

**BANCA INTESA
(JOINT-STOCK COMPANY)**

Consolidated financial statements

Year ended 31 December 2015

Together with Auditors' report

Contents

Auditors' Report

Consolidated statement of financial position.....	6
Consolidated statement of profit or loss and other comprehensive income.....	7
Consolidated statement of changes in equity.....	8
Consolidated statement of cash flows.....	9

Notes to the consolidated financial statements

1. Principal activities	10
2. Basis of preparation.....	11
3. Summary of accounting policies	11
4. Cash and cash equivalents	20
5. Amounts due from credit institutions.....	20
6. Available-for-sale securities.....	21
7. Derivative financial instruments	21
8. Loans to customers	22
9. Net investments in finance leases	22
10. Property and equipment	23
11. Intangible assets.....	24
12. Taxation.....	24
13. Other impairment and provisions.....	25
14. Other assets and liabilities.....	26
15. Amounts due to credit institutions.....	26
16. Amounts due to customers.....	27
17. Debt securities issued	27
18. Other borrowed funds.....	27
19. Subordinated debt	27
20. Equity	27
21. Commitments and contingencies.....	28
22. Net fee and commission income.....	29
23. Net losses from other operating activities.....	30
24. Personnel and other general administrative expenses.....	30
25. Corporate governance and risk management	30
26. Fair values of financial instruments	49
27. Related party transactions.....	50
28. Capital adequacy.....	52



JSC KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

BANCA INTESA (JOINT-STOCK COMPANY)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: BANCA INTESA (JOINT-STOCK COMPANY).

Registered by the Central Bank of Russian Federation on 31 December 1992, Registration No. 2216.

Entered in the Unified State Register of Legal Entities on 11 September 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739177377, Certificate series 77 No. 010860133.

Address of the audited entity: 2, Petroverigsky pereulok, Moscow, Russian Federation, 101000.

Auditor: JSC KPMG, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

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

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

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2016 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organisation of its risk management systems with requirements established by the Bank of Russia.

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

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2016 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of the Group's internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:
 - as at 31 December 2015, the Bank's Internal Audit function was subordinated to, and reported to, the Board of Directors, and the Risk Management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
 - the Bank's internal documentation, effective on 31 December 2015, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2015, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital. During the reporting period the Bank identified certain issues in a system of internal reporting disclosed in section Operational risk of Note 25 Corporate governance and risk management;

- the frequency and consistency of reports prepared by the Bank's Risk Management and Internal Audit functions during 2015, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management and Internal Audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2015, the Board of Directors and the Management Board of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2015 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the Risk Management and Internal Audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Group's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.


Shevarenkov E.V.
Director
power of attorney dated 16 March 2015 No. 155/15

JSC KPMG

16 February 2016

Moscow, Russian Federation

Consolidated statement of financial position**As at 31 December 2015***(Thousands of Russian Roubles)*

	Notes	2015	2014
Assets			
Cash and cash equivalents	4	9 153 854	6 432 026
Mandatory cash balances with the Central Bank of the Russian Federation		193 955	285 274
Amounts due from credit institutions	5	8 593 550	2 252 072
Available-for-sale securities:			
- held by the Bank	6	2 585 764	1 998 473
Derivative financial assets	7	2 282	30 436
Loans to customers	8	43 843 983	56 889 512
Net investments in finance leases	9	1 088 852	1 308 414
Property and equipment	10	413 268	464 445
Intangible assets	11	544 537	706 324
Current income tax assets		14 568	18 722
Deferred income tax assets	12	681 849	106 696
Tax assets other than income tax		11 406	19 761
Other assets	14	1 988 528	1 443 248
Total assets		69 116 396	71 955 403
Liabilities			
Amounts due to credit institutions	15	19 332 355	20 984 240
Derivative financial liabilities	7	44 167	79 161
Amounts due to customers	16	29 315 302	18 717 308
Debt securities issued	17	5 028 641	5 972 196
Other borrowed funds	18	-	11 174 828
Current income tax liabilities		-	2 014
Tax liabilities other than income tax		22 193	22 418
Other liabilities	14	770 351	419 448
Subordinated debt	19	2 915 308	703 230
Total liabilities		57 428 317	58 074 843
Equity	20		
Share capital		10 820 181	10 820 181
Other capital reserve		1 803 914	1 803 914
Revaluation reserve for available-for-sale securities		9 978	(51 698)
(Accumulated losses) retained earnings		(945 994)	1 308 163
Total equity		11 688 079	13 880 560
Total equity and liabilities		69 116 396	71 955 403

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

Olga Lein

Deputy Chairman of the Management Board

Tatyana Pavlycheva

Member of the Management Board/Head of Accounting, Planning and Control Group/Chief accountant

16 February 2016

*The accompanying Notes are an integral part of these consolidated financial statements.*

Consolidated statement of profit or loss and other comprehensive income**For the year ended 31 December 2015***(Thousands of Russian Roubles)*

	Notes	2015	2014
Interest income			
Loans to customers		8 166 613	6 817 391
Amounts due from credit institutions		340 954	93 895
Net investments in finance leases		229 700	237 847
Available-for-sale securities		194 471	171 556
		8 931 738	7 320 689
Interest expense			
Amounts due to credit institutions		(1 974 812)	(1 669 064)
Amounts due to customers		(843 948)	(253 113)
Debt securities issued		(735 870)	(612 939)
Other borrowed funds		(304 339)	(449 603)
Subordinated debt		(39 893)	(20 301)
		(3 898 862)	(3 005 020)
Net interest income		5 032 876	4 315 669
Impairment of loans, net investments in finance leases and amounts due from credit institutions	5, 8, 9	(4 841 909)	(1 318 253)
Net interest income after impairment of loans, net investments in finance leases and amounts due from credit institutions		190 967	2 997 416
Fee and commission income		950 798	866 349
Fee and commission expense		(160 128)	(124 037)
Net fee and commission income	22	790 670	742 312
Net losses from available-for-sale securities		(369)	(746)
Net gains from foreign currencies:			
- dealing		(896 834)	(59 806)
- translation differences		1 447 166	465 023
Net losses from other operating activities	23	(91 635)	(77 118)
Operating income		1 439 965	4 067 081
Personnel expenses	24	(1 834 187)	(1 794 779)
Other general administrative expenses	24	(1 564 326)	(1 554 642)
Depreciation and amortisation	10, 11	(473 429)	(540 000)
Other impairment and provisions	13	(387 354)	(159 312)
(Loss) profit before income tax		(2 819 331)	18 348
Income tax benefit (expense)	12	565 174	(3 684)
(Loss) profit for the year		(2 254 157)	14 664
Other comprehensive income (loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
- Net change in fair value of available-for-sale securities		61 366	(60 786)
- Net change in fair value of available-for-sale securities transferred to profit or loss		310	622
Total other comprehensive income (loss) for the year, net of income tax		61 676	(60 164)
Total comprehensive loss for the year		(2 192 481)	(45 500)

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

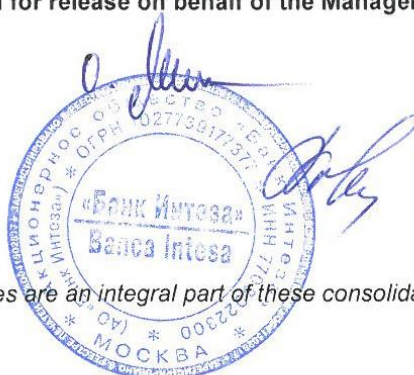
Olga Lein

Deputy Chairman of the Management Board

Tatyana Pavlycheva

Member of the Management Board/Head of Accounting, Planning and Control Group/Chief accountant

16 February 2016

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2015***(Thousands of Russian Roubles)*

	Share capital	Other capital reserve	Revaluation reserve for available-for-sale securities	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2014	10 820 181	1 803 914	8 466	1 522 238	14 154 799
Total comprehensive loss					
Profit for the year	—	—	—	14 664	14 664
Other comprehensive loss					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale securities, net of deferred tax of RUB 15 197 thousand	—	—	(60 786)	—	(60 786)
Net change in fair value of available-for-sale securities transferred to profit or loss, net of deferred tax of RUB 156 thousand	—	—	622	—	622
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	—	—	(60 164)	—	(60 164)
Total other comprehensive loss	—	—	(60 164)	—	(60 164)
Total comprehensive loss for the year	—	—	(60 164)	14 664	(45 500)
Transactions with owners, recorded directly in equity					
Dividends declared and paid	—	—	—	(228 739)	(228 739)
Total transactions with owners	—	—	—	(228 739)	(228 739)
Balance as at 31 December 2014	10 820 181	1 803 914	(51 698)	1 308 163	13 880 560
Total comprehensive loss					
Loss for the year	—	—	—	(2 254 157)	(2 254 157)
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale securities, net of deferred tax of RUB 15 342 thousand	—	—	61 366	—	61 366
Net change in fair value of available-for-sale securities transferred to profit or loss, net of deferred tax of RUB 77 thousand	—	—	310	—	310
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	—	—	61 676	—	61 676
Total other comprehensive income	—	—	61 676	—	61 676
Total comprehensive loss for the year	—	—	61 676	(2 254 157)	(2 192 481)
Balance as at 31 December 2015	10 820 181	1 803 914	9 978	(945 994)	11 688 079

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

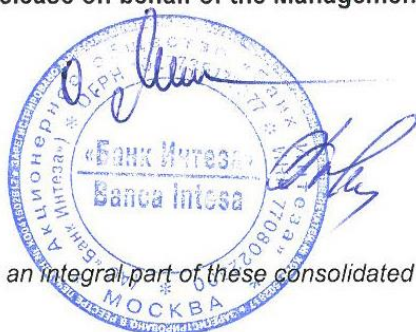
Olga Lein

Tatyana Pavlycheva

16 February 2016

Deputy Chairman of the Management Board

Member of the Management Board/Head of Accounting, Planning and Control Group/Chief accountant

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2015***(Thousands of Russian Roubles)*

	<i>Note</i>	2015	2014
Cash flows from operating activities			
Interest received		8 520 280	6 935 251
Interest paid		(3 984 661)	(3 007 614)
Fees and commissions received		981 371	859 993
Fees and commissions paid		(159 176)	(121 764)
Net payments from dealing in foreign currencies		(903 675)	(31 681)
Net payments for other operating activities		(78 771)	(53 377)
Personnel expenses paid		(1 856 852)	(1 781 663)
Other general administrative expenses paid		(1 468 742)	(1 575 250)
Cash flows from operating activities before changes in operating assets and liabilities		1 049 774	1 223 895
<i>Net (increase) decrease in operating assets</i>			
Mandatory cash balances with the Central Bank of the Russian Federation		91 319	16 241
Amounts due from credit institutions		(4 831 626)	4 634 116
Loans to customers		10 726 574	(1 801 388)
Net investments in finance leases		194 084	(32 424)
Other assets		(445 817)	(466 610)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(2 626 044)	3 194 275
Amounts due to the Central Bank of the Russian Federation		-	(728 298)
Amounts due to customers		8 521 104	(2 911 915)
Other liabilities		185 063	18 690
Net cash flows from operating activities before income tax		12 864 431	3 146 582
Income tax (paid) refund		(20 092)	47 635
Net cash flows provided from operating activities		12 844 339	3 194 217
Cash flows from investing activities			
Purchase of property and equipment		(36 687)	(100 796)
Proceeds from sale of property and equipment		8 714	6 993
Purchase of intangible assets		(225 123)	(303 238)
Purchase of available-for-sale securities		(2 247 005)	(738 642)
Proceeds from sale and redemption of available-for-sale securities		1 716 380	1 400 286
Net cash flows (used in) provided from investing activities		(783 721)	264 603
Cash flows from financing activities			
Dividends paid		-	(228 739)
Debt securities issued		7 139 375	-
Repayment of debt securities issued		(8 000 000)	(2 139 375)
Repayment of other borrowed funds		(12 395 195)	-
Proceeds from subordinated debt		2 768 604	-
Repayment of subordinated debt		(911 034)	(245 293)
Net cash flows used in financing activities		(11 398 250)	(2 613 407)
Effect of exchange rates changes on cash and cash equivalents		2 059 460	1 372 420
Net increase in cash and cash equivalents		2 721 828	2 217 833
Cash and cash equivalents as at the beginning of the year		6 432 026	4 214 193
Cash and cash equivalents as at the end of the year	4	9 153 854	6 432 026

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

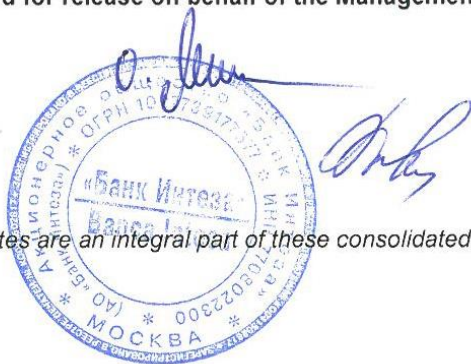
Olga Lein

Deputy Chairman of the Management Board

Tatyana Pavlycheva

Member of the Management Board/Head of Accounting, Planning and Control Group/Chief accountant

16 February 2016

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of BANCA INTESA (JOINT-STOCK COMPANY) and its subsidiary, ZAO "Intesa Leasing", together referred to as the "Bank".

