Russian Agricultural Bank

ANNUAL REPORT 2015

Contents

Statement by the Chairman of the Management Board[1]

Dear clients and partners,

Throughout 2015, the whole country confronted many difficulties. Uncertainty and volatility in the financial markets increased, macroeconomic indicators deteriorated, investment activity declined, and planning horizons were shortened.

Against the background of an exacerbated geopolitical situation and ongoing changes in the external environment, sanctions imposed by the United States, the European Union, and a few other countries on Russian state-owned banks and other enterprises remained in force. Access to international long-term financing has been closed for Russian Agricultural Bank.

Despite these obvious and significant difficulties, the Bank successfully accomplished tasks set out by its shareholder of financially supporting Russian agribusiness, fast-paced import substitution, and domestic food security.

[1] Note: Financial data is under IFRS Audited Financial Statements as at 31 December 2015.

The Bank ensured lending growth in priority industries and segments of the Russian economy, retained leadership in financing seasonal field work, and achieved growth rates that outpaced the banking system as a whole, all while maintaining a conservative approach to risk management.

In 2015, the Bank's gross loan portfolio rose RUB 251 billion (16%) to RUB 1.805 trillion. In the corporate segment, loans rose 18.5%, while the retail loan portfolio increased 5.6%. Assets grew 22.6% and totaled RUB 2.348 trillion.

Development of the Bank's product offerings and customer service, alongside consistent measures to enhance the efficiency of points-of-sale, secured a higher share of customer accounts in total liabilities, which further decreased the Bank's reliance on international capital markets and diversified its domestic funding sources (in terms of cost and maturity). In 2015, customer accounts increased 56.2% and totaled RUB 1.190 trillion.

In 2015, the Bank successfully diversified its funding sources. In addition to a RUB 10 billion share capital increase from government funds that had been planned earlier, the Bank attracted a long-term subordinated deposit in the amount equivalent to RUB 73 billion and a RUB 68.8 billion preferred share issue, acquired by the State Corporation "Deposit Insurance Agency" (DIA). These contributions have materially strengthened the Bank's equity and capital adequacy ratios.

These measures, alongside cost reduction initiatives, including: optimizing the branch network and streamlining business processes, as well as lowering general and administrative expenses, will unlock additional potential for growing lending to Russian agribusiness and related sectors, promote faster import substitution, and strengthen the country's food security.

Pursuant to the Agreement with the DIA, the Bank has undertaken additional commitments to increase lending to priority industries and sectors of the economy. This development opens up new opportunities and growth drivers for the Bank's business, diversifies income sources, mitigates industry risks, and will help cement the Bank's standing as a market instrument for state support of a large number of industries and economic sectors.

Dmitry N. Patrushev
Chairman of the Board and CEO
Russian Agricultural Bank

Russian Agricultural Bank Annual Report 2015

1. Bank Profile

Russian Agricultural Bank was established in line with a Presidential Order (dated 15 March 2000) to develop the national credit and finance system in agribusiness and rural areas. Today, Russian Agricultural Bank is a universal commercial bank providing comprehensive banking services and holding a top position in agribusiness financing.

Russian Agricultural Bank is one of the largest Russian State-owned banks (the 6th largest in Russia) accounting for 3% of the country's banking sector assets. It is fully owned by the Russian Federation, represented by the Federal Agency on Federal Property Management, the Russian Ministry of Finance, and the Deposit Insurance Agency.

Russian Agricultural Bank has a unique mandate to act as the State agent to implement the Government's financial policy in the domestic agribusiness sector. The Bank's priority is on providing financial support to Russian agribusiness, fishery and forestry enterprises, and developing rural territories, which the State recognizes as strategically important.

As the main lender to Russian agribusiness, Russian Agricultural Bank possesses unparalleled knowledge about this specific market. The Bank's branch network, with 75 branches and about 1,300 additional offices, spans all Russian agricultural regions. The Bank offers a wide range of financial products and services to agribusiness and the rural population, which makes up approximately 30% of Russia's total population. The Bank continually enhances its product range to accomplish State policy goals and to meet the needs of its target customer segments.

Consistent with Russian government policy objectives set forth in the 2013-2020 State Program on Agribusiness Development, Russian Agricultural Bank plays a key role in rural development, ensuring the sustainable growth of Russian agribusiness and related sectors.

1.1. Mission and Strategy

Russian Agricultural Bank's mission is to implement the Russian Government's financial policy in agribusiness by:

- Ensuring the availability of affordable banking products and services for Russia's agribusiness and related sectors, as well as the population of small towns and rural areas;
- Contributing to the development and operation of Russia's credit and financial system;
- Fostering the development of Russia's agribusiness, related sectors, and rural areas;
- Bringing financial services to rural areas where there are no other credit institutions.

To synchronize the Bank's development with the 2013-2020 State Program on Agribusiness Development, on 21 November 2012, the Supervisory Board of the Bank adopted a Development Strategy through 2020. In accordance with the Strategy, the Bank will further strengthen its positions in agribusiness and related sectors, and provide financial support to agribusiness sectors, as well as populations and businesses in rural areas and small- and medium-sized towns.

The Development Strategy through 2020 helps facilitate achieving Russian Agricultural Bank's mission. The Strategy envisages further expansion of the Bank's business with a particular focus on:

- Maintaining leading positions in lending and providing financial services to agribusiness and related sectors, and in facilitating the development of rural areas;
- Implementing federal and regional programs that are focused on:
  - Ensuring domestic food security;
  - Achieving Russia's status as the world's leading food producer and exporter;
  - Maintaining social stability and development in rural areas, and upgrading financial literacy and the living standards of Russia's rural population.
- Guaranteeing sustainable development and upgrading Bank efficiency:
  - Transforming the Bank's operating model and IT systems to reduce operating expenses;
  - Developing interest and commission-based products across all segments, offering a wide range of customized products;
  - Expanding the regional network via the development of low-cost and high efficiency sales channels;
  - Growing the customer base by offering a wide range of affordable, high quality banking products and services to both corporate and retail customers.

The Bank's long-term development baseline consists of considering the Strategy through 2020, the Russian Federation Food Security Doctrine and the 2013-2020 State Program, which envisage integrated agribusiness sector development, including:

- Increasing agricultural producers' profitability as a condition for transitioning to the innovative agribusiness development model;
- Developing all types of small businesses in rural areas, including supporting entry-level farmers;
- Encouraging sustainable development in rural areas;
- Fostering cooperation and integration in agribusiness.

In compliance with an Order of the President of the Russian Federation and a Resolution of the Supervisory Board, Russian Agricultural Bank has adopted the 2014-2020 Long-term Development Program. The Program is synchronized with the 2013-2020 State Program on Agribusiness Development.

The 2014-2020 Long-term Development Program has been approved by the Russian Government.

The Bank's long-term development priorities are based on the main targets and objectives of the Strategy, the Long-term Development Program, the Russian Food Security Doctrine and the 2013-2020 State Program, which envisage integrated development of all agribusiness sectors and subsectors.

It should be noted that State Program implementation and import substitution objectives may be negatively impacted by deterioration in the economic environment and ongoing geopolitical risks. The main negative factor is limited access to financial resources on the international capital market – both for refinancing existing borrowings and raising new agribusiness financing funds.

In 2016, together with client accounts, the Bank plans to attract funds offered by the Government and to enhance lending to other economic sectors. This will allow the Bank to maintain loan portfolio growth, increase loan quality, and diversify sources for raising clients' accounts, and increase profitability.

At the same time, the Bank plans to maintain its leading position in agribusiness, and the fishery and forestry industries, strengthening its position as the main instrument for implementing federal and regional State programs within the sector.

Russian Agricultural Bank regularly assesses implementation of the Development Strategy through 2020 based on its financial and non-financial parameters, taking into account global and local economic development, as well as agribusiness and banking sector results.

Strategy implementation will provide for the Bank's further efficient development, taking into account the interests of the Government and Bank clients; strengthening the Bank's position as a key element in State agribusiness program implementation; and expanding the Bank's product range.

The Strategy is oriented towards the Bank's further strong performance as a core financial player in supporting domestic food security and leading Russia towards becoming a major global food exporter.

In 2015, the Bank's results were mainly in line with the above-mentioned Strategy. However, decreased economic development and heightened geopolitical risks negatively influenced agribusiness loan growth and implementation of the 2013-2020 State Program on Agribusiness Development.

On 7 April 2016, the Supervisory Board of Russian Agricultural Bank approved the Bank's updated Development Strategy through 2020.

The Strategy reflects significant changes in the external environment in 2014-2015 and current macroeconomic forecasts through 2020, as well as new tasks and obligations that the Bank has undertaken relating to comprehensive support of the Russian economy. Realizing the Strategy and applying a universal commercial bank business model will allow Russian Agricultural Bank to further effectively accomplish State tasks in agribusiness and other priority industries, ensure the Bank's sustainable development and competitiveness, comply with regulators' requirements, and achieve targeted profitability levels.

1.2. Key Financial Highlights[2]

RUB million	FY2013	FY2014	FY2015
Summary of consolidated balance sheet			
Cash balances	137,179	114,382	175,971
Securities portfolio	137,610	153,574	248,275
Derivative financial instruments	25,667	131,819	166,712
Due from other banks	43,065	34,036	61,101
Loans and advances to customers	1,261,046	1,416,463	1,625,637
Premises and equipment	24,655	24,314	23,624
Other assets	41,542	41,229	47,132
Total assets	**1,670,764**	**1,915,817**	**2,348,452**
Due to other banks	149,680	285,776	97,256
Customer accounts	722,125	761,595	1,189,856
Promissory notes issued	31,174	18,680	14,637
Other borrowed funds	449,803	554,568	609,824
Derivative financial instruments	950	1,207	204
Subordinated debts	74,053	84,261	225,109
Other liabilities	15,196	11,731	15,761
Total liabilities	**1,442,981**	**1,717,818**	**2,152,647**
Total equity	**227,783**	**197,999**	**195,805**
Total liabilities and equity	**1,670,764**	**1,915,817**	**2,348,452**
Summary of consolidated income statement			
Net interest income	65,353	59,973	23,929
Provision for loan impairment	(27,003)	(55,895)	(90,430)
Net fee and commission income	8,358	8,819	12,127
Other operating income	688	1,233	2,299
Administrative and other operating expenses	(36,822)	(41,953)	(47,930)
Profit / (Loss) for the year	**729**	**(47,928)**	**(94,220)**

Capital Adequacy

RUB million / %	FY2013	FY2014	FY2015
Tier I Capital	226,653	208,868	193,575
Tier II Capital	71,658	66,771	98,125
Total Capital	**298,311**	**275,639**	**291,700**
Total Risk weighted assets	**1,661,047**	**2,121,189**	**2,497,777**
Tier I Capital Ratio[3]	**13.6%**	**9.9%**	**7.7%**
Total Capital Ratio[3]	**18.0%**	**13.0%**	**11.7%**

2 Source: IFRS Audited Financial Statements as at 31 December 2013, 31 December 2014, 31 December 2015.
3 Note: Calculated based on Basel II requirements.

1.3. Market Position[4]

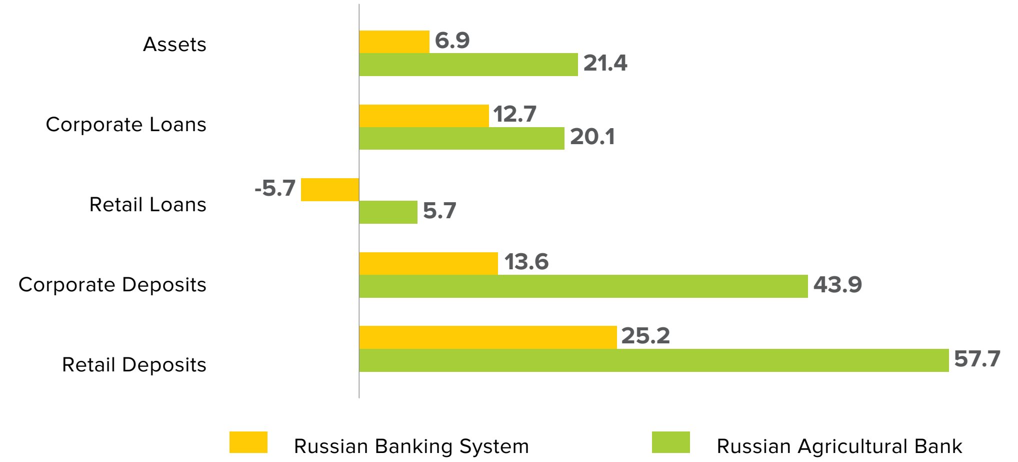
Russian Agricultural Bank consistently holds a top position in Russia based on key performance indicators (KPIs):

- Ranked No 1 in lending to agriculture and agribusiness;
- Ranked No 2 by branch network;
- Ranked No 2 by lending to small- and medium-sized businesses;
- Ranked No 3 by retail loan portfolio;
- Ranked No 4 by capital;
- Ranked No 5 by corporate loan portfolio (loans to non-financial organizations);
- Ranked No 6 by assets.

The Bank's local presence provides a significant marketing advantage, as well as ensuring access to the regional client base. Nationwide, the Bank serves about 6 million clients. Russian Agricultural Bank is an acknowledged leader in lending to agribusiness and related sub-sectors, with the following key market shares:

- Agriculture, hunting, and related services – about 40%;
- Food and beverage production, including tobacco – about 20%;
- Agriculture and forestry machinery and equipment production – 20%.

Key Financial Indicators Dynamics in 2015, RusAg versus Sector, %[5]



4 Source: Bank information according to Russian Accounting Standards (RAS) as at 1 January 2016, Expert RA and RBC rankings.
5 Source: Source: Bank of Russia, Bank information.

Russian Agricultural Bank is among the top Russian banks based on key performance indicators (KPIs)[6]:

RUB 327 billion Share Capital FY2015 IFRS	**RUB 2.3 trillion** Total Assets FY2015 IFRS	**RUB 1.6 trillion** Loan Portfolio FY2015 IFRS	**31,817** Headcount FY2015 IFRS
No. 2 Largest branch network in Russia	**No. 4** Largest bank by capital	**No. 6** Largest bank by assets	**No. 262** In The Banker's Top 1,000 World Banks

1.4. 2015 Key Events and Achievements

JANUARY

- Russian Agricultural Bank is among the 10 best banks in the 'Best Interbank Dealing 2014' category, according to a survey by The Moscow Interbank Currency Association;
- The Bank opened a Renminbi correspondent account with Agricultural Bank of China;
- The Bank signed a Cooperation Agreement with UnionPay International on the development of the Bank's ATM and merchants (POS) network;
- The Bank signed a Cooperation Agreement on Agribusiness Development with the Stavropol Region.

FEBRUARY

- The Bank supported holding the XXVI Russian Farmers' Congress;
- The Bank's Management Board approved the branch network development program for 2015;
- The Bank placed Series BO-08 and Series BO-17 local bonds with a nominal value of RUB 10 billion and RUB 5 billion, respectively. The issues have a maturity of 10 years.

MARCH

- Dmitry Patrushev, Chairman of the Board and CEO of Russian Agricultural Bank, paid working visits to the Stavropol Region and the Leningrad Region;
- Dmitry Patrushev was a keynote speaker at the plenary session of the International Agrarian Forum on Vegetable Crops, 'VegCult,' dedicated to prospective vegetable farming and import substitution in Russia.
- The Bank hosted a roundtable discussion on the development of the investment potential of the Vladimir Region;

6 Source: Bank information, Bank of Russia, Expert RA, and the Banker.

APRIL	MAY	JUNE
■ Dmitry Patrushev became a member of the Government Commission on Economic Development and Integration; ■ The Bank acted as a general sponsor of the XXVI Annual Congress of the Association of Russian Banks; ■ The Bank launched its contact center in the Republic of Karelia.	■ The Bank extended RUB 2.8 trillion under the State Programs 2008-2020; ■ Dmitry Patrushev paid working visits to Udmurtia and the Ulyanovsk Region.	■ The Bank has extended more than RUB 111 billion to support import substitution projects since 2013; ■ The Bank acted as a partner for the 19th St Petersburg International Economic Forum; ■ The Bank signed a Cooperation Agreement with the Leningrad Region; ■ The Bank is included in the Program of SME-lending Stimulation; ■ The Bank's capital increased RUB 10 billion.
JULY	**AUGUST**	**SEPTEMBER**
■ The Bank ranked No. 262 in The Banker's Top 1,000 World Banks; ■ The Bank placed RUB 10 billion Series 24, 25, and 26 subordinated bonds in the domestic market with the first coupon set at 13.1% p.a. The bonds' maturity is 10 years.	■ The Bank's official name was amended in compliance with Federal Law No. 99-FZ (dated 5 May 2014) – Joint stock company Russian Agricultural Bank (JSC Rosselkhozbank), which had no impact on the status, rights, and obligations of the Bank towards its clients and/or counterparties.	■ The Bank took part in the Eastern Economic Forum aimed at strengthening ties between the international investment community, Russian businesses, and State authorities to develop the Far East's economic potential; ■ Dmitry Patrushev paid a working meeting to the Voronezh Region.
OCTOBER	**NOVEMBER**	**DECEMBER**
■ The Bank placed RUB 10 billion Series BO-09 exchange traded bonds in the domestic capital market with the first coupon set at 11.70% p.a. The bonds have a 10-year maturity with a 2-year put option; ■ The Bank acted as a general partner for the 17th Russian Agricultural Exhibition "Golden Autumn"; ■ The Bank launched the "Made in Russia" information campaign to support Russian agribusiness producers.	■ The Bank received RUB 68.8 billion for T1 capital increase via federal loan bonds (OFZ) through the Deposit Insurance Agency (DIA); ■ The Bank signed Cooperation Agreements with the Nenets Autonomous District and the Khanty-Mansiysk Autonomous District; ■ The Bank acted as a primary sponsor of the annual theoretical and practical conference "Agricultural Education and Science in the 21st Century: Challenges and Problems of Development."	■ Dmitry Patrushev won the National Banking Award (presented by the Association of Russia Banks) in the category "Banker of the Year."

Key Events after the Reporting Date:

February 2016

- Russian Agricultural Bank acted as the general sponsor of the XXVII Russian Farmers' Congress, arranged by the Association of Farms and Agricultural Cooperatives of Russia.

April 2016

- The Bank's capital increased RUB 8 billion;
- The Supervisory Board of Russian Agricultural Bank approved an updated version of its Strategy through 2020, which reflected significant changes that took place in 2014-2015 period;
- Russian Agricultural Bank acted as a general sponsor of the Annual Congress of the Association of Russian Banks dedicated to discussing the development and prospects of Russia's banking system and economy in 2016-2018 period.

May 2016

- Russian Agricultural Bank has supported the XXXI General Congress of the Association of Regional Banks of Russia.
- Russian Agricultural Bank has decided to redeem on 5 July 2016 its subordinated Eurobond worth USD 800 million issued in June 2011 at the interest rate of 6.00% p.a. due in June 2021.
- The Bank received a prestigious STP Award in recognition of operational excellence in Euro payments conducted in compliance with international rules on straight through processing (STP).

June 2016

- Russian Agricultural Bank acted as a partner of the major Russian business event - St. Petersburg International Economic Forum (SPIEF).
- Russian Agricultural Bank and UnionPay International Co. Ltd held an official ceremony to launch UnionPay card issuance.
- Dmitry Patrushev, Chairman of the Board and CEO of Russian Agricultural Bank, and Yan Bing Zhu, Chairman of the Board of Directors of Bank of Beijing, signed a Cooperation Agreement aimed at promoting investment and trade relations between Russia and China.

2. Operating Environment

2.1. Russian Economic Development[7]

In 2015, global economic activity remained relatively stagnant. Growth in emerging markets and developing economies, while still accounting for more than 70% of global gains, declined for the fifth consecutive year, while modest recovery continued in advanced economies.

The Russian economy is continuing to adjust to the 2014 terms-of-trade shock amidst a tense geopolitical climate marked by ongoing international sanctions. The national currency came under pressure as Russia's foreign currency exports and revenues plummeted and the country lost access to international capital markets. Coupled with Russia's counter-sanctions, this triggered inflationary pressure. In 2015, consumer inflation reached 12.9%. At the same time, structural oil market shifts contributed to ruble volatility.

The weakening of the ruble created a price advantage for some industries, boosting a narrow range of exports and encouraging investment in certain sectors. However, this was not sufficient to generate an overall increase in non-energy exports.

The Russian Government and the Bank of Russia made numerous moves to stabilize the macroeconomic situation after devaluation amidst growing tensions on financial markets in late 2014. The Bank of Russia reduced its key interest rate by 6 percentage points. However, a growing inflation risk against the backdrop of declining oil prices in July and November 2015 prevented a further reduction in the key rate after August 2015.

Oil prices are expected to recover gradually in 2016 as global demand grows and producers with high manufacturing costs reduce production. This might counter-balance additional global oil supply coming mostly from OPEC countries. The national currency will appreciate as oil prices grow, and the Bank of Russia will be able to resume its rate-cutting policy when the ruble gets stronger and the inflation rate declines.

Economic activity and the financial position of borrowers took a blow as the domestic economy had to adapt to external shocks. In 2015, Russia's GDP dropped 3.7%, and industrial production fell 3.4% (Rosstat data). A decline in both real wages and retail lending put pressure on consumer demand. With consumers going into saving mode, retail turnover in 2015 declined 10%. Within the context of economic uncertainty, a significant contraction in domestic demand, limited funding opportunities and more expensive imports, investment activity declined (-8.4%).

7 Note: Forecasts given in this chapter are only general guidelines and could be subject to change.

GDP Components Dynamics, %[8]

The dynamics of most macroeconomic indicators suggest that the Russian economy is past the acute phase of the recession. However, if oil prices continue to fall, the recession may linger and economic recovery may be delayed.

Despite a significant decrease in export revenues, Russia had a better current account balance in 2015 than in 2014, which indicates a high adaptive capacity of the Russian economy under a floating ruble exchange rate. While net exports made a positive contribution to GDP growth in 2015, private capital outflows were three times lower than in 2014. Given that the peak of foreign debt repayments is now past, the current account balance may show a good surplus over 2016 and the current trend in net capital outflows may prevail.

As oil prices tumbled, ruble devaluation partially offset the loss of budget revenues from oil and gas, making the federal budget deficit smaller than anticipated (2.6% of GDP). The budget deficit was financed mainly from the Reserve Fund, which amplified the impact of budget expenditures on the Russian money market. The Reserve Fund will continue to play a key role in budget deficit financing (below 3%) throughout 2016.

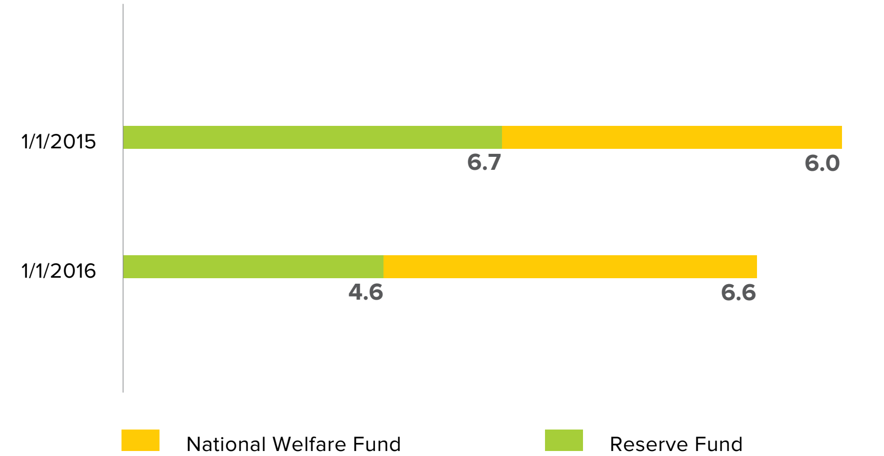
A well-balanced fiscal policy, the change to a floating Ruble exchange rate, Russia's sizeable sovereign funds and international reserves are instrumental to macroeconomic stability. As of 1 January 2016, Russia had RUB 3.6 trillion in the Reserve Fund, RUB 5.2 trillion in the National Wealth Fund, and USD 368 billion in international reserves.

8 Source: Russian Federal Statistics Service, Bank estimates.

International Reserves, USD billion[9]

Although devaluation pushed up banks' and companies' external debt, Russian exporters are generally capable of meeting their external obligations. External debt refinancing does not constitute a systemic problem for the banking sector. Over 2015, the corporate sector's external debt has dropped USD 73.9 billion.

Sovereign Wealth Funds, % of GDP[10]



9 Source: Bank of Russia.

10 Source: Russian Ministry of Finance.

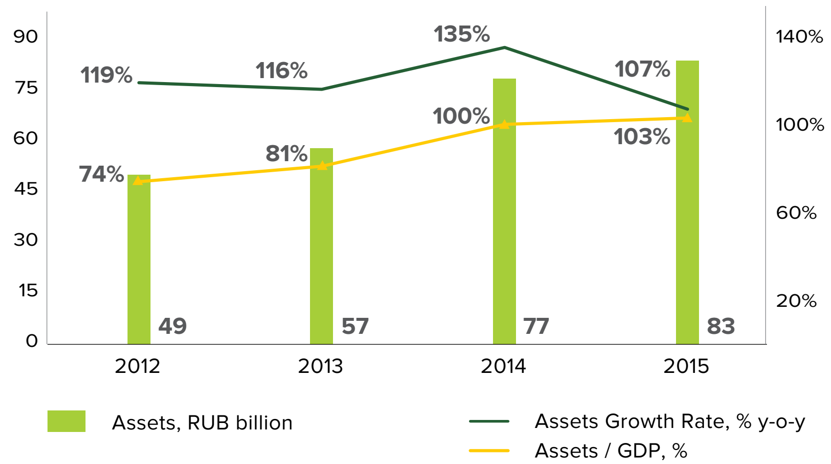
2.2. Russian Banking Sector Development

In 2015, the banking sector operated under difficult macroeconomic conditions. Early 2015 saw tensions over liquidity, triggered by an outflow of customer funds. Interest risks for the banking sector started to grow based on the Bank of Russia's December 2014 decision to raise its rate. In a move to minimize the negative impact of a volatile ruble and interest rates on banks' ability to comply with existing standards, the Bank of Russia introduced numerous regulatory exemptions. Some of these remained in effect throughout 2015.

The loan market was affected by overall economic deterioration. A decline in loan demand and credit availability put pressure on growth rates for both corporate and retail lending. Within the context of growing credit risks, banks chose to refrain from risky lending. Pricing and non-pricing terms for bank lending were also affected.

In 2015, bank assets grew 6.9% (or, effectively, declined 1.6% after adjusting for currency revaluation). Loans showed weak growth, at 7.6% (+0.1%). Total loans outstanding to non-financial companies in 2015 were up 12.7% (2.5% post adjustment). Corporate lending was buttressed by large businesses that needed foreign currency-denominated loans to refinance their external debts. On the other hand, SME lending (seen as a riskier segment) dropped (-4.5%).

Banking Sector Assets Dynamics[11]



An excessive debt burden and a decline in real disposable income put a strain on retail credit. Retail loans dropped 5.7% (6.3% post adjustment). Mortgages were the only market segment to show growth (+11.1%). Mortgage lending was boosted by a Government program for interest rate subsidies for new residential housing. The decrease in retail lending growth rates by the end of 2015 was primarily due to the riskier segment of unsecured consumer lending.

11 Source: Bank of Russia.

Lending to non-financial companies is expected to pick up in 2016, albeit at a slow pace. A program for additional capitalization for banks via the Deposit Insurance Agency, stipulating that minimum growth rates must be maintained by lending to priority sectors, will serve as an additional stimulus. Despite the expected decline in real disposable income, retail lending in 2016 will stop falling and may even show modest growth.

Key Indicators of the Russian Banking Sector[12]

	1.01.2016 RUB billion	% Change to the previous year	1.01.2015 RUB billion	% Change to the previous year
Assets	83,000	7	77,653	35
Corporate Loans (excl. credit organizations)	33,301	13	29,536	31
Retail Loans	10,684	-6	11,330	14
Corporate Deposits (excl. credit organizations)	27,064	16	23,419	39
Retail Deposits	23,219	25	18,553	9

As both businesses and consumers found themselves worse off, borrowers experienced difficulties in servicing their debts. Consequently, the percentage of overdue loans to non-financial companies rose from 4.2 to 6.2% in 2015, including a 7.7% to 13.8% spike in overdue SME loans. Overdue retail loans shot up from 5.9 to 8.1% in 2015, mostly due to overdue consumer loans.

With negative GDP growth, credit risks will remain the key threat to the banking sector in 2016. Overdue retail loans seem to have reached a point of stabilization.

Sanctions against State-related banks and the downgrading of sovereign ratings by international rating agencies have significantly limited the possibility of attracting loans on international capital markets. At the same time, the domestic financial market was unable to offer funding for the relevant periods. This effectively lessened the possibility of funding active operations.

Savings behavior started to change in May 2015, showing a propensity towards saving. Despite plummeting real disposable income, there was a sizeable growth in saving accounts, with interest rates staying quite high even after having been cut. Retail savings in 2015 were up 25.2% (+16.8% post adjustment) whilst corporate deposits and accounts, for the same period, rose 15.6% (+2.7% post adjustment). These numbers were greatly affected by external debt repayments. Bank of Russia efforts to revive the banking sector prompted customers to channel their savings into more reliable State-related banks.

As the saving propensity is close to its peak and real disposable income is unlikely to grow, retail deposit growth rates in 2016 are bound to be lower than in 2015. A further reduction in external debt after debt repayments will set the groundwork for low growth in non-financial companies' accounts.

12 Source: Bank of Russia.

Reserve Fund expenditures to cover the budget deficit, as well as funding for poring up numerous credit institutions, and Bank of Russia operations to buy foreign currency on the domestic foreign exchange market, has led to an increase in turnover liquidity and reduced demand for Bank of Russia refinancing instruments. Consequently, loans due to the Bank of Russia in 2015 dropped 42.3% and the share of Bank of Russia loans in bank liabilities decreased from 12% to 6.5%. If the budget deficit continues to be financed from the Reserve Fund in 2016, the banking sector will find itself less dependent on Bank of Russia loans.

As a result of faster growth in funding costs compared with loan rates, the interest margin for the banking sector decreased. At the same time, provisions for loan impairment grew 33.4% (or RUB 1.4 trillion), which led to a significant reduction in banks' profits that amounted to RUB 192 billion as of year-end 2015 (against RUB 589 billion a year earlier). The stabilization of loan impairment provisions and a reduction in Bank of Russia's key rate would improve banking sector profitability in 2016.

