PJSC Sovcombank

Consolidated financial statements

for the year ended 31 December 2015

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and the Supervisory Board of
PJSC Sovcombank

We have audited the accompanying consolidated financial statements of PJSC Sovcombank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of matter

Without qualifying our opinion we draw attention to the fact that the PJSC Sovcombank has previously issued consolidated financial statements for the year ended 31 December 2015, on which we expressed an unqualified opinion on 29 April 2016. The previously issued consolidated financial statements for the year ended 31 December 2015 authorised for issue on 29 April 2016 have been revised as disclosed in Note 2. This opinion on these revised consolidated financial statements supersedes our previously issued opinion.

Ernst & Young LLC

5 October 2016

Moscow, Russia

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	Notes	*2015* *RUB MM*	*2014* *RUB MM*
Interest income	7	45,030	29,962
Interest expense	7	(26,726)	(12,374)
Net interest income		**18,304**	**17,588**
Allowance for loan impairment	12	(9,021)	(11,136)
Net interest income after allowance for loan impairment		**9,283**	**6,452**
Fee and commission income	8	10,304	9,792
Fee and commission expense	9	(577)	(443)
Net fee and commission income		**9,727**	**9,349**
Net gain/(loss) on financial instruments at fair value through profit or loss		16,791	(4,870)
Net foreign exchange gain	10	221	103
Other impairment and provisions	16	(1,377)	(163)
Share of profit in car leasing joint venture	43	99	69
Other operating income	11	250	2,659
Operating income		**34,994**	**13,599**
Revaluation of buildings and investment property	13	5	(555)
Personnel expenses	14	(5,567)	(5,878)
Other general and administrative expenses	15	(5,498)	(6,577)
Profit before income tax expense		**23,934**	**589**
Income tax (expense)/benefit	17	(4,617)	456
Profit for the year		**19,317**	**1,045**
Other comprehensive income			
Revaluation of buildings, net of tax		4	(111)
Other comprehensive income, net of tax		**4**	**(111)**
Total comprehensive income		**19,321**	**934**
Comprehensive income attributable to:			
- shareholders of the Bank		19,158	934
- non-controlling interests		163	–

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Andrei Osnos
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with notes 1 to 47 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2015

	Notes	*2015 RUB MM*	*2014 RUB MM*
Assets			
Cash and cash equivalents	18	52,528	25,426
Mandatory cash balances with the CBR		897	1,072
Placements with banks:			
- held by the Group	19	21,842	2,586
- pledged under sale and repurchase agreements	19	1,899	12,279
Financial instruments at fair value through profit or loss:			
- held by the Group	20	36,854	9,103
- pledged under sale and repurchase agreements	28	169,953	28,980
Available-for-sale investment securities	22	2,631	-
Loans to customers:	21	175,209	116,764
- held by the Group	21	158,889	87,158
- pledged under sale and repurchase agreements	28	16,320	29,606
Investments in associates	46	1,208	-
Investments in car leasing joint venture	43	486	452
Investment property	24	77	75
Property and equipment and intangible assets	25	2,626	1,386
Goodwill	41	364	284
Deferred tax asset	33	2	1,579
Other assets	26	1,366	1,777
Total assets		**467,942**	**201,763**
Liabilities			
Due to the CBR	28	186,055	62,516
Due to banks	29	78,369	631
Due to customers	27	145,420	117,514
Debt securities issued	30	3,061	2,740
Other borrowed funds	45	14,225	-
Subordinated debt	31	6,958	5,371
Deferred tax liability	33	2,751	-
Non-controlling interest		525	-
Other liabilities	32	3,257	1,389
Total liabilities		**440,621**	**190,161**
Equity			
Share capital	34	1,906	1,906
Treasury shares	34	(190)	(190)
Other capital contributions		2,382	2,382
Revaluation reserve for buildings		26	22
Retained earnings		22,980	7,482
Total equity attributable to shareholders of the Bank		**27,104**	**11,602**
Non-controlling interests		217	-
Total equity		**27,321**	**11,602**
Total equity and liabilities		**467,942**	**201,763**

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Andrey Osnos
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with notes 1 to 47 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2015

	Notes	2015 RUB MM	2014 RUB MM
Cash flows from operating activities			
Interest, fee and commission received		57,064	38,570
Interest, fee and commission paid		(27,119)	(11,495)
Net realised gain on financial instruments at fair value through profit or loss		13,090	(474)
Net realised foreign exchange loss/(gain)		(18,927)	(4,677)
Other operating income received		278	31
Personnel and other general and administrative expenses paid		(10,162)	(11,826)
Cash flows from operating activities		**14,224**	**10,129**
(Increase)/decrease in operating assets			
Mandatory cash balances with the CBR		193	(144)
Placements with banks and the CBR		4,201	(12,094)
Financial instruments at fair value through profit or loss		(135,324)	(8,472)
Loans to customers		(66,677)	(25,053)
Other assets		(132)	(458)
Increase/(decrease) in operating liabilities			
Due to customers		24,855	19,293
Due to the CBR and banks		147,867	31,275
Promissory notes issued		(2,768)	224
Other liabilities		(954)	791
Net cash flows from operating activities before income tax		**(14,515)**	**15,491**
Income tax paid		(488)	(1,145)
Cash flows from operating activities		**(15,003)**	**14,346**
Cash flows from investing activities			
Long-term loans issued		(49,850)	–
Acquisition of subsidiaries, net of cash received	40	(5,443)	(3,081)
Sale of interests subsidiaries and associates, net of cash disposed		315	3
Acquisition of property and equipment and intangible assets		(171)	(307)
Proceeds from disposal of property and equipment and intangible assets		63	2,303
Acquisition of available-for-sale financial assets		(1,762)	–
Proceeds from disposal of available-for-sale financial assets		3,568	–
Purchase of investment property		–	(20)
Cash flows from investing activities		**(53,280)**	**(1,102)**
Cash flows from financing activities			
Increase in other borrowed funds		94,700	–
Extinguishment of participant’s share		–	(1,795)
Proceeds from bonds issued		846	–
Redemption of bonds issued		–	(2,113)
Subordinated debt received		–	2,484
Subordinated debt repaid		(816)	(1,322)
Distributions to shareholders		(3,656)	(355)
Cash flows from financing activities		**91,074**	**(3,101)**
Net increase/(decrease) in cash and cash equivalents		**22,791**	**10,143**
Effect of exchange rate changes on cash and cash equivalents		4,311	4,595
Cash and cash equivalents at the beginning of the year		25,426	10,688
Cash and cash equivalents at the end of the year	18	**52,528**	**25,426**

The consolidated statement of cash flows is to be read in conjunction with notes 1 to 47 to, and forming an integral part of, the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2015

	Attributable to shareholders of the Bank							
	Share capital RUB MM	*Treasury shares RUB MM*	*Other capital contributions RUB MM*	*Revaluation reserve for property RUB MM*	*Retained earnings (accumula-ted losses) RUB MM*	*Total net assets RUB MM*	*Non-controlling interests RUB MM*	*Total equity RUB MM*
Balance as at 1 January 2014	**1,906**	**–**	**2,737**	**133**	**8,042**	**12,818**	**–**	**12,818**
Total comprehensive income	–	–	–	(111)	1,045	**934**	–	**934**
Dividends paid	–	–	(355)	–	–	**(355)**	–	**(355)**
Net result from transactions with treasury shares	–	(190)	–	–	(1,605)	**(1,795)**	–	**(1,795)**
Balance as at 31 December 2014	**1,906**	**(190)**	**2,382**	**22**	**7,482**	**11,602**	**–**	**11,602**
Balance as at 1 January 2015	**1,906**	**(190)**	**2,382**	**22**	**7,482**	**11,602**	–	**11,602**
Total comprehensive income	–	–	–	4	19,154	**19,158**	163	**19,321**
Distributions to shareholders	–	–	–	–	(3,656)	**(3,656)**	–	**(3,656)**
Changes in ownership interests in subsidiaries	–	–	–	–	–	**–**	54	**54**
Balance as at 31 December 2015	**1,906**	**(190)**	**2,382**	**26**	**22,980**	**27,104**	**217**	**27,321**

The consolidated statement of changes in equity is to be read in conjunction with notes 1 to 47 to, and forming an integral part of, the consolidated financial statements.

1. Background

Principal activities

These consolidated financial statements include the financial statements of Public Joint-Stock Company Sovcombank (the “Bank” or “Sovcombank”) and its subsidiaries (together referred to as the “Group” or “Sovcombank Group”). A list of principal consolidated subsidiaries included in these consolidated financial statements of Sovcombank Group is disclosed in Note 44.

Sovcombank, the parent company of the Group, was originally established in the city of Kostroma as a limited liability company in 1990. In September 2014, the Bank changed its legal form from the limited liability company to the open joint-stock company. In December 2014, the Bank changed its legal form from the open joint-stock company to the public joint-stock company pursuant to regulatory changes in Russia. These reorganizations had no effect on the principal activities of the Bank or its shareholder structure.

Bank’s registered legal address is 46, prospect Tekstilshchikov, Kostroma, 156000, Russia. The Bank operates under general banking license No. 963 issued by the Central Bank of the Russian Federation (the “CBR”) on 27 November 1990. The Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker and a dealer issued by the Federal Securities Market Commission (the “FSMC”) on 27 January 2009. The Bank is regulated and supervised by the CBR as a united regulator for banking and financial markets activities in the Russian Federation. The Bank is a member of the deposit insurance system managed by the State Corporation Deposit Insurance Agency since 15 September 2005.

The Group’s principal business activity is corporate, investment and retail banking. Such activity includes, but is not limited to, accepting deposits; issuance of commercial loans and bank guarantees denominated in Russian rubles and in freely convertible currencies; providing financial services to the customers; foreign exchange operations; trading securities and derivative financial instruments. The Group operates primarily in the Russian Federation.

As at 31 December 2015, the Bank operates in 901 cities, towns and villages across 49 constituent entities of the Russian Federation. As at 31 December 2015, the Bank had 6,355 employees (31 December 2014: 7,850).

Shareholders

As at 31 December 2015 and 2014, the Group’s ownership was as follows:

	Ownership, %	
	31 December 2015	***31 December 2014***
SovCo Capital Partners B.V.	100.00%	100.00%

As at 31 December 2015 and 2014, the Group was not under control of any single ultimate beneficiary owner (Note 34).

SovCo Capital Partners B.V., a legal entity incorporated in the Netherlands, is the shareholder of the Group since 2003. SovCo Capital Partners B.V. is controlled by a group of Russian businessmen, including the key members of Sovcombank management. A complete list of ultimate beneficiary owners of SovCo Capital Partners B.V. is disclosed on the Bank’s page of the Central Bank of Russia web-site (http://www.cbr.ru/credit/coinfo.asp?id=340000004).

As at 31 December 2015, Mikhail Kuchment acted as the Chairman of the Bank’s Supervisory Board. The Supervisory Board of the Bank includes representatives of the Bank shareholders, Bank management as well as independent director.

Operating environment

A major part of the Group’s operations takes place in the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

A significant drop in crude oil prices, significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries had negative impact on Russian economy in 2015. The Russian ruble interest rates remained high after the CBR raised its key interest rate in December 2014, with subsequent gradual decrease in 2015. In January 2015, S&P rating agency downgraded Russia’s sovereign rating from investment BBB- to speculative BB+. In February 2015, Moody’s rating agency also downgraded Russia’s sovereign rating to speculative Ba1.
The combination of these factors resulted in limited access to capital, higher cost of capital, increase in inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes that it is taking all appropriate measures to support the sustainability of the Group’s business in the current circumstances.

2. Basis of preparation

General

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

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

The consolidated financial statements have been prepared with the historical cost convention except as disclosed in the summary of significant accounting policies below.

These consolidated financial statements are presented in Russian rubles ("RUB") unless otherwise indicated.

Inflation accounting

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

Changes in the financial statements

After the issuance of Group's IFRS consolidated financial statements for the year ended 31 December 2015 the errors presented below related to Group's IFRS consolidated financial statements for the year ended 31 December 2015 and 31 December 2014 were identified. In this regard the Group's consolidated IFRS financial statements for the year ended 31 December 2015 authorised and issued on 29 April 2016 were revised by Group's management.

The purchase of borrower's shares by the Bank from the Group's shareholder was initially recognised as a regular purchase. However, the purchase partly represents an additional economic benefit linked with extending the credit line and the rest of shares do not meet the recognition criteria of IAS 39 *Financial Instruments: Recognition and Measurement* because the former owner of the shares holds an option to repurchase the shares and risks and rewards associated with these shares have not been transferred to the Group.

Based on the above, the following changes to the issued consolidated financial statements for the year ended 31 December 2015 have been made:

- ► Available-for-sale investments decreased by RUB 675 MM, which was the fair value of the borrower's shares that did not meet the recognition criteria of IAS 39 *Financial Instruments: Recognition and Measurement*
- ► Cash of RUB 637 MM paid to the Group's shareholder for the borrower's shares that did not meet the recognition criteria of IAS 39 *Financial Instruments: Recognition and Measurement* was classified as a loan provided to the Group's shareholder due to its obligation to repay the loan if the former owner of the shares exercises its buy-back option
- ► Loans to customers held by the Group were decreased by RUB 78 MM, which was the loss on initial recognition of the loan provided to the Group's shareholder below the market interest rate. This loss was classified as a distribution to the Group's shareholder. As a result, the Group's retained earnings were decreased by RUB 78 MM
- ► Cash of RUB 637 MM paid to the Group's shareholder for the borrower's shares that represented an additional economic benefit received for the extension of the credit line to the borrower was classified as a distribution to the Group's shareholder. As a result, the Group's retained earnings were decreased by the same value
- ► Interest income was increased by RUB 64 MM due to reclassification of additional economic benefits received for the extension of the credit line as Interest income. The remaining part of RUB 573 MM of additional economic benefits received for the extension of the credit line was recognised as deferred income in other liabilities of the Group
- ► Deferred tax liabilities of RUB 13 MM originating from the increase in the Group's interest income were credited to Deferred tax liability in the consolidated statement of financial position and debited to Income tax expense in the consolidated statement of comprehensive income
- ► Cash outflow from acquisition of available for sale instruments was decreased by RUB 1,274 MM and cash outflow from origination of new loans and distributions to the shareholder were increased by RUR 637 MM and RUR 637 MM respectively

2. Basis of preparation (continued)

Changes in the financial statements (continued)

In addition in the consolidated statement of financial position as at 31 December 2015 the minority interest of RUB 525 MM attributed to non-controlling interests in LLC Sovremenny Kommerchesky Ipotechny Bank was reclassified from Group's equity into Group's liabilities in accordance with the requirements of IAS 32 *Financial Instruments: Presentation*.

3. Significant accounting policies

Changes in accounting policies

The Group has adopted the following revised IFRS, which are effective for annual reporting periods beginning on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. If the contributions is independent of the number of years of service, these amendments clarify that an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012

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

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group applied the aggregation criteria in IFRS 8.12 and disclosed the information required by the amendment in Note 5 to these consolidated financial statements. The Group does not present reconciliation of segment assets to total assets in these consolidated financial statements as the reconciliation is not reported to the chief operating decision maker for the purpose of decision making.

