593 830
Motor vehicles	3 074 582	2 841 873
Other collateral	8 631 494	8 965 774
Total lease receivables	**12 360 952**	**12 401 477**

(Thousands of Russian Roubles)

9. Loans to customers (continued)

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in corporate loans as at 31 December 2015 are loans with gross amount of RUB 49 218 141 thousand (31 December 2014: RUB 94 494 775 thousand) pledged as collateral for term deposits due to the CBR (see Note 16 for details).

Included in retail loans as at 31 December 2015 are mortgage loans with gross amount of RUB 7 541 188 thousand (31 December 2014: RUB 4 428 583 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 and September 2015 (see Note 18 for details).

Repossessed collateral. As at 31 December 2015 and 31 December 2014, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2015, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 473 061 thousand (31 December 2014: RUB 557 514 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2015 and 31 December 2014 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2015 and 31 December 2014 comprise:

	31 December 2015		31 December 2014	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Corporate bonds	327 122	342 033	1 792 454	2 021 314
Government bonds	206 067	214 321	202 048	233 574
Bank bonds	-	-	531 605	592 518
Total	**533 189**	**556 354**	**2 526 107**	**2 847 406**

Concentration of loans to customers. As at 31 December 2015, the Group had RUB 246 592 534 thousand due from the ten largest borrowers (27% of gross loan portfolio) (31 December 2014: RUB 178 359 090 thousand or 21%). An allowance of RUB 271 223 thousand was recognised against these loans (31 December 2014: RUB 244 890 thousand).

As at 31 December 2015, the Group had eleven borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2014: ten borrowers or a group of borrowers). As at 31 December 2015, the aggregate amount of these loans is RUB 288 585 229 thousand (31 December 2014: RUB 201 467 228 thousand).

(Thousands of Russian Roubles)

9. Loans to customers (continued)

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

	31 December 2015	31 December 2014
Mining and metallurgy	214 800 744	158 569 784
Energy	144 955 879	119 904 288
Trade	104 797 170	102 976 515
Chemicals	67 758 103	57 613 970
Agriculture and food	47 103 178	46 867 094
Real estate and construction	46 864 773	43 526 923
Other manufacturing	32 414 461	30 461 317
Timber processing	31 809 969	27 829 106
Machinery construction	27 965 727	22 739 895
Transportation	20 805 728	25 906 183
Finance	11 442 154	20 272 269
Telecommunications	9 144 710	13 185 527
Other	11 418 532	17 303 786
Gross loans to corporate customers	**771 281 128**	**687 156 657**
Gross loans to individuals	129 462 738	160 444 065
Gross loans to customers	**900 743 866**	**847 600 722**

Loans to individuals are divided by products as follows:

	31 December 2015	31 December 2014
Car loans	52 543 904	75 127 648
Mortgages loans	34 245 074	35 902 323
Consumer loans	33 549 521	40 806 273
Other loans	9 124 239	8 607 821
Gross loans to individuals	**129 462 738**	**160 444 065**

(Thousands of Russian Roubles)

10. Investment securities

Available-for-sale investment securities comprise:

	31 December 2015	31 December 2014
Debt and other fixed income investments available-for-sale		
USD denominated		
Russian Government Eurobonds	17 656 944	-
Corporate Eurobonds	239 432	179 083
RUB denominated		
Russian Government Bonds	34 718 381	28 969 400
Corporate and bank bonds	17 003 282	25 212 720
Total debt and other fixed income investments available-for-sale	**69 618 039**	**54 361 203**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	116 945	5 833
EUR denominated		
Equity investments in financial institutions	2 707	2 707
Total equity investments available-for-sale	**119 652**	**8 540**
Total available-for-sale securities	**69 737 691**	**54 369 743**

As at 31 December 2015 included in Russian Government bonds are securities sold under repurchase agreements in the amount of RUB 14 841 932 thousand (31 December 2014: Russian Government bonds, corporate and bank bonds in the amount of RUB 21 815 961 thousand) (see Notes 11, 16 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2015		31 December 2014	
	%	**Maturity**	**%**	**Maturity**
Russian Government Eurobonds	4.5-4.88%	2022, 2023	-	-
Russian Government Bonds	6.2-8.15%	2016-2028	6.2-8.15%	2015-2028
Corporate and bank bonds	7.5-13%	2016-2028	7.5-11.3%	2015-2033
Corporate Eurobonds	4.95%	2016	4.95%	2016

As at 31 December 2015 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 18 784 041 thousand (31 December 2014: RUB 21 429 453 thousand). As at 31 December 2015 and 31 December 2014 the Group has no “overnight” loans with the CBR.

(Thousands of Russian Roubles)

10. Investment securities (continued)

In the fourth quarter of 2015, the Group acquired Russian government debt securities with the positive intent and ability to hold to maturity. As at 31 December 2015, held-to-maturity securities comprise:

	31 December 2015	
	Nominal value	**Carrying value**
Russian Government Bonds	15 000 000	16 130 748
Held-to-maturity securities	**15 000 000**	**16 130 748**

Nominal interest rates and maturities of these securities are as follows:

	31 December 2015	
	%	**Maturity**
Russian Government Bonds	14.42%-14.48%	2020, 2025

As at 31 December 2015 included in debt and other fixed income investments held-to-maturity are bonds blocked as collateral for “overnight” loans with the CBR in the amount of RUB 12 903 281 thousand. As at 31 December 2015 and 31 December 2014 the Group has no “overnight” loans with the CBR.

As at 31 December 2015 approximately 66% of debt and other fixed income investments available-for-sale and held-to-maturity were rated not lower than “BBB-” (31 December 2014: 89%).