2.3. Agribusiness Development in Russia[13]

Agriculture was one of the few contributors to Russia economic growth last year, showing a production growth rate of 103%. Its development in 2015 was mainly due to favorable weather conditions, ongoing development of meat production, import substitution, and export growth. This helped the sector to demonstrate good growth in plant breeding and meat production, and to stabilize milk production.

2015 was a good year for plant crops. Grain crops of 104.8 million tons were only 1% down from 2014's record yield. Sunflower production rose 8.6% to 9.2 million tons; sugar beets increased 12.2% to 37.6 million tons.

Animal breeding continued its growth in 2015, mainly driven by overall sector industrialization. The production of cattle and poultry for slaughter (on a live weight basis) was up 4.3% across the sector, totaling 13.5 million tons. Meat production across the sector (9.5 million tons) was up 7.3%, including pigs reared for slaughter (up 8.4% to 3.1 million tons) and poultry (up 8.6% to 5.5 million tons). Cattle breeding dropped 1.8% to 0.9 million tons.

Milk production across the sector stayed flat at 2014 levels (30.8 million tons). Given that production by agricultural enterprises grew 2.4% (14.7 million tons in total), an increase in industrialized milk production helped offset declining milk production by households.

Against a high benchmark last year, production growth across the sector is expected to slow down in 2016 to 102-102.5%.

Ruble devaluation had a multidirectional impact on agribusinesses' financial standing. Sharp ruble depreciation increased the price competitiveness of domestic products on both domestic and external market, pushing up producer prices. On the other hand, a decline in disposable income, coupled with growing retail food prices, cut consumption. This brought producer prices down in H2

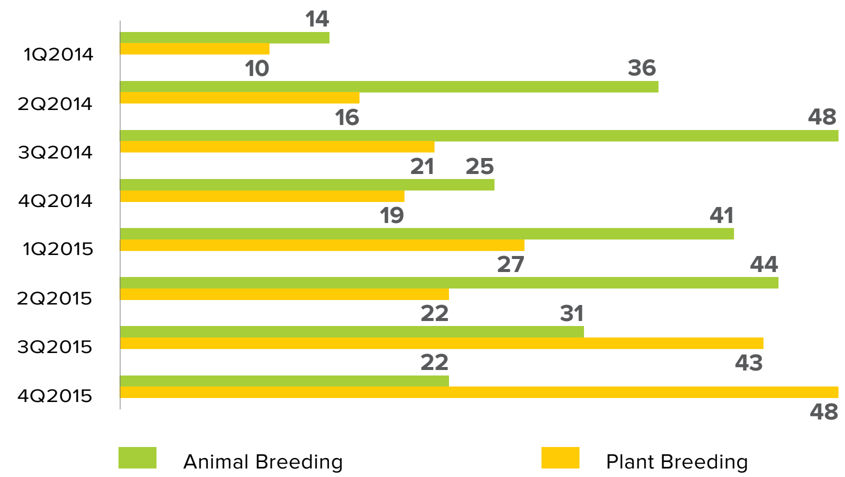
13 Source: the Russian Ministry of Agriculture, Russian Federal State Statistics Service, the World Bank, and IMF.

2015, mainly in animal breeding. At the same time, good staple crops helped to grow exports and ruble-denominated revenues and to support domestic prices for vegetable stock (grain, oil-yielding products, and vegetable oils).

Additionally, devaluation resulted in higher agribusiness costs. This sector is heavily reliant on imported capital resources and technologies (such as equipment, veterinary drugs, plant protecting agents, genetics, and seeds).

Thus, high fodder prices, rising costs of imported resources and stagnating demand put pressure on agribusiness financial results. For H2 2015, it was down by 37% whereas for the plant breeding segment it was twice as high.

Agribusiness Sector Profit (before tax), RUB billion[14]



Factors such as macroeconomic volatility, uncertainty over the duration of Russia's counter-sanctions, growing costs from ruble devaluation, a decline in actual domestic demand, and a shortage of long-term financial resources in a context of sectoral sanctions against Russian banks will continue to operate in 2016, negatively impacting agribusiness investment. At the same time, the Russian Government took numerous steps to stimulate investment in this sector, specifically, by introducing instruments for project finance and for partial reimbursement of capital costs on new production facilities. However, investments in agriculture's fixed assets are expected to show negative growth in 2016.

Despite all the difficulties, Russia's agribusiness retains sizeable investment potential, being driven first and foremost by import substitution, growth in labor efficiency, structural reorganization, and export.

14 Source: Russian Federal State Statistics Service.

3. Performance Overview

3.1. Financial and Operating Performance[15]

Against the backdrop of macroeconomic and geopolitical challenges that emerged in 2015, including the extension of sanctions imposed by the United States, the European Union, and numerous other countries, Russian Agricultural Bank maintained its position as systemically important financial institution and the main agent of the Russian Government to financially support national agribusiness and ensured positive dynamics for its key business lines, while maintaining sufficient capital adequacy levels.

The Bank's total assets increased about 23% year-on-year to RUB 2.348 trillion; the loan portfolio before impairment grew 16% and amounted to RUB 1.805 trillion. The corporate loan portfolio reached RUB 1.508 trillion – 18.5% growth. The retail loan portfolio was up RUB 297 billion, a 5.6% increase. Customer accounts grew 56% and totaled RUB 1.190 trillion.

The rise in financial market interest rates, on the back of the Bank of Russia's (CBR) key rate increase at YE2014, and a spike in funding costs led to a 60% contraction year-on-year in the Bank's net interest income, down to RUB 23.9 billion. Notwithstanding the unfavorable market environment, the Bank expanded its customer base, and continued to develop transaction services, which drove a 37.5% increase in net fee and commission income, up to RUB 12.1 billion.

Russian Agricultural Bank maintained necessary capital adequacy levels in 2015. Total capital and Tier 1 capital adequacy ratios, in accordance with Basel II, stood at 11.7% and 7.7%, respectively.

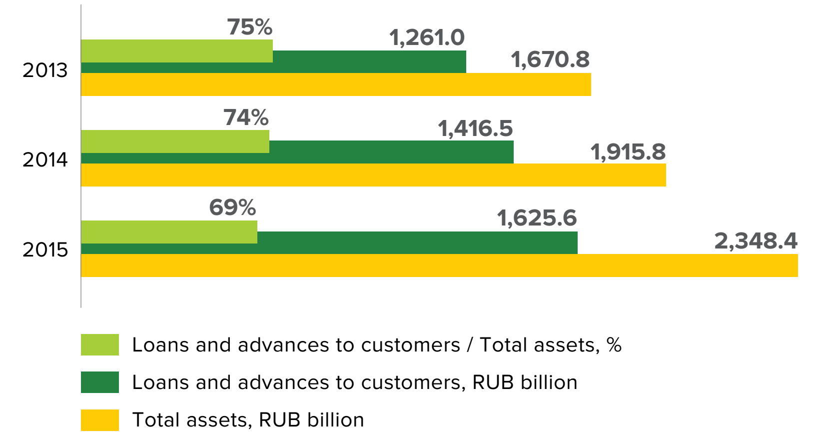
In 2015, against the background of economic recession and crisis developments in the banking sector, the Bank successfully accomplished its goal of providing financial support to Russian agribusiness, fast-paced substitution of imported foodstuffs, and ensuring domestic food security, while strongly reinforcing its capital base and liquidity.

Assets and Liabilities

In 2015, the Bank's total assets increased RUB 432.6 billion (22.6%) to RUB 2.348 trillion. Corporate and retail loans (69%) consistently dominate the Bank's asset structure, indicating a historically high degree of customer loyalty.

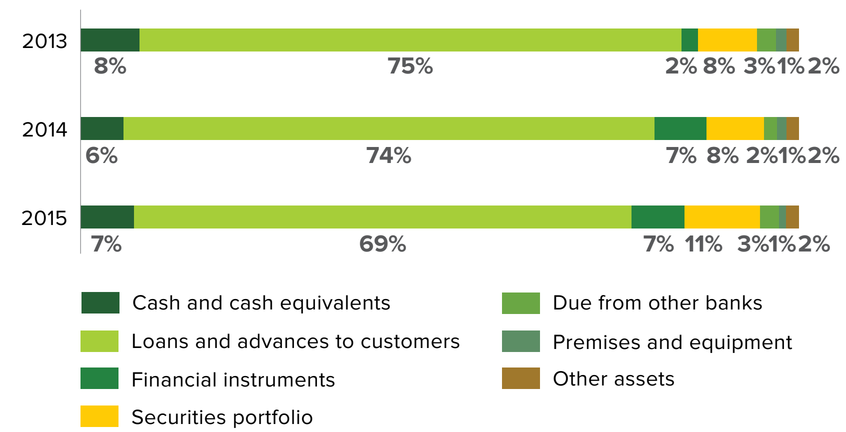
15 Note: Financial data in this section is prepared under IFRS as of 31 December 2015. Some detailed information on the Bank's business performance is prepared under RAS as at 1 January 2016.

Sustainable Growth



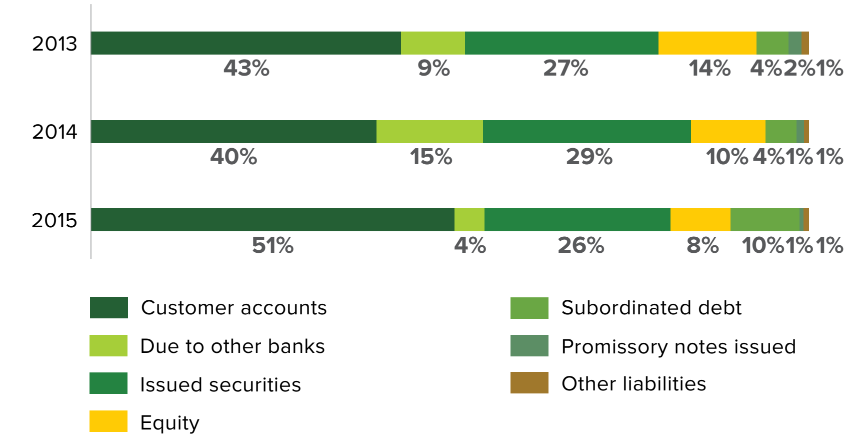
Cash and cash equivalents accounted for 7% of the Bank's total assets, financial instruments and securities – 18%, amounts due from other banks – 3%, and premises and other assets – 3%.

Asset Structure Dynamics



Russian Agricultural Bank liabilities are reasonably well diversified. In 2015, customer accounts made up more than 50% of the Bank's total liabilities (the largest share of liabilities). The share of issued debt securities accounted for 26% of the Bank's total liabilities, subordinated debt and equity – 10% and 8%, respectively.

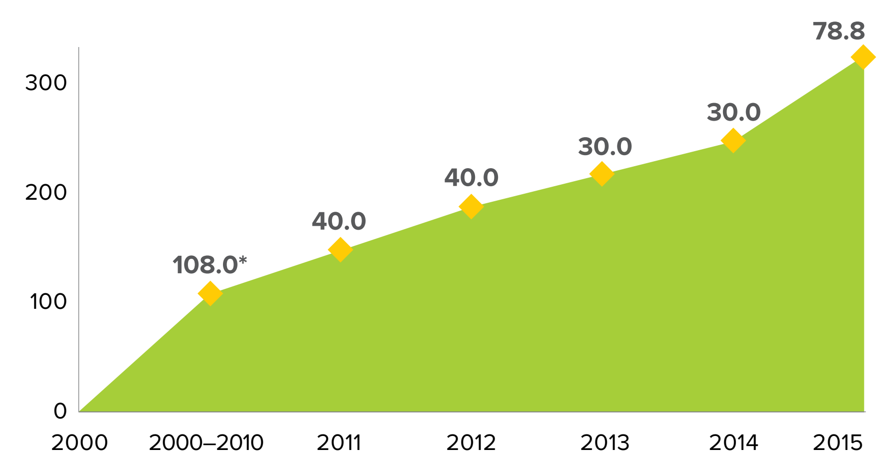
Liability Structure Dynamics



Capital

The Government possesses all the resources and capacity to financially support the Bank, as its sole shareholder, in appropriate amounts, taking into account Russia's strong fiscal position, low level of public debt, substantial amount of foreign exchange reserves, and flexible State monetary policy.

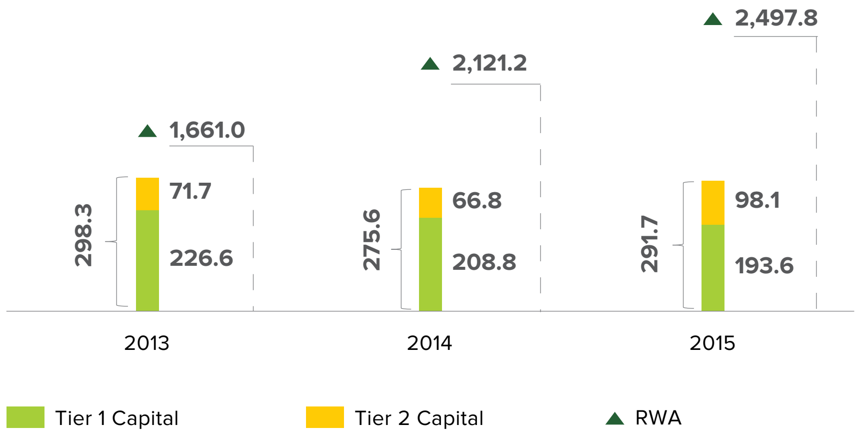
Share Capital Growth, RUB billion



* Note: 15 capital injections

In 2015, Russian Agricultural Bank raised capital both from shareholder and market sources. The Bank's share capital increased RUB 78.8 billion, including a RUB 68.8 billion Tier 1 capital increase via federal loan bonds through the Deposit Insurance Agency (as part of Russian banks' capital replenishment program). Consequently, the Bank's share capital amounted to RUB 327 billion and total capital reached RUB 290.3 billion.

Capital and Risk-Weighted Assets (RWA), RUB billion



Tier 2 capital has been substantially strengthened by the market placement of subordinated bonds and attracting deposits in the amount of RUB 40 billion and USD 1.15 billion, respectively. The total capital adequacy ratio under Basel III requirements stood at 16.3% (IFRS, as of 31 December 2015).

Capital Adequacy Ratios

Basel II Capital Ratios		YE2015
Tier 1 Capital		7.7%
Total Capital		11.7%
Bank of Russia Basel III Capital Ratios	**YE2015[16]**	**Min as of 31.12.2015**
Core Tier 1 Capital (N1.1)	9%	5%
Tier 1 Capital (N1.2)	9%	6%
Total Capital (N1.0)	16.3%	10%

The Government is committed to funding further Russian Agricultural Bank capital increases. The annual capital replenishment of Russian Agricultural Bank is part of planned federal budget expenditures up to 2020.

Income and Expenses

High funding costs combined with a shortage in available funding sources and a slow key rate reduction by the Bank of Russia after its spike at YE2014 resulted in a 2.5 times decline in net interest income to RUB 23.9 billion in 2015 year-on-year. Moreover, new client attraction and enhanced product offerings drove an increase in net fee and commission income, which grew 37.5% to RUB 12.1 billion. In the past year, fee and commission income was primarily generated by cash and settlement services, insurance products sales, and guarantee issuance.

In 2015, given negative forecasts and a conservative approach to assessing borrowers' debt service quality in line with the consistent application of risk management policies, the Bank increased charges to loan impairment provisions, which grew RUB 90.4 billion in 2015. Alongside rising funding costs, these factors resulted in a net loss of RUB 94.2 billion for 2015.

Customer Base

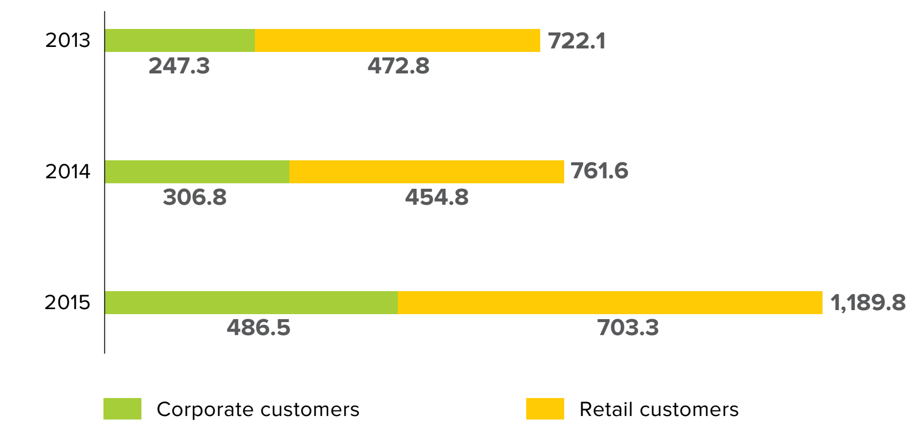
Russian Agricultural Bank has a nation-wide network of more than 1,300 points of sale, including those in small settlements and remote regions. The network covers the whole territory of the Russian Federation and is the country's second largest banking network.

The Bank offers a wide range of products and provides professional advice and dedicated and personalized service to both retail and corporate business. In 2015, the number of retail customers amounted to 5.6 million, corporate clients – more than 340 thousand.

During the reporting period, amidst market volatility, the Bank maintained strong liquidity ratios. A substantial rise in customer accounts contributed to a further decrease in the Bank's reliance on international capital markets and diversification of its domestic funding sources (in terms of cost and maturity).

In 2015, Russian Agricultural Bank customer accounts grew more than RUB 420 billion (56.2%) and totaled RUB 1.190 trillion. Corporate and retail customer accounts grew in line with the Bank's plans to increase its customer base.

Deposit Growth, RUB billion

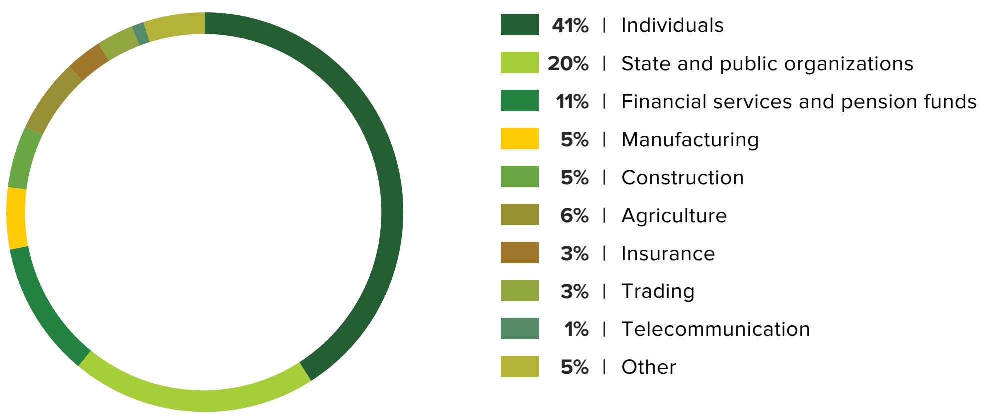


16 Note: Ratios calculated including Events after the Reporting Period.

Private sector corporate accounts grew 30.5% and reached RUB 461.3 billion. Retail customer accounts increased 59% to RUB 486.5 billion. In total, corporate and retail client funds (except for State and public organizations) grew 43.5% and reached RUB 947.8 billion. Resources that were raised from State and public organizations increased 2.4 times and amounted to RUB 242 billion.

The enhancement of the Bank's product range and consistent measures towards higher POS efficiency resulted in the share of customer accounts in total liabilities expanding to 55%, compared with 44% at YE2014.

Customer Accounts by Sector



Loan Portfolio

Due to its consistent work with clients during the past year, Russian Agricultural Bank has increased its loan portfolio before provisions by more than RUB 250 billion (16%) to RUB 1.805 trillion.

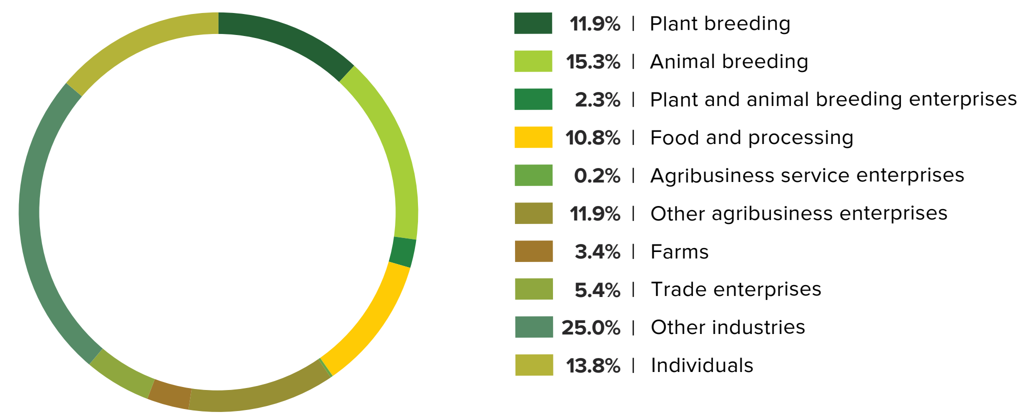
Loan Portfolio Structure, RUB billion

The corporate loan portfolio grew RUB 235 billion (18.5%) and reached RUB 1.508 trillion. The corporate segment remains the key to the Bank's business, with loans to corporate customers representing 84% of the total loan book.

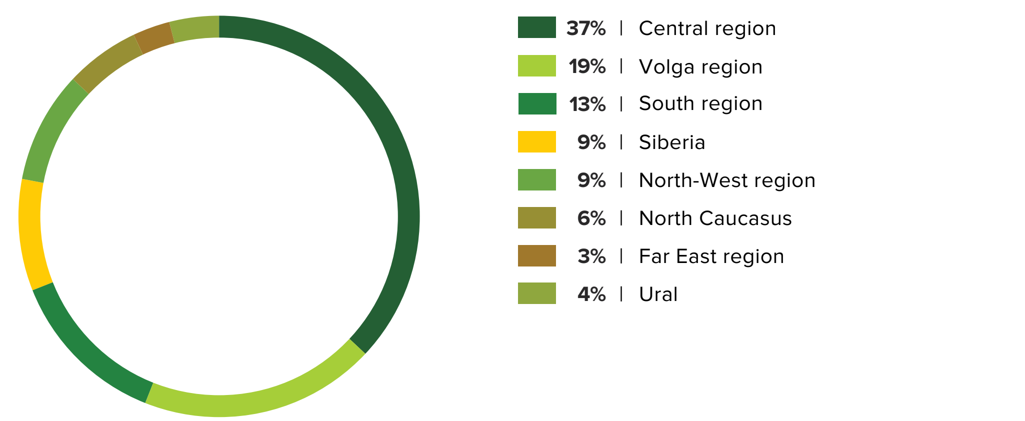
In 2015, the Bank provided RUB 121.1 billion for consumer loans, including RUB 37.7 billion for mortgage lending. For the reporting period, the Bank's retail loan portfolio increased RUB 15.7 billion (5.6%) to RUB 296.8 billion. Loans to individuals represent 16% of the Bank's gross loan portfolio.

The Bank's loan portfolio is well-diversified within the agribusiness sector and related sub-sectors, as well as across the whole agribusiness chain. Agribusiness is a highly diversified sector with more than 20 sub-sectors and related industries, which provides for multiple lending segments within the framework of the agribusiness production chain.

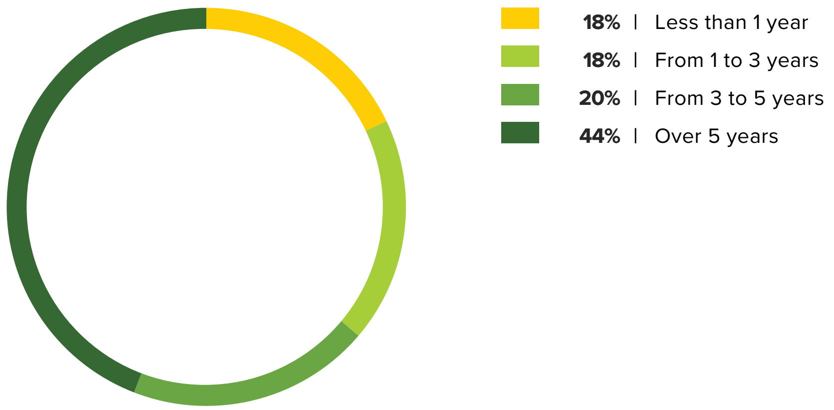
Loan Portfolio Diversification by Sector



Loan Portfolio Diversification by Region

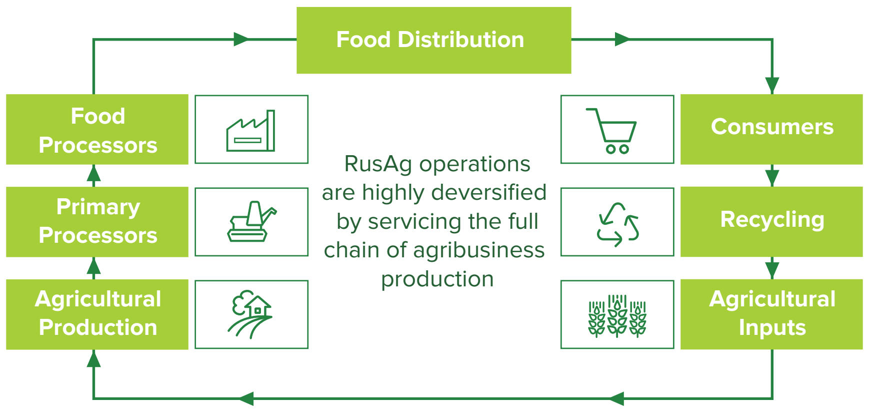


Corporate Portfolio Split by Maturity



During the reporting period, the Bank provided financial support to agribusiness enterprises across all production cycle stages: from primary agricultural production, to storage and processing, and on to final output and marketing.

Loan Portfolio Diversification across the Agribusiness Production Chain



In 2015, agribusiness lending reached RUB 1.087 trillion. The share of agribusiness in the Bank's loan portfolio amounted to 64%.

One of the main agribusiness lending directions is financing seasonal field work. In 2015, Russian Agricultural Bank extended RUB 190 billion in seasonal field work funding. The Bank's market share in this direction is 71%, as of 1 January 2016.

During 2015, within the framework of implementing the 2013-2020 State Program on Agribusiness Development, the Bank extended 3.2 thousand loans to farmers totaling RUB 11.1 billion. Loans to personal household plot owners amounted to RUB 6.3 billion. Financing investment projects to build, reconstruct, and modernize agribusiness facilities reached RUB 43.8 billion.

Loan Book Quality

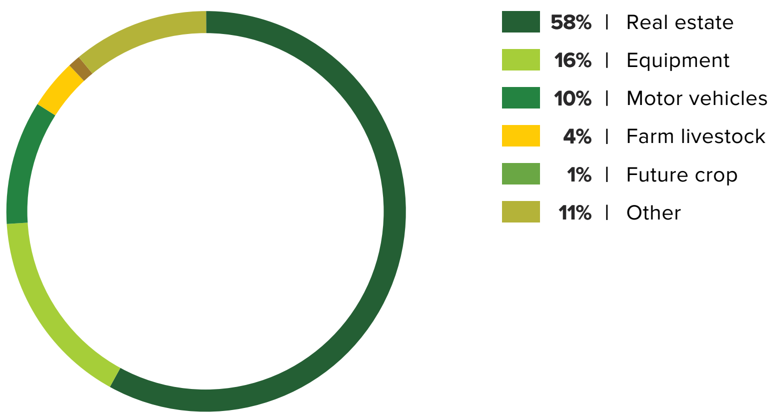
The Russian economic slowdown, ruble devaluation, rate increases, and the ensuing rise in debt burden contributed to the deterioration of agribusiness enterprises' financial positions. The Bank took adequate measures to mitigate higher credit risks and create additional loan loss provisions.

In 2015, Russian Agricultural Bank substantially increased its provisions by 30.4% y-o-y, from RUB 137.5 billion to RUB 179.2 billion. This increases the Bank's capacity to withstand potential losses. The size of provisions is based on estimated future cash flows arising from borrower performance and, if applicable, collateral sales – 99% of the loan portfolio is collateralized and 84% of the pledged collateral is highly liquid.

The loan impairment provision is maintained at an appropriate level, in line with Bank of Russia requirements and is reviewed by an auditor. Provisions are based on estimated future cash flows arising from borrower performance and collateral realization.

The non-performing loans (NPL) level reflects the impact of unfavorable weather conditions and the challenging macroeconomic environment on agribusiness. The Bank takes necessary measures to decrease the level of NPLs through financial restructuring, the assignment of rights of claim, the sale of pledged assets, and write-offs.

Collateral Structure



Subsidized Lending

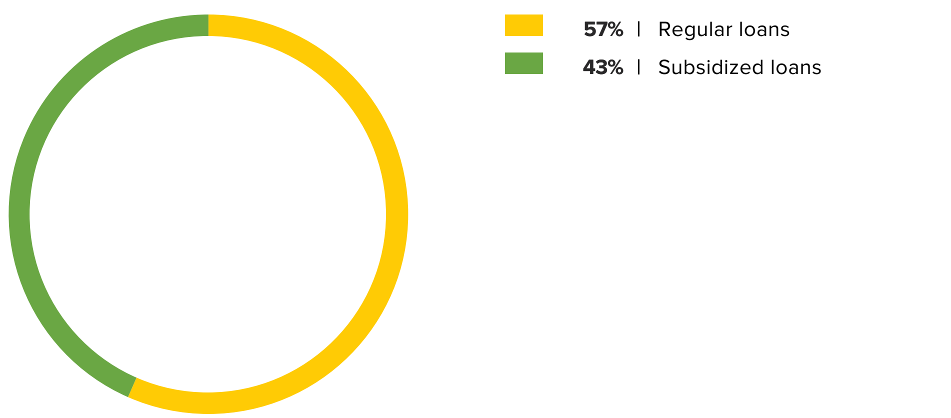
Borrowers participating in State agribusiness development programs are eligible for partial compensation for interest rate expenses under the loan agreement. For a borrower to receive compensation from the appropriate budget, a loan must be granted to agricultural producers, farmers, small- and medium-sized enterprises, agricultural cooperatives, or personal household plot owners to purchase agricultural machinery or equipment, seeds, fodder, fertilizers, or other similar products that are required for seasonal work and other products that comply with a list approved by the Russian Ministry of Agriculture. The borrower must also have a good credit history and be in good financial condition. A subsidy during the next period is available only if the borrower has shown positive payment discipline in previous periods. Subsidized lending is one of the most effective measures to foster agribusiness development and to support agricultural producers.

Russian Agricultural Bank is a key participant in federal and regional programs under which agricultural producers receive compensation via subsidies from respective budgets for interest repayment.