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. These provisions are consistent with the Group's current accounting policies, therefore, this amendment has no impact on the Group's accounting policies.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013

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

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The amendment is not relevant to the Group and its subsidiaries as the Group is not a joint venture.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The Group relies on IFRS 3, not IAS 40, in determining whether the transaction is the purchase of an asset or a business combination. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of 'Effective IFRSs' – amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Group prepares its financial accounts in accordance with IFRS, this standard is not relevant for the Group.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one-half of the voting rights, or otherwise has the power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3. Significant accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the subsidiary's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the "Predecessor") at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the net assets attributable to shareholders.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

3. Significant accounting policies (continued)

Investments in associates

Associates are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Group's share of net assets of the associate.
The Group's share of its associates' profits or losses is recognised in the consolidated statement of profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Jointly controlled entities are joint ventures that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation method.
The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible.
The statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. The venturer combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

Cash and cash equivalents

The Group classifies cash, nostro accounts with the CBR and other banks, placements with banks and other credit institutions with an original maturity less than 90 days as "Cash and cash equivalents". The minimum mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its use by the Group.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are 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 an 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 as at fair value through profit or loss

The Group may designate 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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

3. Significant accounting policies (continued)

Financial instruments (continued)

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- The Group upon initial recognition designates as at fair value through profit or loss
- The Group designates as available-for-sale; or
- Meet the definition of loans and receivables

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management of the Group determines the appropriate classification of financial instruments at the time of the 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 asset 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 foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in exceptional circumstances. Exceptional circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at fair value, plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are classified as assets, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Loans and receivables which are measured at amortised cost using the effective interest method
- Held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the yield to maturity using the effective interest method.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the financial asset or liability.

3. Significant accounting policies (continued)

Financial instruments (continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in active markets at the reporting date without any deduction for transaction costs. Active market means a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where a quoted market price is not available, fair value is determined 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.

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 and own credit risk.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- A gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- A gain or loss on an available-for-sale asset is recognised as other comprehensive income in equity (except for impairment losses and foreign currency gains and losses on debt financial instruments available for sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest income in relation to an available-for-sale asset is recognised as earned in profit or loss using the effective interest method

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, or through the amortization process.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired or when the Group has transferred substantially all the risks and rewards of ownership of the financial asset. Any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Sale and repurchase and reverse sale and repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within Due to banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

3. Significant accounting policies (continued)

Derivative financial instruments

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

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

Offsetting

Financial assets and 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 realize the asset and settle the liability simultaneously.

Property and equipment and intangible assets

Owned assets

Items of property and equipment and intangible assets are carried at cost, less accumulated depreciation and accumulated impairment losses, except for buildings that are recorded at revalued amounts, as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Lease under which the Group assumes substantially all risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings of the Group are measured at revalued amounts. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in other comprehensive income (in equity).

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

3. Significant accounting policies (continued)

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of an investment property changes so that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

The assets repossessed by the Group following litigation to recover amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

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

3. Significant accounting policies (continued)

Leases (continued)

iv. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of lease income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Promissory notes

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

Borrowings

Issued 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 own equity instruments. Such instruments include current accounts and deposits from customers, due to banks, promissory notes, subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss when the borrowings are derecognised as well as through the amortization process.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables, to assess impairment on a regular basis using the traditional conservative approach. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in borrower group finances, or economic conditions that correlate with defaults in the borrower group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risks characteristics and collectively assesses them for impairment. Loans and receivables 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, collateral type and past-due status.

If there is an objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases, the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

3. Significant accounting policies (continued)

Impairment (continued)

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when Management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. 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 future write-off is recovered later, the recovery is credited to the consolidated statement of profit or loss.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a ‘Day 1’ profit) in the consolidated statement of profit or loss. In cases where data used is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been 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 amortization, 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.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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 goodwill is estimated at each reporting date. 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 are only reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

3. Significant accounting policies (continued)

Impairment (continued)

Renegotiated loans

In certain circumstances, the Group renegotiates the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the previous loan is derecognised and the new loan is recognised in the statement of financial position
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate

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

Provisions

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

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 amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit-related commitments are recognised when losses are considered probable and can be measured reliably.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantee.

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

Share capital

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

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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.

3. 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 of the Group recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

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 tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Russia also has various operating taxes that are applied to the Group's business activities. These taxes are included as a part of other operating expenses.

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. The following specific recognition criteria must also be met before revenue is recognised:

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.

The net financial results of short-term foreign exchange swap transactions are recognised in net interest income.

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. 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.

► *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 once the corresponding criteria have been met.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

3. Significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary assets and liabilities is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Segment reporting

The Group determines operating segments based on its organizational structure. Operational segments are based on the aggregated management accounts provided to the Supervisory Board. The Group's segment reporting is based on the following operating segments: Retail banking, Corporate and investment banking.

As assets and liabilities of the Group are primarily concentrated in the Russian Federation and the largest proportion of its revenues and financial result is received from the operations within the territory of the Russian Federation, the Group does not use the geographical segmentation of its business.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

3. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts

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

IFRS 16 Leases

The standard was issued in January 2016 and becomes effective for annual periods beginning on or after 1 January 2019. In accordance with IFRS 16, the majority of finance leases will be recognised by a lessee in the same way as they are currently recognised in accordance with IAS 17 *Leases*. The lessee recognises a right to use an asset and a relevant financial liability on its balance sheet. The asset is amortised during the lease term and the financial liability is carried at amortised cost. The lessor continues to apply the accounting principles provided in IAS 17.

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

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

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

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

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the 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 address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The effective date has not been specified.

3. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

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

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

Annual improvements 2012-2014

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

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

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

IFRS 7 Financial Instruments Disclosures – servicing contracts

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

3. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

IAS 19 Employee Benefits – regional market issue regarding discount rate

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

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

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

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, Management makes the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Consolidation of a subsidiary where ownership percentage is 50% or less

The Group controlled subsidiaries partly through direct ownership. Before 1 July 2015, the Group controlled LLC Regionalnaya Lizingovaya Kompaniya by virtue of an agreement with the other shareholders.

Estimation uncertainty

In the process of applying the Group's accounting policies, Management used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant uses of judgments and estimates are as follows:

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Determining of an active market for debt securities

The Group applies certain criteria for assessing whether an active market for the debt securities exists. Liquidity of a security (the number and volume of trades) and bid-ask spread form the basis for the judgement to reclassify the security from “Financial instruments at fair value through profit or loss” to “Loans to customers” and “Placements with banks”, depending on the legal status of a counterparty.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment and significant accumulated knowledge to estimate the impairment losses in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with credit defaults in the group. Management uses estimates based on historical loss statistics for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to assess the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2015, the carrying amount of goodwill was RUB 364 MM (31 December 2014: RUB 284 MM). The details are provided in Note 41.

Revaluation of buildings and investment property

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed annually, on the basis of reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category, in order to avoid significant differences between fair value of the revalued asset and its carrying amount.

Deferred tax

When determining the amount of deferred tax assets which may be recognised in the financial statements, Management of the Group assesses the probability that the deferred tax asset will be used. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be used against it. When conducting such an assessment Management takes into account the regulatory restriction on utilization of deferred tax assets, future expected taxable profit, as well as tax planning strategies.

Based on the historical data on income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, Management of the Group considers it possible to use the deferred tax asset recognised in the Bank’s financial statements.

5. Segment reporting

Following significant diversification in 2015, the Group recognises two major operating segments for the management reporting purposes:

- *Retail banking*

  Consists of mainly raising deposits from and maintaining current accounts with individuals, issuance of loans, overdrafts and credit cards, sales of third party insurance products.

- *Corporate and investment banking*

  Key activities include corporate lending, investment and banking services, securities trading, proprietary investments, as well as provision of bank guarantees to small and medium enterprises.

	2015			
	Retail banking RUB MM	***Corporate and investment banking RUB MM***	***Adjustments and eliminations RUB MM***	***Total RUB MM***
Revenue				
External customers				
Interest income	20,558	24,472	–	**45,030**
Fee and commission income	8,652	1,652	–	**10,304**
Net gains from trading securities	–	16,791	–	**16,791**
Net gains from foreign currencies and foreign exchange derivatives	11	210	–	**221**
Other income	104	250	–	**354**
Inter-segment revenue	**3,869**	**18**	**(3,887)**	**–**
Total revenue	**33,194**	**43,393**	**(3,887)**	**72,700**
Interest expense	(12,586)	(18,027)	3,887	**(26,726)**
Fee and commission expense	(331)	(246)	–	**(577)**
Allowance for loan impairment	(8,214)	(807)	–	**(9,021)**
Personnel expenses	(4,736)	(831)	–	**(5,567)**
Depreciation	(459)	–	–	**(459)**
Other impairment charges and provisions	(48)	(1,329)	–	**(1,377)**
Other segment expenses	(4,963)	(76)	–	**(5,039)**
Segment results	**1,857**	**22,077**	**–**	**23,934**
Income tax expense				**(4,617)**
Profit for the year				**19,317**
Segment assets	68,892	399,050	–	**467,942**
Segment liabilities	129,827	310,794	–	**440,621**
Other segment information				
Investments in associates	–	1,208	–	**1,208**

In 2014, the Group did not present the operating segments because its business predominantly focused on retail banking. Presentation of information in respect of the corporate and investment banking for the year ended 31 December 2014 is time-consuming and is not possible as at the date of these consolidated financial statements.

6. Reclassification

As at 1 October 2014, the Group reclassified certain financial assets (bonds) that met the definition of loans and receivables from “Financial instruments at fair value through profit or loss” to “Loans to customers” and “Placements with banks”. Due to low market liquidity and infrequent market price quotes on one hand and high credit rating of the issuers on the other hand, the Group decided to hold these bonds to maturity. The effective interest rate on reclassified financial instruments as determined as at the reclassification date ranged from 5.14% to 29.13%. The present value of the estimated cash flows the Group expects to receive equals to the fair value of the reclassified financial assets at the date of reclassification.

6. Reclassification (continued)

Reclassified financial instruments are presented in the table below:

	2015			2014		
	Loans to customers RUB MM	*Placements with banks RUB MM*	*Total RUB MM*	*Loans to customers RUB MM*	*Placements with banks RUB MM*	*Total RUB MM*
Carrying amount as at 31 December	16,363	2,460	**18,823**	28,252	14,782	**43,034**
Fair value as at 31 December	16,239	2,439	**18,678**	27,801	14,518	**42,319**
Fair value gain/(loss) recognised up to the date of reclassification	–	–	**–**	(796)	(242)	**(1,038)**
Fair value gain/(loss) that would have been recognised on the instruments reclassified in 2014 for the period if the reclassification had not been made	1,123	163	**1,286**	(2,696)	(613)	**(3,309)**
Interest income recognised in profit or loss for the year	2,538	1,164	**3,702**	2,588	1,157	**3,745**
Reversal of allowance / (allowance) recognised after reclassification	102	36	**138**	(160)	(43)	**(203)**

Carrying amount of "Loans to customers" and "Placements with banks" is presented net of allowance created.

7. Net interest income

	2015 RUB MM	*2014 RUB MM*
Interest income		
Loans to individuals	20,780	23,790
Financial instruments at fair value through profit or loss	10,734	5,064
Loans to corporate customers and constituent entities of the Russian Federation and finance lease receivables	7,191	496
Placements with banks	6,325	612
	45,030	**29,962**
Interest expense		
Due to customers	(13,563)	(8,365)
Due to banks	(11,929)	(3,100)
Subordinated debt	(790)	(494)
Promissory notes and bonds quoted on the domestic market	(444)	(415)
	(26,726)	**(12,374)**
Net interest income	**18,304**	**17,588**

8. Fee and commission income

	2015 RUB MM	*2014 RUB MM*
Collective insurance program activation fee	5,732	7,986
Credit card operations	1,771	1,107
Bank guarantee issuance	1,067	116
Insurance commission	913	268
Operations with pension funds	378	38
Settlement operations	163	146
Operations with securities	149	6
Cash operations	69	80
Currency operations	20	21
Cash transfers	3	5
Other	39	19
	10,304	**9,792**

9. Fee and commission expense

	2015 RUB MM	2014 RUB MM
Credit card operations	(332)	(270)
Depositary services	(101)	(19)
Borrowing costs	(43)	(1)
Settlement operations	(43)	(64)
Cash operations	(18)	(48)
Agency services	(9)	(8)
Bank guarantees	(7)	–
Other	(24)	(33)
	(577)	**(443)**

Borrowing costs include interest expense related to the subordinate loan of RUB 6,273 MM issued by the DIA (Note 31). Because the subordinate loan is not recorded in the Bank consolidated statement of financial position, the respective interest expenses may not form a part of Interest expense. Instead, this interest expense recorded as a part of Fee and commission expense.

10. Net foreign exchange gain

	2015 RUB MM	2014 RUB MM
Dealing	(19,701)	(4,434)
Translation differences	19,922	4,537
	221	**103**

Dealing and Translation differences represent gains or losses from FX swap contracts that the Group enters into in order to manage its open currency positions to comply with the requirements of the CBR.

11. Other operating income

	2015 RUB MM	2014 RUB MM
Penalties received	57	3
Disposal of foreclosed assets	46	10
Disposal of property and equipment	42	100
Income from operating sublease	10	4
Operating lease (Note 24)	3	24
Gain from bargain purchase of GE Money Bank (Note 40)	–	2,507
Other	92	11
	250	**2,659**

12. Allowance for loan impairment

	2015 RUB MM	2014 RUB MM
Allowance for loans to individuals (Note 21)	(8,469)	(10,916)
Allowance for loans to corporate customers and constituent entities of the Russian Federation and finance lease receivables (Note 21)	(552)	(220)
	(9,021)	**(11,136)**

13. Revaluation of buildings and investment property

	2015 RUB MM	2014 RUB MM
Investment property (Note 24)	(1)	(380)
Buildings (Note 25)	6	(175)
	5	**(555)**

14. Personnel expenses

	2015 RUB MM	*2014 RUB MM*
Employee benefits, including bonuses	(4,411)	(4,700)
Payroll related taxes	(1,156)	(1,178)
	(5,567)	**(5,878)**

15. Other general and administrative expenses

	2015 RUB MM	*2014 RUB MM*
Rent	(1,274)	(1,460)
Advertising and marketing	(812)	(1,195)
Professional and cash collection services	(784)	(856)
Depreciation and amortisation (Note 25)	(456)	(414)
Obligatory deposit insurance with DIA	(427)	(355)
Telecommunications and information services	(337)	(437)
IT expenses	(247)	(476)
Maintenance	(241)	(337)
Transport	(208)	(209)
Office stationary	(200)	(289)
Security	(151)	(231)
Taxes other than income tax	(56)	(78)
Property insurance	(46)	(76)
Other	(259)	(164)
	(5,498)	**(6,577)**

16. Other impairment and provisions

	2015 RUB MM	*2014 RUB MM*
Goodwill impairment (Note 41)	(605)	–
Impairment of investments in associates (Note 46)	(331)	–
Litigations and contingencies (Note 23)	(220)	(56)
Other assets (Note 23)	(199)	(68)
Impairment of assets held for sale (Note 40)	(76)	–
Placements with banks (Note 19)	43	(51)
Repossessed assets	11	12
	(1,377)	**(163)**

17. Income tax expense

	2015 RUB MM	*2014 RUB MM*
Current income tax	(608)	(746)
Origination of temporary differences (Note 33)	(4,009)	1,202
	(4,617)	**456**

Deferred tax relates to items charged or credited to other comprehensive income during the year was as follows:

	2015 RUB MM	*2014 RUB MM*
Revaluation of buildings	(1)	28
Income tax charged to other comprehensive income (Note 33)	**(1)**	**28**

Russian legal entities have to file individual corporate income tax returns with the tax authorities. The income tax rate for legal entities was 20% for 2015 and 2014 financial years. In 2015 and 2014, the income tax rate applicable to interest income related to state and mortgage-backed bonds was 15%. The income tax rate applicable for interest income related to municipal bonds was 9%. Dividends are taxed at the corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

17. Income tax expense (continued)

Reconciliation of effective income tax rate

	2015 RUB MM	2014 RUB MM
Profit before tax	**23,934**	**589**
Income tax (expense)/benefit at the applicable tax rate	**(4,787)**	**(118)**
Tax exempt income	21	515
Effect of non-deductible expenses	(46)	(90)
Effect from income on state securities taxed at different rates	177	85
Other	18	64
	(4,617)	**456**

18. Cash and cash equivalents

	2015 RUB MM	2014 RUB MM
Short-term deposits and reverse repo deals with Russian banks, maturing in less than 90 days	20,230	495
Nostro accounts with Russian banks	16,228	6,684
Due from the CBR	9,921	6,346
Cash on hand	5,135	9,942
Nostro accounts with OECD banks	1,014	1,959
	52,528	**25,426**

"Short-term deposits and reverse repo deals with Russian banks, maturing in less than 90 days" primarily includes amounts due from JSC Express-Volga Bank.