BANCA INTESA (JOINT-STOCK COMPANY) is a commercial bank organised in the form of a joint-stock company under the laws of the Russian Federation.

The Bank, formerly known as KMB BANK (CLOSED JOINT-STOCK COMPANY) (the "incorporating Bank"), changed its name following the merger with ZAO Banca Intesa (the "incorporated Bank"), 100% Russian banking subsidiary of Intesa Sanpaolo S.p.A. (Italy), on 11 January 2010.

The shareholders of the Bank as at 31 December are:

Shareholder	2015 %	2014 %
Intesa Sanpaolo S.p.A. (Italy)	46.9772	46.9772
Intesa Sanpaolo Holding International SA (Luxembourg)	53.0228	53.0228
Total	100.0000	100.0000

The ultimate controlling party of the Bank is Intesa Sanpaolo S.p.A. (Italy) ("ISP").

The Bank's principal business activities are retail banking products and services, including a premium banking segment, and corporate banking products to small, medium and large businesses. The Bank is engaged in a program of the MSP Bank (Russian Bank for Small and Medium Enterprises Support) to support the businesses of small to medium sized companies by providing them with lending facilities.

The activities of the Bank are regulated by the Central Bank of the Russian Federation ("the CBR"). The Bank operates under General Banking License № 2216.

In 2004, the Bank became a member of the state deposit insurance system in the Russian Federation.

The Bank has a wholly owned and controlled subsidiary, ZAO "Intesa Leasing", former ZAO "KMB-Leasing". It is primarily engaged in the provision of finance leases to the Bank's clients and other companies.

The Bank's head office is located in Moscow and it has 6 branches within the Russian Federation in the cities of Saint Petersburg, Nizhny Novgorod, Ekaterinburg, Novosibirsk, Vladivostok and Rostov-on-Don (2014: 6 branches). As at 31 December 2015, the Bank has 50 offices selling banking products in different cities within the Russian Federation (2014: 61 office). 12 offices were closed during year ended 31 December 2015 (2014: 8 offices) in course of network optimisation.

The Bank's registered office is located at the following address: 2, Petroverigsky pereulok, Moscow, Russian Federation, 101000.

As at 31 December 2015, the Bank employed 1 622 people (2014: 1 808).

Russian Business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

During the year 2015, there have been signs of deterioration of economic conditions in Russia, including a significant devaluation of the Russian Rouble against US Dollar and Euro, acceleration of annual inflation and slowdown of Russian economy.

Current economic and political situation, including situation in Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation, creates risks for operations conducted by the Bank. Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

(Thousands of Russian Roubles)

2. Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for trading securities, available-for-sale securities and derivative financial instruments that are stated at fair value.

Functional and presentation currency

The functional currency of the Bank and its subsidiary is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

All financial information presented in RUB is rounded to the nearest thousand, except where indicated.

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates – Note 8;
- net investments in finance leases impairment estimates – Note 9;
- estimates of fair values of financial instruments – Note 26;
- tax contingency estimates – Note 21;
- repossessed collateral – Note 26;
- operational risk – Note 25.

3. Summary of accounting policies

The following accounting policies are consistently applied in the preparation of the consolidated financial statements.

Basis of consolidation

Business combinations

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

The Bank measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(Thousands of Russian Roubles)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Bank elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions and disposals of non-controlling interests

The Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding mandatory cash balances with the CBR, and accounts which can be converted into cash within one day and are free from contractual encumbrances. All short-term interbank placements are included in amounts due from other banks.

Mandatory cash balances with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory cash balances) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such a deposit is significantly restricted by the statutory legislation. Mandatory cash balances with the CBR are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial instruments

Classification

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

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

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

(Thousands of Russian Roubles)

- 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.

Management determines the appropriate classification of financial instruments in this category 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 assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them 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 rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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 Bank:

- 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 Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative 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.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Bank 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 its 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 assets, are measured at their fair values, 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 that are measured at amortised cost using the effective interest method;
- 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.

'Day 1' profit

Where the transaction price in a non-active market is different from 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 Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of profit or loss and other comprehensive income. 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 and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

(Thousands of Russian Roubles)

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

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 financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange 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 in relation to an available-for-sale financial asset is recognised 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, and through the amortisation process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(Thousands of Russian Roubles)

Repurchase and reverse 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 amounts due to credit institutions or amounts due to 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 due from 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 reverse 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.

Derivative financial instruments

Derivative financial instruments include swaps, forwards, spot transactions in interest rates, foreign exchanges and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

Borrowings

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

Leases

Finance - Bank as a lessor

The Bank recognises lease receivables at a 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.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating – Bank as a 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.

Property and equipment

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

(Thousands of Russian Roubles)

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

Depreciation 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. Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets using the following rates:

	<u>per annum, %</u>
Premises	3
Office and computer equipment	20
Intangible assets	20-33

The residual values of the assets, useful lives and methods are reviewed, and adjusted as appropriate, at each reporting period.

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

Equipment purchased for leasing purposes

The Bank accounts for capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and transferred to the lessee.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with a finite useful life are amortised over the useful economic life, not exceeding a period of 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation is charged to profit or loss on a straight-line basis.

Intangible assets with an indefinite useful life are not amortised. The useful life of such assets is reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for such assets.

The Bank tests intangible assets with an indefinite useful life for impairment by comparing their recoverable amounts with the corresponding carrying amounts annually, and whenever there is an indication that an intangible asset may be impaired.

Reposessed collateral

Reposessed collateral represents non-financial assets obtained by the Bank in the settlement of overdue loans. These assets are initially recognised at fair value when obtained and can be included in property and equipment, other financial assets, inventories or investment property within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these assets categories.

Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets 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 financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, 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.

(Thousands of Russian Roubles)

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank 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 Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk 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.

If there is 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 Bank uses its experience and judgment to estimate the amount of any impairment loss.

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 Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectable and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

Provisions

A provision is recognised in the consolidated statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, 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 the obligation can be made. If the

(Thousands of Russian Roubles)

effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingencies and credit related commitments

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

In the normal course of business, the Bank enters into credit related commitments including undrawn loan commitments, guarantees and letters of credit. Guarantees are initially recognised in the consolidated statement of financial position at fair value net of associated transaction costs within other liabilities, and subsequently are measured at the higher of the amortised premium or the amount of provision for losses under the guarantee.

Provisions are recognised against credit related commitments when losses are considered probable and can be measured reliably.

Any increase in the liability relating to credit related commitments is recognised in profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements other than with the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Bank has no significant post-retirement benefits to its employees.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are recognised as a deduction from equity, net of any tax effects.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Other capital reserve

Funds provided by the Bank's shareholders in the form of debt free financing are classified as other capital reserves.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Current tax expense is the expected tax payable on the taxable profit 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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 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 measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(Thousands of Russian Roubles)

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by 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 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.

Recognition of income and expenses

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

Interest and similar income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issuance and amounts paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issuance. Once the balance value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are amortised over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

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

Segment reporting

An operating segment is a component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Substantially all of the Bank's activities relate to provision of financial services mostly to corporate customers (small, medium and large business). Therefore, management concluded that the Bank has a single reportable segment.

New standards not yet adopted

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

- IFRS 9 Financial Instruments is issued in phases and intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016.

The Bank has not yet analysed the likely impact of these pronouncements on its' consolidated financial statements.

(Thousands of Russian Roubles)

4. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	2015	2014
Cash on hand	933 432	1 063 006
Correspondent accounts with the CBR	632 469	2 181 862
<i>Correspondent accounts and overnight placements with other credit institutions</i>		
- OECD banks	7 534 990	3 008 936
- Largest 30 Russian banks	12 860	123 960
- Other Russian banks	40 103	54 262
Cash and cash equivalents	9 153 854	6 432 026

As at 31 December 2015, the Bank has three banks (2014: two banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2015 is RUB 6 179 795 thousand (2014: RUB 4 161 178 thousand).

Amounts of cash and cash equivalents include balances with related parties, which are disclosed in Note 27. The gross value of these balances as at 31 December 2015 is RUB 4 073 058 thousand (2014: RUB 2 129 366 thousand). They bear annual interest rate 0.00% for EUR, 0.12% for USD and 0.01% for other currencies (2014: 0.07% for USD).

No cash and cash equivalents are impaired or past due.

5. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December comprise:

	2015	2014
Time deposits with credit institutions		
- OECD banks	1 093 241	1 125 168
- Largest 30 Russian banks	4 913 293	684 595
- Other Russian banks	1 000 308	100 000
- Other banks	1 601 739	342 309
Gross amounts due from credit institutions	8 608 581	2 252 072
Less: Impairment allowance	(15 031)	-
Net amounts due from credit institutions	8 593 550	2 252 072

Movements in the impairment allowance for the year ended 31 December are as follows:

	2015	2014
Impairment allowance as at 1 January	-	-
Net charge	15 031	-
Impairment allowance as at 31 December	15 031	-

As at 31 December 2015, the Bank has 2 banks (2014: no banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2015 is RUB 2 701 482 thousand.

Amounts due from credit institutions include loans placed with related parties. The gross value of these balances as at 31 December 2015 is RUB 1 093 241 thousand (2014: RUB 1 125 168 thousand). They bear annual interest rate 0.60% for USD (2014: 0.20% for USD).

(Thousands of Russian Roubles)

6. Available-for-sale securities

Available-for-sale securities comprise:

	2015	2014
Russian State bonds ("OFZ")	2 581 354	1 994 063
Corporate shares	4 410	4 410
Available-for-sale securities	2 585 764	1 998 473

As at 31 December 2015 and 2014, Russian State bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. Russian State bonds have maturity dates from 11 May 2016 to 27 December 2017 (2014: from 3 June 2015 to 3 August 2016), annual coupon rates from 6.0% to 12.0% (2014: from 6.0% to 7.0%) and annual yields to maturity from 9.5% to 10.9% (2014: from 9.8% to 14.6%), depending on the bond issue.

As at 31 December 2015 and 2014, there are no corporate Rouble bonds in AFS portfolio, and no available-for-sale securities are impaired or past due.

As at 31 December 2015 and 2014, the Bank has no transactions to sell securities under agreements to purchase.

As at 31 December 2015, available-for-sale securities totalling RUB 2 069 391 thousand are eligible for pledge within the limits of refinancing from the CBR (2014: RUB 1 222 828 thousand).

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts:

	2015			2014		
	Notional amount	Fair values		Notional amount	Fair values	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Spot deals – foreign counterparties	3 279 053	-	(20 947)	2 002 435	2 435	-
Spot deals – domestic counterparties	3 665 244	2 282	(22 621)	2 440 498	28 001	(35 997)
Forwards – domestic counterparties	15 398	-	(599)	122 412	-	(43 164)
Total derivative financial assets (liabilities)		2 282	(44 167)		30 436	(79 161)

As at 31 December 2015 and 2014, foreign exchange contracts have remaining contractual maturity less than 3 months.

Amounts of derivative financial instruments include balances with related parties, which are disclosed in Note 27.