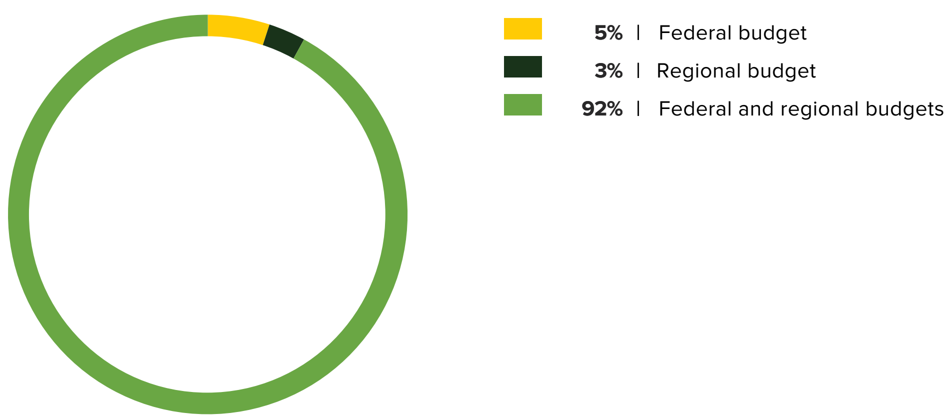
Subsidized loans are granted on the same basis as regular loans. Subsidy availability for a borrower does not require the Bank to approve such a loan. Depending on the purpose of the loan and the borrower category, loans eligible for subsidies may have a maturity of up to ten years.

In 2015, the federal budget provided RUB 97.5 billion for interest rate subsidies.

Subsidized Loans – Share in the Bank's Corporate Loan Portfolio

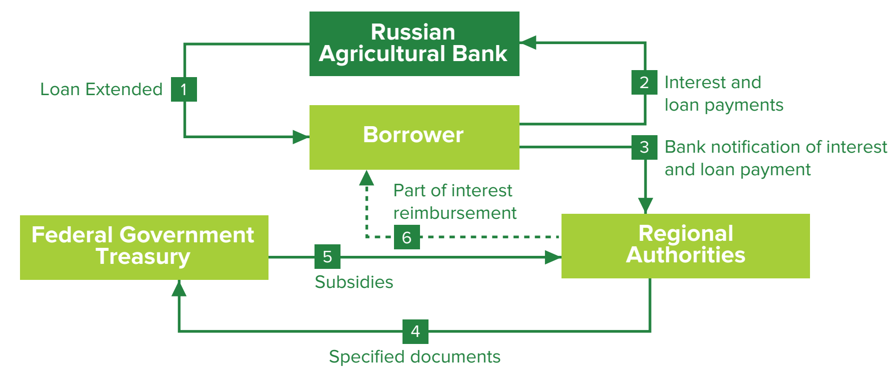


Subsidy Sources



In 2015, interest rate subsidies were calculated on the basis of the Bank of Russia's refinancing rate (8.25%), for short-term loans: before 01.08.2015 – taking into account the key rate as of 01.01.2015 (17%) and from 01.08.2015 till 31.12.2015 – taking into account the key rate as of the date of the loan agreement

Procedure for Reimbursing Subsidized Loans



During 2015, as part of the anti-crisis measures, interest rate compensation was provided on the following conditions:

On short-term loans (up to 1 year) approved:

- Before 01.08.2015: from the federal budget – 14.68%; from regional budgets – up to 1/3 but not less than 20% of the refinancing rate, dairy production – not less than 20% of the refinancing rate, meat production – up to 3 p.p. over the refinancing rate;
- From 01.08.2015 till 31.12.2015: from the federal budget – 10-15%; from regional budgets – up to 1/3 of the refinancing rate; for the development of dairy and(or) meat production, plant breeding and animal breeding – up to 3 p.p. over the refinancing rate, but not less than 5% of funds provided to the borrower to reimburse expenses.

On investment loans approved:

- Before 01.08.2015: from the federal budget – 100%; from regional budgets – up to 1/3 but not less than 20% of the refinancing rate, dairy production – not less than 20% of the refinancing rate, meat production – up to 3 p.p. over the refinancing rate;
- From 01.08.2015 till 31.12.2015: from the federal budget – 100%; from regional budgets – up to 1/3 of the refinancing rate; for the development of dairy and(or) meat production, plant breeding and animal breeding – up to 3 p.p. over the refinancing rate, but not less than 5% of funds provided to the borrower to reimburse expenses.

2016 Outlook

The Government's ongoing support of the Bank in terms of capital replenishment, as well as progress in the Bank's cost optimization program that has been implemented since 2014 and which stipulates reduced general and administrative expenses, increased branch efficiency and other measures, will maintain Russian Agricultural Bank's expanded lending to agricultural producers, aimed at promoting the greater efficiency of domestic agribusiness, faster import substitution, and increased Russian food independence.

3.2. Contribution to the Development of Agribusiness and Other Priority Industries[17]

The Bank's mission and strategy emphasize financing and fostering the development of domestic agribusiness (including fishery and forestry enterprises), as well as the population of small towns and rural areas as its core goals. The Bank's strategy is consistent with the 2020 State Program[18], which provides measures for the integrated development of agribusiness and related sectors.

Russian Agricultural Bank maintains close and effective relationships with Russian regional administrations that allow it to play a major role in implementing federal and regional agribusiness development programs.

As the key financial institution for agribusiness development, Russian Agricultural Bank plays a significant role in implementing State food security policy. Extending financing for long-term investment projects and seasonal field work and ensuring the availability of lending under complex climatic and economic conditions have secured high growth rates in domestic agricultural production. In 2015, this indicator increased 3%.

According to a report by the Russian Ministry of Agriculture, minimum self-sufficiency targets set forth in the food security doctrine have been reached and exceeded for potatoes, grain, seed oil, and beetroot sugar. For the first time since the start of the State Program implementation, Russian agribusiness outputs exceeded the minimum target for meat and meat products (set at 85%). This figure rose to 89%.

In 2015, the actual amount of financing allocated for implementing the State Program totaled RUB 222.3 billion, compared with an initially planned figure of RUB 187.9 billion.

The State Program stipulates regular injections into the Bank's capital, totaling RUB 88.7 billion until 2020. Pursuant to the Program, the Bank, as the agribusiness lending leader, has provided 2.6 million loans totaling RUB 3.5 billion since the start of the "Agribusiness Development" National priority project that has been succeeded by the State Programs adopted for the periods of 2008-2012 and 2013-2020.

Moreover, the Bank has been engaged in implementing the federal special purpose program, "Sustainable rural development through 2020," which is designed to increase the living standards of the rural population; mobilize agribusiness investments; promote the creation of high tech jobs;

17 Source: RAS as at 1 January 2016.

18 Note: The State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs for 2013-2020.

stimulate local communities' engagement in socially important projects; and foster positive attitudes towards rural lifestyles.

Overall, from 2006 through 2015 within the framework of the "Agribusiness Development" National Priority Project and ensuing State Programs, the Bank has provided RUB 457.4 billion to enterprises and farms to implement 4,879 investment projects to construct, overhaul, and renovate animal (poultry) breeding facilities. 3,492 of these production facilities have been put into operation, with 71 projects put into operation in 2015.

In 2015, to support small scale agribusinesses, the Government allocated RUB 13.9 billion, including:

- RUB 3.2 billion to startup farmers;
- RUB 3.075 billion for family livestock farm development;
- RUB 0.4 billion as grants to agricultural consumer cooperatives;
- RUB 7.2 billion to subsidize loans to small businesses;
- RUB 0.043 billion to farms to compensate for expenses related to land title registration.

According to the existing grant scheme under the "Small Agribusiness Support" sub-program, allocations from the regional and federal budget should account for 70% and 30%, respectively. In addition, family livestock farms/cooperatives should invest at least 40% in the project and startup farmers can invest 10% of their own resources.

Within the context of implementing the State Program on Agribusiness Development, as well as other governmental support measures, and despite the challenging operating environment and sanctions that impeded sustainable business operations, the Russian agricultural sector has demonstrated growth over the past seven years. Agricultural production rates reached 103%, which includes 102.9% in plant breeding and 103.1% in animal breeding.

Financing the Agribusiness Industry under the State Program on Agribusiness Development

Major guidelines for the Bank's lending support to agribusiness are determined by its active participation in implementing the 2020 State Program.

To achieve the targets set forth by the Program, the Bank has developed a wide product offering, covering the needs of agribusiness producers to finance their working capital and investments across all stages of production, processing and sales, as well as financing facility upgrades, the introduction of innovations, and modern technology.

The product offering is aligned with the State Program and comprises more than 50 types of loans for corporate borrowers.

Moreover, the Bank offers a few universal banking products and ad hoc programs for developing the forestry and fishery sectors.

The Bank offers standard loans that can meet the needs of all sectors, including those involved in import substitution. Some projects can be individually structured, including via project financing.

In 2015, the Bank extended 455,600 loans to the agribusiness sector totaling RUB 637.6 billion. This is 1.3 times higher than the lower threshold of the target range set by the State Program. Short-term loans account for 72.7% of this amount. The Bank's total agribusiness portfolio grew 3.3% to RUB 1,087.1 billion from RUB 1,052.3 billion.

Investment lending to agribusinesses that work towards accelerated import substitution and the production of high quality and affordable foodstuffs for the Russian population is one of Russian Agricultural Bank's key priorities.

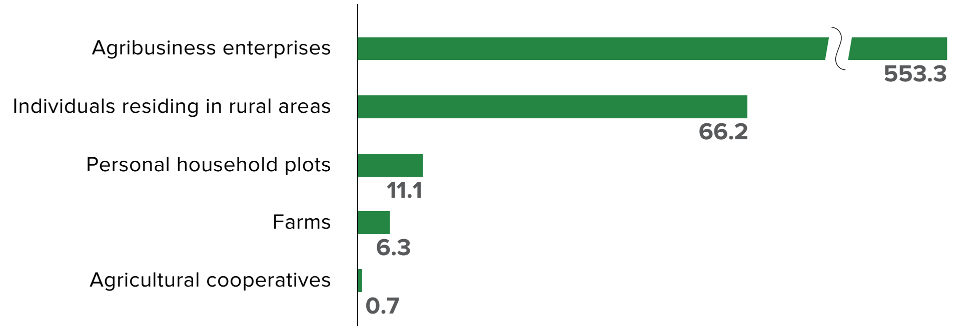
Since 2013, Russian Agricultural Bank has provided credit support to 835 investment projects in agribusiness under the auspices of the current State Program on Agribusiness Development. Pursuant to the State task of import substitution in the domestic food market, the Bank has provided more than RUB 154.4 billion to finance these projects. A considerable share of the investments has been focused on constructing new modern agribusiness facilities that employ state-of-the-art technologies which contribute to industry modernization, increased output, higher quality, and the enhanced competitiveness of local agricultural products.

As of YE2015, the share of agribusiness and related sectors in the Bank's loan portfolio stood at 63.9%.

The Bank's portfolio within the framework of State Program implementation comprises loans to the following entities:

- Agribusiness enterprises – 86.8% or RUB 553.3 billion;
- Individuals, residing in rural areas and mid-sized towns[19] – 10.4% or RUB 66.2 billion;
- Owners of personal household plots – 1.0% or RUB 6.3 billion;
- Farms – 1.7% or RUB 11.1 billion;
- Agricultural consumer cooperatives – 0.1% or RUB 0.7 billion.

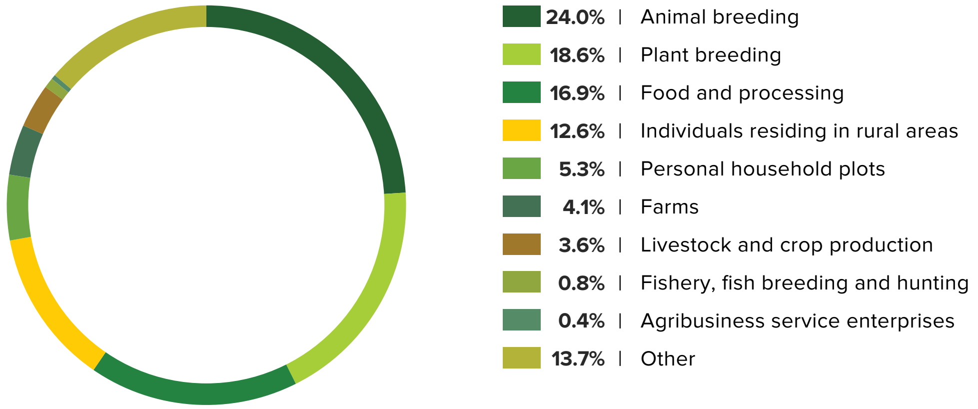
Agribusiness lending by type of borrower, RUB billion



19 Note: Settlements with a population of up to 100,000.

At YE2015, agricultural producers accounted for 46.9% of the financial resources allocated to agribusiness. The share of loans to personal household plots owners stood at 5.3%, loans to farms – 4.1%, loans to the food and processing industry accounted for 16.9%, and agribusiness service enterprises – 0.4%.

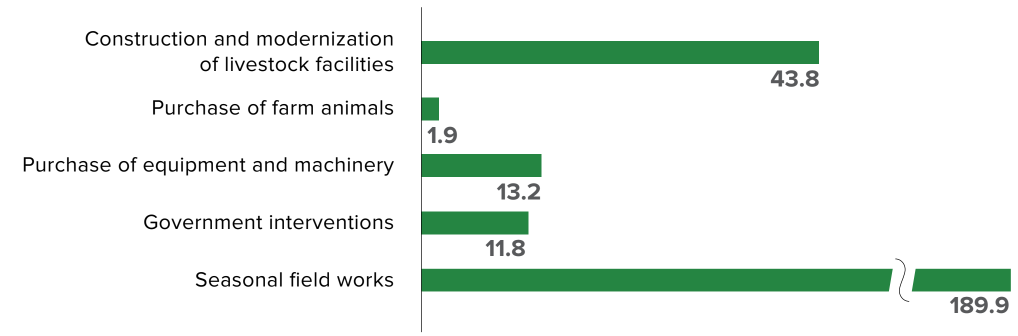
Loans to agribusiness by sub-sector



Russian Agricultural Bank focuses on lending to several major sub-sectors within the framework of the State Program on Agribusiness Development.

- *Financing seasonal field work.* In 2015, the Bank issued RUB 189.9 billion in loans for this purpose;
- *Financing investment projects for constructing and upgrading livestock (including poultry) facilities.* In 2015, within this segment, the Bank extended RUB 43.8 billion;
- *Special corporate lending programs for agricultural equipment and machinery purchases.* In 2015, for these purposes, the Bank extended RUB 13.2 billion;
- *Financing the purchase of farm animals.* During the reporting period, the Bank issued RUB 1.9 billion in loans for this purpose.

Agribusiness lending by loan purpose, RUB billion



In 2015, against the backdrop of macroeconomic challenges and a serious decline in loan demand on the back of rising interest rates, lending to small businesses declined compared with 2014.

The Bank also extended 3,200 loans in the amount of RUB 11.1 billion to farmers. Personal household owners received RUB 6.3 billion.

The SME segment loan book, as of 1 January 2015, amounted to RUB 584.2, 1.3% growth compared with 2014 (RUB 7.3 billion). Borrowers in this segment received RUB 312.6 billion in 2015, with RUB 183.7 billion extended within the framework of the State Program. More than 34,000 enterprises fall under the SME category in the Bank's customer base.

As part of implementing State support measures to small businesses, the Bank has worked out a wide range of products, including: working capital finance and investment purposes, adapted for the specific features of these businesses. For example, the Bank offers loans against warranties provided by guarantee funds, as well as special blank loans.

Supporting start-up farmers is one key measure of the State Program on Small Business Support. To this end, the Bank has developed the special "Become a Farmer" loan, which is available for setting up green field projects in rural areas.

The total investment loan book provided to farms, individual entrepreneurs, and agricultural consumer cooperatives for livestock breeding as of 1 January 2016 amounted to RUB 11.3 billion.

In early 2015, the Bank enrolled in the Program to Support Investment Projects Implemented on the Territory of the Russian Federation on the Basis of Project Financing (hereinafter – the Project Finance Program).

The goals of this program are to set up a financial support mechanism for investment projects implemented in Russia based on project finance, promoting an increase in long-term and affordable lending to real sectors of the economy. The loans extended based on this mechanism are subsequently refinanced by the Bank of Russia. The interest rate is 2.5 percentage points p.a. above the Bank of Russia's key rate.

The Bank in 2015 actively engaged in this Program and carried out seven projects with total value of RUB 28 billion. The projects were focused on dairy livestock and poultry breeding facilities, as well as greenhouse facilities.

Financing Grain Purchases and Commodity Interventions

Since 2005, in accordance with a Government resolution, Russian Agricultural Bank has served as the State agent and has provided financial resources for grain market purchasing interventions.

Ensuring the Repayment of Outstanding Loans

Since 2002, Russian Agricultural Bank has acted as a State agent for recovering loans from legal entities, constituent entities, and municipalities in favor of the Russian Federation.

In 2015, the Bank maintained analytical records on 85 liabilities in the amount of RUB 0.9 billion and also took required measures to settle the debts of 473 borrowers, with an outstanding principal of RUB 1.5 billion who do not have official liability towards the Russian Ministry of Finance.

The Bank submitted five claims to institute enforcement proceedings and to seize the borrower's property. The Bank interacted with bailiff services to control 42 enforcement proceedings against borrowers.

In total, the Bank enforced the recovery of RUB 7.3 billion to the federal budget during the 2002-2015 period.

Financial Rehabilitation of Agribusiness Enterprises

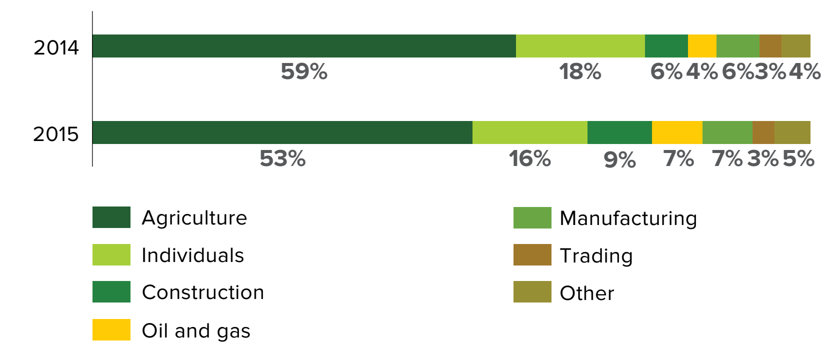
Since 2002, Russian Agricultural Bank has implemented governmental policy on the financial rehabilitation of agricultural producers.

The program, on the one hand, ensures the repayment of outstanding debts to the federal budget and other creditors, and, on the other hand, it substantially alleviates the financial constraints facing agribusiness enterprises, helps maintain social and economic infrastructure, and increases the employment level in rural areas.

Contribution to the Development of Priority Production Industries

Pursuant to the Agreement with the Deposit Insurance Agency concluded in late 2015 as part of the capital replenishment program, the Bank has committed to increase monthly lending to priority industries by 1% (namely, agribusiness, processing industries (including foodstuffs), machine building (aircraft, shipbuilding, and the automotive sector, etc.), chemical production, real estate development, transportation, communications, electricity, gas, and water generation and distribution).

Loan portfolio by economic sectors



2016 Outlook

In early 2016, the Bank's Supervisory Board updated the Strategy through 2020. The current version sets forth three core objectives for the Bank through 2020:

- Ensuring leadership in lending and other financial services to agribusiness, fishery and related sectors. This includes increasing the share of loans to agribusiness, including financing seasonal field work;
- Diversifying income sources by cementing the Bank's positions in lending and servicing priority sectors and segments of the Russian economy and population;
- Reinforcing the Bank's standing as an efficient, reliable, and high tech financial institution.

To ensure that strategic goals are achieved, the Bank will expand lending to agribusiness, other priority sectors, and the population. The Bank plans to increase the share of income generated by transaction and other fee-based products, as well as the sales of products and services of its subsidiaries. The Bank will proceed with streamlining its operating model and increasing business process efficiency, and will ensure further enhancement of its IT systems and higher efficiency of sales / service channels by the well-balanced development of direct and remote points of access to the Bank's product offerings, mobile and Internet banking.

Overall, the Bank plans to maintain its leadership position in lending to agribusiness, fishery, and forestry, and strengthen its position as a key instrument for implementing State programs stipulating support for these sectors, both on the regional and federal level.

3.3. Retail Banking[20]

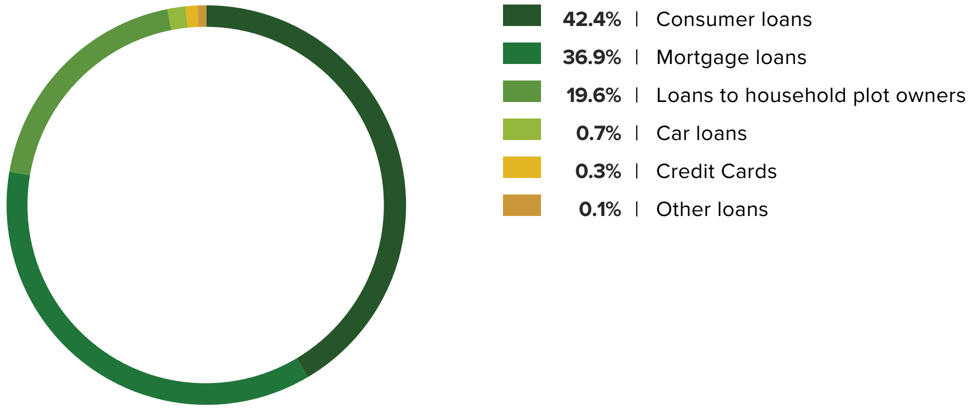
Russian Agricultural Bank offers a wide range of lending services and products, accompanied by professional advice and effective management. These services are available via multiple distribution channels, including points-of-sale and remote service channels.

In 2015, the Bank continued to develop its retail lending programs. The retail loan portfolio grew 5.6% and reached RUB 296.8 billion. The number of retail clients increased 56%. Following a drop in H1 2015 caused by decreased economic activity by individuals, retail lending growth resumed in H2 2015. During H2 2015, retail loans increased 10%, or RUB 27.2 billion, adding RUB 13.3 billion in Q4 2015. This was driven both by a decline in market interest rates and implementation of State programs to stimulate retail lending, and the Bank's measures focused on enhanced operational efficiency. The Bank has increased efficiency of its regional POS, with the loans per frontline employee ratio growing to 1.2 per day.

2015 was marked by an important milestone. Russian Agricultural Bank became the 3rd largest bank by retail loan portfolio in Russia.

20 Source: Some detailed information is prepared under RAS as at 1 January 2016.

Retail loan portfolio by type of loan



In 2015, in accordance with priorities of the adopted credit policy, the Bank offered loan products designed for personal household owners and individuals residing in rural areas. Loans to this segment comprised 19.6% of the Bank's retail loan portfolio. For the most part, these loans are used to purchase livestock. A smaller share of loans are intended for social rural development and setting up businesses not directly related to agriculture, such as rural tourism and trade and folk arts and crafts.

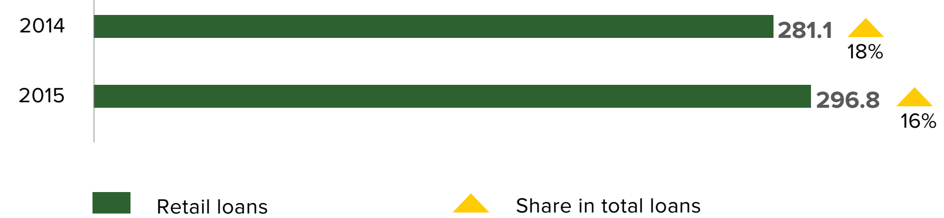
Consumer lending continues to be the most in-demand product in rural areas. In 2015, Russian Agricultural Bank issued approximately 460,000 loans, totaling RUB 72.5 billion, which represented 42% of total retail loans for the current year.

The most popular retail lending programs include:

- "Pension" – the Bank in 2015 extended approximately 293,000 loans totaling RUB 44.8 billion;
- "Reliable Client" – more than 1.3 billion loans extended in 2015;
- "Gardener" – more than RUB 100 million disbursed in 2015;
- "Engineering Services" and "Housing Gasification" – RUB 1.5 million extended in 2015.

Currently, the Bank services about 1.6 million retail borrowers.

Retail Loan Portfolio Dynamics, RUB billion



Mortgage and consumer loans accounted for 91% of total retail loans extended in 2015. Mortgage loans issuance amounted to RUB 37.7 billion. The total mortgage portfolio as of YE2015 stood at RUB 108 billion.

State Subsidized Lending Programs

In the beginning of 2015, Russian Agricultural Bank enrolled in the State subsidized mortgage and car lending programs launched by the Government. The Bank grew its mortgage loans RUB 16.8 billion, securing 3rd position among top banks participating in this initiative.

For 2015, lending under the State subsidized car loans program totaled RUB 82 million.

The Bank consistently expands and diversifies its product range to cover the needs of specific social groups, such as pensioners. Russian Agricultural Bank provides mortgages to young families (under Federal Special Purpose Programs) and military servicemen (pursuant to Russian Federal Law No. 117-FZ “On the Mortgage Savings System for Housing Provisions for Military Servicemen”).

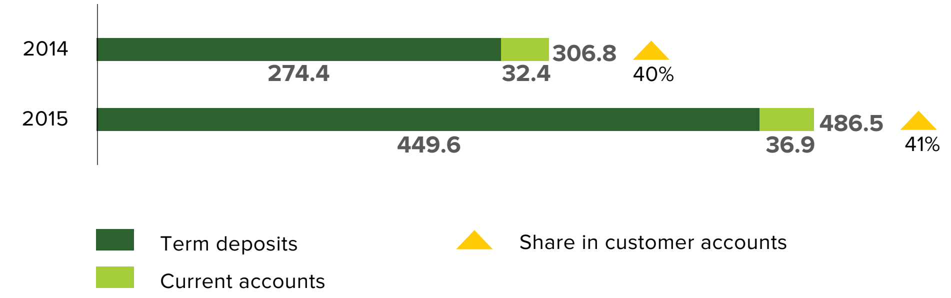
Russian Agricultural Bank’s agribusiness market expertise, along with those of its subsidiaries, enables it to raise funds and term deposits from the rural population.

In the past year, the Bank has become a market leader by deposit portfolio growth. Growth is driven by clients’ confidence in the Bank and the Bank’s attractive product offering. Currently, the Bank services about 2.5 million depositors.

During the reporting period, the Bank’s retail client deposit base showed significant upward growth – a 59% increase. Customer accounts grew to RUB 486.5 billion compared with RUB 306.8 billion in 2014. The share of retail customer accounts in total customer accounts stood at 41% at YE2015. The Bank showed a growth rate more than double that of the banking system (a 29% increase). The Bank became a top 3 bank by growth in customer accounts (in absolute terms).

In 2015, the Bank launched services for high net worth individuals. These service packages stipulate a comprehensive offering, including: exclusively tailored products, FX rates, brokerage, and discounts for renting safety deposit boxes, etc.

Retail Customer Accounts Dynamics, RUB billion



Focus Areas for 2016 and beyond

In the short- and mid-term, Russian Agricultural Bank will continue to develop its retail business, relying on its existing customer base. From 2018 onwards, it will focus on reaching out to new potential borrowers. Russian Agricultural Bank will continue to focus on mortgages, consumer loans, and credit cards. The payment card business is expected to grow multi-fold. In customer accounts, the Bank is looking to accept more long-term deposits and grow retail customer account balances. It will continue to be actively engaged in developing retail transaction services. Russian Agricultural Bank intends to deliver sizeable growth in the number of clients using the Internet and mobile banking, as well as the number of remote transactions.

3.4. Payment Cards[21]

Russian Agricultural Bank is one of the most important participants in the financial market. In the medium-term, the Bank intends to become a leading player in developing the Russian National Payment Card System, as well as in issuing cards using the international payment system – UnionPay International.

Russian Agricultural Bank plays an important role in the integration of the non-cash payments system in rural areas by extending clients' opportunities, encouraging the use of payment cards, and increasing its loan portfolio. In addition, it positively contributes to the growth in financial literacy of the rural population.

Russian Agricultural Bank issues debit and credit cards of Visa International and MasterCard Worldwide payment systems for different groups of customers:

- Personal cards;
- Payroll cards;
- Credit cards;
- Pension cards;
- Cards issued in partnership with charity funds, in particular a program to protect and preserve the Amur tiger, which is on the verge of extinction.

The number of payment cards issued by Russian Agricultural Bank in 2015 exceeded 3.2 million. The number of cards in circulation grew by 450 thousand year-on-year.

In 2015, the Bank increased the total fee and commission income from its acquisition network (net of interchange fees) 62% to RUB 104.2 million. Network efficiency in terms of revenue per terminal increased 50% compared with 2014.

In the current macroeconomic climate, Russian Agricultural Bank offers its clients favorable terms for card products with the purpose of preserving savings. A broad network of ATMs and cash points provides clients with the opportunity to use the Bank's services in most Russian regions. Cooperation with Visa International and MasterCard Worldwide allows card holders to pay for products and services and to withdraw cash in 210 countries and at 29 million points around the world, and also to take advantage of privileges, special services, and discounts.

Based on 2015 results, the number of the Bank's ATMs in service increased 115 units and amounted to 3,525. The total number of ATMs in the joint network (Russian Agricultural Bank, Alfa-Bank, and Promsvyazbank) amounted to 7,535 units as of 1 January 2016.

The volume of cash withdrawals from the Bank's cards in the Bank ATMs grew 30.2% and amounted to RUB 259 billion compared with RUB 199 billion in 2014. The volume of cash withdrawal from cards of other banks in the Bank ATMs grew 30% and reached RUB 42.1 billion (RUB 32.5 billion in 2014).

21 Source: RAS as at 1 January 2016.

The volume of cash acceptance at ATMs and self-service terminals (SST) of the Bank grew 91% (to RUB 26.8 billion, up from RUB 14 billion), and the number of such operations increased 98% (to 4.16 million from 2.1 million).

In 2015, the Bank continued to develop its SST network. The number of terminals in service has increased 1,408 units (from 300 as of January 2015 to 1,708 as of January 2016). The Bank's SST network offers to customers different types of available transactions, such as cash deposits to a card (account replenishment and loan repayments), payments to service providers (mobile communication, utilities, Internet, and television, etc.) both via a payment card and by cash. A customer may also make money transfers from card to card issued by Russian Agricultural Bank and also from other banks. Using a SST, a customer can open and/or replenish a deposit account, create an account statement, or change a card PIN. In 2015, a new SST graphical interface was commissioned, which includes a virtual keyboard to enter both numbers and text.