19. Placements with banks

	2015 RUB MM	2014 RUB MM
Term deposits with banks	14,230	388
Reverse sale and repurchase agreements	7,053	–
Bonds of Russian banks pledged under sale and repurchase agreements	1,899	12,279
Bonds of Russian banks held by the Group	567	2,249
Total placements with banks	**23,749**	**14,916**
Less allowance for impairment	(8)	(51)
Placements with banks, net	**23,741**	**14,865**

The Group created an allowance for impairment of investments in bonds of the Russian banks that the Group reclassified into "Placements with banks" (Note 6). Decrease in allowance for impairment mainly relates to redemptions of these bonds in 2015.

20. Financial instruments at fair value through profit or loss

	2015 RUB MM	*2014 RUB MM*
Held by the Group		
Corporate bonds	28,433	5,655
State and municipal bonds	4,247	−
Bonds of companies with the State participation	2,552	3,448
Corporate shares	1,622	−
Total financial instruments at fair value through profit or loss held by the Group	**36,854**	**9,103**
Pledged under sale and repurchase agreements		
Corporate Eurobonds	102,656	14,064
Bonds of companies with the State participation	32,480	14,916
State and municipal bonds	34,246	−
Corporate shares	470	−
Shares in companies with the State participation	101	−
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**169,953**	**28,980**
Total financial instruments at fair value through profit or loss	**206,807**	**38,083**

Financial instruments at fair value through profit or loss by industries as at 31 December 2015 and 2014 are presented in the table below:

	2015		*2014*	
	RUB MM	*%*	*RUB MM*	*%*
Russian banks and financial institutions	51,185	24.7%	24,237	63.6%
State and municipal institutions	38,494	18.6%	−	−
Petrochemicals	28,873	14.0%	4,041	10.6%
Transportation	27,995	13.5%	−	−
Metallurgy	21,324	10.3%	6,193	16.2%
Foreign financial institutions	8,853	4.3%	−	−
Mining	7,569	3.7%	−	−
Communication services	6,973	3.4%	2,346	6.2%
Chemical industry	6,263	3.0%	−	−
Construction and development	3,860	1.9%	−	0.0%
Manufacturing	3,522	1.7%	−	0.0%
Trade	1,896	0.9%	−	−
Energy	−	0.0%	176	0.5%
Other	−	0.0%	1,090	2.9%
	206,807	**100.0%**	**38,083**	**100.0%**

Financial instruments at fair value through profit or loss by long-term issuer credit rating assigned by international rating agencies (S&P, Fitch or Moody's) are presented in a table below:

	2015 RUB MM	*2014 RUB MM*
Financial instruments at fair value through profit or loss		
Issuers with credit rating from BBB+ to BBB-	43,394	10,303
Issuers with credit rating from BB+ to BB-	137,335	23,054
Issuers with credit rating from B+ to B-	21,434	727
Unrated issuers	4,644	3,999
Total financial Instruments at fair value through profit or loss	**206,807**	**38,083**

As at 31 December 2015, maturities of those securities were within the following range: February 2016 – September 2045 (31 December 2014: March 2015 – September 2045). Interest rates ranged from 3.15% to 12.5% for USD-denominated debt securities, from 3.37% to 4.0% for EUR-denominated debt securities, 7.49% for GBP-denominated debt securities and from 2.5% to 18.75% for RUB-denominated debt securities (31 December 2014: from 3.7% to 10.8% for USD-denominated debt securities, from 3.4% to 5.5% for EUR-denominated debt securities and from 7.6% to 16% for RUB-denominated debt securities).

As at 31 December 2015, the share of the largest issuer (a financial institution) in the Group's overall portfolio of financial instruments at fair value through profit or loss was 4.61% (31 December 2014: the share of the largest issuer (a financial institution with the State participation) in the Group's overall portfolio of financial instruments at fair value through profit or loss was 14.25%). Maturities of bonds of this issuer ranged from September 2017 to April 2021 (31 December 2014: from April 2017 to October 2020) and the interest rate ranged from 5.0% to 13.5% (31 December 2014: from 6.0% to 6.88%).

According to IFRS 12, corporate Eurobonds shall be treated as interests in unconsolidated structured entities. The maximum total investment in such bonds equals the carrying amount of the corporate Eurobonds.

21. Loans to customers

	2015 RUB MM	*2014 RUB MM*
Loans to individuals		
Consumer loans	58,343	76,299
Credit cards	7,423	9,687
Mortgage loans	2,250	406
Total loans to individuals	**68,016**	**86,392**
Loans to corporate customers and finance lease receivables		
Loans to corporate customers	50,632	9,112
Loans to small entities and other loans to customers	2,285	472
Loans to constituent entities of the Russian Federation and municipal institutions	47,732	–
State and municipal bonds (Note 6)	12,149	22,530
Corporate bonds (Note 6)	4,324	9,338
Total loans to corporate customers and finance lease receivables	**117,122**	**41,452**
Gross loans to customers	**185,138**	**127,844**
Less: allowance for loan impairment	(9,929)	(11,080)
Loans to customers, net	**175,209**	**116,764**

As at 31 December 2015, the carrying amount of loans to the ten largest borrowers was RUB 45,357 MM representing 24.6% of gross loan portfolio (or 9.7% of the Group's total assets). As at 31 December 2014, the carrying amount of loans to the ten largest borrowers was RUB 8,011 MM, representing 6.3% of gross loan portfolio (or 4.0% of the Group's total assets). As at 31 December 2015, the Group created an allowance of RUB 260 MM (31 December 2014: RUB 76 MM) for impairment of loans issued to the ten largest borrowers.

As at 31 December 2015, State and municipal bonds and corporate bonds formed a part of Loans to customers. Some of these bonds (of RUB 16,320 MM) were pledged under sale and repurchase agreements with the CBR (31 December 2014: RUB 29,606 MM). The details are presented in Note 28.

Industry analysis of loans to corporate customers

Loans to corporate customers were issued to the companies and corporate bonds were issued by issuers of the following industries:

	2015 RUB MM	*2014 RUB MM*
Energy	14,556	1,507
Manufacturing	11,513	2,539
Air transportation	7,288	–
Oil production and oil refining	4,864	1,916
Leases	3,943	144
Commercial real estate (operating and rent)	3,692	6,947
Other real estate	3,176	281
Construction	2,680	781
Trade	1,531	912
Finance	1,275	1,679
Insurance	438	109
Telecommunications	–	757
Metallurgy	–	624
Services to public organizations	–	84
Agriculture	–	80
Other	–	90
	54,956	**18,450**

21. Loans to customers (continued)

Changes in allowance for loan impairment for the years ended 31 December 2015 and 2014 were as follows:

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small entities and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgage loans*	*Total*
As at 1 January 2015	**(313)**	**(16)**	**(9,092)**	**(1,614)**	**–**	**(45)**	**(11,080)**
Reversal/(charge) for the year	(238)	(75)	(6,981)	(1,233)	(239)	(255)	**(9,021)**
Reversal of amounts previously written off	–	(8)	–	–	–	(17)	**(25)**
Loans written off as uncollectible	55	39	8,393	1,700	–	10	**10,197**
As at 31 December 2015	**(496)**	**(60)**	**(7,680)**	**(1,147)**	**(239)**	**(307)**	**(9,929)**
Individual impairment	(54)	–	–	–	–	–	**(54)**
Collective impairment	(442)	(60)	(7,680)	(1,147)	(239)	(307)	**(9,875)**
	(496)	**(60)**	**(7,680)**	**(1,147)**	**(239)**	**(307)**	**(9,929)**
Total value of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**223**	**–**	**–**	**–**	**–**	**–**	**223**

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small entities and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgage loans*	*Total*
As at 1 January 2014	**(82)**	**(71)**	**(5,572)**	**(659)**	**–**	**(4)**	**(6,388)**
Reversal/(charge) for the year	(233)	13	(9,268)	(1,581)	–	(67)	**(11,136)**
Reversal of amounts previously written off	–	(26)	–	–	–	(14)	**(40)**
Loans written off as uncollectible	2	68	5,748	626	–	40	**6,484**
As at 31 December 2014	**(313)**	**(16)**	**(9,092)**	**(1,614)**	**–**	**(45)**	**(11,080)**
Individual impairment	(43)	–	–	–	–	–	**(43)**
Collective impairment	(270)	(16)	(9,092)	(1,614)	–	(45)	**(11,037)**
	(313)	**(16)**	**(9,092)**	**(1,614)**	**–**	**(45)**	**(11,080)**
Total value of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**352**	**–**	**–**	**–**	**–**	**–**	**352**

Interest income accrued on individually impaired loans for the year ended 31 December 2015 was RUB 6 MM (year ended 31 December 2014: RUB 8 MM).

21. Loans to customers (continued)

Analysis of collateral

The breakdown of loans to customers (net of impairment) by type of collateral as at 31 December 2015 was as follows:

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small entities and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgage loans*	*Total*
Real estate	3,649	863	–	–	–	1,939	**6,451**
Motor vehicles	333	20	–	–	–	–	**353**
Goods and materials	–	28	–	–	–	–	**28**
Securities and equity investments	2,466	228	–	–	–	–	**2,694**
Other collateral	–	–	–	–	–	1	**1**
No collateral	60,161	1,086	50,663	6,276	47,493	3	**165,682**
Total loans to customers	**66,609**	**2,225**	**50,663**	**6,276**	**47,493**	**1,943**	**175,209**

As at 31 December 2015 and 2014, the loans secured by Other collateral were secured by guarantees issued by third parties.

Loans to customers (net of impairment) by type of collateral as at 31 December 2014 were as follows:

	Loans to corporate customers, state and municipal bonds and corporate bonds	*Loans to small entities and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities of the Russian Federation and municipal institutions*	*Mortgage loans*	*Total*
Real estate	2,860	147	–	–	–	351	**3,358**
Motor vehicles	3	52	–	–	–	–	**55**
Securities and equity investments	852	162	–	–	–	–	**1,014**
Other collateral	103	1	–	–	–	2	**106**
No collateral	36,849	94	67,206	8,073	–	9	**112,231**
Total loans to customers	**40,667**	**456**	**67,206**	**8,073**	**–**	**362**	**116,764**

The values shown in the tables above represent the carrying amount of the loans (net of impairment), and do not necessarily represent the fair value of the collateral.

Finance lease receivables

As at 31 December 2015, the Group had no finance lease receivables included in “Loans to small entities and other loans to customers”.

The breakdown of finance lease receivables included in “Loans to small entities and other loans to customers” as at 31 December 2014 was as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	43	13	**56**
Unearned future finance income on finance leases	(3)	(3)	**(6)**
Net investments in finance leases	**40**	**10**	**50**

22. Available-for-sale investment securities

Acquisition of a stake in Joint-Stock Bank "Rosevrobank"

On 7 September 2015, Sovcombank acquired 9.48% shares of Joint-Stock Bank "Rosevrobank" ("Rosevrobank") for RUB 1,133 MM. On 30 October 2015, the Bank acquired 7.45% shares of REG Holding Limited, which owns 73.82% shares of Rosevrobank, for EUR 9 MM. As a result of the two acquisitions, Sovcombank acquired 14.98% shares of Rosevrobank. As at 31 December 2015, the carrying amount of investments in shares in Rosevrobank was RUB 1,883 MM.

Rosevrobank is a large Russian bank with equity of RUB 26 BN and net profit of RUB 5.5 BN according to its IFRS financial statements for the year ended 31 December 2015. The principal business activity of Rosevrobank is provision of financial banking services to small and medium enterprises (SME).

The main reason for the acquisition of equity stake in Rosevrobank was the Group's intention to obtain one of the best SME expertise on the Russian market and a bargain price.

Acquisition of a stake in Softline Group

In December 2015, the Group acquired a 5% interest in Softline Group ("Softline") for RUB 637 MM.

Softline is a leading global IT service and solution provider operating in Russia, the CIS, Latin America, India and South East Asia. For the financial year ended 31 March 2016, Softline had revenue of USD 555 MM and net profit of 11 MM.

Acquisition of a stake in Analytical Credit Rating Agency

In July 2015, the CBR initiated the establishment of a Russian national rating agency, the Analytical Credit Rating Agency (ACRA). The first General shareholder meeting of the ACRA took place on 20 November 2015. The list of shareholders includes 27 top Russian companies and financial institutions, including Sovcombank. The authorised capital of the ACRA is RUB 3,000 MM. All shareholder have an equal equity stake of 3.7% (RUB 111 MM) of the authorised capital of the ACRA. As at 31 December 2015, the Group the investment into the ACRA as "Available-for-sale investment securities" in the consolidate statement of financial position.

The beginning of ACRA's commercial operations is scheduled for the 2nd quarter of 2016, as soon as it receives the accreditation from the CBR. The ACRA's official web-site is www.acra-ratings.ru.

23. Changes in other impairment and provisions

Changes in allowances for other assets and provisions for legal claims were as follows:

	Other assets (Note 26)	*Provision for legal claims and contingencies (Note 32)*	*Total*
As at 31 December 2013	**87**	**51**	**138**
Charge (Note 16)	68	56	**124**
Write-off	(47)	–	**(47)**
Redemption of obligations	–	(74)	**(74)**
As at 31 December 2014	**108**	**33**	**141**
Charge (Note 16)	199	220	**419**
Write-off	(242)	–	**(242)**
Redemption of obligations	–	(28)	**(28)**
As at 31 December 2015	**65**	**225**	**290**

As at 31 December 2015, the Group created a provision of RUB 23 MM (31 December 2014: RUB 10 MM) for legal claims against the Group in accordance with IAS 37.

As at 31 December 2015, "Provision for legal claims and contingencies" includes the Group's provision on bank guarantees of RUB 202 MM (31 December 2014: RUB 23 MM) issued to SME in accordance with Federal Law No. 44-FZ *Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ *Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

24. Investment property

The Group owns a number of real estate properties. The Group occupies some of these properties and rents out the excess space. Real estate occupied by the Group forms a part of "Property and equipment and intangible assets" (Note 25) and the remaining (rented out) real estate forms an investment property.

Management determines the fair value of all real estate properties based on the results of the annual independent appraisals.

	2015 RUB MM	*2014 RUB MM*
Fair value at the beginning of the year	76	1,829
Additions	–	20
Transfer to assets held for sale	–	(1,370)
Transfer to property and equipment (Note 25)	2	(24)
Revaluation (Note 13)	(1)	(380)
Fair value at the end of the year	**77**	**75**

The decrease in the fair value of investment property in 2014 was due to a sale of a building occupied by the Bank and located at the address: Russia, Moscow, Krasnopresnenskaya naberezhnaya, 14, building 1 (also refer to Note 25).

In 2015, the Group recognised rental income of RUB 3 MM (in 2014: RUB 24 MM) (Note 11).