(Thousands of Russian Roubles)

8. Loans to customers

Loans to customers as at 31 December comprise:

	2015	2014
Loans to corporate customers		
Large corporate loans	24 920 970	23 325 104
Small loans	10 768 892	15 626 395
Medium loans	8 825 636	11 259 408
Micro loans	3 925 974	7 223 848
Overdrafts	579 062	734 675
Total loans to corporate customers	49 020 534	58 169 430
Loans to retail customers		
Consumer loans	1 165 827	1 673 788
Mortgage loans	955 269	1 170 401
Credit cards	139 965	146 952
Total loans to retail customers	2 261 061	2 991 141
Gross loans to customers	51 281 595	61 160 571
Less: Loan impairment allowance	(7 437 612)	(4 271 059)
Net loans to customers	43 843 983	56 889 512

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2015	2014
Loan impairment allowance as at 1 January	4 271 059	4 324 617
Net charge	4 793 671	1 317 405
Effect of unwinding of discount	(241 508)	(241 771)
Amounts written off	(1 385 610)	(1 129 192)
Loan impairment allowance as at 31 December	7 437 612	4 271 059

As at 31 December 2015, the total gross amount of overdue outstanding payments on loans net-off accrued interest is RUB 7 067 232 thousand (2014: RUB 4 929 409 thousand).

Amounts of loans to customers include balances with related parties, which are disclosed in Note 27.

Concentration of loans to customers

Economic sector risk concentrations within loans to customers are as follows:

	2015		2014	
	Amount	%	Amount	%
Trading	23 897 337	47%	30 708 228	50%
Manufacturing	16 822 504	33%	17 121 894	28%
Services	7 251 385	14%	8 926 153	15%
Individuals	2 261 061	4%	2 991 141	5%
Other	1 049 308	2%	1 413 155	2%
Total loans to customers, gross	51 281 595	100%	61 160 571	100%

As at 31 December 2015, the Bank has twenty largest borrowers with an aggregate loan amount for each of them above RUB 300 426 thousand (2014: twenty largest borrowers above RUB 250 850 thousand). The total aggregate amount of these loans is RUB 14 068 577 thousand or 27.4% of the gross loan portfolio (2014: RUB 12 123 994 thousand or 19.8%), with the impairment allowance of RUB 2 269 052 thousand (2014: RUB 493 910 thousand).

9. Net investments in finance leases

Net investments in finance leases at 31 December 2015 comprise:

	Within 1 year	From 1 to 5 years	Total
Gross investments in finance leases	1 043 839	539 814	1 583 653
Unearned future finance income on finance leases	(82 828)	(158 974)	(241 802)
	961 011	380 840	1 341 851
Less: Impairment allowance	(165 593)	(87 406)	(252 999)
Net investments in finance leases	795 418	293 434	1 088 852

(Thousands of Russian Roubles)

Net investments in finance leases at 31 December 2014 comprise:

	<i>Within 1 year</i>	<i>From 1 to 5 years</i>	<i>Total</i>
Gross investments in finance leases	1 058 294	784 084	1 842 378
Unearned future finance income on finance leases	(82 427)	(207 044)	(289 471)
	975 867	577 040	1 552 907
Less: Impairment allowance	(136 886)	(107 607)	(244 493)
Net investments in finance leases	838 981	469 433	1 308 414

Movements in the allowance for impairment of investments in finance leases for the year ended 31 December are as follows:

	<i>2015</i>	<i>2014</i>
Impairment allowance as at 1 January	244 493	256 621
Net charge	33 207	848
Effect of unwinding of discount	(2 612)	(3 055)
Amounts written off	(22 089)	(9 921)
Impairment allowance as at 31 December	252 999	244 493

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2015, the Bank has twenty largest lessees with an aggregate amount for each of them above RUB 13 720 thousand (2014: twenty largest lessees above RUB 12 995 thousand). The total aggregate amount of gross investments in finance leases related to these leases is RUB 505 785 thousand or 37.7% of the total gross investments in finance leases portfolio (2014: RUB 548 762 thousand or 35.3%), with the impairment allowance of RUB 48 838 thousand (2014: RUB 45 344 thousand).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2015 and 2014.

10. Property and equipment

The movements in property and equipment for the year ended 31 December are as follows:

	<i>Premises</i>	<i>Office and computer equipment</i>	<i>Total</i>
Cost as at 1 January 2014	450 059	1 077 693	1 527 752
Accumulated depreciation as at 1 January 2014	(127 530)	(946 253)	(1 073 783)
Carrying amount as at 1 January 2014	322 529	131 440	453 969
Additions	5 850	94 946	100 796
Disposals (net of accumulated depreciation)	(4 137)	(2 329)	(6 466)
Depreciation charge for the year	(14 920)	(68 934)	(83 854)
Cost as at 31 December 2014	451 423	991 345	1 442 768
Accumulated depreciation as at 31 December 2014	(142 101)	(836 222)	(978 323)
Carrying amount as at 31 December 2014	309 322	155 123	464 445
Additions	149	36 538	36 687
Disposals (net of accumulated depreciation)	-	(1 345)	(1 345)
Depreciation charge for the year	(14 988)	(71 531)	(86 519)
Cost as at 31 December 2015	451 572	957 468	1 409 040
Accumulated depreciation as at 31 December 2015	(157 089)	(838 683)	(995 772)
Carrying amount at 31 December 2015	294 483	118 785	413 268

Capital expenditure commitments related to property and equipment are disclosed in Note 21.

(Thousands of Russian Roubles)

11. Intangible assets

The movements in intangible assets for the year ended 31 December are as follows:

	Computer software and licenses
Cost as at 1 January 2014	2 317 045
Accumulated amortisation as at 1 January 2014	(1 457 813)
Carrying amount as at 1 January 2014	859 232
Additions	303 238
Amortisation for the year	(456 146)
Cost as at 31 December 2014	2 620 283
Accumulated amortisation as at 31 December 2014	(1 913 959)
Carrying amount as at 31 December 2014	706 324
Additions	225 123
Amortisation for the year	(386 910)
Cost as at 31 December 2015	2 845 406
Accumulated amortisation as at 31 December 2015	(2 300 869)
Carrying amount as at 31 December 2015	544 537

As at 31 December 2015 and 2014, computer software "T 24" totalling RUB 833 434 thousand is included in intangible assets. Despite the fact that amortisation of this software ceased, in year 2015 the Bank continues to use this software.

Capital expenditure commitments related to intangible assets are disclosed in Note 21.

12. Taxation

The corporate income tax expense for the year ended 31 December comprises:

	2015	2014
Current tax	25 398	29 830
Deferred tax – origination and reversal of temporary differences	(590 572)	(26 146)
Total income tax (benefit) expense	(565 174)	3 684

The Bank is liable for current income tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 20% (2014: 20%). Pursuant to Russian income tax law interest income on certain types of securities is subject to income tax at a rate of 15%, 9% or nil. As at 31 December 2015, the rate of tax applicable for deferred taxes is 20% (2014: 20%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual for the year ended 31 December is as follows:

	2015	2014
(Loss) profit before income tax	(2 819 331)	18 348
Income tax (benefit) expense at the applicable tax rate	(563 866)	3 670
Income on government securities taxed at different rates	(8 466)	(9 944)
Non-deductible expenses	7 158	9 958
Total income tax (benefit) expense	(565 174)	3 684
Effective tax rate	20.0%	20.1%

Temporary differences between the carrying amounts of assets for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2015 and 2014.

The deductible temporary differences do not expire under the current tax legislation, excluding tax loss carried forward.

As at 31 December 2015, the Bank has the tax loss carry-forwards of RUB 386 794 thousand (2014: RUB 130 387 thousand) which can be utilised against future taxable income till the period from 2023 to 2025. Based on the analysis of the business plan and the future cash flows the Bank assumes that the deferred tax asset will be fully utilised.

The Bank and ZAO "Intesa Leasing" calculate net deferred tax assets and liabilities separately and cannot offset them.

(Thousands of Russian Roubles)

As at 31 December 2015, ZAO "Intesa Leasing" has tax loss carry-forwards RUB 25 070 thousand (2014: RUB 13 100 thousand).

Movement in temporary differences during the year ended 31 December 2015 are as follows:

	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Tax effect of temporary differences				
Available-for-sale securities	12 925	-	(15 419)	(2 494)
Derivative financial instruments	9 745	(1 368)	-	8 377
Loans to customers	(324 375)	274 767	-	(49 608)
Net investments in finance leases	146 362	(19 975)	-	126 387
Property, equipment and intangible assets	(9 277)	10 652	-	1 375
Other assets	79 477	55 798	-	135 275
Other liabilities	48 352	2 321	-	50 673
Tax loss carry-forwards	143 487	268 377	-	411 864
Net deferred tax assets	106 696	590 572	(15 419)	681 849

Movement in temporary differences during the year ended 31 December 2014 are as follows:

	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Tax effect of temporary differences				
Available-for-sale securities	(2 116)	-	15 041	12 925
Derivative financial instruments	(4 120)	13 865	-	9 745
Loans to customers	(362 333)	37 958	-	(324 375)
Net investments in finance leases	238 063	(91 701)	-	146 362
Property, equipment and intangible assets	(17 115)	7 838	-	(9 277)
Other assets	70 474	9 003	-	79 477
Other liabilities	54 732	(6 380)	-	48 352
Tax loss carry-forwards	87 924	55 563	-	143 487
Net deferred tax assets	65 509	26 146	15 041	106 696

13. Other impairment and provisions

Movements in the other impairment allowances and provisions for the year ended 31 December are as follows:

	Other assets	Credit related commitments	Provisions for other claims	Total
1 January 2014	64 400	34 333	26 600	125 333
Net charge (recovery)	166 257	12 123	(19 068)	159 312
Amounts written off	(62 453)	-	-	(62 453)
31 December 2014	168 204	46 456	7 532	222 192
Net charge	243 620	116 586	27 148	387 354
Amounts written off	(152 361)	-	-	(152 361)
31 December 2015	259 463	163 042	34 680	457 185

Impairment allowances for assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in other liabilities.

(Thousands of Russian Roubles)

14. Other assets and liabilities

Other assets as at 31 December comprise:

	2015	2014
Settlements on currency conversion operations	1 195 458	731 359
Prepayments	380 547	310 863
Repossession collateral	304 123	244 549
Settlements with suppliers and customers	261 800	202 302
Leasehold improvements	80 504	86 598
Other	25 559	35 781
	2 247 991	1 611 452
Less: Impairment allowance	(259 463)	(168 204)
Other assets	1 988 528	1 443 248

Other liabilities as at 31 December comprise:

	2015	2014
Settlements with suppliers and customers	205 994	124 736
Trade creditors	165 827	77 824
Provision for losses on credit related commitments	163 042	46 456
Settlements with employees	100 948	123 205
Provision for other claims	34 680	7 532
Other	99 860	39 695
Other liabilities	770 351	419 448

15. Amounts due to credit institutions

Amounts due to credit institutions as at 31 December comprise:

	2015	2014
Time deposits and loans	19 236 731	20 744 364
Correspondent accounts	95 624	239 876
Amounts due to credit institutions	19 332 355	20 984 240

As at 31 December 2015, the Bank has four banks (2014: three banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2015 is RUB 19 250 862 thousand (2014: RUB 20 749 018 thousand).

Amounts due to credit institutions include loans from related parties. The gross value of these balances as at 31 December 2015 is RUB 11 238 003 thousand (2014: RUB 13 953 741 thousand). They bear fixed annual interest rates varying from 7.98% to 9.20% for RUB (2014: from 7.98% to 9.20%). Floating interest rates are based on 3-month LIBOR plus 2.2% for USD (2014: 3-month MOSPRIME plus 1.25% for RUB, 3-month LIBOR plus 2.2% for USD).

At 31 December 2015, the Bank attracted funds from credit institutions to issue loans to customers in the amount of RUB 3 408 826 thousand (2014: RUB 4 492 513 thousand). Such loans for the total amount of RUB 3 106 676 thousand are regarded as encumbered (2014: RUB 4 185 870 thousand).

(Thousands of Russian Roubles)

16. Amounts due to customers

The amounts due to customers as at 31 December include the following:

	2015	2014
Legal entities	19 739 305	14 355 573
- current accounts	15 201 325	11 803 448
- term deposits	4 537 980	2 552 125
Individuals	9 401 644	4 303 561
- current accounts	1 552 061	1 423 963
- term deposits	7 849 583	2 879 598
State and non-profit organisations	174 353	58 174
- current accounts	43 092	44 841
- term deposits	131 261	13 333
Amounts due to customers	<u>29 315 302</u>	<u>18 717 308</u>

State and non-profit organisations exclude government-owned profit oriented organisations.