Within the framework of the cooperation agreement between Russian Agricultural Bank and UnionPay International (signed 27 January 2015 in Shanghai), the Bank has implemented a service to accept cards issued by UnionPay in the Bank's ATMs (the volume of cash withdrawals from UnionPay cards in 2015 exceeded RUB 32 million) and the Bank's acquisition network (turnover exceeded RUB 83 million).

In 2015, Russian Agricultural Bank continued cooperating with payment systems without opening an account. Within the framework of cooperation with Western Union, 191.1 thousand operations were completed (99.1 thousand remittances received and 92 thousand remittances sent). Turnover amounted to USD 67.56 million and RUB 3.7 billion. In H2 2015, the Bank completed connecting all of its regional branches to the Unistream money transfer system. Thus, the Bank provided the rural population and residents of small and medium towns with access to an online money transfer service.

Despite ongoing geopolitical turmoil, Russian Agricultural Bank continued its cooperation with the international payment systems, VISA and MasterCard. The Bank makes an effort to promptly adopt new and marketable technologies provided by the partners to enable its customers to engage in the full range of modern payment instruments. These efforts are aimed at both retaining existing clients and attracting tech savvy customers on a highly competitive market.

Russian Agricultural Bank strongly believes that its prompt introduction of new technologies, innovative products, and user-friendly payment environment are vital elements for successful retail banking market development in Russia. In 2016 and beyond, the Bank plans to stick to this strategy and continually bring new products and solutions to the market, making payment operations for its clients faster, easier, and safer.

3.5. IT Development

Russian Agricultural Bank considers cutting-edge IT solutions an important competitive advantage, allowing businesses to keep pace with Russia's fast-changing banking landscape. The Bank services more than 6 million clients through a vast points-of-sale network and remote banking channels.

A consistent approach to IT systems ensures impeccable service quality, high customer satisfaction, and operational risks mitigation. IT technologies have become an integral part of Russian Agricultural Bank's core operations and a strong factor in allowing it to achieve its business goals.

Following the adoption of its Development Strategy through 2020, the Bank embarked on numerous strategic projects targeting increased business efficiency and stipulating, in the first place, operating model transformation and lending process improvement.

In 2015, Russian Agricultural Bank continued its IT evolution in line with the Strategy. The key focus areas are installing modern platforms, streamlining operations, and centralizing all services and business applications. This approach accelerates the introduction of new banking products and offers clients a uniform service offering across all Russian regions. In addition, IT centralization ensures effective resource management and control of their use by the Bank's branches, and also makes up for the lack of specialized expertise in regions.

In late 2015, the Bank adopted its IT Strategy through 2020, which is aimed at increasing the technological level and maximizing the Bank's profit generated by each client segment. The focus areas include: optimizing front office applications, developing remote service channels, automating key stages of the lending process, and installing a new core IT system incorporating the most recent and prospective technologies for faster banking products roll-out, straight through client services and a larger share of automated operations.

In 2015, the Bank completed the introduction of the Central Data House that provided a unified platform that collects client and transaction data for the entire branch network. This solution provides data marts for each business line, which enable end users to aggregate and analyze information. The project optimized the decision-making process and resource consumption. The installation of data marts for executive staff is underway, and upon completion, this solution will cover organization management, financials, management reporting, and strategic development, etc.

Targeting the enhancement of lending process quality, the Bank in 2015 transferred all retail loan products to an automated application processing system (the Credit Conveyor) across the entire branch network. In terms of managing problem loans, the Bank has introduced end-to-end 'Soft Collection' retail business process.

With a view to increasing client focus, Russian Agricultural Bank continuously upgrades its CRM systems. In 2015, the Bank completed the installation of an analytical CRM for its retail business unit. The analytical CRM enables the Bank to analyze large amounts of data and tailor marketing campaigns to meet the needs of certain groups of customers.

The Bank has launched installation of operational CRM systems for its retail and corporate divisions. These solutions will support the launch of new sales and service strategies. The retail CRM solution will enable customized and standardized customer servicing, record-keeping for client inquiries, and creating customer information files (CIF).

Pursuing operating model transformation, the Bank proceeded to centralize back office functions performed by regional branches at three Unified Support Centers located in mid-sized Russian cities in the Central Federal District, the Far East, and the Republic of Bashkortostan. This solution allowed back office divisions at branches to be scaled back. In addition, the Bank is working towards choosing a new centralized core IT system and creating modern high tech payment infrastructure.

To optimize support functions, the Bank has started to install an Asset Liability Management solution which is an effective tool for analyzing and forecasting balance sheet positions. Another project in the pipeline is a system for managing court cases which will streamline routine legal division functions.

The Bank invests significant effort in developing and upgrading remote sales channels to attract clients and diversify its funding base and operating income sources. The Bank launched a regional contact center to promote the Bank's services and increase the quality of overdue debt management. The contact center, located in Karelia, the North-Western Federal District, processes thousands of client inquiries coming from all Russian regions 24 hours a day 7 days a week. Thus, the Bank has increased its accessibility and provided a platform for expanding its service offering through remote channels.

To optimize customer flow management, Russian Agricultural Bank has installed and put into operation electronic queuing systems at 50 branches. The system not only rationalizes customer visits, but also increases the productivity of front office staff and allows customer preferences to be factored into the decision-making process.

Regarding IT infrastructure, the Bank is currently upgrading the local area network and data back-up systems, transferring data resources to a virtual environment, and setting up in-house and reserve data processing centers. All necessary measures are taken to ensure uninterrupted functioning and failure resilience of the Bank's IT equipment.

In the near term, Russian Agricultural Bank will adhere to its policy stipulating the deployment of the latest technologies to increase client focus and labor productivity.

2016 Focus Areas

The Bank's consistent and thorough approach to IT systems secured a level of technological development that enabled millions of people and companies to access banking and financial services, while simultaneously increasing banking sector penetration in Russia.

Therefore, the Bank will continue to focus on cutting-edge technologies that support its business transformation and provide a competitive advantage over its peers.

3.6. Financial Institutions and International Operations

Despite the challenging geopolitical situation and sanctions imposed by the United States and European Union countries against the Russian Federation and State-related institutions, Russian Agricultural Bank focused on maintaining a confident position on the international financial market by continuing to cooperate with its business partners, institutional investors, and credit rating agencies. The Bank also participated in several inter-governmental commissions and served as a member on international business councils.

Ratings

Russian Agricultural Bank's major credit ratings and outlooks as of April 2016:

Fitch

- Long-term foreign and local currency Issuer Default Ratings (IDRs) – 'BB+', outlook negative
- Short-term IDR – 'B'
- National Long Term Rating – 'AA+(rus)', outlook stable
- Viability Rating – 'b-'
- Support Rating – '3'
- Senior unsecured debt – 'BB+'
- Subordinated debt – 'BB'

Moody's

- Long-term foreign and local currency deposit ratings – 'Ba2', outlook negative
- Long-term foreign and local currency senior debt ratings – 'Ba2', outlook negative
- Long-term subordinated debt ratings – 'B2'
- Baseline credit assessment – 'b3'
- Short-term foreign and local currency deposit ratings – 'Not Prime'

Membership and Cooperation

Russian Agricultural Bank's participation in several inter-governmental commissions and serving as a member of international business councils provides the Bank with unique opportunities to adopt best international practices and solutions, deliver its views to professional society, and influence the decision- and law-making process.

Russian Agricultural Bank is an active member of the following organizations: the Association of Russian Banks, the Association of Regional Banks of Russia, the Association of Banks of the North-West, the US-Russia Business Council, the Canada Eurasia Russia Business Association (CERBA), the Russian-Chinese Business Council, and the International Confederation of Agricultural Credit (CICA).

The Bank's representatives regularly participate in international conferences, meetings, forums, and other events held on topical issues both in Russia and abroad. Such activities not only provide invaluable information, but also play an important role in strengthening cooperation with existing counter-agents and helping the Bank find new partners for future projects.

Correspondent Relations

Russian Agricultural Bank is widely recognized as a highly reliable banking partner to major financial institutions (both locally and internationally). Its transparency has been hailed by leading global rating agencies. The Bank's international experience, its diversified investor base, and strong governmental support have helped it maintain a confident position on the international financial market, despite the challenging geopolitical situation and sanctions introduced against State-related banks.

Within the framework of a strategy to enhance and diversify its correspondent bank network, in 2015, Russian Agricultural Bank continued to develop and expand its correspondent relations with local and international counterparts. The Bank's correspondent network creates a solid base for carrying out comprehensive financial operations in the best interests of both the Bank and its clients.

To strengthen and expand correspondent relations with both domestic and foreign financial institutions during the reporting period, the Bank has:

- Opened 20 new LORO accounts. There are now 89 such accounts;
- Opened 11 new NOSTRO accounts. The total number of accounts opened in the Head Office reached 78;
- Signed 16 interbank cooperation agreements on the interbank and foreign exchange markets, as well as derivative transaction agreements on financial markets. At present, the Bank has 210 such agreements in place;
- Signed four agreements for securities market transactions, the number of master agreements reached 60 by year-end;
- Signed seven bank note transaction agreements. The number of agreements reached 21 by year-end;
- Issued two syndicated loans with a term of up to one year in the total amount of EUR 80 million;
- Signed two agreements with companies - aggregators of payment services to provide such services to the population. The total number of agreements stands at four. The Bank has become a member of four Payment Systems.

In 2015, Russian Agricultural Bank successfully identified its clients – financial institutions, to comply with U.S. legislative requirements of the Foreign Account Tax Compliance Act (FATCA).

During the reporting period, the Bank achieved remarkable results in strengthening and building up partnerships with both Russian and international financial institutions:

- Extended the counterparty risk exposure limits framework, due to increased limits for financially sound counterparties, to RUB 2.6 trillion from RUB 2 trillion (+30%), and closed or adjusted downward limits for potentially problematic counterparties: limits for 13 counterparties were adjusted and 53 were closed in 2015;
- Established limits for eight new counterparties, including banks from the Middle East.

In total, limits for 232 counterparties / issuers were established or revised in 2015.

Trade Finance

In light of tasks set by the Russian Government on the import-substitution of agricultural commodities and derivative products, as well as an increase in the share of exports of such commodities in light of the sanctions, Russian Agricultural Bank, as the key financial institution in developing Russian agribusiness, has ensured the availability of financial resources for industry enterprises, including those exporting products abroad.

To facilitate the expansion of Russian exports, the Bank organized a service operation for the export deliveries of Russian companies operating in agribusiness and various industries.

During the reporting period, the Bank and its partners signed 80 export-related trade finance deals totaling USD 106.5 million. They promoted the deliveries of chemical fertilizers, metallurgical products, and agricultural equipment.

The Bank also continued to implement a USD 9.1 million project on insuring financing of Russian-made combine harvesters exported to the Republic of Kazakhstan in cooperation with the Russian Agency for Export Credit and Investment Insurance (EXIAR). The agreement has a tenor of 5 years, and insurance of loans for working capital financing issued to grain exporters in the amount of RUB 200 million for up to 1 year.

The program implementation provides additional incentives for domestic producers to export and contributes to dynamic SME growth.

During the reporting period, the Bank set up 81 import letters of credit in the amount of USD 101 million, advised and confirmed 142 export letters of credit totaling USD 242.8 million, and advised on 65 guarantees totaling USD 106.3 million issued by foreign banks in favor of the Bank's clients. In 2015, Russian Agricultural Bank also carried out 53 operations to reimburse letters of credit issued by counter-party banks for more than USD 102.3 million.

In 2015, under sanctions, the Bank has attracted EUR 28 million for structured finance operations. To support the exports of Russian producers, the Bank has provided loans to banks – residents of the Eurasian Economic Union. The total amount of extended loans reached USD 416.3 million.

As a specialized financial institution with an in-depth focus on agribusiness, Russian Agricultural Bank strives to further expand its competence and successfully share experiences with international and domestic partners and peers.

Capital and Money Markets

Russian Agricultural Bank offers a comprehensive range of debt instruments to reduce risks by placing funds in the market and by raising additional funds, via: REPO operations, ruble-denominated bonds, loan participation notes, government and municipal debt securities, corporate debt securities, and promissory notes and equities. The Bank is an active player on both the international and domestic capital markets.

Sectoral sanctions and market disruption limited the Bank's opportunities on the international capital market. Therefore, in 2015, the Bank raised funding primarily on local markets:

- In February 2015, Russian Agricultural Bank placed a RUB 10 billion local bond with a coupon rate of 15.0% p.a. The maturity of the issue is 10 years, with a put option in 5 years;
- In February 2015, Russian Agricultural Bank placed a RUB 5 billion local bond with a coupon rate of 15.25% p.a. The maturity of the issue is 10 years, with a put option in 1 year;
- In July 2015, the Bank placed three subordinated local bonds in the total amount of RUB 30 billion due in 2025, with the first coupon set at 13.1% p.a., and the second and subsequent coupons set to be equal to 1.6% more than the key rate of the Bank of Russia (Bank of Russia approved the inclusion of bonds in the Bank's additional capital sources);
- In October 2015, Russian Agricultural Bank placed a RUB 10 billion local bond with a coupon rate of 11.7% p.a. The maturity of the issue is 10 years, with a put option in two years;
- In December 2015, the Bank placed two subordinated local bonds for a total amount of RUB 10 billion due in 2021, with a coupon rate of 12.87% p.a. (Bank of Russia approved the inclusion of bonds in the Bank's additional capital sources).

Closed international financial markets and the deterioration of the local market have seriously limited the ability to raise funds on capital markets. To overcome these problems, the Bank has used alternative funding sources:

- A flexible and operative interest-rate policy ensured stable growth for client accounts;
- Proactive efforts aimed at raising Bank of Russia funds, including building up collateral to raise funds under the Resolution dated 12.11.2007 "On procedure of the Bank of Russia granting to credit institutions loans secured by assets or guarantees".

In 2016, Russian Agricultural Bank also plans to focus mainly on the local capital market.

Investor Relations

Despite ongoing restrictions and limited access to the international capital market, the Bank maintains contact with its investors. Maintaining communication with the international business community is an important element for the Bank's performance on global capital markets both now and in the future.

Russian Agricultural Bank has proved itself to be a transparent, reliable, and flexible partner for its existing and potential investors by constantly delivering required information in the right way, at the right time. The Bank's IR team continually updates its investor relations web page so that investors can easily access Bank information and documents which are subject to disclosure, including: statutory documents, internal regulations and policies, annual reports, financial statements (both consolidated and interim), ratings information, material facts, and other relevant data. In addition to the website, Russian Agricultural Bank eagerly provides investors with other communication channels, such as: conference calls, email newsletters, and direct meetings.

In 2015, Russian Agricultural Bank organized numerous major and regular events where senior management explained the Bank's strategies and operating performance to global investors. The Bank proactively enhanced investor relations activities by participating in related conferences, holding due diligence calls, and gathering investor feedback. During the reporting period, the Bank's senior executives held numerous meetings with investors at the Bank's headquarters, as well as at counterparties' locations. Through these activities, Russian Agricultural Bank expressed its interest in building relationships with potential investors and maintaining strong ties with current international investors.

The Bank's thorough and consistent approach has logically resulted in strong and sustainable relationships with foreign and local institutional investors in recent years.

4. Controls and Procedures

4.1. Risk Management

For Russian Agricultural Bank, 2015 was a year of new challenges, a year of new opportunities, and a year of new strategies and visions. It was a year that brought about change.

Conducting business in Russia has always been a demanding task. There is no universal recipe for how to build a strong and prosperous business at any time, because the environment may change rapidly. Be the change for good or bad, a business must adapt quickly. It should be resilient, flexible, and able to maintain a strong grasp on the market — no matter what.

Russian Agricultural Bank has been developing its business for 15 years and has encountered challenging times, including: vibrant growth and financial crisis, political stability and economic sanctions, high oil prices and ruble devaluation, food embargos and ultimately the rise of the national agribusiness. When it comes to banking, especially with an emphasis on a certain industry, all factors matter. Sometimes, there is a great opportunity to seize a moment to expand. Sometimes, a conservative approach is better.

There are various internal units in the Bank which navigate market fluctuations. However, the more uncertain the environment is, the more careful the Bank must be with its decisions. This is when Risk Management comes into play. Assessing risks in stormy weather requires maximum composure, prudence, and perseverance to be in control. When the operating environment presents multiple challenges, the quality of risk management makes the difference between winners and losers in the long-run.

In 2015, thanks to a special focus on risk management, Russian Agricultural Bank laid solid groundwork for future development. Sacrificing current profits for better control of long-term risks was a strategy that brought about change.

Risk Management Framework

The risk management framework in Russian Agricultural Bank is based on the following documents:

- The Risk Management Policy of Russian Agricultural Bank establishes the main principals of the Bank's risk management framework;
- The Risk Management Strategy of Russian Agricultural Bank determines targets and development vectors for the risk management system up to 2020;
- The Risk and Capital Management Strategy of Russian Agricultural Bank sets up major principals and approaches to internal capital adequacy analysis procedures.

Russian Agricultural Bank has a multi-tier risk management system. It is built on a principle of subordination to distribute control functions and secure an effective supervision system.

The Bank's Supervisory Board is in charge of the following functions:

- Endorsement of the Risk Management Policy;
- Endorsement of the Risk and Capital Management Strategy;
- Consideration of reports on risks taken by the Bank.

The Management Board approves documents which ensure the functioning of the risk management system and regulates internal procedures for assessing capital adequacy.

The Risk Management Committee's main functions are the following:

- To maintain the risk management system and endure that it is effective and constantly improving;
- To control the Bank's risk appetite and aggregated risk profile;
- To analyze how the Bank's risk management system complies with requirements of the State regulatory bodies, including requirements on implementing the Basel Committee on Banking Supervision (BCBS) standards in the Russian Federation.

The Management Board, the Chairman of the Management Board, the Risk Management Committee, and other collective bodies of the Bank conduct efficient and flexible leadership on risk management, according to their authority.

Independent analysis and risk assessments are made by dedicated structural units – the Bank's Risk Management Department and risk management services in regional branches. The Risk Management Department's competence embraces such areas as: methodological support for the risk management system and implementation of principles and methods for identifying, assessing, monitoring, and controlling financial risks (credit, market, interest, and liquidity) and operational risks, including on the regional level.

Some risk management functions are also performed by other structural units: the Legal Department, the Strategy Department, the Public Relations Service, the Internal Treasury, and the Internal Control Service.

2015 Major Developments

In 2015, within the framework of risk management system development, Russian Agricultural Bank introduced numerous upgrades and innovations.

The Bank launched and put into commercial operation an internal credit rating system for corporate borrowers. This enables the Bank to more widely use internal ratings in pricing its products to different clients, in the credit decision-making process, and in monitoring clients' credit quality.

To make the whole risk management system function more effectively, Russian Agricultural Bank constantly introduces new techniques and approaches. During the reporting period, the Bank primarily focused on:

- Developing quantity approaches to credit risk assessment (engagement of Loss Given at Default (LGD) and Exposure At Default (EAD) models; engineering a model for capital calculation and allocation);
- Developing a credit risk limit system;
- Modernizing the credit authority system;
- Developing risk-oriented pricing for credit products;
- Upgrading the Key Performance Indicators (KPI) system for internal business units, adjusted for risks taken.

Following recommendations of the Bank of Russia and the BCBS, in 2015, the Bank made significant progress in the field of liquidity risk management. Namely, the Bank updated its approach to liquidity risk by engaging behavioral models for those financial instruments which do not have contract maturity dates and for those products which have optional terms.

To achieve better management of market and interest risks, the Bank conducted further automation of risk assessment. The Bank also updated its system of limits on operations with foreign currency instruments and their derivatives.

The following actions are taken to enhance operational risk management:

- Developing operational risk management methodology in the field of exposing and analyzing information on operational risks inside and outside Russian Agricultural Bank, in accordance with requirements of the Bank of Russia and the BCBS;
- Enhancing the response procedure to substantial operational risks;
- Expanding responsibility centers for appropriate internal units dealing with operational risk management;
- Updating action plans to secure non-interruptibility and/or the quick recovery of the Bank's business activities in case of non-standard and/or emergent situations.

Another important step in building a truly integrated risk management system on a Group level was the adoption of a risk management policy for the Bank's subsidiary companies in 2015.

In 2016, Russian Agricultural Bank plans to continue developing its risk management system in various directions.

As for the credit risk management system, the Bank's ultimate target is to achieve efficiency in line with best international practices.

Liquidity risk management will be enhanced by further automation of processes related to asset and liability management. The Bank will modify its approaches to liquidity risk management in accordance with Bank of Russia and BCBS requirements. Namely, a serious upgrade focused on behaviorist models to analyze and forecast clients' and counteragents' actions will be carried out.

Development of a market and interest risk management system is another focus for 2016. The Bank will introduce new behaviorist models to calculate and control different parameters related to interest risk, in line with recommendations from the Bank of Russia and the BCBS.

Operational risk management will be enhanced by introducing upgraded procedures aimed at quickly revealing, collecting, and processing information from the Bank's internal units. A comprehensive approach to raise operational risk management quality also includes utilizing more advanced methodology for assessing operational risks based on key risk indicators and the broader involvement of staff in operational risk control activities.

In 2016, Russian Agricultural Bank will continue its journey to integrated risk management. The Bank plans to work out and introduce numerous important developments in the field of risk and capital management on the Group level, in accordance with new Bank of Russia requirements. These include:

- Unifying risk management policy on the Group level;
- Organizing an integrated risk reporting system on the Group level;
- Developing a risk monitoring system on the Group level.

With the ultimate goal of strengthening the long-term sustainability of Russian Agricultural Bank's financial group, further enhancement of the risk and capital management system will remain a cornerstone of the Bank's corporate development in coming years.

4.2. Internal Control

In every bank, dealing with compliance (regulatory) risk is a special area. When it comes to not simply a bank, but a financial group (such as Russian Agricultural Bank), the importance of compliance risk management grows dramatically. In addition to important legal aspects, the quality of internal control also characterizes a company's general commitment to business excellence.

Russian Agricultural Bank's reorganized Internal Control Service (ICS) has been operating since 2014, when the Bank's corporate structure was modified to raise performance. Among its major functions are monitoring and supervising compliance risk for both the Bank and the financial group. Additionally, the ICS includes a dedicated controller that supervises the Bank as a professional securities market participant. The service also coordinates other units in their efforts to comply with appropriate regulations.

Although Russian Agricultural Bank has a well-established and effectively functioning internal control unit, its procedures and processes are being constantly modified and upgraded according to both Russian and international best practices.

In 2015, the Supervisory Board elaborated and adopted the Regulatory Risk Management Policy which determines the functions of the Bank's structural divisions in the field of risk management compliance, with the ICS in the role of coordinator. Another important achievement was a new internal regulation aimed at preventing conflict of interests in the Bank.

The main spheres of ICS responsibility are:

- Ensuring compliance with Russian Federation laws, the rules of the Bank of Russia, and standards for SROs (self-regulated organizations);
- Preventing money laundering and the financing of terrorism;
- Guaranteeing compliance with Russian Federation tax and antitrust legislation;
- Preventing commercial bribery and corruption, observing corporate behavior rules by the Bank's staff;
- Preventing the illegal use of insider information and market manipulation;
- Preventing conflicts of interests in the Bank's business;
- Observing customers' rights;
- Complying with Russian Federation labor legislation;
- Complying with FATCA requirements;
- Observing the international sanctions regime;
- Effectively using the Bank's financial resources, securing real competition and carrying out the transparent purchase of goods and services to meet the Bank's needs, and promoting SMEs in the purchasing process;
- Complying with Russian Federation environmental protection legislation.

The functions of risk management compliance in each of these spheres are integrated into banking processes, including banking operations and deals, and fall under the competence of corresponding business units of the Bank. The ICS monitors internal units' effectiveness in compliance management on their level and works out recommendations for upgrading compliance-related functions and eliminating detected weak links. The current compliance management situation is regularly reported by the ICS to the Bank's executive bodies.

In 2016, the Bank will further upgrade and develop its compliance practices. The ICS is set to continue to monitor, coordinate, and supervise other units in their related activities. The service will also pay close attention to compliance management in companies of Russian Agricultural Bank's financial group.

4.3. Internal Audit Service

The Internal Audit Service (IAS) is an integral part of the Bank's internal control system. The unit issues independent audit opinions on the quality of internal control practices and works out recommendations to ensure efficient and effective compliance management. The service reports directly to the Supervisory Board of Russian Agricultural Bank.

72 internal inspections

10 inspections of subsidiary companies

1,793 inspections in regional branches

In 2015, the IAS carried out 72 internal inspections, including:

- 53 planned inspections of regional branches;
- eight unscheduled audits of regional branches;
- nine planned inspections of HQ units;
- two unscheduled audits of HQ units.

The service is also responsible for the internal control of the Bank's subsidiary companies. During the reporting period, the IAS conducted 10 inspections of incorporated companies, including:

- eight inspections of the Bank's subsidiary companies;
- two unscheduled audits of the Bank's subsidiary companies.

Another sphere that the IAS is in charge of is supervising compliance with internal rules and procedures at the regional branch level. In 2015, officers permanently operating in regional branches conducted 1,793 inspections of front and back offices, including end-to-end tests of operational activity.

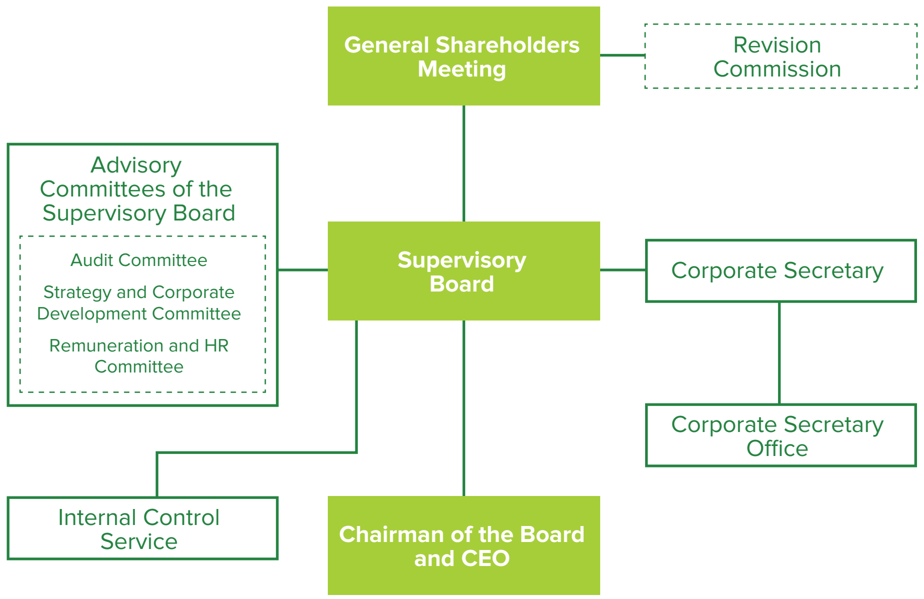
The information which the IAS gathers is closely examined and analyzed by the Bank's management bodies. It helps to further elaborate and modify internal practices to secure strict observance of appropriate norms.

To provide a better picture for in-depth analysis, the IAS continues to develop automated procedures to control internal processes. It will boost the volume of processed information and decrease the human factor role in the Bank's internal audit practice.

5. Corporate Governance

Russian Agricultural Bank regards good corporate governance practices as key to long-term success, creating trust and engagement between the Bank and its shareholder, employees, and clients.

The Bank's corporate governance structure ensures a proper balance of governance bodies, leverages authority, and distributes the management process using a four-tiered system that comprises the General Shareholders Meeting, the Supervisory Board (SB), the Chairman of the Management Board, and the Management Board (MB).



An effective system of mechanisms and approaches (directing and controlling the Bank) ensures that decision-making is fast, transparent, and results-oriented. It enables the Bank to effectively control risks and to promptly react to any changes in the business and/or economic environment.

Rosimushchestvo holds 100% of the Bank's voting stock. Pursuant to the Russian Federation Government Decree No 738 (dated 03.12.2004) "On the Management of Federally Owned Shares in Joint Stock Companies and the Exercise of the Special Right of the Russian Federation to Participate in Joint Stock Companies' Management ("Golden Share")," Rosimushchestvo exercises the powers of the General Shareholders Meeting. General Shareholders Meeting decisions are executed in the form of an order by Rosimushchestvo.

Thus, Supervisory Board composition is determined according to the direction of Rosimushchestvo based on instructions by the Russian Government. The Chairman of the Supervisory Board is chosen by a vote among Supervisory Board members following the Government recommendations.

The Bank's shareholders have equal and fair opportunity to take part in profit distribution through a dividend payment.

The Supervisory Board plays a major role in ensuring effective interactions between shareholders and management and preventing conflicts of interest.

The Bank's SB determines key strategic long-term guidelines, controls executives bodies, sets approaches to risk management and internal controls, and establishes the remuneration policy for SB members, executive bodies, and other key management personnel. The Bank's SB constantly monitors the Bank's operations and executive bodies, assesses their activity as to whether it corresponds with the nature, scale, and conditions of the Bank's development, sets key performance indicators (KPIs), and controls their achievement.

Specialized SB committees perform a preliminary review and prepare recommendations on issues that fall under the competence of the Board. All issues concerning operational and strategic management, financial planning, asset and liability management, and business segments that are submitted for approval to the Supervisory Board, pass preliminary Management Board review.

The Revision Commission is the body responsible for controlling the Bank's financial and business activity.

The Corporate Secretary is responsible for ensuring procedures to champion the rights and interests of the Bank's shareholders.

The Bank has drawn up and follows all requirements of internal documents that are compulsory for joint stock companies (charter documents, and Provisions on the Supervisory Board and Management Board, and the Revision Commission, etc.). The Bank in a timely manner discloses complete, updated, and correct information on its operations to ensure the Bank's shareholder and investors can make informed decisions.

The Supervisory Board remuneration system closely aligns the interests of SB members with the shareholder's long-term financial interests. The only remuneration paid to SB members is a fixed amount.

The remuneration of executive bodies and other key personnel is linked to the Bank's results and their personal contribution to achieving these results. Russian Agricultural Bank has introduced long-term incentives for executive management and other key personnel.

The Bank has introduced effective risk management and internal controls to ensure with reasonable confidence that the Bank will achieve established targets.

The Supervisory Board

The role and responsibilities of the Supervisory Board include: considering and approving corporate strategy, the risk management policy, and annual reports and business plans. The Supervisory Board also provides advisory assistance to the Management Board on comprehensive issues, in accordance with the Bank's core values of transparency, trust, and integrity.

In 2015, the General Shareholders Meeting elected the Bank's Supervisory Board made up of 7 members.