11. Transfers of financial assets

The Group has transactions to sell securities classified as trading and available-for-sale under agreements to repurchase (see Notes 6, 10, 16 and 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 6 and 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions and customers (see Notes 16 and 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2015 and 31 December 2014 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2015		31 December 2014	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Available-for-sale securities	14 841 932	13 428 975	21 815 961	20 590 914
Trading securities	-	-	263 368	244 320
Total	**14 841 932**	**13 428 975**	**22 079 329**	**20 835 234**

(Thousands of Russian Roubles)

11. Transfers of financial assets (continued)

As at 31 December 2015 and 31 December 2014 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2015		31 December 2014	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Government bonds	14 841 932	13 428 975	764 753	754 356
Bank bonds	-	-	11 683 711	10 972 093
Corporate bonds	-	-	9 630 865	9 108 785
Total	**14 841 932**	**13 428 975**	**22 079 329**	**20 835 234**

12. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2015	**6 577 320**	**4 187 516**	**608 946**	**11 373 782**
Additions	-	290 403	39 995	330 398
Disposals	-	(122 165)	(31 028)	(153 193)
31 December 2015	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Accumulated depreciation				
1 January 2015	**(1 590 697)**	**(3 254 881)**	**(526 840)**	**(5 372 418)**
Depreciation charge	(225 082)	(458 036)	(33 813)	(716 931)
Disposals	-	120 319	30 283	150 602
31 December 2015	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Net book value				
31 December 2015	**4 761 541**	**763 156**	**87 543**	**5 612 240**

(Thousands of Russian Roubles)

12. Fixed assets (continued)

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2014	**6 592 862**	**4 007 384**	**617 365**	**11 217 611**
Additions	-	312 273	53 390	365 663
Disposals	(15 542)	(163 074)	(69 112)	(247 728)
Acquisition of subsidiary under common control	-	30 933	7 303	38 236
31 December 2014	**6 577 320**	**4 187 516**	**608 946**	**11 373 782**
Accumulated depreciation				
1 January 2014	**(1 376 640)**	**(2 967 443)**	**(545 185)**	**(4 889 268)**
Depreciation charge	(226 915)	(421 925)	(42 615)	(691 455)
Disposals	12 858	148 550	65 457	226 865
Acquisition of subsidiary under common control	-	(14 063)	(4 497)	(18 560)
31 December 2014	**(1 590 697)**	**(3 254 881)**	**(526 840)**	**(5 372 418)**
Net book value				
31 December 2014	**4 986 623**	**932 635**	**82 106**	**6 001 364**

13. Intangible assets

The movements in intangible assets were as follows:

	2015	2014
Cost of intangible assets		
1 January	**6 463 743**	**4 505 264**
Additions of intangible assets	2 786 607	1 958 483
Disposals of intangible assets	(997)	(4)
31 December	**9 249 353**	**6 463 743**
Accumulated amortisation of intangible assets		
1 January	**(3 019 912)**	**(2 300 371)**
Amortisation charge of intangible assets	(879 794)	(719 545)
Disposals of intangible assets	990	4
31 December	**(3 898 716)**	**(3 019 912)**
Net book value of intangible assets		
31 December	**5 350 637**	**3 443 831**

(Thousands of Russian Roubles)

14. Taxation

The corporate income tax expense comprises:

	2015	2014
Current tax charge	407 448	2 071 362
Deferred tax charge – origination of temporary differences	3 057 655	2 694 812
Income tax expense	**3 465 103**	**4 766 174**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2015 and 2014. The tax rate for interest income on state securities was 15% for 2015 and 2014.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2015	2014
Profit before tax	**18 983 097**	**23 585 515**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**3 796 619**	**4 717 103**
Effect of income taxed at lower tax rates	(166 368)	(137 504)
Non-deductible costs and non-taxable income	(165 148)	186 575
Income tax expense	**3 465 103**	**4 766 174**

Deferred tax assets and liabilities as at 31 December 2015 and 31 December 2014 comprise:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Fixed and intangible assets	975 679	893 873	(2 404 594)	(1 853 186)	**(1 428 915)**	**(959 313)**
Trading securities and derivatives	2 333 917	3 190 231	(6 148 441)	(3 545 841)	**(3 814 524)**	**(355 610)**
Available-for-sale securities	624 303	2 267 557	-	-	**624 303**	**2 267 557**
Loan impairment and credit related commitments	1 205 338	738 612	(6 297 159)	(5 319 921)	**(5 091 821)**	**(4 581 309)**
Tax losses carried forward	1 436 353	-	-	-	**1 436 353**	**-**
Other items	883 988	1 049 691	-	(18 165)	**883 988**	**1 031 526**
Total deferred tax assets/ (liabilities)	**7 459 578**	**8 139 964**	**(14 850 194)**	**(10 737 113)**	**(7 390 616)**	**(2 597 149)**

(Thousands of Russian Roubles)

14. Taxation (continued)

Movement in deferred tax assets and liabilities during the year ended 31 December 2015 is presented in the table below:

	1 January 2015	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2015
Fixed and intangible assets	(959 313)	(469 602)	-	**(1 428 915)**
Trading securities and derivatives	(355 610)	(3 264 927)	(193 987)	**(3 814 524)**
Available-for-sale securities	2 267 557	(101 429)	(1 541 825)	**624 303**
Loan impairment and credit related commitments	(4 581 309)	(510 512)	-	**(5 091 821)**
Tax losses carried forward	-	1 436 353	-	**1 436 353**
Other items	1 031 526	(147 538)	-	**883 988**
	(2 597 149)	**(3 057 655)**	**(1 735 812)**	**(7 390 616)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2014 is presented in the table below:

	1 January 2014	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquisition of subsidiary	31 December 2014
Fixed and intangible assets	(722 403)	(236 910)	-	-	**(959 313)**
Trading securities and derivatives	(783 114)	332 011	95 493	-	**(355 610)**
Available-for-sale securities	158 187	(55 233)	2 164 603	-	**2 267 557**
Loan impairment and credit related commitments	(1 195 020)	(3 386 289)	-	-	**(4 581 309)**
Other items	331 017	651 609	-	48 900	**1 031 526**
	(2 211 333)	**(2 694 812)**	**2 260 096**	**48 900**	**(2 597 149)**

According to Russian legislation tax losses can be utilized during next 10 years. It is planned that tax losses will be off set against taxable profit in 2016.

Tax effect relating to components of other comprehensive income comprises:

	2015			2014		
	Amount before tax	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Cash flow hedge reserve	969 934	(193 987)	775 947	(477 459)	95 493	(381 966)
Revaluation reserve for available-for-sale securities	7 709 123	(1 541 825)	6 167 298	(10 823 013)	2 164 603	(8 658 410)
Other comprehensive income	**8 679 057**	**(1 735 812)**	**6 943 245**	**(11 300 472)**	**2 260 096**	**(9 040 376)**

(Thousands of Russian Roubles)

15. Other assets and liabilities

Other assets comprise:

	31 December 2015	31 December 2014
Advances, prepayments and deferred expenses	2 446 138	1 809 280
Accrued income other than income capitalised in related financial assets	577 314	371 852
Repossessed collateral	473 061	557 514
VAT receivables on leases	23 234	199 742
Other	926 096	1 143 586
Other assets	**4 445 843**	**4 081 974**

Other liabilities comprise:

	31 December 2015	31 December 2014
Accrued compensation expense	2 981 550	2 878 443
Accounts payable	2 867 976	2 224 210
Liability arising on initial designation of fair value macro hedge	840 271	1 052 530
Deferred income	365 442	541 953
Taxes payables	237 086	242 667
Transit accounts	193 185	436 817
Other provisions	185 348	4 373
Other	252 122	936 960
Other liabilities	**7 922 980**	**8 317 953**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2015	31 December 2014
Current accounts	15 490 125	25 254 271
Time deposits and loans	114 574 175	150 113 612
Repurchase agreements with credit institutions (Note 11)	12 766 312	20 835 234
Subordinated debt (Note 19)	51 091 697	13 753 224
Amounts due to credit institutions	**193 922 309**	**209 956 341**

As at 31 December 2015, the ten largest deposits, excluding subordinated debt, represented 79% of total amounts due to credit institutions (31 December 2014: 85%).