As at 31 December 2015, the Bank has three customers (2014: one customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is RUB 7 152 328 thousand (2014: RUB 1 922 034 thousand).

As at 31 December 2015, included in term deposits are deposits of individuals of RUB 7 849 494 thousand (2014: RUB 2 879 598 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

17. Debt securities issued

As at 31 December 2015, the Bank has non-convertible documentary bonds totaling RUB 5 000 000 thousand, with a contractual maturity in June 2018 with a current annual coupon rate 12.75% and payable semi-annually (2014: RUB 5 000 000 thousand, with a contractual maturity in April 2015 with a coupon rate 9%, payable semi-annually and RUB 860 625 thousand, with a contractual maturity in October 2015 with a coupon rate 9.75%, payable semi-annually).

18. Other borrowed funds

Other borrowed funds are represented by long-term loans from Intesa Sanpaolo Holding International SA with the aim to finance the lending operations of the Bank.

As at 31 December 2015, the Bank has no long-term loans from Intesa Sanpaolo Holding International SA (2014: long-term loans maturing in 2015, bearing fixed annual interest rates varying from 8.5% to 10.7% for RUB and from 3.5% to 3.7% for USD, or floating annual interest rates based on 6-month LIBOR plus 1.98% for USD).

19. Subordinated debt

As at 31 December 2015, subordinated debt is represented by the loan from Intesa Sanpaolo Bank Luxembourg. This subordinated loan is denominated in US dollars and matures in December 2022. The annual interest rate on this subordinated loan is fixed, at the level of 6.58%.

As at 31 December 2014, subordinated debt was represented by the loan from Intesa Sanpaolo Holding International SA, denominated in US dollars and maturing in December 2015. The annual interest rate on this subordinated loan was based on 3-month LIBOR plus 3.5%.

The claims of the Bank's creditors on subordinated debt shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

20. Equity

There were no movements in share capital for the years ended 31 December 2015 and 2014.

As at 31 December 2015 and 2014, the share capital of BANCA INTESA (JOINT-STOCK COMPANY) is represented by 876 128 ordinary shares with a nominal value of RUB 12 350 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(Thousands of Russian Roubles)

Other capital reserve

As at 31 December 2015 and 2014, other capital reserve of RUB 1 803 914 thousand is represented by funds provided in June 2009 to the Bank by its shareholder Intesa Sanpaolo Holding International SA in the form of debt free financing. These funds are not repayable to the Bank's shareholder.

Revaluation reserve for available-for-sale securities

Revaluation reserve for available-for-sale securities records fair value changes on available-for-sale securities.

Retained earnings

In accordance with RAL, the Bank distributes profit as dividends or transfers it to retained earnings on the basis of accounting reports prepared in accordance with RAL. The Bank's retained earnings under RAL as at 31 December 2015 are RUB 43 733 thousand (2014: RUB 984 065 thousand).

During 2015, the Bank did not pay dividends in respect of the year ended 31 December 2014 (2014: RUB 228 739 thousand).

21. Commitments and contingencies**Legal**

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

Taxation

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

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

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

(Thousands of Russian Roubles)

Commitments

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

	2015	2014
Credit related commitments		
Guarantees issued	13 724 995	8 656 259
Undrawn overdraft loan commitments	1 221 788	1 384 453
Letters of credit	990 975	346 176
Undrawn credit line commitments	403 160	415 856
Commitments to issue loans	41 300	21 900
	16 382 218	10 824 644
Operating lease commitments		
Not later than 1 year	400 440	512 866
Later than 1 year but not later than 5 years	822 472	1 129 399
Later than 5 years	102 228	75 131
	1 325 140	1 717 396
Capital expenditure commitments – property and equipment	394 633	2 699
Capital expenditure commitments – intangible assets	428 646	90 662
	823 279	93 361
Less: Impairment allowance	(163 042)	(46 456)
Commitments and contingencies	18 367 595	12 588 945

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Insurance

Property of the Bank and property of the Bank's clients transferred for storage in the Bank has a maximum insurance limit in the amount of RUB 9 564 440 thousand as at 31 December 2015 (2014: RUB 5 886 766 thousand).

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. This type of liability insurance is generally not available in Russia at present.

22. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

	2015	2014
Fee and commission income		
Settlement transactions	409 664	372 832
Cash commissions	144 940	176 437
Guarantees issued and letters of credit	121 613	78 053
Accounts remote administration	106 136	109 594
Lending transactions	68 835	69 138
Commissions for corporate banking	25 718	-
Other	73 892	60 295
Fee and commission income	950 798	866 349
Fee and commission expense		
Settlement transactions	93 250	78 705
Guarantees received	40 384	23 541
Cash collection transactions	17 878	16 341
Stock exchange services	8 191	4 997
Other	425	453
Fee and commission expense	160 128	124 037
Net fee and commission income	790 670	742 312

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement, commission for loan repayment prior to maturity and commission for information letters to the borrower.

(Thousands of Russian Roubles)

23. Net losses from other operating activities

	2015	2014
Obligatory deposit insurance system contributions	(29 924)	(20 603)
Notarial and state duties expenses	(21 692)	(20 139)
Depreciation of capital expenditures	(19 862)	(23 452)
Services on issuance and maintenance of plastic cards	(17 360)	(12 788)
Operations of prior years	(3 426)	(5 298)
Net loss on disposal of property and equipment	(2 150)	(5 653)
Net gain on disposal of leased assets	1 755	2 811
Net other operating income	1 024	8 004
Net losses from other operating activities	(91 635)	(77 118)

24. Personnel and other general administrative expenses

Personnel expenses and other general administrative expenses for the year ended 31 December comprise:

	2015	2014
Salaries and bonuses	1 474 796	1 472 947
Social security costs	359 391	321 832
Personnel expenses	1 834 187	1 794 779
Operating lease	531 560	577 132
Data processing	333 632	252 127
Legal and consultancy expenses	261 559	249 540
Office materials	103 280	93 164
Marketing and advertising	78 035	114 904
Communications	78 017	79 874
Security	50 348	54 597
Repair and maintenance of property and equipment	27 287	21 499
Charity	19 868	21 528
Business travel and related expenses	17 964	18 267
Insurance	17 546	14 171
Operating taxes	11 125	23 552
Personnel training	934	2 041
Other	33 171	32 246
Other general administrative expenses	1 564 326	1 554 642

25. Corporate governance and risk management**Corporate governance framework**

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

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

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

As at 31 December 2015, the Board of Directors includes:

- Professor Antonio Fallico – Chairman of the Board of Directors;
- Mr. Armando Selva;
- Mr. Walter Ambrogi;
- Mr. Salvatore Catalano;
- Mr. Rosario Strano;
- Mr. Luca Leoncini Bartoli;
- Mr. Christophe Velle;
- Mr. Giulio Ponti;
- Mr. Andrea Mascetti.

(Thousands of Russian Roubles)

During the year ended 31 December 2015 one member left the Board, two new joined it. No other changes occurred in the composition of the Board of Directors.

General activities of the Bank are managed by the sole executive body of the Bank - the Chairman of the Management Board and the collective executive body – the Management Board of the Bank. The Board of Directors meeting elects the Chairman of the Management Board. The executive bodies of the Bank are responsible for implementation of decisions of the general meeting of shareholders and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general meeting of shareholders.

As at 31 December 2015, the Management Board includes:

- Mr. Gianluca Corrias – Chairman of the Management Board;
- Mrs. Olga Lein;
- Mrs. Tatyana Pavlycheva;
- Mr. Mikhail Nazarov;
- Mrs. Irina Vasina;
- Mr. Oleg Dzhus.

During 2015 two new members joined the Management Board, one member left it. Starting from December 2015, Gianluca Corrias was appointed as a new Chairman of the Management Board. No other changes occurred in the composition of the Management Board.

Internal control policies and procedures

Internal Control System ("ICS"): consists of the set of rules, functions, organisational units, resources, processes and procedures aimed at ensuring that the following activities are performed, in accordance with the principles of sound and prudent management.

The purpose of internal controls is to ensure:

- effectiveness and efficiency of operations, effectiveness of asset and liability management;
- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorisation, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations, including anti-money laundering and anti-corruption.

The internal control system in the Bank is implemented via following bodies and units:

- the general meeting of shareholders;
- the Board of Directors and its committees, including the Audit Committee;
- the Management Board and the Chairman of the Management Board;
- the Revision Commission;
- the Chief Accountant;
- the Risk Management function;
- the Credit Risk Management function;
- AML and CTF (Anti-Money Laundering and Counter Terrorist Financing);
- the Currency Control function;
- the Legal Expertise function;
- the Function of Internal Control of Bank's activities on the financial market;
- the Internal Control function;
- the Security function (including IT Security function);
- the Internal Audit function.

(Thousands of Russian Roubles)

The Board of Directors is responsible for strategic supervision and control.

Bearing in mind the proposals of the Management Board, the Board of Directors establishes and approves:

- the business model, taking into account the risks to which this model exposes the Bank and the procedures for identifying and measuring these risks;
- the Bank's overall governance structure;
- the strategic guidelines and periodically reviews them due to changes in business activities and the external context, in order to ensure their ongoing effectiveness;
- the risk appetite, risk tolerance and risk governance policies;
- the guidelines of the internal control system, ensuring that it is in line with the stated strategic choices and risk appetite, and that it is able to take account of risk evolution and interaction;
- the criteria for identifying the significant transactions to be subject to prior approval by the Risk Management function;
- the main points of the ICAAP (Internal Capital Adequacy Assessment Process), its coherence with the RAF (Risk Appetite Framework) and its prompt adaptation to significant changes in strategic policies, organisational arrangements and the business environment; takes steps to ensure the full use of the results of the ICAAP for strategic and decision-making purposes;

The Board of Directors establishes and approves:

- the Bank's organisational structure;
- the establishment of the corporate control functions, their tasks and responsibilities, the methods of coordination and collaboration, and information flows between these functions and between them and the corporate bodies;
- the risk management process, and assesses its compatibility with the strategic guidelines and risk governance policies;
- the accounting and reporting systems;
- the policies and processes for evaluating the Bank's assets, and in particular its financial instruments, ensuring their ongoing adequacy; it also establishes the Bank's maximum exposure limits to financial instruments or products whose valuation is uncertain or difficult;
- adoption of the internal risk measurement systems for the calculation of capital requirements. Specifically, it approves the selection of the system deemed suitable and a plan of activities for setting it up and implementing it, identifying responsibilities, specifying the timetable for implementation and the planned investment of human, financial and technological resources;
- the annual declaration of compliance with the requirements for using internal evaluation systems, taking a reasoned decision and examining all information from the validation function;
- the process for the development and validation of internal risk management systems not used for regulatory purposes, and periodically assessing their proper functioning.

The Board of Directors and the Management Board have responsibility for development, implementation and monitoring of internal control system.

The Board of Directors also assumes overall responsibility for managing and monitoring the IT system (including supervising the analysis of IT risk) and business continuity. It approves the programme of activities (including the audit plan) prepared, on at least an annual basis, by the Internal Audit function, and the multi-year audit plan.

The Management Board is responsible for contributing to strategic supervision and management. The Management Board contributes to strategic supervision functions regarding the internal control system, in line with the ISP Group Policy. The Management Board provides the Board of Directors with proposals on the appointment and removal of the managers of corporate control functions and the business continuity plan Manager.

The Management Board ensures integrated management of all business risks, evaluating the internal and external factors from which these risks may derive and their mutual interrelations. It is responsible for taking all necessary actions to ensure that the Group and the internal control system comply with regulatory standards and requirements, monitoring their ongoing compliance in the Group. The Management Board manages the implementation of all strategic decisions; plans and manages implementation of the risk management process as well as implementation of processes relating to the praxis for the approval of new products or services; establishes the internal information flows necessary to ensure that the corporate bodies and control functions are fully apprised of and are able to manage risk factors and can verify compliance with the RAF; takes the necessary actions to ensure the ongoing comprehensiveness, adequacy, functionality and reliability of the internal control system; ensures that the risk management process is coherent with the risk appetite and risk governance policies and ensures correct, prompt and secure management of information for accounting, management and reporting purposes; ensures the comprehensiveness, adequacy, functionality and reliability of the IT system.