Chairman of the Supervisory Board	
Alexander N. Tkachev	Minister of Agriculture of the Russian Federation, elected SB Chair on 12.11.2015
Members of the Supervisory Board	
Oleg A. Bogomolov	Advisor to Chairman of the Management Board of JSC Rosselkhozbank
Andrey Y. Ivanov	Deputy Finance Minister of the Russian Federation
Denis S. Morozov	Executive director representing the Russian Federation, Belarus and Tajikistan on the Board of Directors of the European Bank for Reconstruction and Development, SB Chair until 30.06.2015
Dmitry N. Patrushev	Chairman of the Board and CEO of JSC Rosselkhozbank
Vladimir I. Strzhalkovsky	Special representative of the State Atomic Energy Corporation ROSATOM for nuclear technologies promotion in Africa, elected SB Member on 22.10.2015
Mukhadin A. Eskindarov	Rector of the Financial University under the Government of the Russian Federation

The Supervisory Board (SB) of Russian Agricultural Bank established three SB committees:

- The Audit Committee reviews the Bank's accounting and risk policies, as well as the internal control environment;
- The Strategic Planning and Development Committee sets forth and supervises general and priority strategic objectives, makes recommendations on the Bank's dividend policy, and evaluates the Bank's operational efficiency;
- The Human Resources and Remuneration Committee approves the Human Resources Policy and the remuneration policy for senior executives.

The Supervisory Board approved Regulations for these committees on 10 February 2012 (Minutes No 4). The SB elects the chairs and members of these committees from Supervisory Board members for a period until the General Shareholders Meeting elects a new Supervisory Board.

The following is the composition of the SB Committees effective at 1.01.2015 and 1.01.2016.

The Strategic Planning and Development Committee:

	Composition as at 1 January 2015	Composition as at 1 January 2016
Chair:	A. Ivanov	D. Morozov
Members:	D. Patrushev	A. Ivanov
	M. Eskindarov	D. Patrushev
	D. Yuriev	M. Eskindarov

The Audit Committee:

	Composition as at 1 January 2015	Composition as at 1 January 2016
Chair:	A. Avetisyan	M. Eskindarov
Members:	O. Bogomolov	O. Bogomolov
	A. Ivanov	A. Ivanov
	M. Eskindarov	

The Human Resources and Remuneration Committee:

	Composition as at 1 January 2015	Composition as at 1 January 2016
Chair:	M. Eskindarov	V. Strzhalkovsky
Members:	A. Avetisyan	D. Patrushev
	D. Patrushev	M. Eskindarov

The Revision Commission

The Revision Commission is the body responsible for controlling the Bank's financial and business activity. It carries out the revision of current operations' compliance with the financial plan, analyzes the Bank's financial position, evaluates the functioning of internal control and risk management systems, and checks the legitimacy of selected transactions.

The Revision Commission is elected according to an order of Rosimushchestvo.

The Commission is made up of three members and currently includes representatives of Rosimushchestvo, the Ministry of Agriculture, and the Presidential Executive Office.

The Corporate Secretary

The Corporate Secretary is responsible for ensuring that procedures are followed that champion the rights and interests of the Bank's shareholders. The Secretary participates in arranging the General Shareholders Meeting and Supervisory Board meetings and works out resolutions that need the approval of the Bank's shareholder. The Corporate Secretary secures effective cooperation between the shareholder and the Bank's management team.

The Management Board

The Chairman of the Board and the Management Board are Russian Agricultural Bank's sole and collective executive bodies. They perform general duties related to achieving the Bank's key business goals, accomplishing long-term targets set forth by the shareholder, supervising the compliance of the Bank's operations with relevant laws and regulations, and overseeing the introduction and functioning of appropriate risk management systems, including: defining the Bank's risk appetite, monitoring the environment in which the Bank operates, and strengthening the Bank's corporate culture.

The composition of the Management Board, as of 1 January 2016, was as follows.

Chairman of the Management Board	
Dmitry N. Patrushev	Chairman of the Board and CEO of JSC Rosselkhozbank
Members of the Management Board	
Boris P. Listov	Board Member, First Deputy Chairman of the Board
Dmitry G. Sergeev	Board Member, First Deputy Chairman of the Board
Kirill Y. Levin	Board Member, Deputy Chairman of the Board
Aleksey Y. Zhdanov	Board Member, Deputy Chairman of the Board
Evgeny V. Kryukov	Board Member, Deputy Chairman of the Board
Irina V. Zhachkina	Board Member, Deputy Chairperson of the Board
Ekaterina A. Romankova	Board Member, Deputy Chairperson of the Board, Chief Accountant
Deputy Chairpersons of the Management Board	
Andrey N. Barabanov	Deputy Chairman of the Board
Pavel D. Markov	Deputy Chairman of the Board
Oksana N. Lut	Deputy Chairperson of the Board

The Management Board is supported by a number of specialized committees and commissions, including, but not limited to:

— The Strategy and Corporate Development Committee (9 members)

This Committee develops proposals and recommendations for the Management Board and its Chairman and makes decisions to enhance governance at the Bank and across the Group in the following areas:

- Strategic development;
- Corporate governance;
- Development of a functional model and organization structure;
- Project activities;
- Business process optimization.

— The Credit Committee (13 members)

— The Junior Credit Committee (14 members)

— The Micro Credit Committee (8 members)

The Credit Committee, the Junior Credit Committee, and the Micro Credit Committee implement the Bank's credit policy and minimize credit risks. These committees are responsible for enhancing the quality of the Bank's loan portfolio. They ensure that transactions subject to credit risk yield a return and that the Bank's lending is effective, by introducing improved quality and quicker decision-making in the credit transaction process.

— The Finance Committee (9 members)

The Finance Committee coordinates multiple aspects of business planning, cost management, and pricing and profitability analysis of banking operations. It is also involved in improving the management of the Bank's financial and business activities.

— The Asset and Liabilities Management Committee (ALCO) (14 members)

ALCO develops and makes decisions on asset and liability management related issues, including: operations to raise funding or allocate funds on the financial markets (securities and derivatives market, currency market, money market, stock market and OTC market, where the Banks raises funding and allocates its funds or currency assets, engages in securities transactions, and issues or redeems its debt obligations). ALCO's competence also include distributing funds amongst Bank units, managing market risk (including interest and currency risks) and liquidity risk, and developing the Bank's tariff and interest policy.

— The Technology Committee (18 members)

The Technology Committee reviews, coordinates, and settles disagreements related to the development and implementation of IT in the Bank products, services, and transactions.

— The Branch Network Committee (11 members)

The Branch Network Committee develops and makes decisions to enhance the efficiency of the regional branch network's operations, development, and manageability (including for internal units). It assesses the performance of and takes action to enhance regional branch network efficiency.

— The Problem Loan Management Committee (14 members)

The Problem Loan Management Committee implements the Bank's policy in problem loan management and develops proposals for the Bank's Management Board to improve that policy, the quality of the Bank's loan portfolio, and its efficiency in settling distressed loans. The Committee ensures that uniform approaches are applied in implementing the problem loan management policy, as well as for any non-core assets that the Bank may receive in the course of problem loan settlement.

— The Corporate Ethics and Discipline Committee (7 members)

The Corporate Ethics and Discipline Committee exercises overall control of implementing shared corporate values and ethical norms and facilitates development of a unified corporate culture at the Bank.

— The Risk Management Committee (9 members)

The Risk Management Committee controls the target risk appetite and the aggregated risk profile for the Bank and the Group, making sure that the risk taken falls within existing limits and constraints. It monitors key risk factors that affect the aggregated risk profile of the Bank and the Group overall and takes action so that the risk management system (including: risk identification, assessment, monitoring, and control processes) functions efficiently and is able to be continually upgraded.

6. Human Resources Management

The key to the sustainable business results demonstrated by Russian Agricultural Bank has been the unfailingly responsible attitude of the Bank's employees to their duties and their focus on strong achievements to benefit the Bank and its clients.

The staff's commendable sense of responsibility and high degree of professionalism is underpinned by an elaborate and streamlined Human Resources Management Policy (HR Policy).

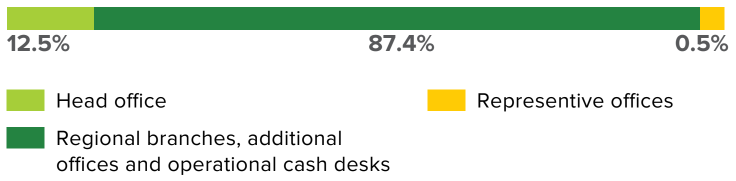
The Bank's Development Strategy through 2020 sets forth the following human capital development objectives: building a professional, loyal and motivated team, and strengthening the Bank's brand as an employer. In line with its strategic objectives, the Bank in 2015 worked on the following tasks: developing a corporate culture focused on clients and personal efficiency, increasing staff's professional expertise, effectively developing managers and staff in key business lines, and enhancing employee loyalty.

The Bank's HR management framework is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, solidarity, and mutual support, as well as continuous training and growth opportunities across all levels.

Sound financial and non-financial incentives, consistent recruitment, evaluation and training, and strong internal social policies lay a solid foundation for effective human capital management at Russian Agricultural Bank.

Personnel Overview[22]

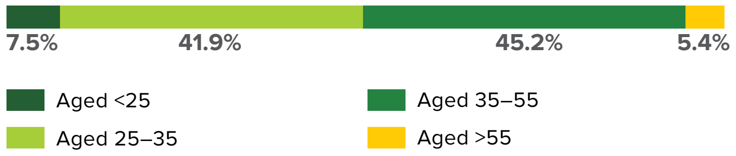
Russian Agricultural Bank is one of the largest employers in the Russian banking sector. In 2015, the number of the Bank's employees reached 28,772[23].



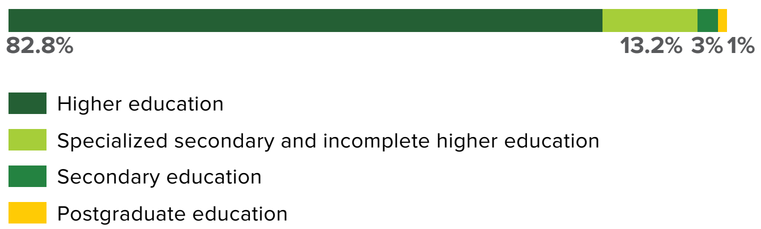
22 Source: Bank information as at 31 December 2015.

23 Note: The total number of personnel for the Bank on a standalone basis. The number does not include contract employees.

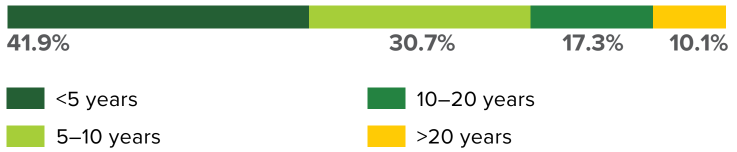
Staff Breakdown by Age



Staff Breakdown by Education



Staff Breakdown by Work Experience in the Banking Sector



For the most part, the Bank's staff has a higher education and considerable prior banking industry experience. The average age of the Bank's workforce is 37; 84% of the Bank's employees have completed a higher education. Approximately 60% of employees have five or more years of work experience in the banking sector.

Human Capital Investments

Recruiting, Appraising, and Retaining

When recruiting new staff, the Bank is guided by equity and fairness principles, as well as professional expertise criteria. The Bank's focus on agribusiness makes it desirable that future staff possess both professional banking knowledge and knowledge of the core borrowers' industry. Newly recruited employees pass initial trainings.

The comprehensive personnel assessment system is designed to ensure necessary qualifications and performance by executive personnel at both the branches and the Head Office. To ensure talent acquisition from the market, as well as in-house, the Bank places a special emphasis on personnel qualifications, potential, and competencies. In 2015, a total of 3,957 employees passed a comprehensive assessment, including an appraisal of their leadership and technical competencies. Based on personnel assessment results, the Bank has determined the need for further employee professional training, development, and rotation.

The Bank consistently replenishes its internal and external succession pools, ensuring timely and effective filling of vacant executive positions, as well as reducing management turnover.

In 2015, the Bank continued to build its external succession pool via university and college resources, comprising more than 140 universities, a student scholarship program covering 240 students at 129 higher education establishments; an internship program for university students – 2,790 trainees, 58 of whom were recruited; and finance students' teams in branches with 621 students taking part in this initiative.

The student scholarship program aims to support agrarian students and retain young professionals in rural areas, thus contributing to the revival of these communities. It also strengthens the Bank's attractiveness as an employer brand.

The Bank has in place a thoroughly elaborated internal succession planning process which comprises 'talent reviews' and ongoing development across all levels. The internal talent pool ensures timely recruiting for vacant management positions. The talent pool also mitigates HR risks and shortens the employee adaptation period when appointed to management positions, provides career growth opportunities, and motivates staff to upgrade their qualifications. This approach ensures development, progress, and mitigates employee turnover risks. In 2015, more than 800 internal pool members have passed trainings where they gained the knowledge required for upcoming appointments.

In 2015, the internal pool comprised more than 2,432 employees. About 200 pool members were recruited internally during 2015.

The Bank also supports workforce retention by building closer co-worker connections through arranging various social, cultural, and sports activities.

Training and Development

Russian Agricultural Bank's human capital management aims to increase the engagement of every employee in the professional development process and to fully equip all business units with highly qualified staff. This approach contributes to preserving and accumulating the Bank expertise; it also limits the risk of a shortage of talent.

The Bank has a well-developed training system, which comprises both external and internal trainings customized for all employee grades. In 2015, 14,260 employees received on-site training in the form of seminars, video courses, and tests.

Self-education is encouraged through user-friendly online resources. On-the-job learning and mentoring are also available. In 2015, 27,542 employees passed distance learning courses and tests.

The primary task of the Corporate University is to develop an accessible unified platform promoting personal and professional growth, as well as to create a highly qualified team.

The Bank's Corporate University, which operates via six training centers at the Head Office and in the regions, offers an integrated educational environment that contributes to creating teamwork skills and like-minded thinking. The technological solutions applied in the educational process serve to promptly disseminate knowledge and skills across the Bank by cascading (a top-down approach) through on-site seminars and distance learning tools. The tasks are to the greatest degree possible focused on accomplishing strategic goals: strengthening positions in each business line, promoting loan and sales growth, and enhancing service quality. The University cooperates with business staff in designing new product-specific, sales and client-centric approach trainings.

In 2015, the Corporate University focused on training regional staff. The Bank's branches hosted more than 1,300 training courses. To ensure that remote branches have access to on-site courses, the Bank has set up a pool of internal trainers.

Overall, the Corporate University has compiled a portfolio of more than 50 programs of on-site and more than 300 distance learning courses across various specializations for all functional roles.

In 2015, the Corporate University developed a pipeline of educational courses to be offered to employees moving forward. The key competencies covered by these courses comprise: recruitment and hiring, conflict management, effective negotiations, leadership and sales, analyzing credit risks, AML/FT legislation, occupational health and workplace safety, and computer skills, etc.

In 2015, a total of 14,260 employees took part in Corporate University trainings.

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for schoolchildren, students, and the general

public; business simulation games and excursions for upper grade schoolchildren are conducted under the auspices of the 'PRO: Pass to Profession' career guidance project.

Motivating and recognizing performance

One of the Bank's priorities is continuous improvement of professional competencies and enhanced individual and team efficiency across all spheres. The Bank strives to ensure employee performance recognition and encourage further achievement through ongoing training and development, as well as to promote employees' personal well-being (and that of their dependents). To this end, the Bank has put into place a motivation and incentive policy.

The Bank holds professional excellence contests and contests to reward business activity results for departmental teams, individual employees, and entire branches. The "Best in Profession" contest has been held for 6 years in a row with the goal of incentivizing employees' strong performance. In 2015, 35 employees were selected as winners. The photos of the best employees are displayed in the Bank's offices.

The Bank's Retail Banking Unit has developed a unique system of motivational contests in which teams and individuals compete. Contests are designed to improve employee efficiency, service quality, and achieve target indicators. Contests motivate front-office employees to effectively roll out new product offerings and sales models. In 2015, the Bank launched "The Champion League" incentive program for front office staff. Based on their achievements in 13 contests, almost 400 employees were awarded for delivering outstanding results.

Providing a competitive benefits package is an important factor in attracting and retaining the talented staff that the Bank needs to deliver on its strategy. Compensation for the work done is supplemented by a bonus system which is tied to achieving key performance indicators (KPIs). The Bank's non-financial incentives comprise commendations and letters of appreciation awarded to the most effective employees.

The Bank consistently rewards personnel, on the merits of their performance and efforts undertaken.

Internal social policies and the working environment

The Bank's corporate culture blends traditions and innovations to reflect its status of one of the largest financial institutions expressly focused on a strategic industry.

Corporate culture helps to align long-term goals with corporate behavior. It is aimed at strengthening the teamwork spirit that enables business goals to be achieved. HR policies facilitate seamless adoption of the right corporate values, which contributes to high staff morale and cohesion. Russian Agricultural Bank considers employee care and merit recognition to be priority directions for its internal social policy. Rules of professional conduct and basics of ethical conduct are effectively presented to employees via leaflets and handouts.

Employees – under the internal social policy – are eligible for social protection based on responsibility and partnership principles. Employment benefits include: medical insurance, medical services in the office, workplace accident insurance, one-off financial allowances for certain family circumstances, partial compensation of vouchers to health resorts, and discounts from partner companies. In extraordinary cases, the Bank can provide additional financial aid.

The Bank makes all mandatory contributions to the Russian Social and Pension Funds, in accordance with applicable Russian legislation. Pensions are duly provided to former employees via the Bank's own established pension fund – the APK Fund.

Russian Agricultural Bank takes precautions to ensure the occupational safety of its employees. The Bank's policies help to avoid workplace accidents, health accidents, and professional diseases. The Bank provides workplace safety and safe behavior education and certifies workplaces in terms of ecological safety. All employees have to take part in fire evacuation drills. Moreover, the Bank provides comprehensive medical checkups and vaccinations against viral infections. Quarterly antismoking campaigns are held at the Bank's headquarters.

The Bank has created numerous opportunities for its employees to follow a healthy lifestyle. In particular, it has established futsal, volleyball, skiing, and hockey teams. Members of these sports teams make successful appearances at various interbank competitions. Sporting events not only make employees fitter, but also develop features consistent with the desired corporate culture: teamwork skills, solidarity, and mutual support.

The Bank has arranged voluntary insurance to maintain and improve the health of its employees. Overall, 31,308 employees have enrolled in voluntary medical insurance programs. The number of those insured against workplace accidents amounts to 5,705.

Dialogue between management and employees

Open and regular communication is fundamental to employee engagement. Russian Agricultural Bank maintains an ongoing dialogue between staff and management via its internal website. Personnel can discuss important questions or make a proposal to increase overall effectiveness or upgrade business processes.

In 2015, Russian Agricultural Bank successfully employed the format of meetings with the CEO that had been launched a year earlier. This provides branch management with a platform for exchanging expertise and receiving feedback and first-hand information about the latest developments. Branch heads also take part in extended Management Board meetings that are held once a year.

Agrocredit magazine and Utrenniy Express newspaper are important parts of the internal communications framework. The magazine provides employees with the opportunity to better understand the Bank's mission and strategy, macroeconomic environment, industry specifics, and recent events and to feel that they are an integral part of the Bank. The newspaper gives employees a clear picture of the Bank's latest developments and serves as a platform for receiving feedback from employees on corporate social and charitable activities.

Agriculture Workers' Day, Defender of the Fatherland Day, Victory Day, International Women's Day, New Year, and the Bank's anniversary are major holidays that are popular with employees. Employees receive special greetings and small souvenirs to mark these memorable dates. Professional and creative contests for employees and their family members have also become an established tradition with Russian Agricultural Bank.

Anti-corruption policies

To ensure compliance with regulatory requirements and effectively prevent issues, such as: an incentive for corruption, conflicts of interest, the disclosure of income and accepting presents by staff holding certain positions, the Bank has charged the HR Department with oversight. The Ethics and Discipline Committee is responsible for overseeing employees' compliance with corporate behavior rules and settling conflicts of interest.

2016 Focus Areas

In 2015, the Bank undertook further steps towards accomplishing its long-term strategic goals. Human capital is among its core building blocks. In particular, the Bank made progress towards strengthening its corporate culture and enhancing employee involvement.

In 2016, Russian Agricultural Bank will continue developing an ongoing employee training system, covering key skills and competencies.

Russian Agricultural Bank will uphold its commitment to implementing its workplace social policies and proceed with its efforts to create a motivating and rewarding work environment that will foster sustainable business results.

7. Corporate Social Responsibility

In addition to tangible business objectives, Russian Agricultural Bank is guided by long-term value creation principles which translate into a sustainable future for customers, shareholders, and the wider community.

The ultimate social responsibility goal for any business is to contribute to sustainable development. Sustainability approach is organically integrated into Russian Agricultural Bank's core business objectives and operations.

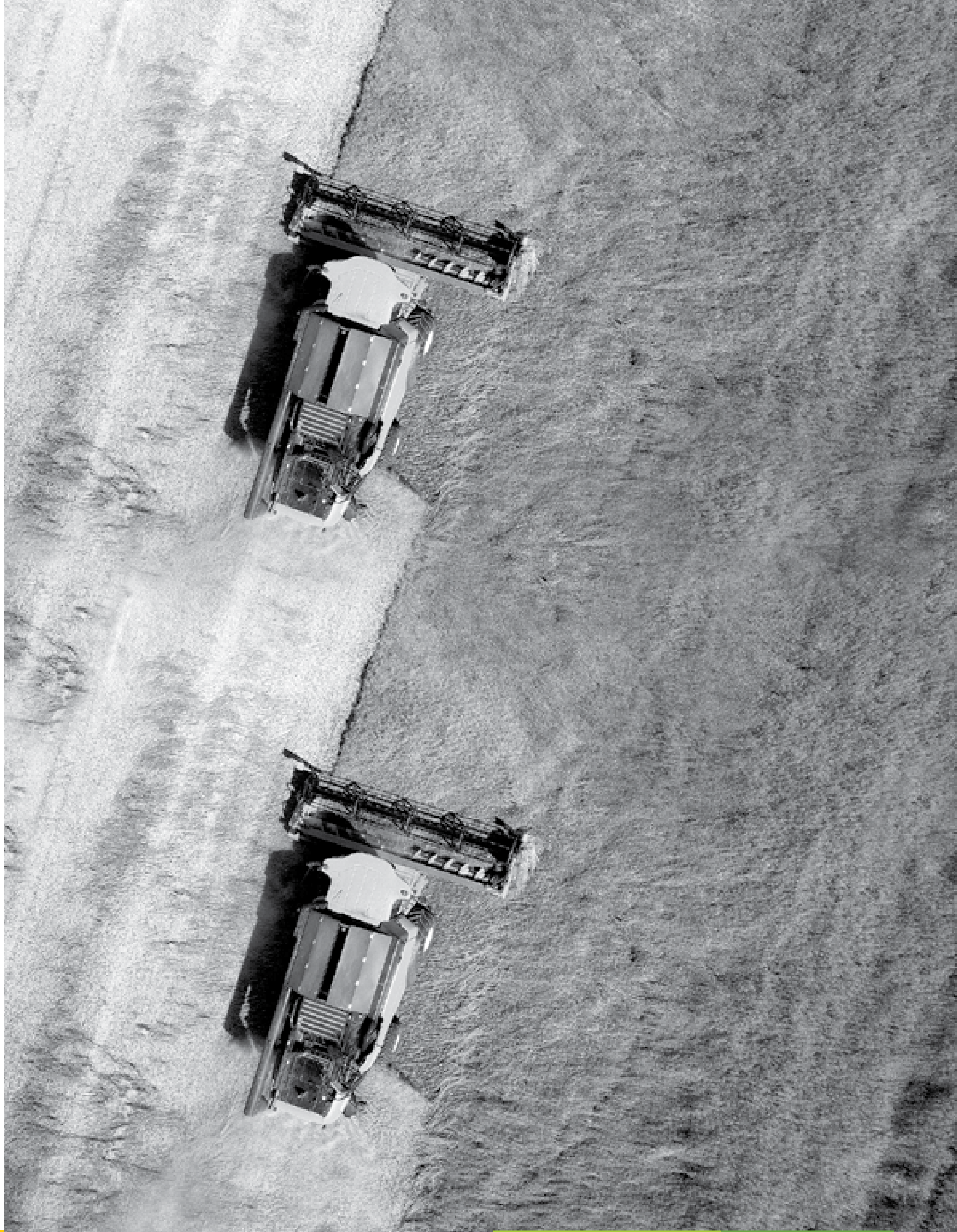
The Bank's sustainable business practices link back to its mission, vision, and values and are targeted at ensuring national agribusiness development, domestic food security, Russia achieving the status of the world's leading food producer and exporter, increasing financial literacy, and upgrading the overall welfare of the country's rural population. This is achieved through supporting small- and medium-sized enterprises (SMEs) and young professionals, developing rural territories and mid-sized cities, promoting innovations and resource-efficient technologies in agribusiness, financing priority import substitution projects, facilitating investments and improving the investment climate, diversifying the product range, increasing access and affordability to high quality financial services, reducing the environmental impact of the Bank's activities, and promoting the rational use of arable land.

Financial support of SMEs

SMEs are the key economic growth driver in many developed countries. They also play an increasingly important role in Russia's social and economic development. Currently, the Bank offers more than 30 lending programs tailored to this business segment. Since the start of the State Program on Agribusiness Development in 2008, Russian Agricultural Bank has provided approximately RUB 440 billion in loans to small businesses.

The Bank signed a Cooperation Agreement with the Federal Corporation for SME Development (formerly – the Credit Guarantee Agency), incorporated to support small- and mid-sized enterprises and forge a national system of guarantee institutions. Russian Agricultural Bank is included in the SME Lending Stimulation Program. The Program stipulates refinancing from the Bank of Russia to selected commercial banks which will be backed by a surety/guarantee issued by the Corporation. The funds will be provided at a reduced interest rate.

Russian Agricultural Bank also cooperates with public organizations in promoting SME development, including OPORA-Credit, a financial Internet project (www.opora-credit.ru) launched by OPORA ROSSII, an all-Russian public organization focused on SME development.



Enhancing access to financing

Increasing the availability of financial resources for small businesses and the rural population is a task of paramount importance at the federal level and is predictably one of the Bank's key priorities. Higher banking sector penetration increases sector competitiveness, thus promoting social equality, and inclusive and sustainable economic growth.

In 2015, the Bank grew its agribusiness portfolio RUB 34.8 billion, supporting the sector's development across its footprint. During the year, Russian Agricultural Bank continued to focus on upgrading product and service offerings to meet the requirements of all types of entities working in rural and semi-urban areas: farmers, household plot owners, and larger agricultural enterprises.

In almost every region, Russian Agricultural Bank provides financial support to entrepreneurs employed in trade, tourism, household services, and other services not directly related to agribusiness. Thanks to this, the commercial sector, in fact, is also engaged in developing rural territories. About 50% of the Bank's offices are located in rural communities and small towns. The Bank increases the operational efficiency of its POS setup, location and overall business processes, thus satisfying the real needs of local communities.

In line with national development priorities, the Bank places a special focus on financing promising investment projects in the Far East that facilitate better social and economic conditions in the Region and enhanced environmental activity. In particular, in 2014, the Bank concluded an agreement with the Kamchatka Development Corporation.

Community Outreach

Russian Agricultural Bank leverages its countrywide footprint and strengthens liaisons with regional authorities, SME financing funds and guarantee agencies in the territories in which it is present to prepare and implement regional development strategies and federal policies in economic, social, educational, and other spheres.

As part of this effort, the Bank signed 82 bilateral cooperation agreements with Russian regional authorities to implement the 2013-2020 State Program on Agribusiness Development.

In October 2015, the Bank launched the "Made in Russia" informational campaign, aimed at increasing the wider community's awareness of success stories and the history of national agribusiness, as well as how attractive rural life is. In cooperation with a popular newspaper, the Bank launched a platform for Q&A sessions for rural entrepreneurs, including start-up farmers. The Bank has arranged a few financial literacy conferences for small agribusiness owners. This campaign has gained further momentum in social media, having been tagged as #Made_in_Russia. The audience covered by this campaign reached 12 million people. More than 80 domestic producers decided to enroll in the program and put the "Made in Russia" logo on their goods.

Improving the investment climate in the regions

Russian Agricultural Bank is a financial partner of the Strategic Initiatives Agency. This partnership promotes socially important projects, with a focus on innovations and upgrading the agribusiness investment climate.

The Bank regularly hosts roundtable discussions that bring together regional authorities and potential investors in agribusiness and related spheres. The Bank's specialists also engage in disseminating and incorporating ecological practices and environmentally responsible policies into corporate culture.

Financing state programs

As the backbone financial institution for agribusiness financial support, Russian Agricultural Bank, for more than 12 years now, has participated in sustainability programs focused on social aspects and initiated by the Russian Government. The Bank has been specially designated as the key financial institution for implementing the State Program on Agribusiness Development.

The State Program encompasses numerous key focus areas – all aimed at respective sub-sector development. The key focus areas are as follows:

- **Lending for various purposes**, such as: machinery, livestock, grain, fuel, and fertilizer purchases, land, warehouses and facilities leases with priority given to agribusiness producers, farmers, agricultural consumer cooperatives, food processing companies, fisheries and aquaculture producers, and markets and shopping facilities;
- **Financing seasonal field work**. The Bank accounts for 71% of total seasonal field work financing. RUB 190 billion in loans was issued for this purpose in 2015;
- **Lending to agricultural credit and consumer cooperatives**. This type of support contributes to closer cooperation and integration in rural areas. Credit and consumer cooperatives are an important vehicle for rural financial stability;
- **Financing investment projects** for constructing and upgrading greenhouses, and livestock and fish breeding facilities. Since 2013, Russian Agricultural Bank has provided credit support to 753 investment projects;
- **Developing all forms of small business**, including family-operated farms and start-ups. Fostering agribusiness start-ups creates new jobs for young professionals and keeps qualified personnel in rural areas;
- **Federal and regional programs**, whereby agricultural producers receive subsidies to partially compensate for interest expenses on loans.

In addition, the Bank is involved in implementing numerous special purpose federal sub-programs:

- *Sustainable development of rural areas.* This program is aimed at upgrading living standards, stimulating investments into agribusiness, strengthening positive attitudes towards rural life, and developing non-agricultural production and employment. It also promotes the creation of high tech employment opportunities;
- *Social development of rural settlements;*
- *Conservation and restoration of soil fertility, reclamation of arable land;*
- *The Federal Project Finance Program.* This program is designed to boost domestic production in real economic sectors. In particular, as part of the State Project Financing Program, the Bank has already implemented seven large-scale agribusiness investment projects. Total refinancing for these purposes received from the Bank of Russia at below-market interest rates exceeds RUB 16 billion;
- *Support for export-oriented businesses in cooperation with the Russian Export Insurance Agency (EXIAR).* This provides customers with the opportunity to work within the framework of the Customs Union (in a unified economic area) via its sales and service channels;
- *State program for residential construction development.* The program supports residential construction for certain categories of citizens, and enhances the quality of utility services;
- *State program for automobile industry development.*

For further details, please refer to Section 3.2 Contribution to Agribusiness Development, page 34.