25. Property and equipment and intangible assets

	Land and buildings RUB MM	*Leasehold improve-ments RUB MM*	*Computers RUB MM*	*ATMs RUB MM*	*Motor vehicles RUB MM*	*Furniture and equipment RUB MM*	*Intangible assets RUB MM*	*Total RUB MM*
Cost / revalued amount								
As at 1 January 2015	**555**	**2**	**365**	**852**	**77**	**352**	**299**	**2,502**
Effect of business combination	–	–	5	–	–	–	1,536	**1,541**
Deconsolidation	(1)	–	–	–	–	(4)	–	**(5)**
Additions	4	6	27	20	18	62	34	**171**
Disposals	(2)	(1)	(16)	(19)	(18)	(18)	–	**(74)**
Transfer to investment property (Note 24)	(2)	–	–	–	–	–	–	**(2)**
Revaluation	10	–	–	–	–	–	–	**10**
Elimination of accumulated depreciation on revalued assets	(11)	–	–	–	–	–	–	**(11)**
As at 31 December 2015	**553**	**7**	**381**	**853**	**77**	**392**	**1,869**	**4,132**
Depreciation and impairment								
As at 1 January 2015	**–**	**(1)**	**(194)**	**(516)**	**(27)**	**(195)**	**(183)**	**(1,116)**
Depreciation charge	(11)	(1)	(69)	(148)	(13)	(63)	(151)	**(456)**
Deconsolidation	–	–	–	–	–	4	–	**4**
Disposals	–	–	15	10	12	14	–	**51**
Elimination of accumulated depreciation on revalued assets	11	–	–	–	–	–	–	**11**
Impairment	–	–	–	–	–	–	–	–
As at 31 December 2015	**–**	**(2)**	**(248)**	**(654)**	**(28)**	**(240)**	**(334)**	**(1,506)**
Carrying amount at 31 December 2015	**553**	**5**	**133**	**199**	**49**	**152**	**1,535**	**2,626**
Carrying amount at 31 December 2014	**555**	**1**	**171**	**336**	**50**	**157**	**116**	**1,386**

25. Property and equipment and intangible assets (continued)

	Land and buildings RUB MM	*Leasehold improve-ments RUB MM*	*Computers RUB MM*	*ATMs RUB MM*	*Motor vehicles RUB MM*	*Furniture and equipment RUB MM*	*Intangible assets RUB MM*	*Total RUB MM*
Cost / revalued amount								
As at 1 January 2014	**1,709**	**4**	**288**	**828**	**54**	**290**	**275**	**3,448**
Effect of business combination	–	–	54	4	–	17	–	**75**
Additions	21	1	66	45	32	104	38	**307**
Disposals	–	(3)	(43)	(25)	(9)	(42)	(15)	**(137)**
Transfer to assets held for sale	(874)	–	–	–	–	(17)	–	**(891)**
Transfer from investment property (Note 24)	24	–	–	–	–	–	–	**24**
Revaluation	(314)	–	–	–	–	–	–	**(314)**
Elimination of accumulated depreciation on revalued assets	(11)	–	–	–	–	–	–	**(11)**
As at 31 December 2014	**555**	**2**	**365**	**852**	**77**	**352**	**298**	**2,501**
Depreciation and impairment								
As at 1 January 2014	**–**	**(2)**	**(145)**	**(359)**	**(21)**	**(158)**	**(135)**	**(820)**
Depreciation charge	(22)	(2)	(76)	(173)	(11)	(67)	(63)	**(414)**
Disposals	–	3	27	16	5	27	16	**94**
Transfer to assets held for sale	269	–	–	–	–	3	–	**272**
Elimination of accumulated depreciation on revalued assets	11	–	–	–	–	–	–	**11**
Impairment	(258)	–	–	–	–	–	–	**(258)**
As at 31 December 2014	**–**	**(1)**	**(194)**	**(516)**	**(27)**	**(195)**	**(182)**	**(1,115)**
Carrying amount as at 31 December 2014	**555**	**1**	**171**	**336**	**50**	**157**	**116**	**1,386**
Carrying amount as at 31 December 2013	**1,709**	**2**	**143**	**469**	**33**	**132**	**140**	**2,628**

On 4 July 2014, the Group sold to a third party an office building with the total area of 12 thousand square meters and located at the address: Russia, Moscow, Krasnopresnenskaya naberezhnaya, 14, building 1 for RUB 2.3 BN. As at 30 June 2014, the total value of the building was RUB 2.9 BN recognised in the statement as of financial position as follows:

- Property and equipment and intangible assets: RUB 1,186 MM
- Investment property: RUB 1,746 MM

As the result of the sale, the Group recognised an impairment loss of RUB 497 MM in its statement of profit and loss for the year ended 31 December 2014, and decreased the revaluation reserve (net of tax) by RUB 109 MM in its statement of other comprehensive income. In addition, the Group paid RUB 54 MM of agency commission and finding fees to a third party. The agency commission and finding fees were recognised as the impairment loss in the statement of profit and loss.

Revalued assets

As at 31 December 2015, the Group recognised:

- A positive revaluation of RUB 4 MM in profit or loss (31 December 2014: RUB 1 MM)
- A positive revaluation of RUB 4 MM in other comprehensive income and revaluation reserve (31 December 2014: a negative revaluation of RUB 3 MM)

If land and buildings were not revalued, their carrying amount would have been RUB 540 MM as at 31 December 2015 (31 December 2014: RUB 619 MM).

26. Other assets

	2015 RUB MM	2014 RUB MM
Current income tax assets	598	875
Advances to suppliers	592	367
Rights of claim for delivery of cash and securities	179	327
Prepaid taxes other than VAT and income tax	18	24
Settlements with personnel	17	17
Repossessed assets	12	33
Receivables on cash settlement services	10	10
VAT receivable on leasing operations	–	13
Security deposit placed with MasterCard Europe	–	174
Other	5	45
	1,431	**1,885**
Allowance for impairment of advances to suppliers (Note 23)	(65)	(108)
	1,366	**1,777**

The Group repossesses real estate and other collateral of defaulted loans. These assets were classified as inventory according to IAS 2 and were measured at the lower of cost and net realizable value.

According to IAS 2, the Group recognised a RUB 8 MM decrease in the value of repossessed residential real estate collateral as at 31 December 2014.

27. Due to customers

	2015 RUB MM	2014 RUB MM
Individuals		
Term deposits	127,143	98,667
Current accounts and demand deposits	2,683	2,517
Legal entities		
Term deposits	8,539	3,679
Current accounts and demand deposits	7,055	12,651
	145,420	**117,514**

As at 31 December 2015 and 2014, the ten largest customers placed with the Bank RUB 11,422 MM and RUB 13,093 MM respectively. These balances represented 7.9% and 11.1% of the current accounts and deposits from customers as at 31 December 2015 and 2014, respectively.

As at 31 December 2015 and 2014, the Group had no customers whose current accounts and term deposits with the Bank exceeded 10% of current accounts and deposits from customers.

According to the Russian legislation, the Group is obliged to repay term deposits placed by individuals upon demand of a client. In majority if a term deposit is repaid prior to maturity, interest rate of such deposit is reduced to the prevailing interest rate of demand deposits retrospectively.

28. Due to the CBR

	2015 RUB MM	2014 RUB MM
Sale and repurchase agreements	149,041	62,516
Loans secured by assets	37,014	–
	186,055	**62,516**

28. Due to the CBR (continued)

As at 31 December 2015 and 2014, the Group pledged the following securities as collateral under sale and repurchase agreements with the CBR:

	2015		*2014*
	Due to the CBR RUB MM	***Sale and repurchase agreements with other banks RUB MM***	***Due to the CBR RUB MM***
Financial instruments pledged under sale and repurchase agreements			
Corporate Eurobonds	77,455	25,201	14,063
Corporate shares	470	–	–
State and municipal bonds	29,082	5,164	–
Bonds of companies with the State participation	26,015	6,465	14,917
Shares in companies with the State participation	101	–	–
Total carrying amount	**133,123**	**36,830**	**28,980**
Loans to customers pledged under sale and repurchase agreements			
Corporate bonds	3,653	–	8,424
State and municipal bonds	12,074	–	21,182
Bonds of companies with the State participation	593	–	–
Total carrying amount	**16,320**	**–**	**29,606**
Placements with banks pledged under sale and repurchase agreements			
Corporate bonds	1,345	–	11,045
State and municipal bonds	554	–	1,234
Total carrying amount	**1,899**	**–**	**12,279**
Related liabilities	**149,041**	**30,881**	**62,516**

29. Due to banks

	2015 RUB MM	***2014 RUB MM***
Deposits	45,943	24
Sale and repurchase agreements with other banks	30,881	–
LORO accounts	1,545	607
	78,369	**631**

As at 31 December 2015, the Group had two counterparties whose balance exceeded 10% of Due to banks. As at 31 December 2015, respective liabilities were RUB 70,012 MM or 89.3% of Due to banks (31 December 2014: RUB 573 MM or 90.8% of Due to banks).

30. Debt securities issued

	2015 RUB MM	***2014 RUB MM***
Promissory notes	2,037	2,562
Domestic bonds issued	1,024	178
	3,061	**2,740**

On 13 February 2014, the Group issued non-convertible domestic bonds BO-01 series of RUB 2,000 MM with the nominal coupon rate of 12.0% p.a. and effective coupon rate of 12.4% p.a. maturing in February 2019.

31. Subordinated debt

The Bank's participation in the Anti-crisis plan of the Russian Government and receipt of the subordinated loans from the DIA

On 27 January 2015, the Russian Government approved Plan of Priority Measures to Ensure Sustainable Development of the Economy and Social Stability in 2015 (the "Anti-crisis plan"). The Board of Directors of the DIA approved a list of banks selected to participate in the Anti-crisis plan on 23 January 2015 and the Russian Government approved it on 2 February 2015.

On 27 April 2015, the DIA provided the Group with five subordinated loans of RUB 6,273 MM and in a form of Russian State bonds (OFZ) which are issued by the Russian Ministry of Finance. These subordinated loans shall be repaid within 12 to 19 years. The key terms and conditions of these agreements are as follows:

- The net interest rate is 1% p.a.
- If the arbitration court declares the Bank insolvent (bankrupt), the DIA's claims in relation to the subordinated loan may be settled only after settling the claims of all other creditors but taking into consideration a priority of claims regarding a subordinated debt
- If subsequent to the provision of the subordinated loan, the information is posted on the official CBR web-site regarding the Bank and claiming that one of the following occurs:
  1) Core capital adequacy ratio (N1.1), calculated in accordance with the Instruction of the Bank of Russia No. 139-I of 3 December 2012 *Concerning Mandatory Bank Ratios*, drops below the level stated in the Regulation for Subordinated Loan Exchange, which was 2% for the period defined by the Regulation as at the date of the subordinated agreements; or
  2) The Committee on Banking Supervision of the CBR approves the plan of the DIA's participation in measures to prevent the Bank's bankruptcy. This plan provides that the DIA will deliver financial support pursuant to the Federal Law *On Insolvency (Bankruptcy)*
  3) The DIA's requirements under the subordinated loan agreement are changed to the Bank's ordinary shares

The CBR confirmed that these subordinated loans may be included in the sources of the Bank's capital.

The subordinated loans are not included in the Bank's balance sheet because in accordance with IAS 39 these subordinate loans are classified as securities borrowed.

Subordinated loan from SovCo Capital Partners B.V.

Principal, USD'000	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*2015 RUB MM*	*2014 RUB MM*
94,470	USD	SovCo Capital Partners B.V.	14.0%	16 December 2013	16 December 2073	6,958	5,371
						6,958	**5,371**

On 15 July 2014, the Group made an early redemption of the subordinated term facility of USD 25.425 MM issued by FMO, including accumulated interest of USD 0.425 MM. In accordance with the subordinated term facility agreement, the Group paid prepayment fees of RUB 17 MM (2% of the subordinated term facility) to FMO.

32. Other liabilities

	2015 RUB MM	2014 RUB MM
Payables to personnel	1,061	559
Settlements on currency conversion operations	529	–
Deferred revenues	573	–
Payables to suppliers	311	454
Provision for legal claims and contingencies (Note 23)	225	33
Accrued payments on obligatory deposit insurance	119	97
Taxes payable other than VAT and income tax	64	91
VAT payable	34	35
Current income tax payable	28	25
Other	313	95
	3,257	**1,389**

As at 31 December 2015, payables to personnel increased due to accrual of the year-end bonuses for 2015.

Settlements on currency conversion operations represent the fair value of the currency swaps the Group entered into for the purpose of managing its currency position (currency risk).

33. Deferred tax

Changes in temporary differences during the years ended 31 December 2015 and 2014 were as follows:

		Origination and reversal of temporary differences					Origination and reversal of temporary differences				
	2013	In statement of profit or loss	In other compre-hensive income	Effect of business combi-nation	Excluded from consoli-dation	2014	In statement of profit or loss	In other compre-hensive income	Effect of business combi-nation	Excluded from consoli-dation	2015
Tax effect of deductible temporary differences											
Other assets	(131)	202	–	75	–	146	(66)	–	–	–	80
Due to customers	–	(3)	–	(1)	–	(4)	36	–	–	–	32
Debt securities issued	–	25	–	–	–	25	(15)	–	–	–	10
Other liabilities	58	(26)	–	40	7	79	158	–	–	(5)	232
Tax loss carry forward asset	–	–	–	–	–	–	4,038	–	–	–	4,038
Deferred tax asset	**(73)**	**198**	**–**	**114**	**7**	**246**	**4,151**	**–**	**–**	**(5)**	**4,392**
Tax effect of taxable temporary differences											
Financial instruments at fair value through profit or loss	(23)	749	–	–	–	726	(7,155)	–	–	–	(6,429)
Loans to customers	139	14	–	518	(7)	664	(979)	–	–	–	(315)
Property and equipment and intangible assets	(243)	247	28	(76)	–	(44)	10	(1)	(313)	–	(348)
Cash and cash equivalents	–	(1)	–	–	–	(1)	(47)	–	–	–	(48)
Placements with banks	–	(7)	–	–	–	(7)	6	–	–	–	(1)
Investment property	(6)	1	–	–	–	(5)	5	–	–	–	–
Subordinated debt	(1)	1	–	–	–	–	–	–	–	–	–
Deferred tax liability	**(134)**	**1,004**	**28**	**442**	**(7)**	**1,333**	**(8,160)**	**(1)**	**(313)**	**–**	**(7,141)**
Deferred tax asset	**5**	**990**	**28**	**556**	**–**	**1,579**	**(1,572)**	**–**	**–**	**(5)**	**2**
Deferred tax liability	**(212)**	**212**	**–**	**–**	**–**	**–**	**(2,437)**	**(1)**	**(313)**	**–**	**(2,751)**

34. Equity

In September 2014, in accordance with the Russian legislation, the Bank changed its legal form from a limited liability company into an open joint-stock company and in December 2014 into a public joint-stock company.

As at 31 December 2015 and 2014, the share capital was RUB 1,906 MM.

As at 31 December 2015, the number of authorised ordinary shares with the nominal value of RUB 0.1 each was 19,060,040,773.

On 5 September and 8 December 2014, the Board of Directors approved the buy-back from SovCo Capital Partners B.V. of 1,904,098,073 shares with the nominal value of RUB 190 MM, or 9.99% of total number of outstanding shares for RUB 1,795 MM. The buy-back took place on 19 September and 8 December 2014. As at 31 December 2015 and 2014, the shares bought back were recorded as “Treasury shares” in the consolidated statement of financial position.

The share capital of the Bank has been contributed by shareholders in Russian rubles. Shareholders are entitled to dividends and any capital distribution in only Russian rubles.

The total amount of Distributions to Group’s shareholder in 2015 was RUB 3,656 MM.

35. Commitments

Group has outstanding off-balance sheet commitments to extend loans. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Group provides bank guarantees to ensure that the Group's customers meet their liability to third parties. These agreements have fixed limits, typically do not exceed one million rubles and generally extend for of up to one year.

The commitments by category were as follows:

*Contractual amount**	*2015 RUB MM*	*2014 RUB MM*
Bank guarantees	27,025	4,907
Loan and credit line commitments	17,756	6,683
	44,781	**11,590**

* The contractual amounts shown in the table assume that commitments will be settled in full.

As at 31 December 2015, "Bank guarantees" include the bank guarantees of RUB 19,248 MM issued in accordance with the provisions of Federal Law No. 44-FZ *The Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ *Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

Overall contractual commitments to issue loans rarely result in actual cash outflow as such commitments may be annulled or may expire without actual funding being provided.

On 8 December 2015, in accordance with the Master agreement on derivative transactions in the financial markets, Sovcombank entered into a currency and interest swap agreement with one of the largest Russian banks. The maturity date of this agreement is 12 December 2022. In accordance with the agreement, Sovcombank shall exchange RUB 3,455 MM for USD 50 MM and shall pay an interest of 7.5% p.a. for receipt of USD 50 MM. It shall also receive annual fees for the provision of RUB 3,455 MM at 14.5% p.a. The financial result for the period from 8 December 2015 to 31 December 2015, which includes the revaluation of the currency and interest swap agreement, foreign exchange and translation differences was RUB 51 MM and was recorded as "Net foreign exchange gain" in the consolidated statement of comprehensive income.