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

(Thousands of Russian Roubles)

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective;
- rules on protection and confidentiality of information and control over compliance with the requirements of the Federal law on the insider information and market manipulation;
- procedure of access to the insider information.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulations of the CBR dated 16 December 2003 No. 242-P On the Organisation of Internal Control in Credit Organisations and Banking Groups sets out the specific requirements for the Internal Audit function and the Internal Control function. Based on above legal requirements the Internal Control function conducts compliance activities focused primarily on regulatory risks faced by the Bank.

The main functions of the Internal Control function include the following:

- identification of compliance risks and regulatory risks;
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences;
- monitoring of regulatory risk;
- preparation of recommendations on regulatory risk management;
- coordination and participation of design of measures to decrease regulatory risk;
- monitoring of efficiency of regulatory risk management;
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest;
- analysis of dynamics of clients' complaints;
- monitoring of compliance with the Russian legislation, the CBR requirements, self-regulated organisations, internal regulations, and correct accounting of securities transactions;
- maintaining the list of insiders;
- analysis of economic reasonableness of outsourcing agreements of Bank's services;
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

The main functions of the Internal Audit function include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks);
- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the Bank's property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of the Internal Control function and the Risk Management function.

(Thousands of Russian Roubles)

Compliance with ISP Group standards is supported by periodic reviews undertaken by the Internal Audit Division (further, "the Internal Audit function"). The Internal Audit function is independent from business operations and is subordinated to and reports to the Board of Directors. The results of the Internal Audit function reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee, the Board of Directors and senior management of the Bank and the ISP Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 On Banks and Banking Activity, Direction of the CBR dated 1 April 2014 No. 3223-U On Requirements to the Head of the Risk Management Service, the Head of the Internal Control Service, the Head of the Internal Audit Service of the Credit Organisation, establishes the professional qualification, business reputation and other requirements for the members of the Board of Directors, the Management Board, the Head of the Internal Audit function, the Internal Control function and the Risk Management function and other key management personnel. All members of the Bank's governing and management bodies of the Bank comply with these requirements.

There is a hierarchy of requirements for the authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank has a system of automated controls to monitor risks.

Management believes that the Bank complies with the CBR requirements in respect of risk management and internal control systems, including requirements covering the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

The Bank's internal documentation, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia.

The Bank maintained a system for reporting on the Banks's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital.

The frequency and consistency of reports prepared by the Bank's Risk management and Internal Audit functions during 2015, which cover the Banks's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management and Internal Audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

The Board of Directors and the Management Board of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2015 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the risk management and Internal Audit functions, and considered proposed corrective actions.

Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is essential to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

Risk management is the process of identification, measurement and monitoring of risks faced by the Bank, conducted in accordance with its particular organisational and functional structure and established for the appropriate management of the risk appetite expressed by the shareholders.

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

The Bank has the Risk Management function to preserve and enhance value for the shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas.

The Risk Management function is based on the following general principles:

- independence from the business lines;
- entity wide approach;
- coherence at all aggregation levels through the use of consistent measuring models;
- timing in providing the data to support the decision-making and control processes;
- transparency in assessment methodologies and criteria used for a better understanding of applied risk measures;

(Thousands of Russian Roubles)

- segregation of duties between the Board of Directors, CEO, divisions and departments.

The Risk Management function is not subordinated to and does not report to divisions accepting relevant risks.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2015 and 2014, the mandatory ratios of the Bank were in compliance with limits set by the CBR.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios.

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control systems.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management process and for approving risk strategies, principles methodologies for identifying and managing significant risks, including setting the overall risk framework for limits and monitoring capital adequacy and stress-testing.

Executive Committee

The Executive Committee sets general limits on credit risk exposures of the Bank for a single borrower and affiliated entities/related parties, exceeding the Credit Committee's limits, taking into consideration ISP Group risk framework.

Management Board

The Management Board has the responsibility to define and monitor the overall risk management process within the Bank, including monitoring of risk limits and capital adequacy as established by the Bank's internal documentation. The Management Board also approved the methodologies for identifying and managing significant risks.

Financial Risks Committee

The Financial Risk Committee is responsible for the protection and allocation of the Bank's equity and assets and liabilities taking into consideration pricing structure and maturity profile as well as the legislation, relevant internal regulations and ISP Group guidelines. It regularly monitors and evaluates the structure of assets and liabilities, compares expected yields with the actual, evaluates general market conditions and assesses the Bank versus its competitors. It ensures that individual transactions comply with policies, established risk limits and other requirements set out for each of the business lines in line with the ISP Group policy.

Credit Committee and Asset Quality Session

The Credit Committee is the superior credit approval authority in the Bank. It takes credit decisions on proposals made by the Risk Management function and considers their terms of issuance. For credit exposures above certain limit the final approval has to be provided by the Executive Committee taking into consideration an opinion provided by the Credit Department of ISP Group.

The Asset Quality Session ("AQS") assesses the quality of the credit portfolio and its trends, approves assets' classification, level of impairment allowance, performs an analysis of settlement strategies for impaired loans, and monitors collection process and its results.

Risk Management function

The Risk Management function is responsible for implementing and maintaining risk management procedures to ensure an independent control process, including preparation of reports on credit, operational, market, interest rate, legal, liquidity and reputational risk management, which include observations made as to its assessment of the effectiveness of Bank's procedures and methodologies, and recommendations for improvement. The frequency and consistency of these reports is in compliance with the Bank's internal documentation.

Treasury Division

The Treasury Division is responsible for managing the Bank's assets and liabilities and their structure. It is also primarily responsible for funding and liquidity risk management.

(Thousands of Russian Roubles)

Internal Audit function

Risk management processes are audited annually by the Internal Audit function. It reviews risk management policies and procedures and reports its findings, including the assessment of the effectiveness of the Bank's procedures and methodologies and recommendations for improvement, to the Audit Committee. The frequency and consistency of the reports is in compliance with the internal documentation. The Management Board and the Board of Directors periodically discuss reports prepared by the Internal Audit function and consider proposed corrective actions.

Risk measurement and reporting systems

Risk monitoring and controlling are primarily performed based on the established limits. These limits reflect the business strategy and market environment as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank maintains the system for reporting and monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types such as credit, operational, market, interest rate, legal, liquidity and reputational risks and activities and on the Bank's capital.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks. This information is reported to the Board of Directors, the Management Board, the Financial Risks Committee and the Credit Committee. The report is prepared quarterly and includes aggregate credit exposures, credit metric forecasts, hold limit exceptions, market risk exposures, liquidity ratios and risk profile changes. The Management Board analyses risk reports and where necessary reallocates risk limits to achieve target strategic risk profile. The reports of the Risk Management function are periodically discussed by the Board of Directors and the Management Board and proposed corrective actions are considered. The Risk Management function also is involved in process of Homogeneous Credit Risk Monitoring and Risk Appetite Framework leading by the International Subsidiaries Banks Division.

Risk mitigation

As part of its overall risk management process, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecasted transactions.

The Bank actively uses collateral to reduce its credit risks.

Risk concentrations

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

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

Credit risk

Credit risk is the risk of a financial loss to the Bank if a counterparty of a financial instrument fails to meet its contractual obligations.

The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised credit related commitments), including guidelines to limit portfolio concentration and the establishment of the Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

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

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. The reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Management function and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Management function. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

(Thousands of Russian Roubles)

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the customer, or otherwise obtained by the Bank. Retail loan applications are reviewed by the Retail Lending Department through the use of internal specialised software and application data verification procedures developed together with the Risk Management function.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management function with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised credit related commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital) (see Note 28). As at 31 December 2015 and 2014, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank as at 31 December 2015 was 20.3% (31 December 2014: 21.2%) and was in compliance with limits set by the CBR.

Derivative financial instruments

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

Credit related commitments

The Bank provides financial guarantees and letters of credit to its customers which may require the Bank to make payments on their behalf. Such payments are further collected from customers based on the terms of financial guarantees and letters of credit. They expose the Bank to credit risk and are mitigated by the same credit risk management policies and procedures.

The credit quality of loans to customers and net investments in financial leases is managed using internal classification. The following table shows the information on the credit quality of loans to customers and net investments in financial leases based on this classification as at 31 December.

	2015				2014			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to corporate customers								
Neither past due nor impaired	38 833 923	(416 985)	38 416 938	1.1	51 087 034	(308 131)	50 778 903	0.6
Past due but not impaired:	922 344	(142 989)	779 355	15.5	916 811	(131 347)	785 464	14.3
- past due less than 90 days	884 733	(134 876)	749 857	15.2	916 811	(131 347)	785 464	14.3
- past due more than 90 days but less than 1 year	37 611	(8 113)	29 498	21.6	-	-	-	-
Impaired loans:	9 264 267	(6 452 172)	2 812 095	69.6	6 165 585	(3 491 696)	2 673 889	56.6
- past due less than 90 days	2 693 909	(1 592 809)	1 101 100	59.1	1 463 589	(312 929)	1 150 660	21.4
- past due more than 90 days but less than 1 year	3 275 224	(2 465 543)	809 681	75.3	824 487	(471 279)	353 208	57.2
- past due more than 1 year	3 295 134	(2 393 820)	901 314	72.6	3 877 509	(2 707 488)	1 170 021	69.8
Total loans to corporate customers	49 020 534	(7 012 146)	42 008 388	14.3	58 169 430	(3 931 174)	54 238 256	6.8
Loans to retail customers								
Neither past due nor impaired	1 744 048	(17 313)	1 726 735	1.0	2 521 418	(27 432)	2 493 986	1.1
Past due but not impaired:	38 658	(9 356)	29 302	24.2	95 182	(22 271)	72 911	23.4
- past due less than 90 days	38 412	(9 233)	29 179	24.0	95 182	(22 271)	72 911	23.4
- past due more than 90 days but less than 1 year	246	(123)	123	50.0	-	-	-	-
Impaired loans:	478 355	(398 797)	79 558	83.4	374 541	(290 182)	84 359	77.5
- past due less than 90 days	38 150	(21 814)	16 336	57.2	40 508	(23 735)	16 773	58.6
- past due more than 90 days but less than 1 year	115 848	(87 165)	28 683	75.2	130 821	(96 772)	34 049	74.0
- past due more than 1 year	324 357	(289 818)	34 539	89.4	203 212	(169 675)	33 537	83.5
Total loans to retail customers	2 261 061	(425 466)	1 835 595	18.8	2 991 141	(339 885)	2 651 256	11.4
Total loans to customers	51 281 595	(7 437 612)	43 843 983	14.5	61 160 571	(4 271 059)	56 889 512	7.0

(Thousands of Russian Roubles)

	2015				2014			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Net investments in finance leases								
Neither past due nor impaired	1 021 636	(9 710)	1 011 926	1.0	1 264 287	(8 269)	1 256 018	0.7
Past due but not impaired:	68 830	(10 569)	58 261	15.4	48 479	(6 559)	41 920	13.5
- past due less than 90 days	68 830	(10 569)	58 261	15.4	48 479	(6 559)	41 920	13.5
Impaired:	251 385	(232 720)	18 665	92.6	240 141	(229 665)	10 476	95.6
- past due less than 90 days	-	-	-	-	2 770	(2 741)	29	99.0
- past due more than 90 days but less than 1 year	24 683	(19 166)	5 517	77.6	10 409	(10 290)	119	98.9
- past due more than 1 year	226 702	(213 554)	13 148	94.2	226 962	(216 634)	10 328	95.4
Total net investments in finance leases	1 341 851	(252 999)	1 088 852	18.9	1 552 907	(244 493)	1 308 414	15.7

Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment for impaired loans to corporate customers, net investments in finance leases and retail customers based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset.

The Bank estimates loan impairment for loans to corporate customers, net investments in finance leases and retail customers for which no evidence of impairment has been identified based on its internal model (acceptable proxy of ISP requirements) which takes into account historical loss experience for each type of loan.

To determine the amount of the impairment allowance for loans assessed collectively management makes the assumption that loss migration rates are constant and can be estimated based on the historic loss migration pattern (2 years).