Increasing product diversification and affordability

The Bank strives to develop products and services – both financial and non-financial – that add value to traditional banking solutions, via fostering a favorable business environment, supporting new job creation, and contributing to social and economic progress.

Russian Agricultural Bank offers a wide range of loan facilities to agribusiness producers. Special focus is paid to projects involving import substitution, the renovation of agribusiness facilities, technology and machinery, and equipment upgrades. This enhances industry competitiveness and production capacity.

The Bank consistently expands and diversifies its product range to cover the needs of specific social groups, such as pensioners. Russian Agricultural Bank provides mortgages to young families (under Federal Special Purpose Programs) and military servicemen (pursuant to Russian Federal Law No. 117-FZ “On the Mortgage Savings System for Housing Provisions for Military Servicemen”).

In early 2015, Russian Agricultural Bank enrolled in the State subsidized mortgage lending program. This Government-launched program has extended more than 11,000 loans totaling RUB 18.6 billion. Russian Agricultural Bank has secured the 3rd position among banks participating in this initiative.

Mobilizing the inflow of foreign investments

Russian Agricultural Bank’s international operations facilitate the inflow of foreign investments into Russia’s agricultural sector. In 2015, the Bank signed cooperation agreements with:

- Olam Investments to facilitate investments in dairy production;
- Chinese Huamin Fund to launch investment projects in organic crops in Russia with local agribusiness companies;
- UnionCard Issuing Promotional and Incentive Agreement with UnionPay International Co. Ltd.

For further details, please refer to section 3.6 Financial Institutions and International Operations, page 47.

With the Bank’s active financial support of the measures outlined in the State Program on Agribusiness Development, gross industry output increased 3.7% in 2014 and 3% in 2015.

Stakeholder Relations and Societal Impact

The Bank believes that long-term sustainable business growth is unthinkable without adopting a stance that takes into account the views of all stakeholders and the surrounding communities. This position is easily explained given the Bank’s status as one of the largest financial institutions, employers, and the backbone of the national credit and financial system in agribusiness.

When liaising with its stakeholders, Russian Agricultural Bank is guided by principles of respect, client focus, honesty, responsibility, proactivity, efficiency, and commitment to a healthy lifestyle. In turn, adherence to corporate ethics and values will help employees uphold the Bank’s reputation.

To promote better corporate governance standards, in 2012, the Bank adopted the Corporate Ethics Code. The Code specifically relates to conflicts of interest, anti-bribery and corruption policy, intellectual property rights, mass media, and government relations.

As a responsible member of the banking community, Russian Agricultural Bank regularly contributes to discussions of legislative initiatives and proposals of the Bank of Russia and other financial authorities via the Association of Russian Banks and the Association of Regional Banks of Russia.

The Bank in 2014 introduced a procedure for handling customer inquiries and complaints whereby it has identified sensitive areas in its operations and has implemented measures aimed at effectively and comprehensively satisfying customers’ need for high quality and accessible banking and financial services.

Purchasing activities

The Bank undertakes efforts to make its purchasing processes transparent, efficient, and non-discriminatory, and promotes compliance with Russian Federal Procurement Law. The Bank publishes information on its procurement activities online at www.zakupki.gov.ru. To encourage fair competition and transparency, as well as cost optimization, the Bank conducts electronic tenders via auctions/requests for proposals and other methods. As a result of the undertaken procedures, the Bank has saved approximately RUB 354 million.

With a view to implementing the Government-approved road map 'Enhancing the access of small- and medium-sized business to purchases of infrastructure monopolies and State-owned companies,' the Bank placed 41% of its procurement orders with SMEs, whereas the minimum required amount is 9%.

For 2015, the Bank received a 'high transparency' mark, according to the National Purchases Transparency Rating.

Internal social policies

Internal social policies implemented at the Bank are designed to recognize employees' merits and fairly assess their contribution to achieving tasks set by the shareholder. The Bank's non-financial motivation includes: commendations, letters of appreciation, and other incentives awarded to its most effective employees. The Bank adheres to its principles of creating a favorable working environment, contributing to healthy lifestyle practices and skill development for its employees. In its internal social policy, the Bank promotes personnel protection based on principles of responsibility, non-discrimination, and mutual respect. Bank employees are eligible for voluntary medical insurance and occupational accident insurance.

Reducing environmental impact

Russian Agricultural Bank has adopted and implemented voluntary environmental responsibility principles to preserve and restore natural resources, and to reduce the environmental footprint from the Bank's activities, as well as to raise social responsibility awareness. When implementing voluntary ecological responsibility mechanisms, the Bank complies with local and international ecological standards and norms, makes provisions for expenses related to ecological aspects of the Bank's activity, including for environmental protection, rationalizes and controls performance related to the input(s) (raw materials, energy, and water) and output(s) (waste) for tangible resources per one employee (per one unit of usable space), and optimizes the use of the Bank resources, including by reducing electricity and heat usage, as well as water via the application of resource-efficient technologies, and automates resource use and conservation issues ('smart office' policies).

Volunteering

Volunteer projects illustrate that the Bank's staff upholds and embraces the Bank's commitment to socially responsible practices. The Bank actively engages its staff in volunteer projects benefiting local communities. The Head Office and most branches have launched volunteer initiatives. Key projects that have helped enhance the Bank's corporate values are: Donors' Day, Volunteer Descent, and the Pass to Profession. In 2015, volunteers raised RUB 225 thousand at various charity auctions. The "Volunteer Descent" project supports socially-oriented organizations in almost all Bank branches. Starting from 2010, the Bank has implemented the "Project PRO: Pass to Profession" project, which includes career guidance field trips for high school students and orphaned children.

Sponsorship and Charity

As a corporate citizen committed to meeting societal needs and expectations, Russian Agricultural Bank extends tangible help to local communities via charitable activities, sponsorships, and donations. The Bank promotes philanthropic activities, emphasizing key priority areas for Russia's social and economic development and defined by Bank shareholders – namely, developing the country's health care and education system, preserving Russia's cultural and historical heritage, and promoting spirituality.

In 2015, Russian Agricultural Bank engaged in philanthropic activities in four key areas relating to community support, education, spiritual education, and sports and physical education.

Environmental and biodiversity protection

The Bank views the protection of the environment and engendered species as a civic duty for responsible corporations. In 2015, the Bank proceeded with carrying out the Amur Tiger Protection Project. Russian Agricultural Bank became the primary sponsor of its mass media campaign, which effectively combined the resources of a commercial and non-profit entity to increase the number of Amur tigers in Russia and expand their habitat. Later, the Bank launched a payment card that gives cardholders a unique opportunity to help conserve this rare species without incurring any expenses.

Community support

The Bank provided financial aid to individuals, a state social services agency, a non-profit fund, and a veterans' organization. The Bank holds its annual Donor Day. In 2015, 211 Head Office employees donated blood and raised RUB 47 thousand for young patients at the Federal Research and Clinical Center for Children's Hematology, Oncology, and Immunology. After a severe fire damaged residential dwellings in the Republic of Khakassia (May 2015), the Bank opened an account for a regional non-profit organization and encouraged people to raise funds. More than RUB 90 million was attracted.

Education, spirituality, and culture

The Bank financially supports restoring architectural monuments and spiritually significant culture objects, such as churches and cathedrals. The Bank supports art and culture as a general sponsor of the Moscow-based theatre under the artistic direction of Armen Dzhigarkhanyan. Starting from 2008, the Bank has awarded scholarships to agrarian students. Russian Agricultural Bank's initiatives facilitate the education of highly-qualified professionals in key rural specializations, as well as the retention of young specialists in rural areas, since these are key prerequisites for Russian agribusiness development.

Industry-specific mass media and professional forums

As part of its initiative, Russian Agricultural Bank has sponsored radio and TV shows that raise agricultural issues. In addition, the Bank sponsored an artistic gymnastic competition, a sambo competition among youth and junior competitors, and the Moscow Marathon. In 2015, the Bank became a partner for numerous large specialized events, including: the XIX Saint Petersburg Economic Forum, the Golden Autumn Exhibition, the "Agrorus-Regions" all-Russian Agricultural Exhibition, the annual theoretical and practical conference "Agricultural Education and Science in the 21st Century: Challenges and Problems of Development", and the XXVI Congress of the Association of Farms and Agricultural Cooperatives of Russia, the XIII Russian Bond Congress, and one of the sessions at the "Seliger 2014" National Youth Forum. The Bank became the primary sponsor of the XXVI Annual Convention of the Association of Russian Banks, which is a forum for fostering dialogue within the wider banking community. The Bank has allocated approximately RUB 237 million for sponsorship and charitable activities in 2015.

Russian Agricultural Bank year-on-year confirms its unwavering commitment to CSR policies and performing its pivotal role in supporting agribusiness enterprises, which rapidly evolve into a driving force behind resolving national-scale tasks that will lead to Russia's economic prosperity.

8. Branch Network Development

Russian Agricultural Bank leverages its diversified geographical presence and sales channels to support its long-term sustainable business growth, while satisfying client needs amidst challenging market conditions. With Russia's second largest branch network, the Bank enjoys solid regional franchises in urban, semi-urban, and rural areas. The Bank's branches operate in 81 Russian Federation constituents and service clients in rural territories, towns, and mid-sized and large cities, including areas in which no other banks are present.

As of 1 January 2016, Russian Agricultural Bank's branch network comprised 76 branches and 1,274 points-of-sale (POS). The Bank also operates a network of 3,525 ATMs and 1,708 self-service terminals. Moreover, 281 authorized representatives provide access to the Bank's services in mid-sized cities that are not covered by the Bank's branch network.

Universal product offering	**76 flagship points of sale**	
159 operational offices **1,113 additional offices** **2 stand-alone cash desks**	**Standard:** wide product offering **Mini:** basic services mainly for retail customers **Light:** basic retail and small business product offering **Segment-wise specialization:** (1) retail (2) micro, small and mid-sized business	**1,274 points of sale**
	11 mobile (vehicle-based offices) and self-service offices (kiosks) 3,525 ATMs 1,708 self-service terminals	**Flexible opening hours and easier accessibility**

Following the adoption of its Strategy through 2020, the Bank has outlined in detail the Branch Network Development Program and has embarked on executing short- and mid-term tasks. One of

the Bank's strategic tasks is to support agribusiness and sustainable development of rural territories by ensuring the timely provision of loans to corporate borrowers and the population.

The key milestones on the way to accomplishing strategic goals are an increase in front office staff workload (loans and deposits per employee), product diversification tailored to regional market specifics and customer preferences, faster decision-making processes and enhanced service quality, sales personnel motivation, and prioritizing the deployment of remote service channels and less capital intensive POS formats.

To accomplish these goals, the Bank has taken numerous measures to increase branch network cost efficiency and accessibility. In particular, to ensure the efficient setup of its points of sale, the Bank has introduced eight office formats (refer to the Chart above) and has determined how to best match the POS format mix with key business objectives.

In 2015, Russian Agricultural Bank consistently worked towards branch network optimization. The Bank increased the profitability of its regional franchise, having relocated 11 and opened 38 points of sale. As part of this initiative, the Bank introduced new online and mobile banking options thereby putting additional limits on costs related to premises and ensuring needed returns at each POS. In 2015, the Bank's ATM and self-service terminals network grew 1.5 times. Currently, it numbers more than 5,200 units. The ongoing POS renovation projects will make the Bank's office design more uniform and enhance brand awareness.

Strengthening the Bank's positions in target (agribusiness, fishery, and forestry) and non-target segments, ensuring an efficient regional presence, and guaranteeing that throughput capacity matches business objectives are among the goals set forth by the Strategy.

The Bank believes it can benefit from such opportunities as the unoccupied market niche and the fact that it is well-positioned to become the anchor bank in small and mid-sized cities and rural areas, as well as in target client segments that have little competition.

Proceeding from the above assumption, in mid-sized and large cities and urban agglomerations, the Bank opens a fully-fledged office and a few offices that offer a more limited range of services (geared towards attracting either retail or micro- and small business clientele). In 2015, Russian Agricultural Bank focused on opening light and mini points of sale, with 70% of offices opened in 2015 having this functionality and layout. A shift towards less capital intensive office formats and distance service channels will significantly reduce costs without negatively impacting territorial coverage and accessibility.

The Bank started applying geomarketing analysis to determine the best office locations, taking into account customer flow, throughput capacity, and market demand. To ensure the effective and comprehensive satisfaction of the needs of clients, the Bank has introduced a framework for evaluating customer service quality. The core parameter of this method is the integral quality index, which is calculated by carrying out an independent study of the Bank's POS based on the "mystery shopping" technique. This index will be factored into frontline staff's bonus system. The Bank benchmarks its final score against the largest Russian banks.

The Moscow, Krasnodar, Rostov, Saint Petersburg, and Voronezh branches are the top 5 business units with total assets of RUB 611 billion at YE2015 (YE2014: RUB 411 billion), accounting for 33% of total branch network assets (YE2014: 28%). Despite the rise in the share of the top 5 branches, Russian Agricultural Bank controls concentration risks by capping loan portfolio size at the branch level to 15% of the Bank's total loans. This policy contributes to overall organic and well-balanced growth across the network.

The Bank works in CIS countries, namely Belarus, Tajikistan, Kazakhstan, Azerbaijan, and Armenia through its representative offices. The Bank takes full advantage of its presence in CIS countries and leverages the opportunities of the newly formed Eurasian Economic Union. In 2016, the Bank will launch a representative office in Beijing, China.

2016 Focus Areas

The Bank's pipeline projects include opening POS in settlements with high potential client demand, where the Bank is not already present, urban settlements where existing market capacity is not covered by the Bank's current POS, and mid-sized cities with a population equal to or exceeding 40,000. Renovating existing POS, upgrading service quality, and enhancing overall effectiveness are priority tasks as well.

In 2016, Russian Agricultural Bank plans to open, renovate, and change the format of 88 points of sale. The measures are designed to streamline access to financing for agricultural producers and other client segments, to ensure the timely provision of State support to borrowers, and to increase branch network efficiency.

Russian Agricultural Bank's strong regional footprint, solid expertise in agribusiness financing, and close relationships with regional governments, as well as its large mass market customer base, are key competitive advantages in growing its client base and increasing existing customers' loyalty across Russia.

9. Consolidated Financial Statements in Accordance with IFRS

Russian Agricultural Bank Group
Consolidated financial statements

for the year ended 31 December 2015
with independent auditor's report

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Independent auditor's report

To the shareholder and Supervisory Board of
Russian Agricultural Bank Group

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

5 April 2016 Ernst & Young LLC

Moscow, Russia

In millions of Russian Roubles	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	7	168 232	105 009
Mandatory cash balances with the Central Bank of the Russian Federation		7 739	9 373
Trading securities	8	485	2 090
Financial instruments designated at fair value through profit or loss	10	5 069	6 902
Due from other banks	11	61 101	34 036
Derivative financial instruments	35	166 712	131 819
Loans and advances to customers	12	1 625 637	1 416 463
Investment securities available for sale	13	211 196	113 638
Investment securities held to maturity	14	28 758	11 568
Investment securities pledged under repurchase agreements	9	7 836	26 278
Current income tax assets		1 024	450
Deferred income tax asset	28	15 911	13 317
Intangible assets	15	2 613	2 330
Premises and equipment	15	23 624	24 314
Other assets	16	20 654	17 819
Assets of the disposal groups held for sale and assets held for sale	39	1 861	411
Total assets		**2 348 452**	**1 915 817**
Liabilities			
Derivative financial instruments	35	204	1 207
Due to other banks	17	97 256	285 776
Customer accounts	18	1 189 856	761 595
Promissory notes issued	19	14 637	18 680
Bonds issued	20	609 824	554 568
Current income tax liability		14	5
Deferred income tax liability	28	1 183	1 245
Other liabilities	21	12 795	10 481
Liabilities directly associated with disposal groups held for sale	39	1 769	-
Total liabilities before subordinated debts		**1 927 538**	**1 633 557**
Subordinated debts	22	225 109	84 261
Total liabilities		**2 152 647**	**1 717 818**
Equity			
Share capital	23	327 598	248 798
Revaluation reserve for premises		1 213	1 194
Revaluation reserve for investment securities available for sale		279	(12 403)
Accumulated loss		(134 018)	(39 922)
Equity attributable to the Bank's shareholder		**195 072**	**197 667**
Non-controlling interest		**733**	**332**
Total equity		**195 805**	**197 999**
Total liabilities and equity		**2 348 452**	**1 915 817**

Approved for issue and signed on behalf of the Management Board on 05 April 2016.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Deputy Chairman of the Management Board, Chief Accountant

The notes set out on pages 98 to 183 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	2015	2014
Interest income	24	196 429	161 439
Interest expense	24	(172 500)	(101 466)
Net interest income		**23 929**	**59 973**
Provision for loan impairment	11, 12	(90 430)	(55 895)
Net interest (expense)/income after provision for loan impairment		**(66 501)**	**4 078**
Fee and commission income	25	13 586	10 008
Fee and commission expense	25	(1 459)	(1 189)
Gains less losses/(losses net of gains) from trading securities		30	(59)
Gains less losses/(losses net of gains) from financial instruments designated at fair value through profit or loss		1 001	(1 612)
Losses net of gains from investment securities available for sale		(4 500)	(1 913)
Losses from impairment of investment securities available for sale		(227)	(253)
Losses net of gains from investment securities held to maturity		(3)	(344)
Foreign exchange translation losses net of gains		(63 767)	(117 919)
Gains less losses from derivative financial instruments		66 935	107 480
Gains less losses/(losses net of gains) from dealing in foreign currencies		1 713	(2 731)
Provision for credit related commitments and other assets impairment	16, 34	(202)	(358)
Losses net of gains from early redemption of borrowed funds		-	(1 629)
Gains from non-banking activities		8 355	5 549
Losses from non-banking activities		(9 138)	(8 651)
Gain on disposal of subsidiaries	39	147	-
Other operating income		2 299	1 233
Administrative and other operating expenses	27	(47 930)	(41 953)
Loss before tax		**(99 661)**	**(50 263)**
Income tax credit	28	5 441	2 335
Loss for the year		**(94 220)**	**(47 928)**
Loss is attributable to:			
Shareholder of the Bank		(94 147)	(47 405)
Non-controlling interest		(73)	(523)
Loss for the year		**(94 220)**	**(47 928)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Securities available for sale:			
- Revaluation of securities at fair value		11 229	(16 037)
- Realised revaluation reserve (at disposal)		4 500	1 913
- Reclassification to profit or loss at impairment		124	226
Income tax	28	(3 171)	2 780
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax		**12 682**	**(11 118)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
- Revaluation of premises	15	88	-
- Income tax	28	(18)	-
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net of tax		**70**	**-**
Total other comprehensive income/(loss)		**12 752**	**(11 118)**
Total comprehensive loss for the year		**(81 468)**	**(59 046)**
Total comprehensive loss is attributable to:			
Shareholder of the Bank		(81 395)	(58 523)
Non-controlling interest		(73)	(523)
Total comprehensive loss for the year		**(81 468)**	**(59 046)**

The notes set out on pages 98 to 183 form an integral part of these consolidated financial statements.

		Attributable to Shareholder of the Bank						
In millions of Russian Roubles	Note	Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings/ (accumulated loss)	Total	Non-controlling interest	Total equity
Balance at 31 December 2013		**218 798**	**1 232**	**(1 285)**	**7 863**	**226 608**	**1 175**	**227 783**
Loss for the year, net of tax		-	-	-	(47 405)	(47 405)	(523)	(47 928)
Other comprehensive loss for the year, net of tax		-	-	(11 118)	-	(11 118)	-	(11 118)
Total comprehensive loss for the year, net of tax		**-**	**-**	**(11 118)**	**(47 405)**	**(58 523)**	**(523)**	**(59 046)**
Share issue	23	30 000	-	-	-	30 000	-	30 000
Change in ownership interests		-	-	-	(163)	(163)	(320)	(483)
Depreciation of revaluation reserve for premises		-	(38)	-	38	-	-	-
Dividends declared	29	-	-	-	(255)	(255)	-	(255)
Balance at 31 December 2014		**248 798**	**1 194**	**(12 403)**	**(39 922)**	**197 667**	**332**	**197 999**
Loss for the year, net of tax		-	-	-	(94 147)	(94 147)	(73)	(94 220)
Other comprehensive income for the year, net of tax		-	70	12 682	-	12 752	-	12 752
Total comprehensive income/(loss) for the year, net of tax		**-**	**70**	**12 682**	**(94 147)**	**(81 395)**	**(73)**	**(81 468)**
Share issue	23	78 800	-	-	-	78 800	-	78 800
Change in ownership interests		-	-	-	-	-	474	474
Depreciation of revaluation reserve for premises		-	(51)	-	51	-	-	-
Balance at 31 December 2015		**327 598**	**1 213**	**279**	**(134 018)**	**195 072**	**733**	**195 805**

The notes set out on pages 98 to 183 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	2015	2014
Cash flows from operating activities			
Interest received		200 706	153 480
Interest paid		(164 630)	(100 650)
Expenses incurred from trading in securities and financial instruments designated at fair value through profit or loss		(4 422)	(3 296)
Income received from derivative financial instruments		31 039	1 585
Income received/(expenses incurred) from dealing in foreign currencies		1 713	(2 731)
Fees and commissions received		13 668	10 229
Fees and commissions paid		(2 199)	(1 189)
Other operating income received		1 282	950
Net insurance income received		1 455	692
Income received from non-banking activities		6 040	3 626
Losses incurred from non-banking activities		(7 938)	(3 750)
Administrative and other operating expenses paid		(38 810)	(38 597)
Income tax paid		(409)	(1 341)
Cash flows from operating activities before changes in operating assets and liabilities		**37 495**	**19 008**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		1 634	(638)
Net decrease in trading securities		2 257	1 065
Net decrease in financial instruments designated at fair value through profit or loss		4 334	7 743
Net (increase)/decrease in due from other banks		(16 973)	20 283
Net increase in loans and advances to customers		(251 157)	(149 649)
Net (increase)/decrease in other assets		(2 535)	3 559
Net (decrease)/increase in due to other banks		(198 589)	125 052
Net increase in customer accounts		407 028	4 762
Net decrease in promissory notes issued and deposit certificates		(3 157)	(13 520)
Net decrease in other liabilities		(22)	(1 567)
Net cash (used in)/from operating activities		**(19 685)**	**16 098**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(3 208)	(3 334)
Proceeds from disposal of premises and equipment		875	306
Acquisition of intangible assets	15	(1 097)	(1 185)
Acquisition of investment securities available for sale		(127 721)	(113 105)
Proceeds from disposal of investment securities available for sale		121 716	77 186
Proceeds from redemption of investment securities held to maturity		1 002	8 957
Acquisition of subsidiaries		-	(482)
Net cash used in investing activities		**(8 433)**	**(31 657)**
Cash flows from financing activities			
Issue of ordinary shares	23	10 000	5 000
Issue of preference shares	23	-	25 000
Proceeds from bonds issued		25 000	47 756
Repayment of bonds issued		(38 981)	(59 131)
Buy back of bonds issued		(29 716)	(26 895)
Proceeds from sale of previously bought back bonds issued		14 921	19 297
Proceeds from subordinated debts	22	113 025	-
Repayment of subordinated debt	22	-	(25 000)
Buy back of subordinated debts		(7 374)	-
Proceeds from sale of previously bought back subordinated debts		165	-
Dividends paid	29	-	(255)
Net cash from/(used in) financing activities		**87 040**	**(14 228)**
Effect of exchange rate changes on cash and cash equivalents		**4 301**	**6 352**
Net increase/(decrease) in cash and cash equivalents		**63 223**	**(23 435)**
Cash and cash equivalents at the beginning of the period	7	105 009	128 444
Cash and cash equivalents at the end of the period	7	**168 232**	**105 009**

The notes set out on pages 98 to 183 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2015 for Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint-stock company limited by shares and was set up in accordance with Russian regulations. In 2015 due to changes in the Civil code of the Russian Federation the Bank changed its name from Open Joint-Stock Company Russian Agricultural Bank (OJSC "Rosselkhozbank") to Joint-Stock company Russian Agricultural Bank (JSC "Rosselkhozbank").

The Bank's only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank's issued and outstanding ordinary shares (71.3% from total share capital (31 December 2014: 89.92% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank's issued and outstanding preference shares (7.65% from total share capital (31 December 2014: 10.08% from total share capital)) and the State Corporation "Deposit Insurance Agency" which holds the Bank's issued and outstanding preference shares (21.05% from total share capital (31 December 2014: nil)).

The Group's structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Closed Joint Stock Company RSHB Insurance (ownership interest of the Bank is 100%), RSHB Capital S.A. (structured entity incorporated for Eurobonds issue for the Bank), Limited Liability Company RSHB Asset Management (ownership interest of the Bank is 100%) and 39 companies and funds operating in agricultural and other industries (ownership interest of the Bank is from 50% to 100%).

Principal activity. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law # 177-FZ "*Deposits of individuals insurance in Russian Federation*" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 76 (31 December 2014: 78) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group's employees as at 31 December 2015 was 31 817 (31 December 2014: 35 945).

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"). All amounts are expressed in RR millions unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation. The Russian Federation is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy.

The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

2 Operating Environment of the Group (Continued)

In 2015 the Russian economy continued to be negatively impacted by a significant drop in crude oil prices, devaluation of the Russian Rouble, on-going political tension and international sanctions imposed against certain Russian companies and individuals. In July-September 2014, several countries imposed limited sectoral sanctions on state-owned Russian banks, including JSC Russian Agricultural Bank. Sanctions forbidden financing for the period exceeding 30 days with state-owned Russian banks. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

The Rouble interest rates remained elevated after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. During 2015 the CBRF gradually decreased key interest rate from 17.0% p.a. to 11.0% p.a.

In January 2015 Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade. In February 2015 Moody's downgraded Russia's rating to Ba1 from Baa3, also putting it below investment grade. Fitch Ratings maintains Russia's credit rating at investment grade.

The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3 Summary of Significant Accounting Policies

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

3 Summary of Significant Accounting Policies (Continued)

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity.

Structured entities. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Refer to Note 4 for the information about the Group's exposure to structured entities.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

3 Summary of Significant Accounting Policies (Continued)

Financial instruments — key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognition).

Initial recognition of financial instruments. Trading securities, derivatives and financial instruments designated at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions with the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise are expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Precious metals. Gold and other precious metals are recorded at CBRF bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBRF bid prices are recorded as translation differences from precious metals in other income.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

3 Summary of Significant Accounting Policies (Continued)

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as Investment securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or customer accounts.

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

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent, to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

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

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities held to maturity or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20-40
Equipment	5-20	5-20
Leasehold improvements	10	-

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

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

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

3 Summary of Significant Accounting Policies (Continued)

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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

Customer accounts. Customer accounts are represented by current/settlement accounts and term deposits and are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued and deposit certificates. Promissory notes issued by the Group and deposit certificates are carried at amortised cost. If the Group purchases its own promissory notes issued or deposit certificates, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Bonds issued. Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

Regular way transactions. Regular way transactions are purchases or sales of financials assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized or derecognized on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognized as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

3 Summary of Significant Accounting Policies (Continued)

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognized in the income statement and for financial assets available for sale is recognized in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognized in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

Gross insurance premiums written. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognized when due from a policyholder. Specifically, the Group recognizes premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognized as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognized as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Claims paid. Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

3 Summary of Significant Accounting Policies (Continued)

Loss provision. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve ("OCR") and provision for losses incurred but not yet reported ("IBNR"). Estimates of the claims handling expenses are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

Deferred acquisition costs. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortized over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Foreign currency translation. The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CB RF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

As at 31 December 2015 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 72.8827 (31 December 2014: USD 1 = RR 56.2584), EUR 1 = RR 79.6972 (31 December 2014: EUR 1 = RR 68.3427).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital and equipment. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Federal Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

Segment reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a particular group.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 12.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount close to maturity — it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 14.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values. Refer to Note 35.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base. Refer to Note 28.

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 December 2015 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 425 485 million and subordinated debts in the amount of RR 85 735 million (31 December 2014: Eurobonds issued in the amount of RR 379 609 million and subordinated debts in the amount of RR 72 827 million). During 2015 and 2014 the Group did not provide any other financial support to the consolidated structured entity. The Group has no current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support. Refer to Note 20.

Holding Corporate Eurobonds in the trading and investment portfolios of the Group is considered under IFRS 12 requirements as interest in unconsolidated structured entities. Maximum exposure equals to carrying value of Corporate Eurobonds.

5 Adoption of New or Revised Standards and Interpretations

The following new and/or revised standards and interpretations became effective for the Group from 1 January 2015:

Amendments to IAS 19 — Defined Benefit Plans: Employee Contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. This amendment is not relevant to the Group, since none of the entities in the Group has defined benefit plans with contributions from employees or third parties.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Annual Improvements to IFRSs 2010-2012 cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes in seven standards:

- IFRS 2 *Share-based Payment* was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. These amendments had no impact on the Group's financial position.
- IFRS 3 *Business Combinations* was amended to clarify that
  1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and
  2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

  Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.
- IFRS 8 *Operating Segments* was amended to require
  1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and
  2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

  The Group has not applied the aggregation criteria in paragraph 12 IFRS 8. The Group has presented the reconciliation of segment assets to total assets in its annual consolidated financial statements.
- IFRS 13 *Fair Value Measurement*. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24 *Related Party Disclosures* was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual improvements to IFRSs 2011-2013 Cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes in four standards:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption, a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 *Business Combinations* was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11 *Joint Arrangements*. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

5 Adoption of New or Revised Standards and Interpretations (Continued)

- IFRS 13 *Fair Value Measurement*. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The Group does not apply the portfolio exception in IFRS 13.
- IAS 40 *Investment Property* was amended to clarify that IAS 40 and IFRS 3 *Business Combinations* are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

6 New Accounting Pronouncements

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

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early adoption permitted). In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

6 New Accounting Pronouncements (Continued)

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurement of the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

IFRS 16 Leases (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17 *Leases*.