In July 2014, the Group sold to a third party an office building occupied by the Bank and located at the address: Russia, Moscow, Krasnopresnenskaya naberezhnaya, 14, building 1 (Note 25). Simultaneously, the Bank entered into a long-term rental agreement to rent the office premises occupied by the Bank with the new owner. The rental agreement expires in September 2024. According to the rental agreement, Sovcombank may unilaterally terminate the agreement from July 2018. The office rent before July 2018 forms an operating lease commitments and as at 31 December 2015 and 2014 was as follows:

Operating lease commitments	*2015 RUB MM*	*2014 RUB MM*
Not later than 1 year	335	259
From 1 to 5 years	503	647
	838	**906**

36. Contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or performance of the Group. From 2011 thought 2015, the Group was subject to litigations mainly in relation to up-front lending commission which the Group charged to the borrowers until 2010 and third party insurance policies sold by the Group to the individual borrowers at the loan origination.

As at 31 December 2015 and 2014, The Group created provision for litigations for the difference between the total litigations claims and the litigations claims settled, which was RUB 33 MM and 10 MM respectively. Management believes that the provisions fully cover all the possible risks.

36. Contingencies (continued)

Tax contingencies

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently and may apply retrospectively.

Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant state authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Under certain circumstances, audits may cover earlier periods.

Russian transfer pricing legislation allows the tax authorities to apply transfer pricing adjustments and impose additional income tax and VAT liabilities in respect of all “controlled” transactions if the transaction price differs from the market price range. The list of controlled transactions includes transactions between related parties and certain types of transactions with unrelated parties that are considered the same as controlled transactions pursuant to Article 105.14 of the Russian Tax Code.

The obligation to prove the compliance of transaction prices with the market prices is imposed on taxpayers. These rules are applied not only to transactions made in 2015, but also to the transactions made in previous tax periods, if corresponding gains and losses were recognised in 2015 (except for certain types of transactions). Transactions with securities and derivative financial instruments are subject to special transfer pricing rules established by Articles 280 and 305 of the Russian Tax Code, respectively.

In 2015, the Group determined its tax liabilities arising from controlled transactions on the basis of actual transaction prices or by adjusting actual prices in accordance with transfer pricing rules (if applicable).

Federal Law No. 376-FZ dated 24 November 2014, effective from 1 January 2015, amended the Russian tax legislation to include the terms “tax residency” in respect of foreign legal entities and “beneficiary owner”, as well as taxation rules for retained earnings of the foreign controlled companies in the Russian Federation. Overall, the adoption of the law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or pay income from sources in the Russian Federation to foreign entities. There is uncertainty regarding the procedure for application of the new rules enforced by Federal Law No. 376-FZ, their possible interpretation by the Russian tax authorities and the effect on the tax liabilities of the Group.

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

37. Risk management

Risk management is one of the most important Group’s internal processes. The ultimate goal of the Group risk management policy is to ensure that all significant types of risk are identified early and are appropriately mitigated.

Risk management policies and procedures

The Group identifies, assesses and mitigates existing and emerging risks through a combination of efficient risk management tools and policies, as well as strict compliance with the Group’s corporate governance principles. 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 Supervisory Board of the Group has overall responsibility for the establishing risk management framework, overseeing the management of key risks, reviewing the Group risk management policies and procedures and approving significant counterparty exposures.

The Management Board of the Group is responsible for the application of the risk-management system and implementation of risk mitigation measures, as well as for ensuring that the Group operates within the established risk limits.

Application of risk management policies is subject to a regular review by the Internal Audit Department.

Financial risks, such as credit, market and liquidity risks, are managed by the Credit Committees and the Asset-Liability Committee (the “ALCO”).

37. Risk management (continued)

Risk management policies and procedures (continued)

The primary types of risks affecting the Group are:

- Market risk (which includes interest rate, currency and prepayment risks)
- Credit risk
- Liquidity and funding risk
- Operational risk

Market risk

Market risk is the risk that the Group's profit and/or net assets will decrease due to unfavourable changes in the market (including fluctuations and increased volatility of interest rates, expected inflation rates, credit spreads and quotes for equity and bonds, foreign exchange rates, prices for real estate, commodity and other instruments).

The Group is exposed to a number of market risks, the principal ones being: interest rate, currency and prepayment risks.

The Group manages its market risk using a methodology approved by the Management Board and applies a range of indicators to identify whether the risk assumed by the Group is in line with the approved risk limits and potential market conditions. Senior management regularly communicates all significant risk exposures to appropriate committees responsible for monitoring and oversight.

For the purpose of managing the risk related to non-trading transactions, corresponding assets and liabilities are offset against one another and the remaining risk is covered by the currency swaps. In the course of managing the risk related to non-trading transaction, the Group monitors and controls over the exposure arising from the excess of the margin of interbank rates over the CBR rates through the appropriate hedging.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group sets limits on the acceptable level of mismatch for interest rate revision.
The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates for one year. The above parameter is measured by reference to the effect of the fair value of such fixed-rate instruments held as at 31 December 2015 and 2014. Such measurement envisages applying the assumption of a parallel shift of the yield curve.

Currency	*Increase in basis points*	*Change in net interest income 2015*	*Change in equity 2015*	*Change in net interest income 2014*	*Change in net assets attributable to shareholders 2014*
RUB	100	(1,876)	(1,876)	(1,429)	(1,429)
USD	100	(3,913)	(3,913)	(1,108)	(1,108)
EUR	100	(24)	(24)	(7)	(7)

Currency	*Decrease in basis points*	*Change in net interest income 2015*	*Change in equity 2015*	*Change in net interest income 2014*	*Change in net assets attributable to shareholders 2014*
RUB	100	1,876	1,876	1,429	1,429
USD	100	3,913	3,913	1,108	1,108
EUR	100	24	24	7	7

37. Risk management (continued)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Currency risk arises when the actual or forecasted assets denominated in a foreign currency mismatch the liabilities in the same currency. The Group's policy requires that total currency risk exposure must not exceed 10% of net assets attributable to shareholders.

Sensitivity of the Group's annual profit or loss and net assets attributable to shareholders to changes in the foreign currency exchange rates as at 31 December 2015 and 2014 was as follows:

	2015		*2014*	
	Profit or loss RUB MM	*Change in equity RUB MM*	*Profit or loss RUB MM*	*Change in net assets attributable to shareholders RUB MM*
20% appreciation of USD vs. RUB	(81)	(81)	(613)	(613)
20% depreciation of USD vs. RUB	81	81	613	613
20% appreciation of EUR vs. RUB	–	–	(2)	(2)
20% depreciation of EUR vs. RUB	–	–	2	2

The table below shows the assets and liabilities by currency as at 31 December 2015:

	RUB RUB MM	*USD RUB MM*	*EUR RUB MM*	*Other RUB MM*	*Total RUB MM*
Assets					
Cash and cash equivalents	27,409	10,034	15,077	8	**52,528**
Mandatory cash balances with the CBR	897	–	–	–	**897**
Placements with banks	19,030	4,711	–	–	**23,741**
Financial instruments at fair value through profit or loss					
- held by the Group	27,693	9,161	–	–	**36,854**
- pledged under sale and repurchase agreements	46,642	121,291	509	1,511	**169,953**
Available-for-sale investment securities	607	1,274	750	–	**2,631**
Loans to customers	146,634	28,574	1	–	**175,209**
Investments in associates	1,208	–	–	–	**1,208**
Investments in car leasing joint venture	486	–	–	–	**486**
Investment property	77	–	–	–	**77**
Property and equipment and intangible assets	2,626	–	–	–	**2,626**
Goodwill	364	–	–	–	**364**
Deferred tax asset	2	–	–	–	**2**
Other assets	1,291	73	–	2	**1,366**
Total assets	**274,966**	**175,118**	**16,337**	**1,521**	**467,942**
Liabilities					
Due to the CBR	126,234	59,821	–	–	**186,055**
Due to banks	50,088	27,709	572	–	**78,369**
Due to customers	128,862	10,836	5,718	4	**145,420**
Debt securities issued	2,636	208	217	–	**3,061**
Other borrowed funds	14,225	–	–	–	**14,225**
Subordinated debt	–	6,958	–	–	**6,958**
Deferred tax liability	2,751	–	–	–	**2,751**
Non-controlling interest	525	–	–	–	**525**
Other liabilities	3,250	7	–	–	**3,257**
Total liabilities	**328,571**	**105,539**	**6,507**	**4**	**440,621**
Net on-balance sheet position as at 31 December 2015	**(53,605)**	**69,579**	**9,830**	**1,517**	**27,321**
Net off-balance sheet position as at 31 December 2015	**81,229**	**(69,983)**	**(9,832)**	**(1,414)**	**–**
Net position as at 31 December 2015	**27,624**	**(404)**	**(2)**	**103**	**27,321**
Credit-related commitments	**43,236**	**1,516**	**29**	**–**	**44,781**

37. Risk management (continued)

Currency risk (continued)

The table below shows the assets and liabilities by currency as at 31 December 2014:

	RUB RUB MM	*USD RUB MM*	*EUR RUB MM*	*Other RUB MM*	*Total RUB MM*
Assets					
Cash and cash equivalents	13,775	6,778	4,873	–	**25,426**
Mandatory cash balances with the CBR	1,072	–	–	–	**1,072**
Placements with banks	14,513	352	–	–	**14,865**
Financial instruments at fair value through profit or loss					
- held by the Group	1,231	7,732	140	–	**9,103**
- pledged under sale and repurchase agreements	3,604	25,357	19	–	**28,980**
Loans to customers	112,748	4,014	2	–	**116,764**
Investments in car leasing joint venture	452	–	–	–	**452**
Investment property	75	–	–	–	**75**
Property and equipment and intangible assets	1,386	–	–	–	**1,386**
Goodwill	284	–	–	–	**284**
Deferred tax asset	1,579	–	–	–	**1,579**
Other assets	1,520	257	–	–	**1,777**
Total assets	**152,239**	**44,490**	**5,034**	**–**	**201,763**
Liabilities					
Due to the CBR	43,385	19,131	–	–	**62,516**
Due to banks	407	224	–	–	**631**
Due to customers	103,128	9,739	4,645	2	**117,514**
Debt securities issued	2,123	445	172	–	**2,740**
Subordinated debt	–	5,371	–	–	**5,371**
Other liabilities	1,372	17	–	–	**1,389**
Total liabilities	**150,415**	**34,927**	**4,817**	**2**	**190,161**
Net on-balance sheet position as at 31 December 2014	**1,824**	**9,563**	**217**	**(2)**	**11,602**
Net off-balance sheet position as at 31 December 2014	**12,859**	**(12,630)**	**(229)**	**–**	**–**
Net position as at 31 December 2014	**14,683**	**(3,067)**	**(12)**	**(2)**	**11,602**
Credit-related commitments	**11,520**	**46**	**24**	**–**	**11,590**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because some of its customers repay or request repayment earlier or later than expected.

The Group evaluates the prepayment risk for consumer loans. In 2015, consumer loans repaid early were RUB 6,020 MM or 13.69% of expected payments (2014: RUB 4,720 MM or 9.56%). The Group's financial results and equity at the end of the current reporting period were not significantly impacted by the loans repaid early.

Credit risk

Credit risk is defined as the risk that the parties which have contractual relationships with the Group fail to discharge their on-balance sheet or off-balance sheet obligations. Adverse changes in the credit quality of the Group's borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets and increase the Group's write-downs and allowances for impairment.

Over the last five years, the global banking crisis and economic downturn has driven cyclically high bad debt charges, arising from the Group's lending to both retail and corporate customers. The Group performance is highly contingent on macroeconomic and other factors, including, inter alia, economic slowdown in the Russian Federation, lower consumer spending, excess debt burden on consumers, unemployment growth and rising interest rates. These factors may influence the Group's risk profile. The possibility of further macroeconomic downside risk remains.

37. Risk management (continued)

Credit risk (continued)

The Group takes certain actions to mitigate the credit risk, i.e.:

- It designs prudent risk management policies and also sets limits on the level of exposure in light of changes in the macroeconomic environment
- It clearly defines levels of authority (including independently set and controlled credit limits for the counterparties, access to efficient scoring models, credit policies, etc.)
- It applies robust credit processes and risk control methods
- It has permanently operating committees, which ensure identification, analysis and management of risks, as well as making sufficient allowances for distressed and impaired loans based on the Group's latest view of the current and expected market conditions, as well as the refinancing risk

The Credit Committee is a standing body of the Group, authorised to make decisions on all issues relating to the credit operations of the Group. The credit risk policy is defined by the Group's Credit Committee considering the recommendations from the Risk Department and is subject to the Management Board's approval. The Risk Department is generally responsible for application of the procedures and policies approved by the Credit Committee, as well as for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan issuance or upon the renewal of the existing credit facility.

The Group has policies and procedures for the management of credit exposures (both for the on-balance sheet and off-balance sheet items) including requirement to setting limits on concentration of commercial loan portfolio.
The Group's credit policy establishes:

- Procedures for review and approval process of different types of credit products
- Methodology for the creditworthiness assessment of lessees
- Methodology for the creditworthiness assessment of borrowers (legal entities and individuals)
- Methodology for the creditworthiness assessment of issuers and insurance companies
- Methodology for the evaluation and monitoring of collateral
- Procedures for the ongoing monitoring of loans and other products exposed to the credit risk
- Procedures for collection process for different types of borrowers and lessees

Analysis and, if necessary, revision of the policies, methodologies and procedures related to the credit risk are undertaken at least annually and incorporate recommendations obtained in the course of internal audits.

All retail loan applications are reviewed by the Risk Department by means of statistical modelling, loan application data verification and by considering a number of criteria, including, inter alia, applicant's indebtedness, source of income, history with the Bank etc. Some retail loan application are subject to additional verification conducted by Economic Security Department of the Bank. All underwriting procedures are approved by the Credit Committee.

The Group does not consider commercial lending as a strategic activity and takes a highly selective approach to commercial lending, particularly to the new corporate borrowers. Commercial loan applications are checked by client managers and then are passed on to the Risk Department. The Risk Department prepares an independent report based on structured analysis focusing on the customer's business, reputation, history with the Bank and financial performance. The Financial Monitoring Department and the Economic Security Department independently review every commercial loan application and generate a report reflecting their opinion, in particular on whether the credit policy requirements are met. During the loan approval process, evaluation of guarantees and collateral, as well as assessment of the guarantor's ability to meet its obligations is undertaken. Every commercial loan application must be approved by the Credit Committee and/or the Supervisory Board depending on the loan amount.
The Group continuously monitors the performance of individual credit exposures and regularly assesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements (for legal entities), income reference (for individuals) and other information submitted by the borrower or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists. Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

The Group's maximum exposure to the credit risk is generally represented by the fair value of financial assets recognised in the balance sheet and the off-balance sheet credit-related commitments. The impact of possible offset of assets and liabilities to reduce potential credit exposure is not significant.