As at 31 December 2015, the Group had two counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2014: two counterparties). As at 31 December 2015, the aggregate amount of these balances is RUB 55 732 422 thousand (31 December 2014: RUB 133 848 120 thousand).

(Thousands of Russian Roubles)

16. Amounts due to credit institutions (continued)

As at 31 December 2015 included in subordinated debt is subordinated deposit received in March 2015 from the sole Group's shareholder UniCredit Bank Austria AG in the amount of USD 480 900 thousand with quarterly interest payment at annual interest rate Libor plus 10.08% and maturity date in March 2025 (see Note 19 for details).

As at 31 December 2015 the Group has term deposits due to the CBR in the amount of RUB 38 292 939 thousand (31 December 2014: RUB 60 258 238 thousand) which are secured by a pool of corporate loans (see Note 9 for details).

As at 31 December 2015 the Group has no repurchase agreements with the CBR (31 December 2014: RUB 20 835 234 thousand).

As at 31 December 2015 fair value of securities pledged under repurchase agreements with credit institutions is RUB 14 145 980 thousand (31 December 2014: RUB 22 079 329 thousand) (see Notes 6, 10 and 11 for details).

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2015	**31 December 2014**
Current accounts	146 655 702	125 598 853
Time deposits	784 025 324	685 021 652
Repurchase agreements with customers (Note 11)	745 962	-
Amounts due to customers	**931 426 988**	**810 620 505**

As at 31 December 2015, approximately 59% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2014: 53%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2015	**31 December 2014**
Corporate		
Current accounts	60 292 671	54 412 163
Time deposits	645 936 117	604 318 805
Repurchase agreements with customers (Note 11)	745 962	-
Total corporate accounts	**706 974 750**	**658 730 968**
Retail		
Current accounts	86 363 031	71 186 690
Time deposits	138 089 207	80 702 847
Total retail accounts	**224 452 238**	**151 889 537**
Amounts due to customers	**931 426 988**	**810 620 505**

(Thousands of Russian Roubles)

17. Amounts due to customers (continued)

Included in retail time deposits are deposits of individuals in the amount of RUB 119 174 751 thousand (31 December 2014: RUB 63 001 635 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 18 914 456 thousand (31 December 2014: RUB 17 701 212 thousand) is represented by deposits placed by SME.

As at 31 December 2015 fair value of own securities pledged under repurchase agreements with customers is RUB 695 952 thousand (31 December 2014: none) (see Notes 6, 10 and 11 for details).

As at 31 December 2015 included in repurchase agreements with customers are agreements in the amount of RUB 83 299 thousand (31 December 2014: none) which are secured by Russian government bonds with fair value of RUB 94 422 thousand obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

18. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2015	Carrying value at 31 December 2014
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUR	8.10	10 082 110	10 079 890
UniCredit Bank, BO-06	14.02.2013	11.02.2016	RUR	8.60	5 166 110	5 164 932
UniCredit Bank, BO-07	14.02.2013	11.02.2016	RUR	8.60	5 166 110	5 164 932
UniCredit Bank, 01-IP	14.09.2011	07.09.2016	RUR	8.20	5 122 775	5 112 705
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUR	12.35	4 133 989	-
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUR	10.75	2 839 802	5 057 534
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUR	10.50	192 057	10 106 301
UniCredit Bank, BO-08	26.02.2013	23.02.2016	RUR	14.00	141 048	5 141 788
UniCredit Bank, BO-09	26.02.2013	23.02.2016	RUR	14.00	74 246	5 141 788
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUR	10.50	60 838	10 397 890
UniCredit Bank, 05	07.09.2010	01.09.2015	RUR	6.75	-	256 837
UniCredit Bank, BO-04	26.10.2012	23.10.2015	RUR	10.15	-	216 178
UniCredit Bank, BO-02	02.03.2012	27.02.2015	RUR	5.75	-	80 549
UniCredit Bank, BO-05	30.10.2012	27.10.2015	RUR	10.15	-	34 367
UniCredit Bank, BO-03	07.03.2012	04.03.2015	RUR	5.75	-	31 233
UniCredit Bank, 04	16.11.2010	10.11.2015	RUR	8.00	-	20 243
Debt securities issued					**32 979 085**	**62 007 167**

As at 31 December 2015 mortgage-backed bonds (UniCredit Bank, 01-IP and UniCredit Bank, 02-IP) with the carrying value of RUB 9 256 764 thousand (31 December 2014: RUB 5 125 808 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 7 541 188 thousand (31 December 2014: RUB 4 428 583 thousand) and by cash in the amount of RUB 2 050 000 thousand (31 December 2014: RUB 1 000 000) (see Notes 5 and 9 for details).

(Thousands of Russian Roubles)

19. Subordinated debt

	31 December 2015	31 December 2014
UniCredit Bank Austria AG, Vienna		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	35 059 691	-
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017	8 016 505	6 877 042
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018	8 015 501	6 876 182
Subordinated Debt	**51 091 697**	**13 753 224**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

20. Shareholder's equity

As at 31 December 2015 and 31 December 2014, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

21. Commitments and contingencies

Credit related commitments and contingencies

	31 December 2015	31 December 2014
Undrawn loan commitments	124 924 548	259 196 477
Guarantees issued	130 012 623	125 789 656
Letters of credit	47 271 329	46 498 812
Undrawn commitments to issue documentary instruments	-	140 828 238
Gross credit related commitments and contingencies	**302 208 500**	**572 313 183**
Provisions for credit related commitments and contingencies	-	(11 781)
Total credit related commitments and contingencies	**302 208 500**	**572 301 402**

The undrawn loan commitments are of revocable nature for which the Group does not undertake any substantial liability. In 2015 the Group renewed the agreements with customers and credit institutions withdrawing legally binding commitments to finance documentary instruments and overdraft facilities. As a result, the Group has no undrawn commitments to issue documentary instruments to customers and undrawn loan commitments for overdraft facilities with credit institutions as at 31 December 2015.