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to corporate customers, net investments in finance leases and retail customers as at 31 December 2015 would be RUB 1 260 252 thousand, RUB 32 666 thousand, RUB 55 068 thousand, respectively lower/higher (2014: RUB 1 627 148 thousand, RUB 39 252 thousand and RUB 79 538 thousand).

In determining the impairment allowance for guarantees issued and letters of credit management uses the same loss migration rates as for loans to customers.

Analysis of collateral and other credit enhancements

The Bank accepts 1st class guarantees, real estate property, cars and equipment as collateral for loans to customers.

Depending on the type of loans the Bank requires the following types of collateral:

- corporate lending: real estate, inventories, trade receivables, machinery and equipment, guarantees and sureties, securities;
- retail lending: real estate.

The Bank has procedures for monitoring the fair value of collateral, which include requesting for additional collateral in case the current value of collateral declines.

During the year ended 31 December 2015, the Bank obtained certain assets by taking possession of collateral for loans to customers and net investments in finance leases. As at 31 December 2015, the carrying amount of such assets is RUB 304 123 thousand (2014: RUB 244 549 thousand), which consisted of real estate of RUB 303 931 thousand (2014: RUB 243 660 thousand) and other assets of RUB 192 thousand (2014: RUB 889 thousand). The Bank's policy is to dispose of these assets as soon as it is practicable.

(Thousands of Russian Roubles)

The following tables provide information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral or other credit enhancement as at 31 December.

2015

	<i>Real estate</i>	<i>Motor vehicles</i>	<i>Equipment</i>	<i>Guarantees</i>	<i>Total collateralised loans</i>	<i>Total not collateralised loans</i>	<i>Total loans to customers</i>
Loans to corporate customers							
Neither past due nor impaired	13 350 355	2 635 208	1 030 962	3 999 283	21 015 808	17 401 130	38 416 938
Past due but not impaired	546 047	89 045	45 322	-	680 414	98 941	779 355
Impaired loans	2 094 364	162 449	145 650	-	2 402 463	409 632	2 812 095
Total loans to corporate customers	15 990 766	2 886 702	1 221 934	3 999 283	24 098 685	17 909 703	42 008 388
Loans to retail customers							
Neither past due nor impaired	725 158	-	-	-	725 158	1 001 577	1 726 735
Past due but not impaired	2 243	-	-	-	2 243	27 059	29 302
Impaired loans	79 545	-	-	-	79 545	13	79 558
Total loans to retail customers	806 946	-	-	-	806 946	1 028 649	1 835 595
Total loans to customers	16 797 712	2 886 702	1 221 934	3 999 283	24 905 631	18 938 352	43 843 983
Net investments in finance lease							
Neither past due nor impaired	20 732	380 588	604 164	-	1 005 484	6 442	1 011 926
Past due but not impaired	-	28 172	29 859	-	58 031	230	58 261
Impaired loans	-	4 559	5 582	-	10 141	8 524	18 665
Total net investments in finance leases	20 732	413 319	639 605	-	1 073 656	15 196	1 088 852

(Thousands of Russian Roubles)

2014

	<i>Real estate</i>	<i>Motor vehicles</i>	<i>Equipment</i>	<i>Guarantees</i>	<i>Total collateralised loans</i>	<i>Total not collateralised loans</i>	<i>Total loans to customers</i>
Loans to corporate customers							
Neither past due nor impaired	18 634 812	4 741 674	1 815 520	1 011 609	26 203 615	24 575 288	50 778 903
Past due but not impaired	341 380	108 795	35 748	-	485 923	299 541	785 464
Impaired loans	2 128 933	177 846	143 697	-	2 450 476	223 413	2 673 889
Total loans to corporate customers	21 105 125	5 028 315	1 994 965	1 011 609	29 140 014	25 098 242	54 238 256
Loans to retail customers							
Neither past due nor impaired	939 691	-	-	-	939 691	1 554 295	2 493 986
Past due but not impaired	31 356	-	-	-	31 356	41 555	72 911
Impaired loans	84 243	-	-	-	84 243	116	84 359
Total loans to retail customers	1 055 290	-	-	-	1 055 290	1 595 966	2 651 256
Total loans to customers	22 160 415	5 028 315	1 994 965	1 011 609	30 195 304	26 694 208	56 889 512
Net investments in finance lease							
Neither past due nor impaired	26 451	647 266	578 814	-	1 252 531	3 487	1 256 018
Past due but not impaired	-	21 830	17 554	-	39 384	2 536	41 920
Impaired loans	-	79	69	-	148	10 328	10 476
Total net investments in finance leases	26 451	669 175	596 437	-	1 292 063	16 351	1 308 414

(Thousands of Russian Roubles)

The tables above are presented on the basis of fair value of collateral as described below excluding over collateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are not impaired or past due is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral performed at the loan inception date as at each reporting date.

For impaired, past due and other certain loans the fair value of collateral is updated with frequency defined in the Collateral Policy.

Mortgage loans to individuals are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Geographical concentration

The geographical concentration of assets and liabilities as at 31 December 2015 is as follows:

	<i>Russia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Assets				
Cash and cash equivalents	1 618 864	7 534 990	-	9 153 854
Mandatory cash balances with the Central Bank of the Russian Federation	193 955	-	-	193 955
Amounts due from credit institutions	5 901 773	1 093 241	1 598 536	8 593 550
Available-for-sale securities:				
- held by the Bank	2 585 764	-	-	2 585 764
Derivative financial assets	2 282	-	-	2 282
Loans to customers	43 782 086	1 002	60 895	43 843 983
Net investments in finance leases	1 088 852	-	-	1 088 852
Property and equipment	413 268	-	-	413 268
Intangible assets	544 537	-	-	544 537
Current income tax assets	14 568	-	-	14 568
Deferred income tax assets	681 849	-	-	681 849
Tax assets other than income tax	11 406	-	-	11 406
Other assets	1 908 359	79 170	999	1 988 528
Total assets	58 747 563	8 708 403	1 660 430	69 116 396
Liabilities				
Amounts due to credit institutions	8 094 352	11 234 757	3 246	19 332 355
Derivative financial liabilities	23 220	20 947	-	44 167
Amounts due to customers	22 158 747	6 906 329	250 226	29 315 302
Debt securities issued	5 028 641	-	-	5 028 641
Tax liabilities other than income tax	22 193	-	-	22 193
Other liabilities	704 818	65 303	230	770 351
Subordinated debt	-	2 915 308	-	2 915 308
Total liabilities	36 031 971	21 142 644	253 702	57 428 317
Net position	22 715 592	(12 434 241)	1 406 728	11 688 079
Credit related commitments	13 384 872	2 996 567	779	16 382 218

(Thousands of Russian Roubles)

Assets, liabilities and credit related commitments are allocated based on the country in which the counterparty performs its business activities. Cash on hand and property and equipment are allocated based on the country in which they are physically held. The Bank's operations include transactions with counterparties that operate in OECD countries, primarily Italy, Luxemburg, Germany, United States and United Kingdom.

The geographical concentration of assets and liabilities as at 31 December 2014 is as follows:

	<i>Russia</i>	<i>OECD</i>	<i>CIS and other countries</i>	<i>Total</i>
Net position	38 766 273	(25 220 147)	334 434	13 880 560
Credit related commitments	10 595 232	228 982	430	10 824 644

Liquidity risk

Liquidity risk is the risk of a potential loss arising incase the Bank is unable to meet its financial obligations as they fall due.

Liquidity risk exists when maturities of assets and liabilities do not match. The matching and/or controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to liquidity management. 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.

The Bank maintains liquidity management with the objective to ensure that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Treasury Division receives liquidity reports from the Credit and Market Risk Office on a daily basis. In addition, the Treasury Division prepares its own managerial reports and calculations. Based on them the Treasury Division monitors Bank's liquidity position within the defined limits in order to meet the CBR and ISP liquidity ratio requirements and payment obligations resulting from deposit withdrawals and financial commitments of the Bank.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Credit and Market Risk Office. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a regular basis. Decisions on liquidity management are made by the Financial Risk Committee and implemented by the Treasury Division.

The liquidity position is also assessed and managed by the Bank, based on certain liquidity ratios calculated on a daily basis in accordance with the requirements of the CBR. The following table shows the mandatory liquidity ratios calculated as at 31 December 2015 and 2014.

As at 31 December, these ratios are as follows:

	<i>Requirement</i>	<i>2015, %</i>	<i>2014, %</i>
Instant Liquidity Ratio (N2)	Not less than 15%	68.3	61.9
Current Liquidity Ratio (N3)	Not less than 50%	111.3	75.7
Long-Term Liquidity Ratio (N4)	Not more than 120%	44.1	78.7

The table below shows the structure of assets and liabilities as at 31 December 2015 in accordance with their contractual maturity.

Included in overdue loans to customers are wholly overdue loans and partially overdue loans but only in the amount of overdue payments.

(Thousands of Russian Roubles)

	<i>On demand</i>	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Overdue or no stated maturity</i>	<i>Total</i>
Assets								
Cash and cash equivalents	9 153 854	-	-	-	-	-	-	9 153 854
Mandatory cash balances with the Central Bank of the Russian Federation	111 223	27 360	28 876	23 506	2 646	344	-	193 955
Amounts due from credit institutions	-	7 398 195	-	1 195 355	-	-	-	8 593 550
Available-for-sale securities:								
- held by the Bank	-	2 581 354	-	-	-	-	4 410	2 585 764
Derivative financial assets	-	2 282	-	-	-	-	-	2 282
Loans to customers	-	4 827 728	7 654 002	19 836 413	7 394 679	430 852	3 700 309	43 843 983
Net investments in finance leases	-	52 167	105 064	430 484	424 211	-	76 926	1 088 852
Property and equipment	-	-	-	-	-	-	413 268	413 268
Intangible assets	-	-	-	-	-	-	544 537	544 537
Current income tax assets	-	7	756	540	13 265	-	-	14 568
Deferred income tax assets	-	-	-	-	-	411 864	269 985	681 849
Tax assets other than income tax	-	1 303	364	9 739	-	-	-	11 406
Other assets	-	1 195 930	279 297	53 678	155 149	-	304 474	1 988 528
Total assets	9 265 077	16 086 326	8 068 359	21 549 715	7 989 950	843 060	5 313 909	69 116 396
Liabilities								
Amounts due to credit institutions	95 625	1 600 460	5 102 494	9 124 950	3 408 826	-	-	19 332 355
Derivative financial liabilities	-	44 167	-	-	-	-	-	44 167
Amounts due to customers	16 810 693	4 135 384	4 364 453	3 552 772	400 000	52 000	-	29 315 302
<i>incl. amounts due to individuals</i>	<i>1 552 061</i>	<i>983 329</i>	<i>3 494 205</i>	<i>3 101 489</i>	<i>270 560</i>	<i>-</i>	<i>-</i>	<i>9 401 644</i>
Debt securities issued	-	-	-	5 028 641	-	-	-	5 028 641
Tax liabilities other than income tax	-	22 193	-	-	-	-	-	22 193
Other liabilities	64 786	10 824	210 007	302 493	144 699	2 753	34 789	770 351
Subordinated debt	-	-	-	-	-	2 915 308	-	2 915 308
Total liabilities	16 971 104	5 813 028	9 676 954	18 008 856	3 953 525	2 970 061	34 789	57 428 317
Net position	(7 706 027)	10 273 298	(1 608 595)	3 540 859	4 036 425	(2 127 001)	5 279 120	11 688 079
Accumulated gap as at 31 December 2015	(7 706 027)	2 567 271	958 676	4 499 535	8 535 960	6 408 959	11 688 079	
Accumulated gap as at 31 December 2014	(6 874 943)	(4 304 326)	2 604 059	2 886 024	8 119 723	8 692 299	13 880 560	

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

Available-for-sale securities represented by Russian State bonds (OFZ) are classified in the category "Less than 1 month" as they are considered to be highly liquid financial instruments.

Overdue liabilities, such as term deposits not withdrawn by the customers, are classified within the "On demand" category.

Debt securities are reflected by the date of the offer and not by the final maturity date of the issue.

Unused vacations in the amount of RUB 74 103 thousand are classified into the category "from 3 months to 1 year" in accordance with the Bank's judgement based on historical pattern.

Mandatory cash balances with the CBR are allocated between the different maturity categories in accordance with the maturities of the liabilities to which they relate.