37. Risk management (continued)

Credit quality of loans to individuals

The credit quality of loans to individuals is assessed and managed by the Group based on the number of days overdue. The tables below show the credit quality of loans to individuals based on the number of days overdue as at 31 December 2015 and 2014:

As at 31 December 2015

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans				
- Not past due	46,620	(503)	46,117	1.08%
- Overdue less than 30 days	2,683	(333)	2,350	12.41%
- Overdue from 30 to 89 days	1,778	(891)	887	50.11%
- Overdue from 90 to 179 days	2,056	(1,453)	603	70.67%
- Overdue from 180 to 360 days	5,206	(4,500)	706	86.44%
Total consumer loans	**58,343**	**(7,680)**	**50,663**	**13.16%**
Credit cards				
- Not past due	5,869	(87)	5,782	1.48%
- Overdue less than 30 days	317	(56)	261	17.67%
- Overdue from 30 to 89 days	228	(129)	99	56.58%
- Overdue from 90 to 179 days	265	(204)	61	76.98%
- Overdue from 180 to 360 days	744	(671)	73	90.19%
Total credit cards	**7,423**	**(1,147)**	**6,276**	**15.45%**
Mortgage loans				
- Not past due	1,364	(15)	1,349	1.10%
- Overdue less than 30 days	91	(5)	86	5.49%
- Overdue from 30 to 89 days	171	(20)	151	11.70%
- Overdue from 90 to 179 days	140	(31)	109	22.14%
- Overdue from 180 to 360 days	262	(101)	161	38.55%
Overdue more than 360 days	222	(135)	87	60.81%
Total mortgage loans	**2,250**	**(307)**	**1,943**	**13.64%**
Total loans to individuals	**68,016**	**(9,134)**	**58,882**	**13.43%**

As at 31 December 2014

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans				
- Not past due	61,420	(632)	60,788	1.03%
- Overdue less than 30 days	3,793	(719)	3,074	18.96%
- Overdue from 30 to 89 days	2,556	(1,348)	1,208	52.74%
- Overdue from 90 to 179 days	3,039	(2,095)	944	68.94%
- Overdue from 180 to 360 days	5,491	(4,299)	1,192	78.29%
Total consumer loans	**76,299**	**(9,093)**	**67,206**	**11.92%**
Credit cards				
- Not past due	7,359	(98)	7,261	1.33%
- Overdue less than 30 days	539	(111)	428	20.59%
- Overdue from 30 to 89 days	396	(219)	177	55.30%
- Overdue from 90 to 179 days	484	(369)	115	76.24%
- Overdue from 180 to 360 days	909	(817)	92	89.88%
Total credit cards	**9,687**	**(1,614)**	**8,073**	**16.66%**
Mortgage loans				
- Not past due	198	(2)	196	1.01%
- Overdue less than 30 days	67	(3)	64	4.48%
- Overdue from 30 to 89 days	55	(5)	50	9.09%
- Overdue from 90 to 179 days	20	(4)	16	20.00%
- Overdue from 180 to 360 days	16	(5)	11	31.25%
Overdue more than 360 days	50	(26)	24	52.00%
Total mortgage loans	**406**	**(45)**	**361**	**11.08%**
Total loans to individuals	**86,392**	**(10,752)**	**75,640**	**12.45%**

37. Risk management (continued)

Credit quality of loans to individuals (continued)

As at 31 December 2015, the gross NPL (Non-Performing Loans – overdue more than 90 days), overall allowance made, as well as the NPL coverage ratio for consumer loans and credit cards were as follows:

	Gross NPL RUB MM	*Total allowance for impairment RUB MM*	*NPL coverage ratio %*
Consumer loans	7,262	(7,680)	105.8%
Credit cards	1,009	(1,147)	113.7%

Credit quality of loans to corporate customers

The following table provides information on the credit quality of loans to legal entities and finance lease receivables as at 31 December 2015:

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers and finance lease receivables				
Unimpaired loans and finance lease receivables*	**116,778**	**(713)**	**116,065**	**0.61%**
Impaired loans and finance lease receivables:				
- Overdue less than 90 days	76	(10)	66	13.16%
- Overdue more than 90 days and less than 1 year	36	(13)	23	36.11%
- Overdue more than 1 year	232	(59)	173	25.43%
Total impaired loans and finance lease receivables	**344**	**(82)**	**262**	**23.84%**
Individual impairment	223	(54)	169	24.22%
Collective impairment	121	(28)	93	23.14%
Total loans to corporate customers and finance lease receivables	**117,122**	**(795)**	**116,327**	**0.68%**

* Including state and municipal bonds of RUB 12,149 MM and corporate bonds of RUB 4,324 MM, reclassified into the corporate loans (Note 21).

The following table provides information on the credit quality of loans to legal entities and finance lease receivables as at 31 December 2014:

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers and finance lease receivables				
Unimpaired loans and finance lease receivables*	**41,046**	**(277)**	**40,769**	**0.67%**
Impaired loans and finance lease receivables:				
- Overdue less than 90 days	17	(1)	16	5.88%
- Overdue more than 90 days and less than 1 year	382	(44)	338	11.52%
- Overdue more than 1 year	7	(6)	1	85.71%
Total impaired loans and finance lease receivables	**406**	**(51)**	**355**	**12.56%**
Individual impairment	352	(42)	310	11.93%
Collective impairment	54	(9)	45	16.67%
Total loans to corporate customers and finance lease receivables	**41,452**	**(328)**	**41,124**	**0.79%**

* Including state and municipal bonds of RUB 22,530 MM and corporate bonds of RUB 9,338 MM, reclassified into the corporate loans (Note 21).

37. Risk management (continued)

Credit quality of loans to corporate customers (continued)

Impairment assessment

Collectively assessed allowances

Impairment allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgage loans, consumer loans, loans to corporate customers and finance lease receivables) and for individually significant loans where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The Group estimates impairment allowances for loans to individuals based on statistics in relation to past historical losses and, where there is sufficient statistical data available, based on peer group statistics for comparable loan groups. The Group estimates impairment allowance for corporate loans based on an analysis of the future cash flows for impaired loans or based on the statistics in relation to past losses on loan portfolios for which no indication of impairment is identified.

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

The objective indicators of loan impairment include the following:

- Overdue payments under the loan agreement
- Significant deterioration in the financial position of the borrower
- Deterioration in business environment, negative changes in the borrower’s market

Individually assessed allowances

The Group determines appropriate allowances for each individually significant loan or advance on an individual basis. Items considered when determining loan loss allowance include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy occur, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention.

Allowances created in respect of securities reclassified to corporate loans

An allowance for corporate bonds reclassified as corporate loans is calculated on the basis of the lowest long-term issuer rating assigned by international rating agencies (S&P, Fitch and Moody’s) to each issuer of bonds, and the probability of default of the issuer within one year. The probability of default of each issuer within one year is determined on the basis of the Fitch Ratings agency research “Global Corporate Finance 2015 Transition and Default Study” as the average probabilities of default of the issuer of each rating in the developing countries within one year during the period 1990-2013. The allowance varies from 0.19% to 2.90%.

Liquidity and funding risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. 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 business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Liquidity and funding risk appetite is set by the Supervisory Board and this statement of the Group’s overall appetite for liquidity risk is reviewed and approved annually by the Management Board.

The Group’s liquidity and funding position is underpinned by its significant customer deposit base, and has been supported by stable funding from the wholesale markets and the CBR as well as by the diversified portfolio of highly liquid assets, which the Group maintains in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Group continuously and on a daily basis monitors and controls whether its operations are in line with the regulator’s liquidity requirements and monitors the market environment and intra-Group circumstances, focusing on early indicators of the liquidity risk either on the market or within the Group. In 2014-2015, the Bank’s operations complied with all regulatory liquidity requirements.

37. Risk management (continued)

Liquidity and funding risk (continued)

The Group carries out stress testing of its liquidity position against a range of scenarios on a monthly basis. The results of stress testing are reviewed by the ALCO monthly. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The liquidity management policy of the Group requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- Maintaining a diverse range of funding sources
- Managing the concentration and profile of debt
- Maintaining a portfolio of highly marketable assets that can easily be realised as protection against any interruption to cash flows
- Maintaining liquidity and funding contingency plans
- Monitoring balance sheet liquidity ratios against regulatory requirements

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, bank deposits and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and off-balance sheet credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow related to the financial liability or commitment. The Group's expected cash flows related to these financial liabilities and off-balance sheet credit-related commitments may vary significantly from this analysis.

Financial liabilities as at 31 December 2015	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to the CBR	125,225	58,258	3,371	367	–	**187,221**	**186,055**
Due to banks	33,006	1,869	3,960	21,080	69,770	**129,685**	**78,369**
Due to customers	27,349	22,475	43,956	68,313	–	**162,093**	**145,420**
Debt securities issued	100	696	1,799	174	647	**3,416**	**3,061**
Other borrowed funds	–	63	191	1,017	51,052	**52,323**	**14,225**
Subordinated debt	80	158	726	3,858	58,008	**62,830**	**6,958**
Other liabilities	3,234	–	23	–	–	**3,257**	**3,257**
Total financial liabilities	**188,994**	**83,519**	**54,026**	**94,809**	**179,477**	**600,825**	**437,345**
Credit-related commitments	**17,401**	**6,254**	**6,819**	**14,307**	**–**	**44,781**	**44,781**

Financial liabilities as at 31 December 2014	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to the CBR	62,822	–	–	–	–	**62,822**	**62,516**
Due to banks	607	24	–	–	–	**631**	**631**
Due to customers	21,576	28,997	32,938	41,725	–	**125,236**	**117,514**
Debt securities issued	92	687	483	1,339	683	**3,284**	**2,740**
Subordinated debt	62	120	561	2,978	45,523	**49,244**	**5,371**
Other liabilities	1,378	1	10	–	–	**1,389**	**1,389**
Total financial liabilities	**86,537**	**29,829**	**33,992**	**46,042**	**46,206**	**242,606**	**190,161**
Credit-related commitments	**7,619**	**1,102**	**974**	**1,895**	**–**	**11,590**	**11,590**

37. Risk management (continued)

Liquidity and funding risk (continued)

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

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Sub total less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Sub total more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	52,528	–	–	**52,528**	–	–	**–**	–	**52,528**
Mandatory cash balances with the CBR	897	–	–	**897**	–	–	**–**	–	**897**
Placements with banks	2,465	622	6,431	**9,518**	–	14,223	**14,223**	–	**23,741**
Financial instruments at fair value through profit or loss:									
- held by the Group	36,854	–	–	**36,854**	–	–	**–**	–	**36,854**
- pledged under repurchase agreements	141,959	24,819	3,175	**169,953**	–	–	**–**	–	**169,953**
Available-for-sale investment securities	2,631	–	–	**2,631**	–	–	**–**	–	**2,631**
Loans to customers	26,954	6,354	46,382	**79,690**	87,204	3,702	**90,906**	4,613	**175,209**
Investments in associates	–	–	–	**–**	–	–	**–**	1,208	**1,208**
Investments in car leasing joint venture	–	–	–	**–**	–	–	**–**	486	**486**
Other assets	1,354	–	12	**1,366**	–	–	**–**	–	**1,366**
Total assets	**265,642**	**31,795**	**56,000**	**353,437**	**87,204**	**17,925**	**105,129**	**6,307**	**464,873**
Liabilities									
Due to the CBR	124,807	57,577	3,345	**185,729**	326	–	**326**	–	**186,055**
Due to banks	32,961	558	–	**33,519**	–	44,850	**44,850**	–	**78,369**
Due to customers	19,812	22,015	41,839	**83,666**	54,787	–	**54,787**	6,967	**145,420**
Debt securities issued	100	691	1,747	**2,538**	145	378	**523**	–	**3,061**
Other borrowed funds	–	–	–	**–**	–	14,225	**14,225**	–	**14,225**
Subordinated debt	–	–	–	**–**	–	6,958	**6,958**	–	**6,958**
Other liabilities	3,234	–	23	**3,257**	–	–	**–**	–	**3,257**
Total liabilities	**180,914**	**80,841**	**46,954**	**308,709**	**55,258**	**66,411**	**121,669**	**6,967**	**437,345**
Net position as at 31 December 2015	**84,728**	**(49,046)**	**9,046**	**44,728**	**31,946**	**(48,486)**	**(16,540)**	**(660)**	**27,528**
Cumulative gap as at 31 December 2015	**84,728**	**35,682**	**44,728**	**44,728**	**76,674**	**28,188**	**(16,540)**	**27,528**	**–**
Credit-related commitments	**17,401**	**6,254**	**6,819**	**30,474**	**14,307**	**–**	**14,307**	**–**	**44,781**

The following table shows the monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2014:

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Sub total less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Sub total more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	25,426	–	–	**25,426**	–	–	**–**	–	**25,426**
Mandatory cash balances with the CBR	1,072	–	–	**1,072**	–	–	**–**	–	**1,072**
Placements with banks	14,481	7	369	**14,857**	8	–	**8**	–	**14,865**
Financial instruments at fair value through profit or loss:									
- held by the Group	9,103	–	–	**9,103**	–	–	**–**	–	**9,103**
- pledged under repurchase agreements	28,980	–	–	**28,980**	–	–	**–**	–	**28,980**
Loans to customers	36,506	11,547	21,711	**69,764**	40,756	1,353	**42,109**	4,891	**116,764**
Investments in car leasing joint venture	–	–	–	**–**	–	–	**–**	452	**452**
Other assets	1,732	3	39	**1,774**	3	–	**3**	–	**1,777**
Total assets	**117,300**	**11,557**	**22,119**	**150,976**	**40,767**	**1,353**	**42,120**	**5,343**	**198,439**
Liabilities									
Due to the CBR	62,516	–	–	**62,516**	–	–	**–**	–	**62,516**
Due to banks	607	24	–	**631**	–	–	**–**	–	**631**
Due to customers	14,917	31,218	30,844	**76,979**	33,933	–	**33,933**	6,602	**117,514**
Debt securities issued	92	512	439	**1,043**	1,325	372	**1,697**	–	**2,740**
Subordinated debt	–	–	–	**–**	–	5,371	**5,371**	–	**5,371**
Other liabilities	1,378	1	10	**1,389**	–	–	**–**	–	**1,389**
Total liabilities	**79,510**	**31,755**	**31,293**	**142,558**	**35,258**	**5,743**	**41,001**	**6,602**	**190,161**
Net position as at 31 December 2014	**37,790**	**(20,198)**	**(9,174)**	**8,418**	**5,509**	**(4,390)**	**1,119**	**(1,259)**	**8,278**
Cumulative gap as at 31 December 2014	**37,790**	**17,592**	**8,418**	**8,418**	**13,927**	**9,537**	**1,119**	**8,278**	**–**
Credit-related commitments	**7,619**	**1,101**	**974**	**9,694**	**1,896**	**–**	**1,896**	**–**	**11,590**

37. Risk management (continued)

Liquidity and funding risk (continued)

The table presented above shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2015 and 2014, except for securities included into financial instruments at fair value through profit or loss as at 31 December 2015 and 2014. As at 31 December 2015 and 2014, securities included into financial instruments at fair value through profit or loss are shown in the category “Less than 1 month”, because Management believes that all of these financial instruments could be sold within one month in the normal course of business or the Group could pledge these financial instruments as a collateral for loans from the CBR.

The values in all the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

According to Russian legislation, term deposits of individuals may be withdrawn before maturity. However, Management believes that despite this option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicate that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn credit line facilities with the CBR. Accordingly, the Group estimates that the liquidity gaps in the tables above will be covered by the balances of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

Operational risk

Operational risk is the risk of loss arising from deficiencies or errors in internal processes, human errors, fraud or external events.

The Group is exposed to the following principal operational risks:

- IT systems and resilience: the risk of financial loss resulting from inefficiency of IT solution development, implementation or maintenance processes. The resilience of IT solutions and their permanent availability to customers and employees of the Group are the most crucial for the Group
- Information security: the risk of data leakage, loss or theft. The overall market level of this risk is growing rapidly due to increasingly sophisticated fraudulent actions and mobility of intruders
- External and internal fraud: the risk that the Group and/or its customers will incur a financial loss as a result of internal or external fraud
- Customer servicing: the risk that new issues will arise or control deficiencies and weaknesses will be identified in existing processes that the Group’s customer face as the business continues to evolve

The Group operates in a robust control environment. It regularly analyses and reviews the control process and makes appropriate investments. The Group has made significant investments in the IT infrastructure and systems to ensure their resilience and improve their functions, as the continuity of services to the customers is exceptionally important for the Group. The Group continues to invest in IT systems and tools to ensure information security of the control environment, including user access and account management to address evolving threats.