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2015, collateral deposits of RUB 14 814 945 thousand were held by the Group (31 December 2014: RUB 12 896 998 thousand). Most of guarantees issued and letters of credits are irrevocable payment undertakings by the Group.

(Thousands of Russian Roubles)

21. Commitments and contingencies (continued)

Operating lease commitments

	31 December 2015	31 December 2014
Not later than 1 year	874 122	1 053 905
Later than 1 year but not later than 5 years	2 074 433	2 480 617
Later than 5 years	143 543	168 680
	3 092 098	**3 703 202**

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

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia’s long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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

Fiduciary activities. The Group also provides depositary services to its customers. As at 31 December 2015 and 31 December 2014, the Group had customer securities totaling 84 428 551 717 items and 47 049 929 180 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2015 the provision for legal proceedings in the amount of RUB 185 348 thousand (31 December 2014: RUB 4 373 thousand) was recognized in other liabilities in the consolidated statement of financial position.

(Thousands of Russian Roubles)

22. Gains/ (losses) on financial assets and liabilities held for trading

Gains/ (losses) on financial assets and liabilities held for trading comprise:

	2015	2014
Net gains/ (losses) from trading securities	261 203	(786 939)
Net gains/ (losses) from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	4 996 260	(1 263 982)
Gains/ (losses) on financial assets and liabilities held for trading	**5 257 463**	**(2 050 921)**

23. Fee and commission income and expense

Fee and commission income comprises:

	2015	2014
Retail services	2 953 618	2 606 685
Customer accounts handling and settlements	2 862 004	3 090 617
Documentary business	2 542 590	1 788 035
Loan fees that are not part of the effective interest rate	338 496	334 805
Other	7 368	5 882
Fee and commission income	**8 704 076**	**7 826 024**

Fee and commission expense comprises:

	2015	2014
Documentary business	(2 570 263)	(201 878)
Retail services	(952 432)	(669 118)
Accounts handling and settlements	(742 593)	(465 635)
Other	(59 408)	(69 123)
Fee and commission expense	**(4 324 696)**	**(1 405 754)**

24. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2015	2014
Salaries and bonuses	5 922 923	5 561 858
Social security costs	374 446	347 260
Other compensation expenses	117 609	117 320
Other employment taxes	1 378 040	1 116 181
Personnel expenses	**7 793 018**	**7 142 619**
Rent, repairs and maintenance	1 545 984	1 539 521
Communication and information services	1 417 190	996 169
Advertising and marketing	533 139	540 008
Security expenses	328 245	293 767
Insurance	156 065	121 243
Legal, audit and other professional services	143 424	119 845
Other taxes	106 557	146 334
Other	1 322 882	891 212
Other administrative expenses	**5 553 486**	**4 648 099**

(Thousands of Russian Roubles)

25. Acquisition of subsidiary

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are outside the scope of IFRS 3 *Business Combinations*, and there is no other guidance for such situations under IFRS. The Group elects to account for such transactions prospectively as of the date when common control was established. The assets and liabilities acquired are recognized at the carrying amounts. The difference between the consideration paid and the net assets acquired is accounted for directly in equity. The consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows are not restated.

The following table presents information on net assets of the subsidiary based on IFRS financial statements as at the date of acquisition, which took place in February 2014 (see Note 1 for details):

Assets	
Amounts due from credit institutions	1 244 351
Lease receivables	9 004 670
Fixed assets	19 676
Deferred income tax	48 900
Current income tax	98 928
Other assets	1 178 209
Total assets	**11 594 734**
Liabilities	
Amounts due to credit institutions	8 423 741
Other liabilities	792 174
Total liabilities	**9 215 915**
Net assets	**2 378 819**
Consideration paid	(1 163 400)
Fair value of previous 40% shareholding	(973 059)
Less: Net assets	2 378 819
Result from acquisition of subsidiary, recognized in equity	**242 360**

26. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

(Thousands of Russian Roubles)

26. Capital management (continued)

Capital (own funds) under the requirements of the CBR regulation N 395-P “Calculation of own funds (Basel III) by credit institutions” as at 31 December 2015 and 31 December 2014 was as follows:

	31 December 2015	31 December 2014
Core equity Tier I	125 780 138	118 209 092
Tier I	125 780 138	118 209 092
Additional capital	48 200 692	15 373 802
Total capital	**173 980 830**	**133 582 894**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The Capital adequacy ratios, computed in accordance with the CBR Regulation N 139- I “Obligatory banking ratios”, as at 31 December 2015 and 31 December 2014 were as follows:

	31 December 2015	31 December 2014
Total capital adequacy ratio H1.0 (minimum 10%)	12.9%	13.2%
Core equity Tier I capital adequacy ratio H1.1 (minimum 5%)	9.4%	11.7%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	9.4%	11.7%

Due to the introduction of restrictive political and economic measures affecting the situation in the financial markets, as well as to reduce the regulatory risks due to the volatility of the exchange rate, the CBR in December 2014 introduced a relief for the calculation of capital adequacy ratios and regulations.

In the calculation of capital, the Bank reclassified certain debt securities from available for sale category to held to maturity category at fair value prevailing as at 1 October 2014. In calculating the ratios, as at 31 December 2014 the Bank used the official exchange rates of foreign currencies against the Rouble set by the CBR as at 1 October 2014.