(Thousands of Russian Roubles)

The maturity profile of financial liabilities and credit related commitments as at 31 December 2015 based on contractual undiscounted repayment obligations is as follows:

	<i>On demand</i>	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>	<i>Carrying amount</i>
Financial liabilities								
Amounts due to credit institutions	95 625	1 712 577	5 269 939	9 412 951	4 074 640	-	20 565 732	19 332 355
Amounts due to customers	16 810 693	4 151 360	4 403 698	3 712 731	428 100	52 000	29 558 582	29 315 302
<i>incl. amounts due to individuals</i>	1 552 061	986 819	3 519 665	3 241 083	283 938	-	9 583 566	9 401 644
Debt securities issued	-	-	-	5 639 200	-	-	5 639 200	5 028 641
Other liabilities	99 575	10 824	210 007	302 493	144 699	2 753	770 351	770 351
Subordinated debt	-	15 986	31 971	143 870	767 309	3 299 488	4 258 624	2 915 308
Derivative financial instruments								
- <i>inflow</i>	-	(6 959 639)	-	-	-	-	(6 959 639)	(2 282)
- <i>outflow</i>	-	7 001 524	-	-	-	-	7 001 524	44 167
Total financial liabilities	17 005 893	5 932 632	9 915 615	19 211 245	5 414 748	3 354 241	60 834 374	57 403 842
Credit related commitments	16 382 218	-	-	-	-	-	16 382 218	16 382 218

The maturity profile of financial liabilities and credit related commitments as at 31 December 2014 based on contractual undiscounted repayment obligations is as follows:

	<i>On demand</i>	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>	<i>Carrying amount</i>
Financial liabilities								
Amounts due to credit institutions	239 876	1 106 029	1 836 458	4 836 653	15 862 030	-	23 881 046	20 984 240
Amounts due to customers	13 327 144	2 307 275	852 281	1 985 374	313 341	52 000	18 837 415	18 717 308
<i>incl. amounts due to individuals</i>	1 502 390	431 041	452 516	1 847 669	247 839	-	4 481 455	4 303 561
Debt securities issued	-	-	-	6 170 173	-	-	6 170 173	5 972 196
Other borrowed funds	-	2 060 026	-	9 431 254	-	-	11 491 280	11 174 828
Other liabilities	39 165	1 153	122 793	214 348	39 277	2 712	419 448	419 448
Subordinated debt	-	-	6 602	723 035	-	-	729 637	703 230
Derivative financial instruments								
- <i>inflow</i>	-	(4 563 786)	-	-	-	-	(4 563 786)	(30 436)
- <i>outflow</i>	-	4 612 511	-	-	-	-	4 612 511	79 161
Total financial liabilities	13 606 185	5 523 208	2 818 134	23 360 837	16 214 648	54 712	61 577 724	58 019 975
Credit related commitments	10 824 644	-	-	-	-	-	10 824 644	10 824 644

The total gross inflow and outflow disclosed in the tables above is the contractual, undiscounted cash flow on the financial liability or commitment.

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits to individuals upon demand of a depositor. In the tables above these deposits are classified in accordance with their stated maturity and are disclosed by each time band.

(Thousands of Russian Roubles)

Market risk

Market risk is the risk that the fair value of assets or future cash flows of financial instruments will diminish due to changes in the interest rates, currency rates and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

Market risks arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return of risk.

Overall authority for market risk is vested in the Financial Risks Committee. Market risk limits are approved by the Board of Directors based on recommendations of the Risk Management function and the Financial Risks Committee.

The Bank manages its market risk by setting open position and other limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Board of Directors.

The Bank classifies exposures to market risk into either trading or non-trading positions. For risk management purposes the Bank calculates the same risk indicators on the available-for-sale (AFS) portfolio as for the trading portfolio. The market risk for the trading as well as for the AFS portfolio is managed and monitored based on Value at Risk ("VaR") methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Trading and AFS positions

The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period.

For the purposes of interest rate risk calculations for fixed income securities the information on interest rates volatility and correlation is received from the ISP Group on a daily basis.

Although VaR is a valuable tool in measuring risk exposures, it has a number of limitations:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate;
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

To determine the reliability of the VaR model, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR model. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR limits have been established for available-for-sale portfolio, and exposure is calculated and monitored daily against the limits set by the Board of Directors. As at 31 December 2015, VaR for available-for-sale portfolio is RUB 1 535 thousand (2014: RUB 27 722 thousand).

(Thousands of Russian Roubles)

Market risk – Non-Trading positions**Interest rate risk**

Interest rate risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the assets, liabilities and unrecognised positions sensitive to such changes.

Interest rate risk includes the following:

- Repricing Risk - the risk linked to the time differences in maturities (for fixed rate positions) and in the repricing dates (for floating rate positions);
- Yield Curve Risk - the risk linked to changes in the slope and shape of the yield curve;
- Basis Risk - the risk linked to the mismatch in the rates to be received and paid on different instruments, with similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and interest margins for assets, liabilities and unrecognised positions with similar maturities or repricing frequencies.

The Bank uses the following methods to measure interest rate risk:

Sensitivity of the Fair Value measures the changes in the fair value of assets, liabilities and unrecognised positions resulting from a parallel rise in the discount curves by 100 b.p. To calculate the fair value, the discount curves which are suitable for measuring individual financial instruments are applied.

An analysis of sensitivity of the fair value as at 31 December is as follows:

Currency	2015	2014
RUB	(60 324)	(122 989)
USD	153 252	7 215
EUR	(1 665)	(6 053)
Total	91 263	(121 827)

A parallel fall in the discount curves by 100 b.p. would have had the equal but opposite effect on the fair value of assets, liabilities and unrecognised positions.

Sensitivity of the Interest Margin measures a one-year impact on the interest margin resulting from a parallel rise of the interest rate curves by 100 b.p. This measure highlights the effect of changes in interest rates on the portfolio being divided into current and term products excluding assumptions on future changes in the structure of assets and liabilities. Therefore, it cannot be considered as a predictor of the future levels of the interest margin.

An analysis of sensitivity of the interest margin as at 31 December is as follows.

Currency	2015	2014
RUB	31 754	8 812
USD	23 723	44 616
EUR	(1 207)	(9 663)
Total	54 270	43 765

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at floating interest rates. In practice, interest rates are generally fixed on a short-term horizon. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the interest rate in the event of a significant change in the market interest rates. Additionally, interest rates for long-term loans in foreign currencies are linked to LIBOR and EURIBOR.

The Board of Directors sets limits on the potential loss from interest rate risk that may be undertaken. These limits are regularly monitored.

(Thousands of Russian Roubles)

Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Open currency positions limits, set by the CBR, are monitored on a daily basis. The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015 and 31 December 2014:

	<i>RUB</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
Assets					
Cash and cash equivalents	1 183 209	2 922 605	5 037 636	10 404	9 153 854
Mandatory cash balances with the Central Bank of the Russian Federation	193 955	-	-	-	193 955
Amounts due from credit institutions	5 901 773	1 093 241	1 598 536	-	8 593 550
Available-for-sale securities:					
- held by the Bank	2 585 764	-	-	-	2 585 764
Derivative financial assets	-	2 282	-	-	2 282
Loans to customers	36 259 619	6 730 737	853 627	-	43 843 983
Net investments in finance leases	1 072 727	-	16 125	-	1 088 852
Property and equipment	413 268	-	-	-	413 268
Intangible assets	544 537	-	-	-	544 537
Current income tax assets	14 568	-	-	-	14 568
Deferred income tax assets	681 849	-	-	-	681 849
Tax assets other than income tax	11 406	-	-	-	11 406
Other assets	740 396	18 726	1 226 928	2 478	1 988 528
Total assets	49 603 071	10 767 591	8 732 852	12 882	69 116 396
Liabilities					
Amounts due to credit institutions	14 209 105	5 122 934	316	-	19 332 355
Derivative financial liabilities	20 947	22 621	599	-	44 167
Amounts due to customers	16 408 851	4 338 964	8 558 089	9 398	29 315 302
Debt securities issued	5 028 641	-	-	-	5 028 641
Tax liabilities other than income tax	22 193	-	-	-	22 193
Other liabilities	429 259	190 911	150 181	-	770 351
Subordinated debt	-	2 915 308	-	-	2 915 308
Total liabilities	36 118 996	12 590 738	8 709 185	9 398	57 428 317
Net recognised position	13 484 075	(1 823 147)	23 667	3 484	11 688 079
Net unrecognised position	(245 771)	261 710	(15 939)	-	-
Credit related commitments	4 369 489	11 083 143	929 586	-	16 382 218

The exposure to currency risk as at 31 December 2014 is as follows:

	<i>RUB</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
Net recognised position	16 633 907	(2 584 876)	(168 496)	25	13 880 560
Net unrecognised position	(2 180 092)	1 981 898	198 194	-	-
Credit related commitments	4 417 416	5 876 250	504 053	26 925	10 824 644

The net unrecognised position represents the notional currency position on deliverable forward and spot foreign exchange contracts outstanding as at 31 December 2015 and 2014. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its net currency position. Such activities do not qualify as hedging relationships in accordance with IFRS.

The Bank has a significant part of loans to customers denominated in foreign currencies. Depending on the revenue sources of the borrower, the appreciation of the currencies against the RUB may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(Thousands of Russian Roubles)

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2015 and 2014 on its non-trading positions and foreign currency derivatives. The analysis calculates the effect of a reasonably possible movement of the currency rates against the RUB, with all other variables held constant on the profit or loss and equity before income tax expense.

Currency	2015	2014
10% appreciation of USD against RUB	(156 144)	(60 298)
10% appreciation of EUR against RUB	773	2 970
Total	(155 371)	(57 328)

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

For managing operational risk the Bank follows operational risk guidelines and methodology of the CBR and Intesa Sanpaolo Group in compliance with Basel recommendations as well as locally-developed methodologies and tools. The Bank, in accordance with the Intesa Sanpaolo Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy and other internal regulations in order to perform an effective operational risk management and support the Bank's business.

Operational risk management is a structured system of processes, functions, responsibilities and resources aimed at detection and monitoring, assessment, minimization and control of operational risks, as well as providing their effective prevention in accordance with the requirements of the ISP Group and external legislation. Operational risk management is directly connected with the level of corporate governance and corporate ethics of the Bank.

The main methods of identification and monitoring of operational risks are collection and recording of data on operational risk events and key risk indicators system, as well as analysis of the new and existing procedures. All operational risk events are registered in the operational risks' database, analysed and regularly brought to attention of the Management of the Bank. Additionally, all new and updated operations, products and processes are analysed with respect to operational risk sensitivity.

The Bank conducts operational risks assessment in accordance with the methodology of the ISP Group. Risk assessment is an independent risk assessment, consisting of two parts: assessment of the impact of risk factors and their level of control, as well as scenario analysis.

In addition, the Bank creates reserves for losses from operational risk events, and calculates the required capital to cover operational risk.

In order to minimize and control operational risks the Bank implements preventive measures against operational risk events or losses associated with the realisation of operational risk events, and suggests a series of measures aimed at reducing the impact of the causes of risk (risk factors), the transfer of risk (outsourcing), decrease (limit) the size of the potential operating losses (insurance), as well as actions to minimize the effects and potential losses in case of realisation of operational risk events.

The Bank applies the following methods to minimize the risk:

- establishing organisational structure in accordance with the requirements of the Group and regulatory bodies;
- ensuring selection of a sufficient number of qualified professionals, conducting their training on an ongoing basis, organisation of interchangeability;
- ensuring the principle of separation of powers and accountability of transactions, effective cooperation and communication of personnel; clear description of the responsibilities of each employee;
- compliance with labour laws;
- remuneration of the Bank in accordance with market conditions and requirements of the Group;
- ensuring the confidentiality of the employees and the clients data;
- ensuring proper working conditions for the employees of the Bank;
- developing and updating the internal rules and procedures for performance of banking operations and other transactions in order to eliminate (minimize) the impact of operational risk factors, and comply with the requirements of the local legislation and the Group;
- regulation and approval of any banking processes, transactions and other deals;
- monitoring of performance and making amendments to any banking processes, operations and transactions;
- separation of powers, operation and monitoring activities;
- setting limits on banking operations and other transactions;

(Thousands of Russian Roubles)

- adherence to the principles of accounting and reporting, regular reconciliation of accounts and supporting documents on banking and other transactions;
- use of proven technology and implementation of well-developed and studied technology, compliance of all systems (hardware and software) and technical documentation to the requirements of the Group;
- software testing prior to implementation;
- preventing unauthorised access to information systems of the Bank, maintenance of the established order of access to data;
- segregation of access rights and authorisation in the systems of the Bank;
- other methods.