Amendments to IFRS 11 — Accounting for Acquisitions of Interests in Joint Arrangements (issued on 6 May 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for annual periods beginning on or after 1 January 2016 with early adoption permitted). The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Amendments to IAS 16 and IAS 41 — Agriculture: Bearer Plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Amendments to IAS 27 — Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016 with early adoption permitted). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to IFRS.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 with latest changes on 15 December 2015; effective date is not set). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016. Earlier application is permitted). The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (These amendments must be applied retrospectively. Issued in December 2014 and effective for annual periods on or after 1 January 2016. Earlier application is permitted). The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Annual improvements to IFRSs 2012-2014 Cycle (issued on 25 September 2014 and effective for annual periods starting on or after 1 January 2016). The Group is currently assessing the impact of the improvements on its financial statements. The improvements consist of changes in the following standards:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* — changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IFRS 7 *Financial Instruments: Disclosures* — servicing contracts. IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

6 New Accounting Pronouncements (Continued)

- IFRS 7 *Financial Instruments: Disclosures* — applicability of the offsetting disclosures to condensed interim financial statements. In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IAS 19 *Employee Benefits* — regional market issue regarding discount rate. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- IAS 34 *Interim Financial Reporting* — disclosure of information 'elsewhere in the interim financial report'. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

The Group is considering the implications of these standards and amendments, the impact on the Group and the timing of their adoption by the Group. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**31 December 2015**	**31 December 2014**
Cash on hand	39 175	36 834
Cash balances (other than mandatory) with the CBRF	38 424	37 930
Correspondent accounts and deposits with other banks with original maturities less than one month	69 263	24 488
Settlement accounts with stock and currency exchanges	5 982	3 609
Settlement accounts with clearing and brokerage organisations	214	1 883
Deals with securities pledged under repurchase agreements with original maturities of less than one month	13 661	265
Other	1 513	-
Total cash and cash equivalents	**168 232**	**105 009**

As at 31 December 2015 correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included the balances with one Russian banking group individually above 10% of the Group's equity with rating of the parent bank at Ba2 (Moody`s) in the amount of RR 44 331 million, or 26% of total cash and cash equivalents. As at 31 December 2014, cash and cash equivalents included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, correspondent accounts and deposits with other banks with original maturities less than one month included the balances with five counterparties (four counterparties with rating not less than BB- (S&P) and one non-rated counterparty) in the amount of RR 23 638 million, or 23% of total cash and cash equivalents, in aggregate above 10% of the Group's equity.

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Current and not impaired		
Cash on hand	39 175	36 834
Cash balances (other than mandatory) with the CBRF	38 424	37 930
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	47 933	14 456
- OECD banks and their subsidiary banks	16 880	10 011
- other Russian banks	117	-
- other non-resident banks	4 333	21
Settlement accounts with stock and currency exchanges	5 982	3 609
Settlement accounts with clearing and brokerage organisations	214	1 883
Deals with securities pledged under repurchase agreements with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	10 666	265
- other Russian banks	2 995	-
Other	1 513	-
Total cash and cash equivalents	**168 232**	**105 009**

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for cash and cash equivalents. Geographical and liquidity analyses of cash and cash equivalents are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

8 Trading Securities

In millions of Russian Roubles	31 December 2015	31 December 2014
Promissory notes	485	1 699
State Eurobonds	-	391
Total trading securities	**485**	**2 090**

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group neither analyse nor monitor impairment indicators.

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Total
Promissory notes	485	485
Total debt trading securities	**485**	**485**

* or analogous ratings of other rating agencies.

8 Trading Securities (Continued)

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Promissory notes	1 303	396	1 699
State Eurobonds	391	-	391
Total debt trading securities	**1 694**	**396**	**2 090**

* or analogous ratings of other rating agencies.

If a security's rating is unavailable, the issuer's rating is used.

Promissory notes are represented by promissory notes denominated in Russian Roubles issued at a discount to nominal value by Russian banks. As at 31 December 2015, these promissory notes have maturity dates in April 2016 (31 December 2014: promissory notes had maturity dates in January 2015).

As at 31 December 2014, State Eurobonds were represented by securities denominated in USD. State Eurobonds were traded at a discount or premium to face value and carried a coupon payable semi-annually. These bonds had maturity date in March 2030 and coupon rate of 7.5% p.a.

Refer to Note 36 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 31.

The Group reclassified the following financial assets from held for trading category during 2008:

In millions of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7-7.3
Municipal and subfederal bonds	1 201	1 698	7.1-9.2
Corporate bonds	980	1 411	6.7-10.1
Corporate Eurobonds	793	1 300	7.0-8.8
Reclassified into available for sale			
Corporate bonds	2 792	3 868	7.3-15.4
Corporate Eurobonds	1 959	2 918	6.2-11.6
Municipal and subfederal bonds	53	56	7.0
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognized were as follows:

	31 December 2015		31 December 2014	
In millions of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Reclassified into held to maturity	2 520	2 095	2 763	2 082
Reclassified into available for sale	12	12	10	10
Total	**2 532**	**2 107**	**2 773**	**2 092**

8 Trading Securities (Continued)

Income or loss recognised for 2008-2015 is as follows*:

In millions of Russian Roubles	2015	2014	2013	2012	2011	2010	2009	2008
Reclassified into held to maturity	183	200	276	511	486	480	540	482
Reclassified into available for sale	-	-	-	4	59	215	492	743
Total	**183**	**200**	**276**	**515**	**545**	**695**	**1 032**	**1 225**

* Income or loss recognised after reclassification comprises gains less losses from sale, interest income and foreign exchange gains less losses.

Fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	2015	2014	2013	2012	2011	2010	2009	2008
Reclassified into held to maturity	158	162	178	191	84	441	833	(1 307)
Reclassified into available for sale	2	2	(1)	(1)	(40)	74	1 067	(1 612)
Total	**160**	**164**	**177**	**190**	**44**	**515**	**1 900**	**(2 919)**

9 Investment Securities Pledged Under Repurchase Agreements

In millions of Russian Roubles	31 December 2015	31 December 2014
Securities available for sale		
Corporate bonds	4 594	3 034
Municipal and subfederal bonds	1 220	1 486
Federal loan bonds (OFZ)	-	1 362
Total securities available for sale pledged under repurchase agreements	**5 814**	**5 882**
Securities held to maturity		
Corporate Eurobonds	-	20 396
Corporate bonds	2 022	-
Total securities held to maturity pledged under repurchase agreements	**2 022**	**20 396**
Total investment securities pledged under repurchase agreements	**7 836**	**26 278**

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually (31 December 2014: payable quarterly, semi-annually or yearly). As at 31 December 2015, these bonds have maturity dates from February 2017 to October 2024 (31 December 2014: from September 2015 to September 2032) and coupon rates from 7.55% to 11.0% p.a. (31 December 2014: 7.6% to 10.3% p.a.).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually. As at 31 December 2015, these bonds have maturity dates from November 2018 to June 2022 (31 December 2014: from July 2018 to July 2021) and coupon rates from 7.0% to 13.26% p.a. (31 December 2014: from 8.2% to 11.5% p.a.).

As at 31 December 2014, federal loan bonds (OFZ) were represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) were traded at a discount or premium to face value and carried a coupon payable semi-annually. These bonds had maturity dates from August 2016 to August 2023 and coupon rates from 6.2% to 7.6% p.a.

9 Investment Securities Pledged Under Repurchase Agreements (Continued)

As at 31 December 2014, corporate Eurobonds were securities denominated in Russian Roubles. Corporate Eurobonds were traded at a discount or premium to face value and carried a coupon payable semi-annually. As at 31 December 2014, these bonds had maturity date in November 2016 and coupon rate of 9.9% p.a.

Analysis by credit quality of investment securities pledged under repurchase agreements outstanding as at 31 December 2015 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Total
Corporate bonds	6 616	6 616
Municipal and subfederal bonds	1 220	1 220
Total investment securities pledged under repurchase agreements	**7 836**	**7 836**

* or analogous ratings of other rating agencies.

Analysis by credit quality of investment securities pledged under repurchase agreements outstanding as at 31 December 2014 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Corporate Eurobonds	20 396	-	20 396
Corporate bonds	2 794	240	3 034
Municipal and subfederal bonds	1 486	-	1 486
Federal loan bonds (OFZ)	1 362	-	1 362
Total investment securities pledged under repurchase agreements	**26 038**	**240**	**26 278**

If a security's rating is unavailable, the issuer's rating is used.

Refer to Note 36 for the disclosure of fair value hierarchy for investment securities pledged under repurchase agreements related to securities available for sale and fair value and fair value hierarchy for investment securities pledged under repurchase agreements related to securities held to maturity. Geographical and liquidity analyses of investment securities pledged under repurchase agreements are disclosed in Note 31.

10 Financial Instruments Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	31 December 2015	31 December 2014
Due from other banks	4 008	6 260
Credit Linked Notes	1 061	642
Total financial instruments designated at fair value through profit or loss	**5 069**	**6 902**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2015 (31 December 2014: not less than BB- (S&P)).

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity date in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

10 Financial Instruments Designated at Fair Value through Profit or Loss (Continued)

Due from other banks with embedded derivatives are as follows:

In August 2010, the Group placed funds with the OECD bank in the total amount of USD 67 million, with maturity date in August 2015 and interest rate of 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer. In August 2015 these funds were received by the Group at maturity date of financial instrument.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity date in May 2016 and interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

Refer to Note 36 for the disclosure of the fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and liquidity analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

11 Due from Other Banks

In millions of Russian Roubles	31 December 2015	31 December 2014
Current term placements with other banks	56 980	30 372
Promissory notes	4 121	3 664
Overdue placements with other banks	181	172
Less: provision for impairment	(181)	(172)
Total due from other banks	**61 101**	**34 036**

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	2015	2014
Provision for loan impairment for due from other banks at 1 January	**172**	**107**
Provision for loan impairment for due from other banks during the year	9	65
Provision for loan impairment for due from other banks at 31 December	**181**	**172**

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Current and not impaired		
- Other non-resident banks	33 045	13 443
- Top 30 Russian banks (by net assets) and their subsidiary banks	22 475	15 752
- Other Russian banks	5 581	4 841
Total current and not impaired	**61 101**	**34 036**
Individually assessed for impairment		
- over 365 days overdue	181	172
Total individually assessed for impairment	**181**	**172**
Total due from other banks (before impairment)	**61 282**	**34 208**
Provision for impairment	**(181)**	**(172)**
Total due from other banks	**61 101**	**34 036**

11 Due from Other Banks (Continued)

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Unsecured due from other banks loans	41 713	21 071
Due from other banks loans collateralised by:		
- securities	18 510	12 087
- other assets	878	878
Total due from other banks	**61 101**	**34 036**

As at 31 December 2015 and 31 December 2014, due from other banks included no balances with other banks each above 10% of the Group's equity. As at 31 December 2015, due from other banks included the balances with two counterparties with ratings Ba3 and Caa2 (Moody's) in the amount of RR 26 057 million, or 43% of total due from other banks (31 December 2014: two counterparties with rating Ba3 (Moody's) in the amount of RR 20 599 million, or 61% of total due from other banks), in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for due from other banks. Geographical and liquidity analyses of due from other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

12 Loans and Advances to Customers

In millions of Russian Roubles	31 December 2015	31 December 2014
Loans to legal entities		
- Loans to corporates	1 480 739	1 261 960
- Lending for food interventions	16 020	10 097
- Deals with securities purchased under "reverse-repo agreements"	10 913	425
- Investments in agricultural cooperatives	391	395
Loans to individuals	296 798	281 065
Total loans and advances to customers (before impairment)	**1 804 861**	**1 553 942**
Less: provision for loan impairment	(179 224)	(137 479)
Total loans and advances to customers	**1 625 637**	**1 416 463**

As at 31 December 2015, included in gross amount of loans are loans in the principal amount of RR 635 578 million (31 December 2014: RR 624 706 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to the company under the control of the Russian Federation.

As at 31 December 2015, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 342 726 million (before impairment), or 19% of total loans and advances to customers (before impairment) (31 December 2014: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 243 100 million (before impairment), or 16% of total loans and advances to customers (before impairment)).

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of CBRF of the contributions made. The Group's management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

12 Loans and Advances to Customers (Continued)

As at 31 December 2015, loans and advances to customers in the amount of RR 10 913 million are effectively collateralized by securities purchased under reverse repo agreements with a fair value RR 12 455 million (31 December 2014: loans and advances to customers in the amount of RR 425 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value RR 472 million). The Group had the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

	2015				2014			
In millions of Russian Roubles	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total
Provision for loan impairment at 1 January	**129 678**	**26**	**7 775**	**137 479**	**108 964**	**26**	**5 403**	**114 393**
Provision for loan impairment during the year	84 775	37	5 609	90 421	52 803	-	3 027	55 830
Provision for loans sold during the year	(12 362)	-	(480)	(12 842)	(25 962)	-	(627)	(26 589)
Loans and advances to customers written off during the year as uncollectible	(38 620)	-	(36)	(38 656)	(6 127)	-	(28)	(6 155)
Provision for loans previously written off sold during the year	2 527	-	-	2 527	-	-	-	-
Redemption of loans previously written off	302	-	-	302	-	-	-	-
Disposal of subsidiaries	(7)	-	-	(7)	-	-	-	-
Provision for loan impairment at 31 December	**166 293**	**63**	**12 868**	**179 224**	**129 678**	**26**	**7 775**	**137 479**

No provision for "Lending for food interventions" and "Reverse repo agreements" was recorded as at 31 December 2015 and 31 December 2014.

During 2015 the Group disposed loans to customers under cession agreements with the carrying value of RR 11 405 million for consideration received of RR 9 035 million (2014: the Group disposed loans to customers under cession agreements with the carrying value of RR 5 589 million for consideration received of RR 5 038 million). Losses net of gains from sale of loans during 2015 recognized in the consolidated statement of profit or loss and other comprehensive income amount to RR 2 370 million (2014: losses net of gains amount to RR 551 million) and is recorded within Administrative and other operating expenses. Refer to Note 27.

The Group transferred to the third parties all contractual rights for cash flows, as well as all risks and rewards related to loans sold under cession agreements, and have neither intentions nor rights or commitments to buy back these loans.

The economic sector structure of the credit portfolio is as follows:

	31 December 2015		31 December 2014	
In millions of Russian Roubles	Amount	%	Amount	%
Agriculture	948 978	53	916 939	59
Individuals	296 798	16	281 065	18
Construction	155 493	9	86 336	6
Oil and gas	135 195	7	65 025	4
Manufacturing	125 674	7	99 837	6
Trading	50 251	3	52 214	3
Other	92 472	5	52 526	4
Total loans and advances to customers (before impairment)	**1 804 861**	**100**	**1 553 942**	**100**

As at 31 December 2015, the aggregate amount of loans to individuals included loans in the principal amount of RR 57 362 million issued to individuals-sole farmers (31 December 2014: RR 79 356 million).

12 Loans and Advances to Customers (Continued)

During the year ended 31 December 2015, the Group modified approach to disclosing economic sector structure of the credit portfolio. As a result of this modification, some loans and advances to customers related to oil and gas, construction and manufacturing sectors previously included in other and trading sectors were reclassified to the relevant sector. The presentation of the comparative figures as at 31 December 2014 has been adjusted to be consistent with the new presentation.

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event and/or a borrower/debtor default into the category *"collectively assessed for impairment"*.

In accordance with the methodology of financial assets impairment evaluation, as a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs — sole farmers):*
  - breach of contract — principal or interest overdue by more than 30 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower — changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - breach of contract — principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor, the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs — sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence; and
  - principal or interest overdue by over 365 days;

12 Loans and Advances to Customers (Continued)

- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence; and
  - principal or interest overdue by over 365 days.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agri-cultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	1 037	16 020	10 913	-	-	27 970
Total current and not impaired	**1 037**	**16 020**	**10 913**	**-**	**-**	**27 970**
2. Collectively assessed for impairment						
Current						
- included in portfolios of similar risk loans	1 078 310	-	-	391	262 349	1 341 050
Overdue						
- overdue by: less than 31 days for legal entities and individuals	18 185	-	-	-	4 566	22 751
Total collectively assessed for impairment	**1 096 495**	**-**	-	**391**	**266 915**	**1 363 801**
3. Individually assessed for impairment						
- watch list	179 137	-	-	-	53	179 190
- 31 to 90 days overdue	25 486	-	-	-	3 163	28 649
- 91 to 180 days overdue	20 965	-	-	-	2 836	23 801
- 181 to 365 days overdue	40 566	-	-	-	5 222	45 788
- over 365 days overdue	117 053	-	-	-	18 609	135 662
Total individually assessed for impairment	**383 207**	**-**	**-**	**-**	**29 883**	**413 090**
Total loans and advances to customers (before impairment)	**1 480 739**	**16 020**	**10 913**	**391**	**296 798**	**1 804 861**
Provision for loan impairment	**(166 293)**	**-**	**-**	**(63)**	**(12 868)**	**(179 224)**
Total loans and advances to customers	**1 314 446**	**16 020**	**10 913**	**328**	**283 930**	**1 625 637**

12 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agri-cultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	1 781	10 097	425	-	-	12 303
Total current and not impaired	**1 781**	**10 097**	**425**	**-**	**-**	**12 303**
2. Collectively assessed for impairment						
Current						
- included in portfolios of similar risk loans	858 841	-	-	395	253 177	1 112 413
Overdue						
- overdue by: less than 31 days for legal entities and individuals	21 271	-	-	-	4 194	25 465
Total collectively assessed for impairment	**880 112**	**-**	**-**	**395**	**257 371**	**1 137 878**
3. Individually assessed for impairment						
- watch list	184 145	-	-	-	-	184 145
- poor financial position	37	-	-	-	-	37
- 31 to 90 days overdue	31 111	-	-	-	3 213	34 324
- 91 to 180 days overdue	30 709	-	-	-	3 126	33 835
- 181 to 365 days overdue	50 746	-	-	-	5 375	56 121
- over 365 days overdue	83 319	-	-	-	11 980	95 299
Total individually assessed for impairment	**380 067**	**-**	**-**	**-**	**23 694**	**403 761**
Total loans and advances to customers (before impairment)	**1 261 960**	**10 097**	**425**	**395**	**281 065**	**1 553 942**
Provision for loan impairment	**(129 678)**	**-**	**-**	**(26)**	**(7 775)**	**(137 479)**
Total loans and advances to customers	**1 132 282**	**10 097**	**425**	**369**	**273 290**	**1 416 463**

Overdue loans represent not only past due payments but the whole outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 1 to 180 days of RR 49 407 million (31 December 2014: RR 21 147 million) and loans and advances to customers overdue more than 180 days of RR 83 244 million (31 December 2014: RR 84 337 million). The remaining loans included in the watch list are not overdue.

As at 31 December 2015, interest accrued on impaired loans included in carrying value of loans and advances to customers amounts to RR 40 778 million (31 December 2014: RR 49 613 million).

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment. According to internal policies the bank before granting each particular loan analyses sufficiency of earnings and collateral (where applicable), obtains confirmation from external sources on positive credit history and reputation of each borrower.

As at 31 December 2015, current collectively assessed loans to individuals comprises: loans to the sole farmers — 20% (31 December 2014: 29%), mortgage loans — 37% (31 December 2014: 32%) and consumer and other individual loans — 43% (31 December 2014: 39%).

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	31 December 2015	31 December 2014
Current loans	1 415 559	1 203 414
Past due instalments	246 393	191 250
Current portion of past due loans	142 909	159 278
Provision for loan impairment	(179 224)	(137 479)
Total loans and advances to customers	**1 625 637**	**1 416 463**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group includes:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process.

The majority of collateral (over 84%) (31 December 2014: over 84%) relates to the following types: real estate – 58% (31 December 2014: 56%), equipment – 16% (31 December 2014: 16%) and vehicles – 10% (31 December 2014: 12%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities — overdrafts; and
- for individuals — loans up to RR 750 thousand inclusive under the program “Consumer loan without collateral”; loans up to RR 1 million inclusive under the program “Consumer loan to individuals — JSC RSHB salary card holder”, and to individuals — clients of JSC RSHB as salary card holders for more than 6 months — up to RR 1.5 million inclusive; loans up to RR 1 million under the program “Credit card” and overdrafts; loans up to RR 1 million inclusive under the program “Refinancing consumer loans”; loans up to RR 700 thousand inclusive under the program “loans to the sole farmers without collateral”; loans up to RR 500 thousand inclusive under the programs “Pension credit” and “Pension credit plus”.

Refer to Note 36 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. Geographical and liquidity analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

13 Investment Securities Available for Sale

In millions of Russian Roubles	31 December 2015	31 December 2014
Federal loan bonds (OFZ)	95 234	16 149
Corporate bonds	89 325	67 695
Corporate Eurobonds	24 204	19 630
Municipal and subfederal bonds	2 247	6 717
Corporate shares	186	49
State Eurobonds	-	3 398
Total investment securities available for sale	**211 196**	**113 638**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. Furthermore, the Group analyzes reasons for a decline in the fair value of investment securities available for sale in order to identify whether there is objective evidence that these securities are impaired. In 2015 the Group reclassified from equity the cumulative loss that had been recognized in other comprehensive income in the amount of RR 124 million (2014: RR 226 million) and recognized losses from impairment of investment securities available for sale in the consolidated statement of profit or loss and other comprehensive income. The Group estimates that for the year ended 31 December 2015 losses from impairment of investment securities available for sale amounted to RR 227 million (2014: RR 253 million).

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal loan bonds (OFZ)	95 234	-	-	95 234
Corporate bonds	41 054	13 985	34 286	89 325
Corporate Eurobonds	23 962	242	-	24 204
Municipal and subfederal bonds	1 898	349	-	2 247
Total debt investment securities available for sale	**162 148**	**14 576**	**34 286**	**211 010**

* or analogous ratings of other rating agencies.

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	51 257	14 431	2 007	67 695
Corporate Eurobonds	18 865	765	-	19 630
Federal loan bonds (OFZ)	16 149	-	-	16 149
Municipal and subfederal bonds	6 706	11	-	6 717
State Eurobonds	3 398	-	-	3 398
Total debt investment securities available for sale	**96 375**	**15 207**	**2 007**	**113 589**

* or analogous ratings of other rating agencies.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2015, these bonds have maturity dates from December 2017 to April 2042 (31 December 2014: from July 2015 to January 2028) and coupon rates from 2.5% to 14.5% p.a. (31 December 2014: from 6.2% to 8.2% p.a.), depending on the type of the bond issue and the market conditions.

13 Investment Securities Available for Sale

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies and banks. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2015, these bonds have maturity dates from January 2016 to May 2030 (31 December 2014: from January 2015 to March 2033) and coupon rates from 7.5% to 18.75% p.a. (31 December 2014: from 6.8% to 18.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in Russian Roubles and USD issued by major Russian companies. As at 31 December 2015, these bonds have maturity dates from December 2016 to November 2025 (31 December 2014: from December 2015 to November 2025) and coupon rates from 3.9% to 9.0% p.a. (31 December 2014: from 3.1% to 9.0% p.a.), payable semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2015, these bonds have maturity dates from May 2016 to July 2021 (31 December 2014: from May 2016 to June 2022) and coupon rates from 7.0% to 13.3% p.a. (31 December 2014: from 7.0% to 12.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

As at 31 December 2014, State Eurobonds were represented by Russian Federation bonds denominated in USD. These bonds had maturity dates from April 2022 to April 2042 and coupon rates from 4.5% to 7.5% p.a., payable semi-annually.

During 2011 and 2012 the Group reclassified financial assets from the available-for-sale category as a result of reassessment of its intention to hold to maturity. As at 31 December 2015, the amount of all financial assets that have been reclassified from investment securities available for sale and which were not yet repaid or otherwise derecognized, were as follows:

In millions of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity during 2011			
Corporate bonds	8 867	10 261	6.7-8.0
Reclassified into held to maturity during 2012			
Corporate Eurobonds	20 721	21 458	6.7
Total	**29 588**	**31 719**	

Refer to Note 36 for the disclosure of the fair value hierarchy for investment securities available for sale. Geographical and liquidity analyses of investment securities available for sale are disclosed in Note 31.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	31 December 2015	31 December 2014
Corporate Eurobonds	20 266	-
Corporate bonds	6 247	8 920
Federal Loan bonds (OFZ)	2 245	2 323
Municipal and subfederal bonds	-	325
Total investment securities held to maturity	**28 758**	**11 568**

14 Investment Securities Held to Maturity (Continued)

Analysis by credit quality of investment securities held to maturity as at 31 December 2015 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate Eurobonds	20 266	-	20 266
Corporate bonds	6 132	115	6 247
Federal Loan bonds (OFZ)	2 245	-	2 245
Total investment securities held to maturity	**28 643**	**115**	**28 758**

* or analogous ratings of other rating agencies.

Analysis by credit quality of investment securities held to maturity as at 31 December 2014 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Total
Corporate bonds	8 920	8 920
Federal Loan bonds (OFZ)	2 323	2 323
Municipal and subfederal bonds	325	325
Total investment securities held to maturity	**11 568**	**11 568**

* or analogous ratings of other rating agencies.

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate Eurobonds are securities denominated in Russian Roubles. Corporate Eurobonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2015, these bonds had maturity date in November 2016 and coupon rate of 9.9% p.a.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2015, these bonds have maturity dates from March 2016 to July 2023 (31 December 2014: from October 2015 to July 2023) and coupon rates from 7.7% to 8.2% p.a. (31 December 2014: from 7.7% to 8.2% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2015, these OFZ have maturity dates from August 2016 to February 2036 (31 December 2014: from August 2016 to February 2036) and coupon rates from 5.0% to 7.0% p.a. (31 December 2014: from 5.5% to 7.0% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue and the market conditions.

As at 31 December 2014, municipal and subfederal bonds were represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds were traded at a discount or premium to face value and carried a coupon payable semi-annually. These bonds had maturity dates from June 2015 to December 2015 and coupon rates from 5.5% to 7.0% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for investment securities held to maturity. Geographical and liquidity analyses of securities held to maturity are disclosed in Note 31.

15 Premises, Equipment and Intangible Assets

		Used in banking activities				Used in non-banking activities					
In millions of Russian Roubles	**Note**	**Office premises**	**Leasehold (premises) improve-ments**	**Office and computer equipment**	**Land**	**Production premises**	**Equipment**	**Land**	**Total premises and equipment**	**Intangible assets**	**Total**
Cost or valuation at 1 January 2014		9 927	1 571	7 694	387	12 104	2 278	233	34 194	3 655	37 849
Accumulated depreciation		(1 258)	(878)	(4 590)	-	(2 162)	(651)	-	(9 539)	(1 886)	(11 425)
Carrying amount at 1 January 2014		**8 669**	**693**	**3 104**	**387**	**9 942**	**1 627**	**233**	**24 655**	**1 769**	**26 424**
Additions		220	88	2 758	23	70	174	1	3 334	1 185	4 519
Disposals		(2)	(29)	(26)	-	(1 170)	(16)	(50)	(1 293)	-	(1 293)
Reclassification to repossessed collateral		-	-	-	-	(56)	(18)	(35)	(109)	-	(109)
Impairment	27	-	-	-	-	(222)	-	-	(222)	-	(222)
Depreciation charge: before revaluation	26, 27	(220)	(158)	(982)	-	(474)	(186)	-	(2 020)	(624)	(2 644)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(31)	-	-	-	-	-	-	(31)	-	(31)
Carrying amount at 31 December 2014		**8 636**	**594**	**4 854**	**410**	**8 090**	**1 581**	**149**	**24 314**	**2 330**	**26 644**
Cost or valuation at 31 December 2014		10 145	1 576	10 055	410	10 610	2 392	149	35 337	4 176	39 513
Accumulated depreciation		(1 509)	(982)	(5 201)	-	(2 520)	(811)	-	(11 023)	(1 846)	(12 869)
Carrying amount at 31 December 2014		**8 636**	**594**	**4 854**	**410**	**8 090**	**1 581**	**149**	**24 314**	**2 330**	**26 644**
Cost or valuation at 1 January 2015		10 145	1 576	10 055	410	10 610	2 392	149	35 337	4 176	39 513
Accumulated depreciation		(1 509)	(982)	(5 201)	-	(2 520)	(811)	-	(11 023)	(1 846)	(12 869)
Carrying amount at 1 January 2015		**8 636**	**594**	**4 854**	**410**	**8 090**	**1 581**	**149**	**24 314**	**2 330**	**26 644**
Additions		25	73	2 667	-	32	305	106	3 208	1 097	4 305
Disposals		(98)	(115)	-	-	(7)	(17)	-	(237)	-	(237)
Disposals of entities		-	-	-	-	(444)	(426)	-	(870)	-	(870)
Changes in gross carrying value resulting from revaluation		(576)	-	-	-	-	-	-	(576)	-	(576)
Reclassification to assets of disposal groups held for sale		-	-	-	-	(189)	(336)	(22)	(547)	-	(547)
Depreciation charge: before revaluation	26, 27	(223)	(142)	(910)	-	(417)	(39)	-	(1 731)	(814)	(2 545)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(31)	-	-	-	-	-	-	(31)	-	(31)
Changes in accumulated depreciation resulting from revaluation		94	-	-	-	-	-	-	94	-	94
Carrying amount at 31 December 2015		**7 827**	**410**	**6 611**	**410**	**7 065**	**1 068**	**233**	**23 624**	**2 613**	**26 237**
Cost or valuation at 31 December 2015		9 500	1 354	11 897	410	9 944	1 734	233	35 072	4 910	39 982
Accumulated depreciation		(1 673)	(944)	(5 286)	-	(2 879)	(666)	-	(11 448)	(2 297)	(13 745)
Carrying amount at 31 December 2015		**7 827**	**410**	**6 611**	**410**	**7 065**	**1 068**	**233**	**23 624**	**2 613**	**26 237**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2015 was RR 6 million (31 December 2014: RR 157 million).

Carrying amount of office premises without revaluation at 31 December 2015 is RR 7 436 million, including cost in amount of RR 8 848 million and accumulated depreciation of RR 1 412 million (31 December 2014: carrying amount of office premises without revaluation was RR 7 724 million, including cost in amount of RR 8 909 million and accumulated depreciation of RR 1 185 million).

As at 31 December 2015 and 31 December 2014, premises were independently valued. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

During 2015 fair value of premises changed significantly, therefore as at 31 December 2015 the Group performed revaluation of premises. Changes in carrying value resulting from revaluation amount to RR 482, recognised in consolidated statement of profit or loss in the amount of RR 570 and in other comprehensive income in the amount of RR 88. Refer to Note 27.

The Group believes that fair value of premises has not changed significantly during 2014. Therefore as at 31 December 2014 the Group has not performed revaluation of premises.

Refer to Note 36 for the disclosure of the fair value hierarchy for office premises.