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

Starting from 2014, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

(Thousands of Russian Roubles)

26. Capital management (continued)

The capital and capital adequacy ratios computed in accordance with the Basel III and Basel II requirements as at 31 December 2015 and 31 December 2014 were as follows (unaudited):

	31 December 2015	**31 December 2014**
Core equity Tier 1 capital	141 889 980	117 755 188
Tier II capital	34 202 071	-
Total capital	**176 092 051**	**117 755 188**
Risk weighted assets	**1 369 639 149**	**1 268 832 782**
Core equity Tier 1 capital ratio	10.4%	9.3%
Total capital ratio	12.9%	9.3%

27. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Credit Committee of Retail Business as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

27. Risk management (continued)

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board (excluding operational instructions which are approved by the Heads of the responsible Units). The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 40 million or equivalent in other currencies. It is chaired by the President of the Board of Management or the CRO and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 15 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis;
- Loan/credit applications from customers in the amount in the range from EUR 15 to 40 million or equivalent in other currencies may be approved either by the Large or the Small Credit Committee depending on the rating of the borrower;
- The Credit Committee of Retail Business is responsible for approval of the loan applications of SME in the amount up to 60 million RUR (including) and also for approval of the loan applications of Private Individual clients in the amount up to 100 million RUR or equivalent in other currencies. The Committee meets at least once in a two-week period;
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by the UniCredit Group (by the authorized members of the Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

27. Risk management (continued)

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

(Thousands of Russian Roubles)

27. Risk management (continued)

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure 31 December 2015	Maximum gross exposure 31 December 2014
Cash and cash balances (excluding cash on hand)	5	8 374 378	23 799 335
Trading securities:	6		
- held by the Group		3 652 106	4 184 948
- pledged under repurchase agreements		-	263 368
Amounts due from credit institutions	7	336 744 808	332 555 937
Derivative financial assets	8	65 526 002	81 685 033
Derivative financial assets designated for hedging	8	7 042 056	12 003 652
Loans to customers	9	867 295 074	826 851 401
Investment securities:	10		
- available-for-sale			
- held by the Group		54 895 759	32 553 782
- pledged under repurchase agreements		14 841 932	21 815 961
- held-to-maturity		16 130 748	-
Other financial assets	15	2 446 138	1 809 280
		1 376 949 001	**1 337 522 697**
Financial commitments and contingencies	21	302 208 500	572 301 402
Total credit risk exposure		**1 679 157 501**	**1 909 824 099**

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

(Thousands of Russian Roubles)

27. Risk management (continued)

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2015.

		Neither past due nor impaired			
	Notes	**High grade**	**Standard**	**Past due or impaired**	**Total 2015**
Cash and cash balances (excluding cash on hand)	5	8 374 378	-	-	**8 374 378**
Trading securities	6				
- held by the Group		3 337 071	315 035	-	**3 652 106**
Amounts due from credit institutions	7	315 610 217	21 134 591	-	**336 744 808**
Derivative financial assets	8	40 686 232	24 839 770	-	**65 526 002**
Derivative financial assets designated for hedging	8	7 042 056	-	-	**7 042 056**
Loans to customers	9	374 598 665	455 265 455	37 430 954	**867 295 074**
Investment securities:	10				
- available for sale					
- held by the Group		44 539 196	10 356 563	-	**54 895 759**
- pledged under repurchase agreement		14 841 932	-	-	**14 841 932**
- held-to-maturity		16 130 748	-	-	16 130 748
Total		**825 160 495**	**511 911 414**	**37 430 954**	**1 374 502 863**

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2014.

		Neither past due nor impaired			
	Notes	**High grade**	**Standard**	**Past due or impaired**	**Total 2014**
Cash and cash balances (excluding cash on hand)	5	23 799 335	-	-	**23 799 335**
Trading securities	6				
- held by the Group		3 501 004	683 944	-	**4 184 948**
- pledged under repurchase agreement		263 368	-	-	**263 368**
Amounts due from credit institutions	7	303 023 643	29 532 294	-	**332 555 937**
Derivative financial assets	8	71 847 626	9 837 407	-	**81 685 033**
Derivative financial assets designated for hedging	8	11 960 832	42 820	-	**12 003 652**
Loans to customers	9	402 057 195	398 533 005	26 261 201	**826 851 401**
Investment securities available-for-sale:	10				
- held by the Group		31 431 250	1 122 532	-	**32 553 782**
- pledged under repurchase agreement		15 871 439	5 944 522	-	**21 815 961**
Total		**863 755 692**	**445 696 524**	**26 261 201**	**1 335 713 417**

The Standard grade category includes exposures with internal ratings from 4- to 8, where probability of default ranges from 1.1% to 99%. The High grade category includes exposures with internal rating from 1+ to 4. Only exposures with low probability of default (less than 1%) fit this category.

54% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody’s, S&Ps, Fitch) as at 31 December 2015 (49% as at 31 December 2014). As at 31 December 2015 46% of the exposures (51% as at 31 December 2014) are not rated due to the fact that small entities and private inidviduals are not externally rated.

27. Risk management (continued)

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2015 and 31 December 2014 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.
2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on daily basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.
3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;

     UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on local approach to cash flow model.

(Thousands of Russian Roubles)

27. Risk management (continued)

4. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to management and analyzed on a weekly basis.
5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon.

As at 31 December 2015 and 31 December 2014, these ratios were as follows:

	2015, %	**2014, %**
N2 “Instant liquidity Ratio” (minimum 15%)	107.5	114.4
N3 “Current Liquidity Ratio” (minimum 50%)	282.7	66.9
N4 “Long-Term Liquidity Ratio” (maximum 120%)	65.6	97.0

(Thousands of Russian Roubles)

27. Risk management (continued)

The following tables shows the liquidity gap profile as at 31 December 2015 and 31 December 2014. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates. This information is used internally for risk management purposes and differs from financial statement amounts.

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2015:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	22 742 000	-	-	-	-	-	-	**22 742 000**
Trading securities	-	2 391 205	-	-	319 228	940 854	-	**3 651 287**
Amounts due from credit institutions	134 386 001	-	45 788 553	38 441 350	88 959 240	29 153 080	-	**336 728 224**
Loans to customers	280 853 675	45 388 165	58 291 514	150 524 209	184 873 087	146 430 490	-	**866 361 140**
Investment securities								
- available-for-sale	613 583	3 109 068	1 180 184	685 084	9 924 377	54 225 395	-	**69 737 691**
- held-to-maturity	-	-	-	-	-	16 130 748	-	**16 130 748**
Fixed assets	-	-	-	-	-	-	5 608 081	**5 608 081**
Other assets	-	-	-	85 222 178	-	-	-	**85 222 178**
Total assets	**438 595 259**	**50 888 438**	**105 260 251**	**274 872 821**	**284 075 932**	**246 880 567**	**5 608 081**	**1 406 181 349**
Liabilities								
Amounts due to credit institutions	79 492 522	39 110 070	10 226 373	1 263 268	28 517 436	35 700 460	-	**194 310 129**
Amounts due to customers								
- current accounts	36 132 105	15 288 074	11 532 588	12 275 411	19 186 264	51 660 882	-	**146 075 324**
- time deposits	154 051 002	41 007 088	83 213 767	134 234 160	300 809 483	71 702 383	-	**785 017 883**
Debt securities issued	719 779	10 205 218	189 818	17 868 426	4 000 000	-	-	**32 983 241**
Other liabilities	83 267 509	-	-	-	-	-	-	**83 267 509**
Equity	-	-	-	-	-	-	164 527 263	**164 527 263**
Total liabilities and equity	**353 662 917**	**105 610 450**	**105 162 546**	**165 641 265**	**352 513 183**	**159 063 725**	**164 527 263**	**1 406 181 349**
Net position	**84 932 342**	**(54 722 012)**	**97 705**	**109 231 556**	**(68 437 251)**	**87 816 842**	**(158 919 182)**	**-**
Accumulated gap	**84 932 342**	**30 210 330**	**30 308 035**	**139 539 591**	**71 102 340**	**158 919 182**	**-**	