The Bank pays special attention to the measures to ensure continuity of financial and economic activity in the banking operations and other transactions, including contingency (business continuity) plans.

In December 2015 the Bank received comments from the regulator in respect of not full compliance of the internal control system to the regulations of the Bank of Russia related to the process of control, monitoring and internal reporting on clients' operations. Management of the Bank has immediately developed and agreed with the regulator steps to address these deficiencies, including amendments to the Bank's policy on internal controls and adaptation of technical solutions for monitoring of a certain clients' operations, the number of which should be minimized in accordance with the requirements of the Bank of Russia. In accordance with the requirements of the Bank of Russia the Bank should provide additional information to the regulator on some transactions. The identified issues didn't result in any losses of the Bank and didn't have any material effect on the operations and activities of the Bank. Management believes that the identified deficiencies will be entirely eliminated in the nearest future and that they will not have any adverse effect on future operations of the Bank.

26. Fair values of financial instruments

Fair value hierarchy

The Bank uses the following fair value hierarchy for measuring fair values of financial instruments:

- Level 1: quoted market prices (unadjusted) in an active market for an identical instrument;
- Level 2: valuation techniques for which all significant inputs are observable, either directly or indirectly;
- Level 3: valuation techniques which use significant unobservable inputs.

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Financial assets			
Derivative financial assets	-	2 282	2 282
Available-for-sale securities	2 581 354	4 410	2 585 764
	2 581 354	6 692	2 588 046
Financial liabilities			
Derivative financial liabilities	-	44 167	44 167
	-	44 167	44 167

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Financial assets			
Derivative financial assets	-	30 436	30 436
Available-for-sale securities	1 994 063	4 410	1 998 473
	1 994 063	34 846	2 028 909
Financial liabilities			
Derivative financial liabilities	-	79 161	79 161
	-	79 161	79 161

(Thousands of Russian Roubles)

As at 31 December 2015, the Bank has repossessed collateral in the amount of RUB 304 123 thousand (2014: RUB 244 549 thousand) that is measured at lower of cost and fair value less cost to sell, for which fair value was determined using inputs that belong to Level 3 in the fair value hierarchy.

The estimation of fair value of repossessed collateral is based on benchmarking assessment. The Bank adjusts the estimated market value of similar property using the liquidity discounts. The discounts, applied by the Bank ranges from 15% to 30% for residential property; 40% to 50% for office property and 50% to 60% for regional residential property.

Fair values of financial instruments carried at amortised cost

For financial instruments carried at amortized cost, the levels in the fair value hierarchy into which the fair values are categorised are as follows as at 31 December 2015:

	Level 1	Level 2	Level 3	Fair value	Carrying amount
Financial assets					
<i>Loans to customers</i>	-	-	43 209 288	43 209 288	43 843 983

For financial instruments carried at amortized cost, the levels in the fair value hierarchy into which the fair values are categorised are as follows as at 31 December 2014:

	Level 1	Level 2	Level 3	Fair value	Carrying amount
Financial assets					
<i>Loans to customers</i>	-	-	53 818 359	53 818 359	56 889 512

The estimated fair value of remaining financial instruments carried at amortised cost as at 31 December 2015 and 31 December 2014 approximates their carrying values.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

The following assumptions are used by management to estimate the fair values of discounting future cash flows from loans to customers:

	31 December 2015			31 December 2014		
	Russian Rubles	USD	EUR	Russian Rubles	USD	EUR
Loans to large corporate customers	14%	3%	4%	27-29%	4-9%	3-7%
Loans to other corporate customers	17-23%	7-8%	7-8%	14-36%	5-15%	5-14%
Loans to retail customers	15-19%	7-13%	5-9%	22-30%	15-17%	17%

27. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity; the party is a member of the key management personnel of the entity or its parent.

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key management personnel. These transactions include loans, deposits and other transactions. These transactions are performed at market prices.

(Thousands of Russian Roubles)

Since 2005 the Bank is a member of Intesa Sanpaolo Group. Intesa Sanpaolo Group members are entities comprising a banking group which has a leading position on the Italian market and a strong international presence, mainly in Central-Eastern Europe and the Mediterranean region.

Intesa Sanpaolo Holding International SA (Luxembourg) is parent entity of the Bank as at 31 December 2015 owning 53.0228% of shares (2014: 53.0228%).

Intesa Sanpaolo S.p.A. (Italy) is the ultimate controlling party of the Bank as at 31 December 2015 and 2014.

The outstanding balances with the related parties as at 31 December are as follows:

	2015				2014			
	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo Holding International SA	Intesa Sanpaolo Group members	Key management personnel	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo Holding International SA	Intesa Sanpaolo Group members	Key management personnel
Cash and cash equivalents								
Current accounts and overnight placements with other credit institutions	2 933 006	-	1 140 052		1 979 316	-	150 050	-
Amounts due from credit institutions								
Time deposits	1 093 241	-	-	-	1 125 168	-	-	-
Loans to customers								
Loans to customers as at 1 January, gross	-	-	-	310	-	-	-	333
Loans issued during the year				-	-	-	-	-
Loans repaid during the year	-	-	-	(175)	-	-	-	(19)
Other movements	-	-	-	-	-	-	-	-
Loans to customers as at 31 December, gross	-	-	-	135	-	-	-	314
Less: loan impairment allowance as at 31 December	-	-	-	(2)	-	-	-	(4)
Loans to customers as at 31 December, net	-	-	-	133	-	-	-	310
Amounts due to credit institutions								
Current accounts	60 994	-	26 261	-	215 878	-	19 494	-
Term deposits	-	-	11 150 748	-	-	-	13 718 369	-
Amounts due to customers								
Current accounts	-	-	-	9 828	-	-	-	1 644
Term deposits	-	-	-	36 274	-	-	-	8 557
Other borrowed funds								
Other borrowed funds as at 1 January	-	11 174 828	-	-	-	8 092 697	-	-
Other borrowed funds received during the year	-	-	-	-	-	-	-	-
Other borrowed funds repaid during the year	-	(12 395 195)	-	-	-	-	-	-
Other movements	-	1 220 367	-	-	-	3 082 131	-	-
Other borrowed funds as at 31 December	-	-	-	-	-	11 174 828	-	-
Subordinated debt								
Subordinated debt as at 1 January	-	703 230	-	-	181 617	409 115	-	-
Deposits received during the year	-	-	2 768 604	-	-	-	-	-
Deposits repaid during the year		(911 034)	-		(181 617)	-		
Other movements	-	207 804	146 704	-	-	294 115	-	-
Subordinated debt as at 31 December	-	-	2 915 308	-	-	703 230	-	-
Other liabilities	-	-	60 925	-	-	-	-	-
Derivative financial instruments								
Notional amount of foreign exchange contracts	3 279 053	-	-	-	2 002 435	-	-	-
Derivative financial assets	-	-	-	-	2 435	-	-	-
Derivative financial liabilities	(20 947)	-	-	-	-	-	-	-
Guarantees received by the Bank on loans and credit lines to customers	3 999 283	-	-	-	1 036 159	-	-	-

(Thousands of Russian Roubles)

The related profit or loss amounts of transactions with the related parties for the year ended 31 December are as follows:

	2015				2014			
	<i>Intesa Sanpaolo S.p.A.</i>	<i>Intesa Sanpaolo Holding International SA</i>	<i>Intesa Sanpaolo Group companies</i>	<i>Key management personnel</i>	<i>Intesa Sanpaolo S.p.A.</i>	<i>Intesa Sanpaolo Holding International SA</i>	<i>Intesa Sanpaolo Group companies</i>	<i>Key management personnel</i>
Interest income								
Amounts due from credit institutions	25 646	-	1 349	-	24 207	-	1 579	-
Loans to customers	-	-	-	48	-	-	-	17
Impairment of loans	-	-	-	2	-	-	-	(2)
Interest expense								
Amounts due to credit institutions	(8 033)	-	(1 152 966)	-	(6 593)	-	(1 017 684)	-
Amounts due to customers	-	-	-	(3 356)	-	-	-	(247)
Other borrowed funds	-	(304 339)	-	-	-	(449 196)	-	-
Subordinated debt	-	(29 701)	(10 192)	-	(2 161)	(18 547)	-	-
Net gains from foreign currencies	553 333	-	-	-	206 979	-	-	-
Fee and commission income	23 098	-	51 409	-	362	-	18 087	-
Fee and commission expense	(29 768)	-	(11 697)	-	(21 213)	-	(5 590)	-
Other general administrative expenses	-	-	(231 730)	-	-	-	(176 497)	-

Total remuneration of the Management Board members included in the personnel expenses for the year ended 31 December 2015 is RUB 52 242 thousand, including social contributions of RUB 5 233 thousand (2014: RUB 33 259 thousand, including social contributions of RUB 2 954 thousand).

Total remuneration of the Board of Directors for the year ended 31 December 2015 is RUB 16 434 thousand (2014: RUB 16 575 thousand).

As at 31 December 2015, included in guarantees received is the amount of RUB 216 239 thousand (2014: RUB 997 085 thousand), which is provided by Intesa Sanpaolo Group companies as counter-guarantees to the guarantees provided by the Bank. The Bank counter-guaranteed RUB 7 985 thousand in relation to guarantees issued by Intesa Sanpaolo Group companies as at 31 December 2015 (2014: RUB 750 754 thousand).

28. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation;
- maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties;
- ensuring that the amount of capital is sufficient for business expansion and development.

The Bank monitors its capital adequacy using, among other measures, the ratios established by the Basel Capital Accord 1988, with subsequent amendments ("Basel Capital Accord"), and the ratios established by the CBR.

The Bank has complied with all externally imposed capital requirements as at 31 December 2015 and 2014.

(Thousands of Russian Roubles)

The Bank manages its capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return on capital to the shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous year.

Capital adequacy under Russian Legislation

The Bank calculates amount of capital in accordance with Provision of the CBR dated 28 December 2012 No. 395-P On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III).

As at 31 December 2015, minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 4.5%, 6.0% and 10.0%, accordingly (31 December 2014: 5.0%, 5.5% and 10.0%, accordingly).

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios. Transactions of a subsidiary are not material and do not have any significant effect on the Bank's mandatory ratios.

As at 31 December 2015 and 2014, the Bank's CBR-defined capital adequacy ratios exceed the required statutory minimums and are as follows:

	2015	2014
Base capital	10 592 866	11 615 824
Additional capital	2 915 308	84 388
Main capital	13 508 174	11 700 212
Supplementary capital	-	-
Own funds (capital)	13 508 174	11 700 212
Risk-weighted assets	76 462 514	82 215 326
Ratio N1.1 (%)	13.9%	14.1%
Ratio N1.2 (%)	13.9%	14.1%
Ratio N 1.0 (%)	17.7%	14.2%

Capital adequacy ratio under the Basel Capital Accord (unaudited)

The Bank applies the Basel II Framework for the purpose of capital adequacy calculation using the simplified standardised approach for credit risk measurement, the standardised measurement method for market risk and the basic indicator approach for operational risk measurement. The Bank's capital adequacy ratio as computed in accordance with the Basel Capital Accord as at 31 December is as follows:

	2015	2014 (recalculated)
Share capital	10 820 181	10 820 181
Retained earnings and other capital reserve	857 920	3 112 077
Deductions	(548 947)	(710 734)
Tier 1 capital	11 129 154	13 221 524
Subordinated debt (unamortised portion)	2 915 308	105 485
Total capital	14 044 462	13 327 009
Risk-weighted assets	80 417 934	75 642 754
Tier 1 capital ratio	13.8%	17.5%
Total capital ratio	17.5%	17.6%

(Thousands of Russian Roubles)

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

Olga Lein

Deputy Chairman of the Management Board

Tatyana Pavlycheva

Member of the Management Board/Head of
Accounting, Planning and Control Group/Chief
accountant

16 February 2016