In order to identify and prevent internal and external fraud, the Group applies a risk-based approach considering existing and emerging external and internal fraud risks. Additionally, the Group is implementing an annual program for enhancing the technology, processes and manual controls with emphasis on preventative and detecting controls on a real-time basis. The Group has developed an efficient and robust fraud identification and prevention operating model, including the Group-wide policies and operational controls.

Significant operational risks are regularly reported to appropriate committees and are communicated to senior management. The risks are managed through a range of strategies: prevention, mitigation, transfer (including insurance), and acceptance of risks.

38. Related party transactions

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 operational and financial decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (Note 14) may be presented as follows:

	2015 RUB MM	*2014 RUB MM*
Members of the Supervisory Board	178	23
Management Board	373	144
	551	**167**

The outstanding balances with related parties as at 31 December 2015 were as follows:

	Shareholders of Parent Group RUB MM	*Joint venture* RUB MM*	*Key management personnel** RUB MM*	*Other related parties RUB MM*	*Total RUB MM*
Loans outstanding as at 31 December, gross	**–**	**560**	**355**	**1,213**	**2,128**
Less: allowance for impairment as at 31 December	–	(7)	(9)	(9)	**(25)**
Loans outstanding as at 31 December, net	**–**	**553**	**346**	**1,204**	**2,103**
Deposits as at 31 December	–	–	363	1,012	**1,375**
Financial instruments at fair value through profit or loss as at 31 December	1,477	–	–	–	**1,477**
Current accounts as at 31 December	104	3	73	42	**222**
Subordinated debt as at 31 December	6,958		–	–	**6,958**
Guarantees received	–	433	200	1,470	**2,103**

* Joint venture is a contractual arrangement whereby the Group and LLC Sollers (a car manufacturer) provide financial and operating leases under joint control of LLC Sollers-Finance (Note 43).

** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

The outstanding balances with related parties as at 31 December 2014 were as follows:

	Shareholders of Parent Group RUB MM	*Joint venture* RUB MM*	*Key management personnel** RUB MM*	*Other related parties RUB MM*	*Total RUB MM*
Loans outstanding as at 31 December, gross	**–**	**141**	**272**	**5,409**	**5,822**
Less: allowance for impairment as at 31 December	–	(2)	(3)	(6)	**(11)**
Loans outstanding as at 31 December, net	**–**	**139**	**269**	**5,403**	**5,811**
Deposits as at 31 December	5,115	–	74	175	**5,364**
Financial instruments at fair value through profit or loss as at 31 December	–	–	–	–	**–**
Current accounts at 31 December	469	2	75	114	**660**
Subordinated debt as at 31 December	5,371		–	–	**5,371**
Guarantees received	–	–	151	1,255	**1,406**

* Joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake an economic activity which is under joint control of LLC Sollers-Finance (Note 43).

** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

38. Related party transactions (continued)

The transactions with related parties which are part of the consolidated statement of profit or loss for the year ended 31 December 2015 and are presented in the table below:

	Shareholders of Parent Group RUB MM	*Joint venture* RUB MM*	*Key management personnel** RUB MM*	*Other RUB MM*	*Total RUB MM*
Interest income	4	53	42	119	**218**
Interest expenses on deposits	(3)	–	(22)	(80)	**(105)**
Interest expense on subordinated debt	(816)	–	–	–	**(816)**
Allowance for loan impairment	–	5	(42)	(13)	**(50)**
Fee and commission income	1	–	1	1	**3**
Gains less losses from foreign currencies	–	–	(4)	–	**(4)**
Other income	–	–	2	–	**2**
General and administrative expenses	–	–	(2)	–	**(2)**

* Joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake an economic activity which is under joint control of LLC Sollers-Finance (Note 43).

** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

Transactions with related parties which were included in the consolidated statement of profit or loss for the year ended 31 December 2014 and are presented in the table below:

	Shareholders of Parent Group RUB MM	*Joint venture* RUB MM*	*Key management personnel** RUB MM*	*Other RUB MM*	*Total RUB MM*
Interest income	–	10	18	91	**119**
Interest expenses on deposits	(4)	–	(19)	(17)	**(40)**
Interest expense on subordinated debt	(405)	–	–	–	**(405)**
Allowance for loan impairment	–	(9)	1	20	**12**
Fee and commission income	1	–	2	1	**4**
Other income	63	–	4	6	**73**
General and administrative expenses	(1)	–	(2)	(6)	**(9)**

* Joint venture is a contractual arrangement whereby the Group and LLC Sollers undertake an economic activity which is under joint control of LLC Sollers-Finance (Note 43).

** Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

39. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

39. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2015 and 2014:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	7,850	198,957	–	**206,807**
Available-for-sale investment securities	–	2,631	–	**2,631**
Assets for which fair values are disclosed				
Cash and cash equivalents	52,528	–	–	**52,528**
Mandatory cash balances with the CBR	–	–	897	**897**
Placements with banks and other financial institutions	–	2,439	21,282	**23,721**
Loans to customers	–	16,239	158,917	**175,156**
Other assets	–	–	1,366	**1,366**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	186,055	**186,055**
Due to banks	–	–	78,369	**78,369**
Due to customers	–	–	143,215	**143,215**
Debt securities issued	986	–	2,037	**3,023**
Other borrowed funds	–	–	14,225	**14,225**
Subordinated debt	–	–	6,958	**6,958**
Other liabilities	–	–	3,257	**3,257**

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	1,536	36,547	–	**38,083**
Assets for which fair values are disclosed				
Cash and cash equivalents	25,426	–	–	**25,426**
Mandatory cash balances with the CBR	–	–	1,072	**1,072**
Placements with banks and other financial institutions	–	14,199	388	**14,587**
Loans to customers	–	30,105	85,002	**115,107**
Other assets	–	–	1,777	**1,777**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	62,516	**62,516**
Due to banks	–	–	631	**631**
Due to customers	–	–	110,600	**110,600**
Debt securities issued	189	–	2,562	**2,751**
Subordinated debt	–	–	5,371	**5,371**
Other liabilities	–	–	1,389	**1,389**

The following table shows transfers from Level 1 to Level 2 of financial assets at fair value that took place in 2015 and 2014:

	2015 RUB MM	***2014 RUB MM***
Financial instruments at fair value through profit or loss		
Bonds of companies with the State participation	932	716

The financial assets presented above were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year and their fair values were consequently obtained through valuation techniques using observable market inputs.

39. Fair value of financial instruments (continued)

Financial assets at fair value through profit or loss

Trading securities valued using a valuation technique primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in Level 3 financial instruments measured at fair value

During the years ended 31 December 2015 and 2014, the Group had no transfers of financial instruments from Level 1 and Level 2 to Level 3 of the fair value hierarchy.

Fair values of financial assets and liabilities not carried at fair value

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

	Carrying amount 2015	*Fair value 2015*	*Unrecognised gain/(loss) 2015*	*Carrying amount 2014*	*Fair value 2014*	*Unrecognised gain/(loss) 2014*
Financial assets						
Cash and cash equivalents	52,528	52,528	−	25,426	25,426	−
Mandatory cash balances with the CBR	897	897	−	1,072	1,072	−
Placements with banks and other financial institutions	23,741	23,721	(20)	14,865	14,587	(278)
Loans to customers	175,209	175,156	(53)	116,764	115,107	(1,657)
Other assets	1,366	1,366	−	1,777	1,777	−
Financial liabilities						
Due to the CBR	186,055	186,055	−	62,516	62,516	−
Due to banks	78,369	78,369	−	631	631	−
Due to customers	145,420	143,215	2,205	117,514	110,600	6,914
Debt securities issued	3,061	3,023	38	2,740	2,751	(11)
Other borrowed funds	14,225	14,225	−	−	−	−
Subordinated debt	6,958	6,958	−	5,371	5,371	−
Other liabilities	3,257	3,257	−	1,389	1,389	−
Total unrecognised change in fair value			**2,170**			**4,968**

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

Cash and accounts with the CBR

The carrying amount of cash and accounts with the CBR approximates their fair value due to relatively short-term maturity of these financial instruments.

Placements with banks and other financial institutions and Due to banks

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their carrying amount approximates their fair value.

Loans and advances to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans with estimated maturities using prevailing market rates as of the respective year end.

Debt securities issued

Fair value of debt securities issued is determined on the basis of the available market quotes of bonds issued at the year end.

Due to customers

The estimate was made by discounting of scheduled future cash flows through the estimated maturity using prevailing market rates as at the respective year-end.

40. Business combinations and disposal of subsidiaries

In Q1 2014, the Group sold 25% of shares in OJSC Kostromskoy Ipotechny Operator with a nominal value of RUB 3 MM to a third party. The deal was settled in full in Q1 2014.

Acquisition of CJSC GE Money Bank

Background

On 6 February 2014 (the "date of acquisition"), after the respective approvals from the Federal Antimonopoly Service and the Central Bank of Russia were received, the Group acquired 100% of the voting shares in CJSC GE Money Bank ("GE Money Bank") from DRB Holdings B.V. DRB Holdings B.V. is a wholly-owned subsidiary of GE Capital International Financing Corporation, which is located in Stamford, Connecticut, USA. In its turn, the ultimate shareholder of this company is General Electric Company located in Fairfield, USA.

GEMB engages in unsecured consumer lending, credit cards and deposit products. As at the date of acquisition, GEMB had 51 offices and 90 sales outlets in 52 cities in Russia, most of which are large (Moscow, Saint Petersburg, Nizhny Novgorod, Kazan, Ekaterinburg, Krasnodar, Novosibirsk, Samara, Rostov-on-Don, Chelyabinsk, Ufa. etc.).

The Bank's major reasons for the acquisition was an opportunity to become a federal bank operating in the majority of constituents of the Russian Federation, high quality of the GEMB's services and retail loan portfolio, as well as an opportunity to acquire certain intellectual property and IT technologies and to gain access to the leading global retail banking practices (corporate governance, risk management, etc.) and to increase the Bank's capital as a result of the transaction.

At the date of acquisition, the Bank had two interbank deposits totaling RUB 2,559 MM placed with GEMB which are not included in identifiable net assets.

Fair value of GEMB's identifiable net assets and liabilities

The Bank determined the fair value of the identifiable net assets and liabilities of GEMB based on the results of an independent valuation carried out to verify that the identification of assets and liabilities was complete in full, and the values obtained are in line with all the available information as required by IFRS 3 *Business Combinations.* The fair values of the identifiable net assets and liabilities of GEMB as at the date of acquisition were as follows:

	RUB MM
Assets	
Cash and cash equivalents	2,214
Mandatory cash balances with the CBR	156
Placements with banks	107
Loans to customers, gross	25,636
Allowance for loan impairment	(3,106)
Property and equipment and intangible assets	75
Prepaid taxes	232
Deferred tax asset	556
Other assets	78
Total assets	**25,948**
Liabilities	
Due to banks	715
Due to customers	7,804
Other borrowed funds	6,923
Other liabilities	145
Total liabilities	**15,587**
Identifiable net assets	**10,361**

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of CJSC GE Money Bank (continued)

Gain on a bargain purchase

Because the fair value of the identifiable net assets and liabilities of GEMB exceeded consideration transferred to DRB Holdings B.V. at the acquisition, the Bank recorded gain on a bargain purchase within profit or loss in other operating income (Note 11). Gain on a bargain purchase of business as at the date of acquisition comprised:

	RUB MM
Transferred consideration	5,295
Interbank deposits placed with GEMB	2,559
Identifiable net assets of GEMB as at the date of acquisition	(10,361)
Gain on a bargain purchase (Note 11)	**(2,507)**

Consideration on acquisition was paid to DRB Holdings B.V. in cash at the deal's closing.

GEMB's consolidated profit and loss statement for the nine months ended 31 December 2014

The Bank launched the post-merger integration ("PMI") of GEMB into its operations immediately after the date of acquisition. The PMI included:

- Transfer of financial assets and liabilities
- Optimization of headcount and transfer of personnel
- Transfer of IT and certain business processes, etc.
- Termination of agreements (mainly those related to IT services and financing) with the former parent of GEMB, etc.

The PMI process was fully completed in July 2014. During the PMI, gains and losses economically related to GEMB were split between the Bank and GEMB. While the financial result of GEMB was included in the Group's consolidated statement of comprehensive income for the year ended 31 December 2014, it is impossible to determine the revenue and profit contributed by GEMB.

Cash outflow on acquisition of the subsidiary

Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,214
Cash paid (included in cash flows from investing activities)	(5,295)
Net cash outflow	**(3,081)**

As required by the share purchase agreement between the Bank and DRB Holdings B.V. and in accordance with the Decision of the General Meeting of Shareholders of 27 March 2014, GEMB changed its name to CJSC Sovremenny Kommerchesky Bank.

On 5 December 2014, PJSC Sovcombank completed the legal merger of CJSC Sovremenny Kommerchesky Bank, which ceased to exist as an independent business unit. This bank was excluded from the state register of legal entities and its banking license was cancelled.

Acquisition of LLC ICICI Bank Eurasia and JSC Silhouette

Acquisition of LLC ICICI Bank Eurasia

On 17 March 2015, after the respective approvals from the Federal Antimonopoly Service and the Central Bank of the Russian Federation were received, the Group acquired 100% of voting shares in LLC ICICI Bank Eurasia ("ICICI Bank") from LLC ICICI Bank Limited ("ICICI Bank Limited"). ICICI Bank Limited is a company established under the laws of India, located at Landmark, Race Course Circle, Vadodara – 390 007, India, registered on 5 January 1994 under registration number 04-21012.

In accordance with the Decision of the Sole Participant (Shareholder) of LLC ICICI Bank Eurasia dated 29 April 2015, the Bank changed its name to LLC Sovremenny Kommerchesky Ipotechny Bank ("SCIB").

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of LLC ICICI Bank Eurasia and JSC Silhouette (continued)

Fair value of identifiable net assets and liabilities of Sovremenny Kommerchesky Ipotechny Bank

The Bank determined the fair value of the identifiable net assets and liabilities of SCIB and the values obtained are in line with all the available information as required by IFRS 3 *Business Combinations*. The fair values of the identifiable net assets and liabilities of Sovremenny Kommerchesky Ipotechny Bank as at the date of acquisition were as follows:

	RUB MM
Assets	
Cash and cash equivalents	1,173
Mandatory cash balances with the CBR	18
Trading portfolio	295
Loans to customers, gross	1,872
Allowances for loans	(1,111)
Property and equipment and intangible assets	15
Other assets	27
Total assets	**2,289**
Liabilities	
Due to banks	236
Due to customers	966
Other liabilities	3
Total liabilities	**1,205**
Identifiable net assets	**1,084**

	RUB MM
Transferred consideration	(1,084)
Fair value of the identifiable net assets of SCIB at the date of acquisition	1,084
Total	**–**

The consideration was paid to ICICI Bank Limited in cash at the deal closing.

Acquisition of JSC Silhouette

In May 2015, the Bank acquired a 65% interest in JSC Silhouette ("Silhouette") with the nominal value of RUB 0.0195 MM for a consideration of RUB 795 MM from a group of individuals.

The principal activity of Silhouette is rendering services to participants of state and corporate procurement through innovative electronic tools, i.e.:

- Rendering electronic document management services via the FINTENDER.RU platform to Russian commercial banks engaged in the issuance of bank guarantees used as collateral under state and municipal contracts
- Issuing keys for electronic signatures on the basis of its own OTC-crypto certification centre
- Rendering electronic document management services via the OTC platform for the purpose of procurement procedures under Federal Law No. 223-FZ

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of LLC ICICI Bank Eurasia and JSC Silhouette (continued)

The Bank determined the fair value of the identifiable net assets and liabilities of Silhouette and Management of the Group believes that the values obtained are in line with all the available information as required by IFRS 3 *Business Combinations*. The preliminary fair values of the identifiable net assets and liabilities of Silhouette as at the date of acquisition were as follows:

	RUB MM
Assets	
Property and equipment	–
Computer software	128
Intangible assets	1,385
Total assets	**1,513**
Liabilities	
Deferred tax liability	301
Other liabilities	99
Total liabilities	**400**
Identifiable net assets	**1,113**
Transferred consideration	795
Non-controlling interests	390
Fair value of the acquiree's identifiable net assets	(1,113)
Goodwill arising on acquisitions	**72**

In May 2015, the Bank sold a 35% shares of SCIB to Silhouette management for a cash consideration of RUB 315 MM. The Group recognised the transaction to sell the interest in SCIB and to purchase the interest in Silhouette as related. Therefore, the value of recognised goodwill was increased by RUB 63 MM to RUB 135 MM.