(Thousands of Russian Roubles)

27. Risk management (continued)

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2014:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	42 873 396	-	-	-	-	-	-	**42 873 396**
Trading securities	-	-	-	-	2 834 430	1 622 831	-	**4 457 261**
Amounts due from credit institutions	192 338 776	3 021 274	6 300 000	57 122 683	2 276 670	71 496 911	-	**332 556 314**
Loans to customers	237 586 826	37 782 001	50 464 869	140 244 427	217 486 989	143 271 623	-	**826 836 735**
Investment securities available-for-sale	-	2 619 856	219 538	1 793 579	10 156 127	39 795 743	-	**54 584 843**
Fixed assets	-	-	-	-	-	-	6 001 364	**6 001 364**
Other assets	-	-	-	93 284 706	-	-	-	**93 284 706**
Total assets	**472 798 998**	**43 423 131**	**56 984 407**	**292 445 395**	**232 754 216**	**256 187 108**	**6 001 364**	**1 360 594 619**
Liabilities								
Amounts due to credit institutions	95 146 506	53 232 385	20 858 185	9 651 168	18 484 918	13 373 699	-	**210 746 861**
Amounts due to customers								
- current accounts	54 654 910	4 750 217	4 750 217	5 543 125	12 344 185	43 204 647	-	**125 247 301**
- time deposits	287 766 814	62 796 607	10 329 495	29 348 024	164 568 640	130 212 713	-	**685 022 293**
Debt securities issued	1 391 081	10 109 664	10 000 000	15 517 149	25 000 000	-	-	**62 017 894**
Other liabilities	135 494 246	-	-	-	-	-	-	**135 494 246**
Equity	-	-	-	-	-	-	142 066 024	**142 066 024**
Total liabilities and equity	**574 453 557**	**130 888 873**	**45 937 897**	**60 059 466**	**220 397 743**	**186 791 059**	**142 066 024**	**1 360 594 619**
Net position	**(101 654 559)**	**(87 465 742)**	**11 046 510**	**232 385 929**	**12 356 473**	**69 396 049**	**(136 064 660)**	**-**
Accumulated gap	**(101 654 559)**	**(189 120 301)**	**(178 073 791)**	**54 312 138**	**66 668 611**	**136 064 660**	**-**	

(Thousands of Russian Roubles)

27. Risk management (continued)

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2015							
Cash and cash balances	22 730 813	-	-	-	-	-	**22 730 813**
Trading securities							
- held by the Group	3 652 106	-	-	-	-	-	**3 652 106**
Amounts due from credit institutions	164 022 504	482 224	15 949 036	41 216 391	100 167 119	33 139 833	**354 977 107**
Derivative financial assets:							
- Contractual amounts payable	(9 382 522)	(25 266 950)	(6 265 613)	(12 493 570)	(31 991 727)	(22 570 894)	**(107 971 276)**
- Contractual amounts receivable	9 599 093	27 106 928	11 432 221	20 887 047	57 540 996	44 120 104	**170 686 389**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(997 774)	(6 254 920)	(1 732 887)	(9 002 645)	(20 896 099)	(23 946 255)	**(62 830 580)**
- Contractual amounts receivable	1 660 654	8 618 387	3 154 509	10 087 598	22 974 397	25 337 056	**71 832 601**
Loans to customers	31 032 345	45 914 935	80 611 584	145 242 159	268 026 260	485 542 563	**1 056 369 846**
Investment securities:							
available-for-sale							
- held by the Group	230 136	3 973 526	2 191 529	2 376 912	15 936 653	50 902 829	**75 611 585**
- pledged under repurchase agreements	484 373	484 598	62 364	752 282	2 862 603	21 902 381	**26 548 601**
held-to-maturity	-	1 080 750	-	1 080 750	4 323 000	23 657 250	**30 141 750**
Total undiscounted financial assets	**223 031 728**	**56 139 478**	**105 402 743**	**200 146 924**	**418 943 202**	**638 084 867**	**1 641 748 942**
Financial liabilities as at 31 December 2015							
Amounts due to credit institutions	88 162 743	40 468 335	2 869 496	3 458 906	36 801 697	59 090 584	**230 851 761**
Derivative financial liabilities:							
- Contractual amounts payable	14 686 632	41 581 806	14 603 782	44 044 562	69 194 159	10 118 536	**194 229 477**
- Contractual amounts receivable	(11 326 124)	(39 617 146)	(9 845 824)	(30 473 403)	(57 177 103)	(5 715 180)	**(154 154 780)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	545 377	8 998 862	5 446 343	36 616 517	35 475 374	5 306 194	**92 388 667**
- Contractual amounts receivable	(1 722 582)	(6 613 744)	(3 059 846)	(31 372 979)	(27 276 428)	(3 218 373)	**(73 263 952)**
Amounts due to customers	266 981 977	49 224 935	90 889 675	147 604 409	317 798 375	78 939 162	**951 438 533**
Debt securities issued	-	11 104 650	566 003	6 021 070	13 264 281	4 364 418	**35 320 422**
Total undiscounted financial liabilities	**357 328 023**	**105 147 698**	**101 469 629**	**175 899 082**	**388 080 355**	**148 885 341**	**1 276 810 128**

(Thousands of Russian Roubles)