In October 2015, the Bank sold 9.99% shares of SCIB to a third party for a consideration of RUB 113 MM.

Since the date of the acquisition up to 31 December 2015, SCIB's profit was RUB 299 MM. The profit was included in the Group's consolidated statement of comprehensive income for the twelve months ended 31 December 2015:

	RUB MM
Interest income	572
Interest expense	(372)
Net interest income	**200**
Allowance for loan impairment	(6)
Net interest income after allowance for impairment of loans and other impairment allowances	**194**
Fee and commission income	178
Fee and commission expense	(10)
Net fee and commission income	**168**
Net gain on financial instruments at fair value through profit or loss	108
Net foreign exchange gain	139
Other impairment and provisions	(42)
Other operating income	5
Operating income	**572**
Personnel expenses	(88)
Other general and administrative expenses	(126)
Profit before income tax expense	**358**
Income tax expense	(59)
Profit for the period	**299**

Acquisition of LLC AeroPlaza

On 29 May 2015, the Group acquired 100% of the share capital of LLC AeroPlaza with a nominal value of RUB 0.01 MM from a related party for RUB 4.1 BN.

The Group did not consider LLC AeroPlaza as a strategic investment. The main asset of LLC AeroPlaza is an Aerostar hotel and office complex located at: Moscow, Leningradsky prospekt, 37, building 9 (www.aerostar.ru).

40. Business combinations and disposal of subsidiaries (continued)

Acquisition of LLC AeroPlaza (continued)

According to the results of independent valuation of LLC AeroPlaza, the value of this investment was RUB 3.55 BN. The difference between the acquisition cost and value of LLC AeroPlaza of RUB 550 MM was recognised as an impairment loss and recorded as a part of “Other impairment and provisions” as at 30 June 2015.

The condensed balance sheet of LLC AeroPlaza as at 30 June 2015 and the financial result from the acquisition recognised within “Other impairment and provisions” in the consolidated statement of comprehensive income are provided below.

	RUB MM
Assets	
Cash and cash equivalents	898
Financial instruments at fair value through profit or loss	1,366
Property and equipment and intangible assets	3,644
Loans to customers	1,847
Total assets	**7,755**
Liabilities	
Securities issued	2,205
Other liabilities	149
Total liabilities	**2,354**
Identifiable net assets	**5,401**
Transferred consideration	4,100
Loans issued to LLC AeroPlaza	1,851
Identifiable net assets of LLC AeroPlaza	(5,401)
Goodwill impaired at the recognition	**550**

In H1 2015, the Group completed the pre-sale preparation and sale of the office and hotel premises. As a result, the building was sold to a third party and an additional loss of RUB 76 MM. Total loss of RUB 626 MM resulting from the acquisition and the sale of AeroStar office and hotel complex recorded as “Other impairment and provisions” in the consolidated statement of comprehensive income.

LLC Regionalnaya Lizingovaya Kompania and LLC Avtozaim

In Q3 2015, the Group discontinued the consolidation of LLC Regionalnaya Lizingovaya Kompania and LLC Avtozaim as they no longer qualified for IFRS consolidation requirements. The financial result from the deconsolidation of these companies is insignificant.

41. Goodwill

Goodwill recorded in the Group’s balance sheet is tested for impairment at least annually as required by IAS 36 *Impairment of Assets*.

Goodwill acquired through combinations of assets with indefinite lives was allocated to one cash-generating unit (Retail Banking).

The carrying amount of goodwill and its changes were allocated to cash-generating units as follows:

	Retail banking RUB MM
Goodwill as at 31 December 2013	**284**
Impairment	–
Goodwill as at 31 December 2014	**284**
Acquisitions through business combinations	685
Impairment	(605)
Goodwill as at 31 December 2015	**364**

42. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using the ratios established by the CBR.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

Before 2016, the CBR required banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

As at 31 December 2015 and 2014, the Bank's standalone capital adequacy ratio exceeded the statutory minimum established by the CBR.

43. Investments in joint venture

The Group has a 50% equity stake in LLC Sollers-Finance, which provides car leasing services for legal entities in the Russian Federation. Under IAS 31 *Investment in Joint Ventures* (prior to the transition to IFRS 11), the Group's equity stake in LLC Sollers-Finance was classified as an interest in a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were included in the consolidated financial statements on a pro rata basis. Upon adoption of IFRS 11, the Group determined its interest to be a joint venture and it is required to be accounted for using the equity method.

The summarised financial information of LLC Sollers-Finance is provided below.

	At 31 December 2015 RUB MM	*At 31 December 2014 RUB MM*
Cash and cash equivalents	11	8
Loans to customers	1,562	1,939
Property and equipment	38	48
Other assets	132	215
Total assets	**1,743**	**2,210**
Due to banks	728	1,261
Other liabilities	129	131
Total liabilities	**857**	**1,392**
Net assets	**886**	**818**
Group's share in net assets	443	409
Goodwill included in the carrying amount of investments	43	43
Carrying amount of investments in car leasing joint venture	**486**	**452**

	For the year ended 31 December 2015 RUB MM	*For the year ended 31 December 2014 RUB MM*
Interest income	531	534
Interest expense	(132)	(144)
Allowance for loan impairment	(35)	(55)
Non-interest income	113	84
Non-interest expense	(285)	(281)
Profit for the year	**192**	**138**
Comprehensive income	**192**	**138**
Dividends received from car leasing joint venture during the year	65	38

44. Principal consolidated subsidiaries, associates and joint ventures

Included in the table below is the list of the principal consolidated subsidiaries, associates and joint ventures of the Group as at 31 December 2015 and 31 December 2014:

		Voting rights	
	Relationship	***31 December 2015***	***31 December 2014***
LLC Sovremenny Kommerchesky Ipotechny Bank	Subsidiary	55.00%	−
JSC Silhouette	Subsidiary	55.00%	−
LLC AeroPlaza	Subsidiary	100.00%	−
LLC Sollers-Finance	Joint venture	50.00%	50.00%
LLC Regionalnaya Lizingovaya Kompania	Subsidiary	−	100.00%
LLC Avtozaim	Subsidiary	−	100.00%
JSC Kostromskoy Zavod Avtokomponentov	Associate	49.60%	−
LLC Cbonds.ru	Associate	24.90%	−
LLC Shatalet	Associate	49.00%	−

45. Rehabilitation of JSC Express-Volga Bank

On 12 August 2015, the CBR revoked a banking license of OJSCB Probusinessbank, which is a parent of the Life Financial Group located in Russia. In addition to the parent bank, the Life Group also included OJSCB VUZ-Bank, CJSC Nationalny Bank Sberezheny, OJSC Gazenergobank, OJSCB Poidem!, OJSCB Solidarnost and JSC Express-Volga Bank ("EVB").

Pre-investment financial due diligence of EVB, which was carried out in August-September 2015 independently by the DIA, a third-party advisor (Big4) and Sovcombank, enabled the Group to scrutinize EVB's operational and credit risks, examine its business model and prepare a detailed plan for EVB's financial rehabilitation and integration into Sovcombank's operations.

The DIA selected Sovcombank to act as an investor of EVB as a result of an open tender, which took place on 21 September 2015.

Participating in rehabilitation of EVB, Sovcombank may simultaneously achieve the following strategic tasks:

- Increase profit through enhanced operating efficiency resulting from economy of scale and immediate entering into new regions with nearly zero deployment costs
- Ensure healthy growth of the consumer loan portfolio at the comfortable level of credit risk
- Diversify its funding through a portfolio of EVB's low-cost deposits, raising funds from the DIA for 10 years at 0.51% and using that funding to hedge the interest rate risk
- Receive profit-generating cash settlement business servicing approximately 30,000 SME customers and expand its SME experience to Sovcombank and SCIB

On 23 September 2015, the DIA provided Sovcombank with a loan of RUB 49,850 MM bearing an interest rate of 0.51% and maturing on 23 September 2025. The purpose of the loan was to implement bankruptcy prevention measures in respect of EVB in accordance with the financial rehabilitation plan approved by the Board of Directors of the Bank of Russia on 12 August 2015 (the "DIA loan").

The DIA loan was issued to Sovcombank at 0.51% p.a., i.e. significantly below the market rates. According to IAS 39, loans issued at interest rates other than market interest rates are evaluated at the date of issuance at fair value which includes future interest payments and principal debt discounted on the basis of market interest rates. As at the date of issuance of the DIA loan, the market interest rate paid by Sovcombank for similar loans was 14.9%. Therefore, fair value of the DIA loan of RUB 14,225 MM was recorded as "Other borrowed funds".

On 23 September 2015, Sovcombank issued a RUB 49,850 MM loan to the EVB on terms that are reciprocal to those of the DIA loan issued to Sovcombank. The part of the loan of RUB 14,225 MM was recognised as "Placements with banks".

On 4 December 2015, Sovcombank acquired 100% of the additional issue of EVB's shares for RUB 50 MM, i.e. over 99.99% of EVB's shares (following a decrease in EVB's equity to RUB 1 earlier in Q4 2015).

45. Rehabilitation of JSC Express-Volga Bank (continued)

As at 31 December 2015, the Bank owned 100% of shares in EVB. In accordance with paragraph 2.4 of CBR Regulation No. 462-P, the Bank included the rehabilitated credit institution in its banking group for the purpose of the Group's statutory financial statements submitted to the CBR and for the purpose of compliance with the CBR mandatory requirements, resulting in a failure to comply with N21 ratio "Aggregate risk of a banking group per one borrower or group of related borrowers".

However, in accordance with Article 4 of the Federal Law *On Banks and Banking Activity*, the "banking group" means an association of legal entities which is not a legal entity and in which one legal entity or several legal entities (hereinafter referred to as "members of the banking group") are under the control or material influence of the same credit institution. In order to determine the members of the banking group and for the reporting purposes as required by the Federal Law *On Banks and Banking Activity*, control and significant influence are defined in accordance with the International Financial Accounting Standards adopted in the Russian Federation.

In accordance with the decision of the CBR, EVB taken into temporary administration by the DIA, which fully controlled its operations and performed day-to-day management from 12 August 2015 through 12 February 2016 inclusive. During this period, the powers of the EVB's management bodies, i.e. Chairman of the Management Board, Management Board, Board of Directors and shareholders were suspended. All decisions were made by the head of the temporary administrator upon agreement with the DIA. Therefore, as at 31 December 2015, the Bank had no control over EVB as required by IFRS 10 *Consolidated Financial Statements*, as prior to February 2016 JSC Express-Volga Bank was managed by the DIA and EVB, therefore, was not a part of the Group for IFRS reporting purposes.

Sovcombank acquired a controlling stake in EVB on 4 December 2015; however, it became the EVB's ultimate controlling party only after the authority of the DIA's temporary administrator expired and an Extraordinary General Meeting of Shareholder appointed, on 12 February 2016, new management from candidates suggested by PJSC Sovcombank. Therefore, the Group will consolidate EVB in its IFRS financial statements only from 14 February 2016.

Fair value of EVB's identifiable net assets and liabilities as at the business combination date

	RUB MM
Assets	
Cash and cash equivalents	2,739
Mandatory cash balances with the CBR	443
Placements with banks	475
Financial instruments at fair value through profit or loss	78,201
Loans to customers	4,038
Deferred tax asset	431
Property and equipment and intangible assets	280
Other assets	172
Total assets	**86,779**
Liabilities	
Due to the CBR	12,512
Due to banks	63,350
Due to customers	38,793
Debt securities issued	7
Other liabilities	197
Total liabilities	**114,859**
Identifiable net liabilities	**(28,080)**

Gain on a bargain purchase

Transferred consideration	29,727
Identifiable net liabilities	(28,080)
Gain on a bargain purchase	**1,647**

From 23 September 2015 to the date of business combination, 12 February 2016, the market interest rates decreased. Subsequently, the fair value of the loan provided by Sovcombank to EVB changed by RUB 2,184 MM which was subsequently recognised by the Group.

46. Investments in associates

Acquisition of LLC Shatalet

In March 2015, Sovcombank acquired a 49% interest in LLC Shatalet from a related party for RUB 1,050 MM. The principal asset of LLC Shatalet is the Orekh Trade and Entertainment Complex ("Orekh") of 26,000 sq. m located in the center of Orekhovo-Zuevo, Moscow Region. According to a report prepared by a major international appraiser of commercial real estate, which was engaged to perform a valuation of Orekh in February 2015, the value of Orekh was RUB 3,886 MM.

Due to an overall decline in retail sales in the Russian Federation and a continuous decline in rental fees for trading areas in 2015, the Bank's management decided to impair its investment to LLC Shatalet by RUB 331 MM. As at 31 December 2015, the Group recorded that impairment as "Other impairment and provisions" in the consolidated statement of comprehensive income (Note 16).

The investment in LLC Shatalet of RUB 719 MM was recognised as "Investments in associates" of the consolidated statement of financial position as at 31 December 2015.

Acquisition of an equity stake in the Cbonds Group

In June 2015, Sovcombank acquired a 24.90% interest in the Cbonds Group ("Cbonds") for RUB 50 MM. Cbonds is an information agency focusing on the financial market data. Cbonds operates in Russia, Ukraine, and Kazakhstan and its business lines include: information web-site support and development, hosting financial market conferences and exhibitions, publishing (Cbonds Review magazine and annual guidelines). Currently, the company is operated via three legal entities located in Russia (LLC Cbonds.ru), Ukraine (LLC Cbonds-Ukraine) and Kazakhstan (LLP Cbonds-Kazakhstan) and a holding company located in Cyprus (Cbonds Ltd). The head office of Cbonds is located in Saint-Petersburg.

The investment in Cbonds of RUB 50 MM was recognised as "Investments in associates" of the consolidated statement of financial position.

Acquisition of an equity stake in JSC Kostromskoy Zavod Avtokomponentov

In December 2015, LLC AeroPlaza, Bank's subsidiary, entered into an agreement to acquire a 49.60% interest in JSC Kostromskoy Zavod Avtokomponentov ("KZA") for RUB 365 MM. Total investments to KZA of RUB 365 MM were recorded as "Investments in associates".

KZA is one the Russia's largest machine-building companies producing components for automotive industry. For more details please refer to http://www.motordetal.ru.

47. Subsequent events

Dividends

In 2016, the Group declared and paid dividends of RUB 4,355 MM.

Consolidation of EVB and prepayment of a part of the loan issued by the DIA for EVB financial rehabilitation

Sovcombank became an ultimate controlling party of EVB on 13 February 2016 (Note 45). According to IFRS 3, existence of control is a prerequisite condition to the consolidation; therefore, the consolidation commencement date is 14 February 2016, although Sovcombank has held a 99.999% stake in EVB since 4 December 2015.

In April 2016, as a result of bankruptcy procedures carried out by the DIA in respect of OJSCB Prombisunessbank, the latter repaid a part of its debt to EVB. Therefore, EVB made an early repayment of RUB 5,595 MM to Sovcombank and Sovcombank, in its turn, repaid a portion of the loan received from the DIA for the purpose of EVB financial rehabilitation.

Placement of exchange-traded bonds

In August 2016, Sovcombank placed Series BO-03 exchange-traded interest-bearing documentary bearer bonds of RUB 7 BN denominated in Russian rubles. The interest rate of the bonds is 11.9%.

Acquisition of JSC Metcombank

On 25 August 2016, Severgroup, a shareholding management investment group, and PJSC Sovcombank signed an agreement to sell JSC Metcombank (hereinafter, "Metcombank").

Metcombank was established in 1990 and is the major commercial bank in the Vologda Region.