27. Risk management (continued)

The maturity profile of the financial assets and liabilities at 31 December 2014 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2014							
Cash and cash balances	42 873 396	-	-	-	-	-	**42 873 396**
Trading securities							
- held by the Group	4 184 948	-	-	-	-	-	**4 184 948**
- pledged under repurchase agreements	263 368	-	-	-	-	-	**263 368**
Amounts due from credit institutions	195 079 900	3 748 655	9 473 421	55 601 316	9 692 654	70 420 970	**344 016 916**
Derivative financial assets:							
- Contractual amounts payable	(30 309 003)	(23 403 949)	(24 387 736)	(12 734 098)	(26 854 086)	(36 310 163)	**(153 999 035)**
- Contractual amounts receivable	48 075 653	29 343 823	34 592 172	14 907 679	40 759 994	57 800 110	**225 479 431**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(114 648)	(1 322 962)	(2 573 265)	(4 588 452)	(19 528 498)	(6 113 495)	**(34 241 320)**
- Contractual amounts receivable	967 946	3 332 359	5 464 639	7 154 065	24 519 725	6 117 645	**47 556 379**
Loans to customers	43 752 196	64 955 283	98 774 668	159 752 901	383 583 142	261 313 455	**1 012 131 645**
Investment securities available-for-sale:							
- held by the Group	53 783	748 463	958 941	1 840 719	10 216 211	50 349 131	**64 167 248**
- pledged under repurchase agreements	48 705	3 088 463	493 389	2 331 059	9 848 266	16 739 218	**32 549 100**
Total undiscounted financial assets	**304 876 244**	**80 490 135**	**122 796 229**	**224 265 189**	**432 237 408**	**420 316 871**	**1 584 982 076**
Financial liabilities as at 31 December 2014							
Amounts due to credit institutions	96 022 796	54 776 529	21 130 441	10 123 108	19 336 613	13 444 956	**214 834 443**
Derivative financial liabilities:							
- Contractual amounts payable	56 610 504	34 293 250	77 562 217	71 539 208	64 995 086	14 899 361	**319 899 626**
- Contractual amounts receivable	(42 287 190)	(27 672 222)	(52 196 012)	(49 110 347)	(44 610 557)	(10 814 599)	**(226 690 927)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	268 311	4 540 006	1 956 220	40 309 334	16 993 486	20 228 361	**84 295 718**
- Contractual amounts receivable	(517 633)	(3 986 284)	(1 404 055)	(28 805 375)	(11 574 943)	(17 645 081)	**(63 933 371)**
Amounts due to customers	387 305 063	78 392 654	30 437 027	44 039 139	281 034 631	25 685 121	**846 893 635**
Debt securities issued	-	1 678 795	1 203 281	3 286 408	33 067 500	40 525 000	**79 760 984**
Total undiscounted financial liabilities	**497 401 851**	**142 022 728**	**78 689 119**	**91 381 475**	**359 241 816**	**86 323 119**	**1 255 060 108**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

(Thousands of Russian Roubles)

27. Risk management (continued)

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 17).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2015	11 688 510	22 657 301	45 689 107	64 418 564	128 772 488	28 982 530	**302 208 500**
2014	23 682 800	42 504 644	87 245 124	163 680 983	174 981 329	80 206 522	**572 301 402**

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

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 exchange rates and equity prices.

The Group distinguishes four market risk categories:

1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:

1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

27. Risk management (continued)

Starting in 2014, the Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:

- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Total SVaR limit for the trading portfolio;
- IRC limit for total bond position;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, local ALCO sets limits for BPV by timeband and business segment (ALM and Markets) and VaR warning levels for subportfolios.

Usage of VaR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment. On a daily basis MRU performs stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to UniCredit Bank Austria AG.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new system also enables to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

In 2015 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

(Thousands of Russian Roubles)

27. Risk management (continued)

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Group applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Group has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2015	**2014**
Total VaR	1 803 975	1 476 262
Interest Rate VaR	1 427 374	1 154 759
Spread VaR	1 728 019	356 283
Foreign exchange VaR	19 295	37 279

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

(Thousands of Russian Roubles)

27. Risk management (continued)

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2015	2014
Total VaR	1 782 603	1 299 447
Interest Rate VaR	1 395 248	1 174 907
Spread -VaR[1]	1 702 358	341 452
Foreign exchange VaR[2]	-	-

[1]Spread risk in the banking book arises from bonds comprising investment portfolio.
[2] Foreign exchange risk is defined as the risk arising from the net open position of the Group and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2015	2014
Total VaR	230 752	186 151
Interest Rate VaR	214 123	137 614
Spread VaR	26 654	14 831
Foreign exchange VaR	19 295	37 279

Operational risk

Operational risk definition and risk management principles**.** The Group defines as “operational” the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of operational risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group follows the UniCredit Group’s operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

27. Risk management (continued)

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- Loss in data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- Key operational risk indicators;
- Scenario analysis;
- Operational risk limits control;
- Insurance coverage;
- Capital at risk allocation according to the Basel II Standardized Approach;
- New products/processes analysis from the operational risk impact perspective;
- Credit bureaus cooperation;
- Reporting and escalating any of the essential operational risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit and Organization Department.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

(Thousands of Russian Roubles)

28. Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable 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.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deals as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency and risk product (asset or liability).

  In accordance with the Group methodology discount factors include:

  - for assets: Risk free rate + expected loss + unexpected loss
  - for liabilities: Risk free rate + own credit spread (liquidity spreads)

- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value valuation of derivative instruments is based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

For the purpose of calculation fair value of financial instruments the Group applies ratios calculating by UniCredit Bank Austria AG.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value.

	31 December 2015		31 December 2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	336 744 808	321 744 421	332 555 937	327 034 093
Loans to customers	867 295 074	885 729 267	826 851 401	852 715 500
Investment securities held-to-maturity	16 130 748	16 305 248	-	-
Financial liabilities				
Amounts due to credit institutions	193 922 309	211 690 450	209 956 341	210 922 593
Amounts due to customers	931 426 988	944 180 736	810 620 505	827 401 485
Debt securities issued	32 979 085	32 582 136	62 007 167	59 722 181

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	321 744 421	321 744 421
Loans to customers	-	-	885 729 267	885 729 267
Investment securities held-to-maturity	8 128 470	8 176 778	-	16 305 248
Financial liabilities				
Amounts due to credit institutions	-	-	211 690 450	211 690 450
Amounts due to customers	-	-	944 180 736	944 180 736
Debt securities issued	-	32 582 136	-	32 582 136

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	-	327 034 093	327 034 093
Loans to customers	-	-	852 715 500	852 715 500
Financial liabilities				
Amounts due to credit institutions	-	-	210 922 593	210 922 593
Amounts due to customers	-	-	827 401 485	827 401 485
Debt securities issued	-	59 722 181	-	59 722 181

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites				
- held by the Group	437 860	3 214 246	-	3 652 106
Derivative financial assets	-	65 526 002	-	65 526 002
Derivative financial assets designated for hedging	-	7 042 056	-	7 042 056
Investment securities available-for-sale				
- held by the Group	36 936 733	17 839 374	-	54 776 107
- pledged under repurchase agreements	14 390 682	451 250	-	14 841 932
Total	**51 765 275**	**94 072 928**	**-**	**145 838 203**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	49 246 075	-	49 246 075
Derivative financial liabilities designated for hedging	-	19 306 086	-	19 306 086
Total	**-**	**68 552 161**	**-**	**68 552 161**

(Thousands of Russian Roubles)

28. Fair values of financial instruments (continued)

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Trading securitites				
- held by the Group	1 326 696	2 858 252	-	4 184 948
- pledged under repurchase agreements	-	263 368	-	263 368
Derivative financial assets	-	81 685 033	-	81 685 033
Derivative financial assets designated for hedging	-	12 003 652	-	12 003 652
Investment securities available-for-sale				
- held by the Group	26 451 655	6 093 587	-	32 545 242
- pledged under repurchase agreements	-	21 815 961	-	21 815 961
Total	**27 778 351**	**124 719 853**	**-**	**152 498 204**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	104 534 651	-	104 534 651
Derivative financial liabilities designated for hedging	-	20 464 088	-	20 464 088
Total	**-**	**124 998 739**	**-**	**124 998 739**

The table above does not include AFS equity investments of RUB 119 652 thousand (31 December 2014: RUB 8 540 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

During the year ended 31 December 2015 the transfers from levels 1 to level 2 for available-for-sale securities amounted to RUB 451 851 thousand (2014: no transfers from level 1 to level 2). During the year ended 31 December 2015 the transfers from level 2 to level 1 category amounted to RUB 2 183 088 thousand for available-for-sale securities (2014: transfers from level 2 to level 1 amounted to RUB 720 168 thousand). During the year ended 31 December 2015 and 31 December 2014 there were no transfers for trading securities.

29. Related party disclosures

The Group's ultimate shareholder is the UniCredit S.P.A, the parent company of UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

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 conducted on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and UniCredit S.P.A (ultimate parent) were as follows:

	31 December 2015	Weighted average interest rate, %	31 December 2014	Weighted average interest rate, %
Amounts due from credit institutions				
- In EUR	560 100	0.0%	519 897	0.0%
- In USD	210 655 001	3.1%	119 834 946	3.3%
Derivative financial assets	65 775		3 661	
Derivative financial assets designated for hedging	302 860		-	
Other assets	115 505		126 927	
Amounts due to credit institutions				
- In Russian Roubles	4 893 570	8.0%	4 872 000	6.4%
- In EUR	20 119 736	1.9%	17 621 039	2.1%
- In USD	46 409 005	8.5%	44 510 280	2.2%
Derivative financial liabilities	13 320 617		17 342 174	
Derivative financial liabilities designated for hedging	4 144 017		10 224	
Other liabilities	632 275		448 834	
Commitments and guarantees issued	13 025 828		10 441 771	
Commitments and guarantees received	97 532 631		98 489 972	

	2015	2014
Interest income	9 930 446	2 593 831
Interest expense	(3 561 859)	(2 797 227)
Fee and commission income	29 193	25 036
Fee and commission expense	(2 522 053)	(206 024)
Losses on financial assets and liabilities held for trading	(9 332 902)	(18 997 951)
Fair value adjustments in portfolio hedge accounting	6 126	347
Personnel expenses	(10 425)	(19 642)
Other administrative costs	(117 309)	-

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2015	Weighted average interest rate, %	31 December 2014	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	12 596 181	14.2%	10 994 784	13.0%
- In EUR	10 567 575	0.4%	8 193 844	0.4%
- In USD	1 466 189	4.1%	1 139 014	4.1%
- In other currencies	4 822	0.0%	2 736	0.0%
Derivative financial assets	7 491 744		6 801 297	
Derivative financial assets designated for hedging	4 761 503		3 067 860	
Loans to customers				
- In Russian Roubles	864 197	5.0%	731 662	5.0%
- In EUR	-		2 675 568	6.1%
Intangible assets	1 175 070		886 550	
Other assets	17 791		39 162	
Amounts due to credit institutions				
- In Russian Roubles	2 683 006	7.9%	2 286 350	22.2%
- In EUR	5 394 160	0.0%	2 709 370	0.0%
- In USD	379 645	0.0%	5 663 104	2.3%
- In other currencies	1 413	0.0%	1 967	0.0%
Derivative financial liabilities	10 639 021		12 052 242	
Derivative financial liabilities designated for hedging	7 492 424		15 000 188	
Amounts due to customers				
- In Russian Roubles	10 867	8.6%	22 482	19.2%
- In EUR	332 508	0.0%	391 218	2.1%
Other liabilities	811 259		976 985	
Commitments and guarantees issued	5 915 263		16 872 379	
Commitments and guarantees received	980 193		6 441 018	

	2015	2014
Interest income	9 619 072	4 841 878
Interest expense	(4 634 398)	(3 679 654)
Fee and commission income	81 758	20 193
Fee and commission expense	(80 401)	(51 683)
Gains /(losses) on financial assets and liabilities held for trading	877 608	(3 795 653)
Fair value adjustments in portfolio hedge accounting	(3 405 693)	(274 845)
Other income	443	808
Personnel expenses	(50 271)	(58 653)
Other administrative expenses	(112 681)	(100 382)

(Thousands of Russian Roubles)

29. Related party disclosures (continued)

Balances and transactions with key management personnel are as follows:

	31 December 2015	31 December 2014
Amounts due to customers	296 028	102 556
Other liabilities	22 018	17 025

	2015	2014
Interest expense	(11 360)	(4 051)
Personnel expenses, including:	(312 530)	(345 922)
short-term benefits	(163 236)	(168 708)
long-term benefits	(148 146)	(176 181)
post-employment benefits	(1 148)	(1 033)

Subordinated loans from the members of the UniCredit Group were as follows for 2015 and 2014:

	2015	2014
	UniCredit Bank Austria AG	UniCredit Bank Austria AG
Subordinated loans at the beginning of the year	13 753 224	12 326 113
Subordinated debt repaid during the year	-	(3 503 430)
Subordinated debt received during the year	27 761 347	-
Accrual of interest, net of interest paid	18 283	255 981
Effect of exchange rates changes	9 558 843	4 674 560
Subordinated loans at the end of the year	**51 091 697**	**13 753 224**

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