16 Other Assets

In millions of Russian Roubles	Note	31 December 2015	31 December 2014
Non-financial assets			
Repossessed collateral		2 324	7 466
Inventory		2 070	967
Prepayment for services		991	738
Prepayment for goods		746	811
Prepaid taxes		420	492
Prepayments on lease		32	22
Goodwill		8	8
Other		362	151
Total non-financial assets		**6 953**	**10 655**
Financial assets			
Due from State Corporation Deposit Insurance Agency (SC DIA)		5 308	1 239
Trade receivables		1 957	547
Settlements on banking cards		1 516	1 089
State duties receivable		491	376
Settlements on funds transfer operations		425	382
Government assistance on loans to customers receivable		387	-
Restricted cash	34	202	202
Accrued income on insurance policies sold		110	61
Settlements on asset management		15	132
Other		2 556	2 509
Provision for impairment of other financial assets		(1 463)	(1 376)
Total financial assets		**11 504**	**5 161**
Insurance assets		**2 197**	**2 003**
Total other assets		**20 654**	**17 819**

16 Other Assets (Continued)

Repossessed collateral mainly represents the land and production premises. The Group is not going to use repossessed collateral in its own operations. The Group is currently assessing the possibility of disposal of the assets in the future.

Due from State Corporation Deposit Insurance Agency (SC DIA) represents amounts due by SC DIA on settlements with individuals — former clients of banks with revoked licences.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2015	2014
Provision for impairment of other financial assets at 1 January	**1 376**	**901**
Provision for impairment of other financial assets during the year	102	494
Other financial assets written off during the year as uncollectible	(15)	(19)
Provision for impairment of other financial assets at 31 December	**1 463**	**1 376**

The movements in repossessed collateral are as follows:

In millions of Russian Roubles	Note	2015	2014
Repossessed collateral at 1 January		**7 466**	**3 993**
Additions for the year		921	3 975
Disposal during the year		(1 709)	(217)
Reclassification to assets held for sale	39	(1 000)	(220)
Depreciation charge	27	(169)	(65)
Loss recognised at reclassification to Assets Held for Sale	39	(136)	-
Disposal of depreciation at reclassification to Assets Held for Sale		46	-
Repossessed collateral at 31 December (before impairment)		**5 419**	**7 466**
Revaluation of repossessed collateral resulted in impairment	27	(3 095)	-
Repossessed collateral at 31 December		**2 324**	**7 466**

As at 31 December 2014, the fair value of repossessed collateral was RR 7 415 million.

As at 31 December 2015 and 31 December 2014, significant part of repossessed collateral was evaluated for the purpose of impairment assessment by an independent appraisers firm, LLC “Centr nezavisimoi ekspertizy sobstvennosti” (2014: Invest Proekt Ltd), which hold a relevant professional qualification and which have experience in valuation of assets of similar location and category.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for other financial assets. Geographical analysis of other assets and maturity analysis of other financial assets are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

17 Due to Other Banks

In millions of Russian Roubles	31 December 2015	31 December 2014
Correspondent accounts and overnight placements of other banks	525	17 415
Borrowings from other banks with term to maturity:		
- sale and repurchase agreements less than 30 days	7 139	5 107
- sale and repurchase agreements from 181 days to 1 year	-	14 902
- less than 30 days	10 046	8 780
- from 31 to 180 days	647	7 701
- from 181 days to 1 year	267	1 183
- from 1 year to 3 years	32 950	25 214
- more than 3 years	3 957	1 742
Borrowings from the CBRF with term to maturity:		
- less than 30 days	119	17 440
- from 31 to 180 days	-	127 830
- from 181 days to 1 year	-	10 000
- from 1 year to 3 years	41 606	48 462
Total due to other banks	**97 256**	**285 776**

As at 31 December 2015, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 41 725 million, or 43% of total due to other banks (31 December 2014: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 203 732 million, or 71% of total due to other banks).

As at 31 December 2015 and 31 December 2014, due to other banks included no balances with other banks each above 10% of the Group's equity. As at 31 December 2015, due to banks included the balances with two OECD banking groups with ratings of parent banks at A+ and A- (S&P) in the amount of RR 30 942 million, or 32% of total due to other banks (31 December 2014: two counterparties with rating not less than Ba1 (Moody's) in the amount of RR 28 053 million, or 10% of total due to other banks), in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for due to other banks. Geographical and liquidity analyses of due to other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

18 Customer Accounts

In millions of Russian Roubles	31 December 2015	31 December 2014
State and public organisations		
- Current/settlement accounts	7 372	15 421
- Term deposits	234 678	85 837
Other legal entities		
- Current/settlement accounts	103 546	65 796
- Term deposits	357 732	287 768
- Sale and repurchase agreements with securities	-	15
Individuals		
- Current/demand accounts	36 903	32 395
- Term deposits	449 625	274 363
Total customer accounts	**1 189 856**	**761 595**

State and public organisations exclude state-controlled joint-stock companies.

18 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2015		31 December 2014	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	486 528	41	306 758	40
State and public organisations	242 050	20	101 258	13
Financial services and pension funds	135 805	11	93 468	12
Agriculture	67 023	6	46 234	6
Construction	64 830	5	58 996	8
Manufacturing	62 944	5	60 105	8
Insurance	36 972	3	31 552	4
Trading	35 763	3	29 232	4
Telecommunication	564	1	2 316	1
Other	57 377	5	31 676	4
Total customer accounts	**1 189 856**	**100**	**761 595**	**100**

As at 31 December 2015, customer accounts included balances with four customers each above 10% of the Group's equity (31 December 2014: balances with five customers each above 10% of the Group's equity). The aggregate balance of these customers was RR 245 211 million, or 21% of total customer accounts (31 December 2014: RR 131 328 million, or 17% of total customer accounts).

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for customer accounts. Geographical and liquidity analyses of customer accounts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

19 Promissory Notes Issued

In millions of Russian Roubles	31 December 2015	31 December 2014
Promissory notes issued	14 637	18 680
Total promissory notes issued	**14 637**	**18 680**

As at 31 December 2015, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and Euros with interest or discount rates from zero p.a. (for promissory notes on demand) up to 12.3% p.a. and maturity dates from January 2016 to December 2025 (31 December 2014: interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles, US Dollars and Euros with interest or discount rates from zero p.a. (for promissory notes on demand) up to 28.1% p.a. and maturity dates from January 2015 to May 2021).

As at 31 December 2015 and 31 December 2014, the Group did not have promissory notes issued and deposit certificates, which were initially purchased by one counterparty, each or in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for promissory notes issued. Geographical and liquidity analyses of promissory notes issued are disclosed in Note 31.

20 Bonds Issued

In millions of Russian Roubles	31 December 2015	31 December 2014
Eurobonds issued	425 485	379 609
Bonds issued on domestic market	184 339	174 959
Total bonds issued	**609 824**	**554 568**

20 Bonds Issued (Continued)

As at 31 December 2015, bonds issued consist of US Dollars, Russian Roubles and Chinese Yuan denominated Eurobonds issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in millions of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months
US Dollars - tranche B	871	29 May 2008	29 May 2018	-	7.750%	6 months
Russian Roubles	19 425	17 March 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	20 000	23 November 2011	23 November 2016	-	9.900%	6 months
Russian Roubles	9 575	17 February 2012	17 February 2017	-	8.625%	6 months
US Dollars	480	27 June 2012	27 December 2017	-	5.298%	6 months
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	10 000	26 July 2012	17 February 2017	-	8.625%	6 months
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months
Chinese Yuan	1 000	4 February 2013	4 February 2016	-	3.600%	6 months
Russian Roubles	7 400	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	732	25 July 2013	25 July 2018	-	5.100%	6 months
US Dollars	500	25 February 2014	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	4 533	22 February 2007	9 February 2017	15 February 2016	8.150%	6 months
Russian Roubles	10 000	11 October 2007	27 September 2017	31 March 2017	12.350%	6 months
Russian Roubles	3 022	22 February 2008	9 February 2018	16 August 2016	11.900%	6 months
Russian Roubles	974	17 June 2008	5 June 2018	8 June 2017	11.550%	6 months
Russian Roubles	2 113	10 December 2008	27 November 2018	2 June 2016	12.500%	6 months
Russian Roubles	4 982	26 November 2009	14 November 2019	23 May 2016	13.000%	6 months
Russian Roubles	4 984	26 November 2009	14 November 2019	23 May 2016	13.000%	6 months
Russian Roubles	5 000	11 February 2010	29 January 2020	5 February 2016	18.500%	6 months
Russian Roubles	5 000	12 February 2010	30 January 2020	8 February 2016	18.500%	6 months
Russian Roubles	10 000	12 July 2011	29 June 2021	10 January 2017	12.400%	6 months
Russian Roubles	5 000	14 July 2011	1 July 2021	10 January 2017	12.400%	6 months
Russian Roubles	5 000	15 July 2011	2 July 2021	10 January 2017	12.400%	6 months
Russian Roubles	9 948	8 November 2011	26 October 2021	5 May 2016	13.000%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	13 April 2016	14.750%	6 months
Russian Roubles	9 972	23 October 2012	11 October 2022	20 October 2016	12.050%	6 months
Russian Roubles	4 717	25 October 2012	13 October 2022	24 April 2017	12.150%	6 months
Russian Roubles	9 997	23 April 2013	11 April 2023	21 April 2016	7.990%	6 months
Russian Roubles	9 788	30 July 2013	18 July 2023	28 July 2016	12.100%	6 months
Russian Roubles	5 000	30 September 2013	18 September 2023	28 September 2016	7.900%	6 months
Russian Roubles	5 000	22 November 2013	10 November 2023	22 November 2016	8.100%	6 months
Russian Roubles	9 999	25 June 2014	21 June 2017	24 June 2016	12.500%	6 months
Russian Roubles	5 000	27 June 2014	23 June 2017	28 June 2016	12.500%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.100%	3 months
Russian Roubles	5 000	13 October 2014	30 September 2024	9 October 2019	11.100%	3 months
Russian Roubles	5 000	26 December 2014	13 December 2024	27 June 2017	11.800%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.000%	3 months
Russian Roubles	5 000	26 February 2015	13 February 2025	29 February 2016	15.250%	3 months
Russian Roubles	9 999	30 October 2015	17 October 2025	31 October 2017	11.700%	3 months

20 Bonds Issued (Continued)

As at 31 December 2014, bonds issued consist of US Dollars, Russian Roubles, Swiss Francs and Chinese Yuan denominated Eurobonds issued by the Group through its structured entity, RSHB Capital S.A., as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in millions of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months
US Dollars - tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months
Russian Roubles	19 385	17 March 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months
Russian Roubles	20 000	23 November 2011	23 November 2016	-	9.900%	6 months
Russian Roubles	9 575	17 February 2012	17 February 2017	-	8.625%	6 months
US Dollars	500	27 June 2012	27 December 2017	-	5.298%	6 months
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	10 000	26 July 2012	17 February 2017	-	8.625%	6 months
Swiss Francs	450	17 August 2012	17 August 2015	-	3.125%	1 year
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months
Chinese Yuan	1 000	4 February 2013	4 February 2016	-	3.600%	6 months
Russian Roubles	7 896	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	785	25 July 2013	25 July 2018	-	5.100%	6 months
US Dollars	500	25 February 2014	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	4 533	22 February 2007	9 February 2017	15 February 2016	8.150%	6 months
Russian Roubles	10 000	11 October 2007	27 September 2017	2 October 2015	7.800%	6 months
Russian Roubles	5 000	22 February 2008	9 February 2018	18 August 2015	9.950%	6 months
Russian Roubles	5 000	17 June 2008	5 June 2018	10 December 2015	7.850%	6 months
Russian Roubles	2 699	10 December 2008	27 November 2018	4 June 2015	7.750%	6 months
Russian Roubles	4 984	26 November 2009	14 November 2019	25 May 2015	10.000%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	25 May 2015	10.000%	6 months
Russian Roubles	5 000	11 February 2010	29 January 2020	6 February 2015	8.200%	6 months
Russian Roubles	5 000	12 February 2010	30 January 2020	9 February 2015	8.200%	6 months
Russian Roubles	5 000	7 February 2012	3 February 2015	-	7.700%	6 months
Russian Roubles	5 000	9 February 2012	5 February 2015	-	7.700%	6 months
Russian Roubles	10 000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months
Russian Roubles	10 000	8 November 2011	26 October 2021	7 May 2015	7.750%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	15 April 2015	8.550%	6 months
Russian Roubles	9 975	23 October 2012	11 October 2022	22 October 2015	10.900%	6 months
Russian Roubles	4 717	25 October 2012	13 October 2022	26 October 2015	10.900%	6 months
Russian Roubles	10 000	23 April 2013	11 April 2023	21 April 2016	7.990%	6 months
Russian Roubles	10 000	30 July 2013	18 July 2023	30 July 2015	7.850%	6 months
Russian Roubles	5 000	30 September 2013	18 September 2023	28 September 2016	7.900%	6 months
Russian Roubles	5 000	22 November 2013	10 November 2023	22 November 2016	8.100%	6 months
Russian Roubles	10 000	25 June 2014	21 June 2017	26 June 2015	9.550%	6 months
Russian Roubles	5 000	27 June 2014	23 June 2017	30 June 2015	9.550%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.100%	3 months
Russian Roubles	5 000	13 October 2014	30 September 2024	9 October 2019	11.100%	3 months
Russian Roubles	5 000	26 December 2014	13 December 2024	29 December 2015	17.000%	3 months

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for bonds issued. Geographical and liquidity analyses of bonds issued are disclosed in Note 31. Refer to Note 40 for information on issues/redemptions after the end of the reporting period.

21 Other Liabilities

In millions of Russian Roubles	Note	31 December 2015	31 December 2014
Non-financial liabilities			
Accrued staff costs		2 552	2 510
Taxes payable other than on income		829	638
Insurance contribution		457	311
Litigations provision		63	41
Other		1 255	924
Total non-financial liabilities		**5 156**	**4 424**
Financial liabilities			
Coupon on OFZ payable to State Corporation Deposit Insurance Agency (SC DIA)		1 097	-
Settlements on banking cards		944	731
Trade payables		738	1 575
Other subsidiaries' payables		278	265
Carrying value of guarantees issued		61	80
Other provisions	34	100	-
Total financial liabilities		**3 218**	**2 651**
Insurance liabilities			
Provision for unearned premiums		2 805	2 199
Loss provision		1 160	648
Insurance payables		456	559
Total insurance liabilities		**4 421**	**3 406**
Total other liabilities		**12 795**	**10 481**

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

In millions of Russian Roubles	Note	2015	2014
Provision for unearned premiums as at 1 January		**2 199**	**1 575**
Premium earned	26	(2 881)	(2 128)
Premium written		3 487	2 752
Provision for unearned premiums as at 31 December		**2 805**	**2 199**

Movements in the loss provision are as follows:

In millions of Russian Roubles		2015	2014
Loss provision as at 1 January		**648**	**725**
Claims incurred during the period	26	1 064	892
Insurance claims settled		(552)	(969)
Loss provision as at 31 December		**1 160**	**648**

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for other financial liabilities. Geographical analysis of other liabilities and liquidity analysis of other financial liabilities are disclosed in Note 31.

22 Subordinated Debts

As at 31 December 2015, the Group's subordinated debts equals to RR 225 109 million (31 December 2014: RR 84 261 million).

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor + 1.875% p.a. In June 2012 the Group decided not to use its option to terminate this subordinated debt and interest rate was stepped up to Libor + 3.375% p.a.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its structured entity RSHB Capital S.A. The Eurobonds mature in June 2021 and have contractual interest rate of 6.0% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

In October 2013, the Group attracted a subordinated debt totalling USD 500 million equivalent to RR 16 134 million in Eurobonds issued by the Group through its structured entity RSHB Capital S.A. The Eurobonds mature in October 2023 and have contractual interest rate of 8.5% p.a.

In July 2015, the Group issued RR 30 000 million subordinated bonds (placed at par) maturing in July 2025 with quarterly payments of coupon at 13.1% p.a. for the first interest period and at CBRF key rate plus 1.6% p.a. for the next interest periods. As at 31 December 2015, coupon rate amounts to 12.6% p.a.

In October 2015, the Group attracted subordinated deposit in the amount of 1 150 million US Dollars equivalent to RR 73 025 million maturing in October 2021.

In December 2015, the Group issued RR 10 000 million subordinated bonds (placed at par) maturing in December 2021 with quarterly payments of coupon at 12.9% p.a.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for subordinated debts. Geographical and liquidity analyses of subordinated debts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2014	**218 048**	**218 048**	**218 798**
New ordinary shares issued	5 000	5 000	5 000
New preference shares issued	25 000	25 000	25 000
At 31 December 2014	**248 048**	**248 048**	**248 798**
New ordinary shares issued	10 000	10 000	10 000
New preference shares issued	6 880	68 800	68 800
At 31 December 2015	**264 928**	**326 848**	**327 598**

As at 31 December 2015, issued and fully paid share capital comprises 233 048 issued and registered ordinary shares and 31 880 preference shares (31 December 2014: 223 048 issued and registered ordinary shares and 25 000 preference shares). All ordinary and preference shares have a nominal value of RR 1 million per share, except for 6 880 type A preference shares issued in November 2015 with nominal value of RR 10 million per share, and rank equally within the same class. Each ordinary share carries one vote.

In 2015, the Bank increased its share capital by issuing 10 000 ordinary shares (2014: 5 000 ordinary shares) and 6 880 preference shares (2014: 25 000 preference shares) with the total nominal amount of RR 78 800 million (2014: RR 30 000 million).

All ordinary shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

23 Share Capital (Continued)

In November 2015, the Group completed a private placement of 6 880 type A preference shares with nominal value of RR 10 million per share. The State Corporation "Deposit Insurance Agency" (SC DIA) acquired all of these preference shares at their nominal value for RR 68 800 million. As a payment for the preference shares, the SC DIA provided the Group with state bonds (OFZ) which were previously issued to the SC DIA by the Government of the Russian Federation based on the Federal Law of the Russian Federation # 448-FZ approved on 26 December 2014 and related regulations. The preference shares are included in Tier I capital of the Group.

The terms of the preference shares do not include any fixed dividends and the decision on repayment of dividends is approved by the shareholder of the Bank.

24 Interest Income and Expense

In millions of Russian Roubles	2015	2014
Interest income on financial instruments carried at fair value through profit or loss		
Financial instruments designated at fair value through profit or loss	394	634
Trading securities	369	332
Total interest income on financial instruments carried at fair value through profit or loss	**763**	**966**
Interest income on other financial instruments		
Loans and advances to legal entities	128 704	107 425
Loans and advances to individuals	40 702	37 718
Investment securities available for sale including pledged under repurchase agreements	13 413	8 619
Due from other banks	5 106	1 752
Cash equivalents	5 077	1 661
Investment securities held to maturity including pledged under repurchase agreements	2 664	3 298
Total interest income on other financial instruments	**195 666**	**160 473**
Total interest income	**196 429**	**161 439**
Interest expense		
Term deposits of legal entities	(65 427)	(31 656)
Bonds issued	(42 757)	(32 251)
Term deposits of individuals	(37 136)	(17 520)
Term deposits of the CBRF	(10 894)	(6 837)
Subordinated debts	(8 523)	(5 022)
Term deposits of other banks	(4 901)	(5 951)
Current/settlement accounts	(1 512)	(867)
Promissory notes issued and deposit certificates	(1 350)	(1 362)
Total interest expense	**(172 500)**	**(101 466)**
Net interest income	**23 929**	**59 973**

The information on related party transactions is disclosed in Note 38.

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2015	2014
Fee and commission income		
Commission on cash and settlements transactions	7 778	6 179
Fees for sale of insurance contracts	2 634	2 031
Commission on guarantees issued	2 004	863
Commission on banking cards	493	448
Fees for currency control	176	161
Other	501	326
Total fee and commission income	**13 586**	**10 008**
Fee and commission expense		
Commission on settlement transactions	(782)	(491)
Commission on cash collection	(555)	(564)
Commission on guarantees received	-	(28)
Other	(122)	(106)
Total fee and commission expense	**(1 459)**	**(1 189)**
Net fee and commission income	**12 127**	**8 819**

26 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2015	2014
Sales of goods	5 444	3 649
Cost of goods sold	(5 488)	(3 641)
Recovery of provision/(provision) for trade receivables and prepayments	55	(212)
Net income from insurance operations	404	507
Other non-banking income	1 424	834
Other non-banking expenses	(2 622)	(4 239)
Total losses net of gains from non-banking activities	**(783)**	**(3 102)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other non-foods.

In 2015 cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 456 million (2014: RR 660 million).

Net income from insurance operations is as follows:

In millions of Russian Roubles	Note	2015	2014
Insurance premiums			
Premium earned	21	2 881	2 128
Reinsurance share in premiums earned		(1 394)	(1 062)
Net insurance premiums earned		**1 487**	**1 066**
Insurance benefits and claims			
Claims incurred during the period	21	(1 064)	(892)
Acquisition costs		(491)	(280)
Reinsurance share in claims incurred during the period		472	613
Net insurance benefits and claims		**(1 083)**	**(559)**
Net income from insurance operations		**404**	**507**

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2015	2014
Staff costs		23 699	25 332
Rental expenses		4 401	3 434
Provision for impairment of investment property	16	3 095	-
Losses net of gains on loans disposal	12	2 370	551
Taxes other than on income		1 690	1 596
Payments to the Deposit Insurance Fund (SC DIA)		1 422	1 044
Depreciation of premises and equipment	15	1 306	1 391
Communications and information services		1 217	992
Advertising and marketing services		1 086	1 230
Security services		972	1 025
Other costs of premises and equipment		971	992
Amortization of intangible assets	15	814	624
Supplies and other materials		696	1 018
Impairment and revaluation of premises	15	570	222
Depreciation of repossessed collateral	16	169	65
Other		3 452	2 437
Total administrative and other operating expenses		**47 930**	**41 953**

In 2015 staff costs include statutory social security and contributions to a state pension fund in the amount of RR 4 718 million (2014: RR 4 882 million). The information on related party transactions is disclosed in Note 38.

28 Income Taxes

Income tax (credit)/expense comprises the following:

In millions of Russian Roubles	2015	2014
Current tax	674	447
Deferred tax	(6 115)	(2 782)
Income tax credit for the year	**(5 441)**	**(2 335)**

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

In millions of Russian Roubles	2015	2014
IFRS loss before tax	**(99 661)**	**(50 263)**
Theoretical tax charge at statutory rate (2015: 20%; 2014: 20%)	(19 932)	(10 053)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible interest expenses	-	604
- Non-deductible staff costs	17	41
- Non-deductible charity costs	15	15
- Non-taxable income arising from disposal of subsidiaries	(135)	-
Income on government securities taxed at different rates	(177)	(146)
Permanent difference resulting from previous years tax base update	570	-
Unrecognised deferred tax asset	13 003	6 674
Other non-temporary differences	1 198	530
Income tax credit for the year	**(5 441)**	**(2 335)**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their value for tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2014: 20%), except for income on government securities that is taxed at 15% (2014: 15%).

28 Income Taxes (Continued)

Based on the Group's current structure and Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be set off against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are set off against each other only when they relate to the same taxable entity (subject to certain conditions).

In millions of Russian Roubles	31 December 2014	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	Transfer to disposal groups classified as held for sale	31 December 2015
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	12 761	2 580	-	-	15 341
Tax losses carried forward	4 916	9 569	-	(145)	14 340
Provision for impairment	690	5 919	-	-	6 609
Fair valuation of derivative financial instruments	(1 700)	1 514	-	-	(186)
Accrued staff costs	480	10	-	-	490
Accruals on due to other banks	262	(48)	-	-	214
Fair valuation of securities	1 593	(449)	(3 171)	-	(2 027)
Deferral of fees on guarantees issued	16	(4)	-	-	12
Promissory notes issued and deposit certificates	10	6	-	-	16
Premises and equipment	(1 684)	(531)	(18)	37	(2 196)
Accruals on bonds issued and subordinated debts	(144)	(195)	-	-	(339)
Intangible assets	(55)	(11)	-	-	(66)
Other	1 601	758	-	(162)	2 197
Deferred tax asset	**18 746**	**19 118**	**(3 189)**	**(270)**	**34 405**
Unrecognised deferred tax asset	(6 674)	(13 003)	-	-	(19 677)
Net deferred income tax asset	**12 072**	**6 115**	**(3 189)**	**(270)**	**14 728**
Recognised deferred income tax asset	13 317	2 594	-	-	15 911
Recognised deferred income tax liability	(1 245)	3 521	(3 189)	(270)	(1 183)
Net deferred income tax asset	**12 072**	**6 115**	**(3 189)**	**(270)**	**14 728**

In millions of Russian Roubles	31 December 2013	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Accruals on loans	7 706	5 055	-	12 761
Tax losses carried forward	274	4 642	-	4 916
Provision for impairment	(937)	1 627	-	690
Fair valuation of derivative financial instruments	(504)	(1 196)	-	(1 700)
Accrued staff costs	469	11	-	480
Accruals on due to other banks	313	(51)	-	262
Fair valuation of securities	196	(1 383)	2 780	1 593
Deferral of fees on guarantees issued	4	12	-	16
Promissory notes issued and deposit certificates	6	4	-	10
Premises and equipment	(1 828)	144	-	(1 684)
Accruals on bonds issued and subordinated debts	(73)	(71)	-	(144)
Intangible assets	(57)	2	-	(55)
Other	941	660	-	1 601
Deferred tax asset	**6 510**	**9 456**	**2 780**	**18 746**
Unrecognised deferred tax asset	-	(6 674)	-	(6 674)
Net deferred income tax asset	**6 510**	**2 782**	**2 780**	**12 072**
Recognised deferred income tax asset	7 868	5 449	-	13 317
Recognised deferred income tax liability	(1 358)	(2 667)	2 780	(1 245)
Net deferred income tax asset	**6 510**	**2 782**	**2 780**	**12 072**

28 Income Taxes (Continued)

As at 31 December 2015, deferred tax assets included RR 14 340 million resulting from tax losses carried forward (31 December 2014: RR 4 916 million). The existing tax losses eligible for carry forward are expected to be fully utilized within time frames envisaged by the Russian tax legislation.

29 Dividends

In millions of Russian Roubles	**2014 Ordinary shares**
Dividends payable at 1 January	**-**
Dividends declared during the year	255
Dividends paid during the year	(255)
Dividends payable at 31 December	**-**
Dividends per share declared during the year	**0.0012**

No dividends were declared during 2015 year.

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements the Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2015 and 31 December 2014 the Group defines the following reportable segments:

- Head office;
- Central federal district;
- Far Eastern federal district;
- Volga federal district;
- North-West federal district;
- North-Caucasian federal district;
- Siberian federal district;
- Ural federal district;
- Southern federal district.

For analysis of revenue by products refer to Notes 24, 25.

30 Segment Analysis (Continued)

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

30 Segment Analysis (Continued)

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2015 and 31 December 2014 and segment reporting of the Group's assets as at 31 December 2015 and 31 December 2014 is as follows:

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the year ended 31 December 2015										
Revenue from external customers	**28 406**	**59 260**	**7 528**	**42 975**	**16 538**	**11 726**	**20 336**	**8 053**	**24 239**	**219 061**
- Interest income from loans and advances to customers, due from other banks and other placed funds	31 084	53 171	6 712	39 961	15 229	10 464	18 363	7 461	22 695	205 140
- Net fee and commission (expense)/income from credit related operations	(2 678)	6 089	816	3 014	1 309	1 262	1 973	592	1 544	13 921
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(41 287)	30 843	349	(169)	529	(872)	31	6 932	3 479	(165)
Interest expenses from due to other banks, customer accounts and bonds issued	(103 591)	(22 449)	(5 105)	(14 092)	(10 619)	(2 424)	(6 462)	(3 408)	(6 309)	(174 459)
Provision for impairment	(7 029)	(12 469)	(2 642)	(14 884)	(5 336)	(8 342)	(4 119)	(639)	(612)	(56 072)
Administrative and maintenance expense	(30 397)	(2 364)	(654)	(1 891)	(801)	(849)	(1 331)	(462)	(851)	(39 600)
- Including depreciation charge	(557)	(275)	(63)	(221)	(86)	(120)	(170)	(43)	(91)	(1 626)
Other expenses less other income	(2 408)	(7 678)	(135)	(2 022)	(1 632)	(1 505)	(315)	(782)	(10 378)	(26 855)
Current income tax expense	(530)	-	-	-	-	-	-	-	-	(530)
Deferred income tax credit	3 411	-	-	-	-	-	-	-	-	3 411
Intersegment income/(expense)*	**122 344**	**(51 570)**	**(1 106)**	**(19 838)**	**(4 115)**	**(6 681)**	**(10 299)**	**(9 299)**	**(19 436)**	**-**
(Loss)/profit of reportable segments	**(153 425)**	**45 143**	**(659)**	**9 917**	**(1 321)**	**(2 266)**	**8 140**	**9 694**	**9 568**	**(75 209)**
For the year ended 31 December 2014										
Revenue from external customers	**17 955**	**42 084**	**6 780**	**38 623**	**10 542**	**11 877**	**19 194**	**6 198**	**20 538**	**173 791**
- Interest income from loans and advances to customers, due from other banks and other placed funds	17 559	38 180	6 070	35 752	9 356	10 794	17 490	5 685	19 210	160 096
- Net fee and commission income from credit related operations	396	3 904	710	2 871	1 186	1 083	1 704	513	1 328	13 695
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(22 000)	23 221	1 694	(4 684)	(2 897)	(4 181)	(815)	3 038	(385)	(7 009)
Interest expenses from due to other banks, customer accounts and bonds issued	(70 358)	(9 553)	(2 030)	(7 426)	(4 609)	(981)	(3 082)	(1 312)	(2 307)	(101 658)
Provision (charge)/recovery for impairment	(416)	(9 886)	(1 119)	(8 236)	(9 377)	(6 592)	(3 945)	(501)	5 706	(34 366)
Administrative and maintenance expense	(29 476)	(2 236)	(680)	(1 974)	(724)	(909)	(1 368)	(445)	(880)	(38 692)
- Including depreciation charge	(307)	(235)	(50)	(192)	(73)	(98)	(134)	(32)	(84)	(1 205)
(Other expenses less other income)/other income less other expenses	(3 864)	(835)	(21)	23	(19)	(417)	146	(128)	(10 177)	(15 292)
Current income tax expense	(389)	-	-	-	-	-	-	-	-	(389)
Deferred income tax credit	14 281	-	-	-	-	-	-	-	-	14 281
Intersegment income/(expense)*	**114 873**	**(49 372)**	**(5 312)**	**(18 616)**	**(2 990)**	**(4 369)**	**(11 963)**	**(6 269)**	**(15 982)**	**-**
(Loss)/profit of reportable segments	**(94 267)**	**42 795**	**4 624**	**16 326**	**(7 084)**	**(1 203)**	**10 130**	**6 850**	**12 495**	**(9 334)**
Total assets										
31 December 2015	2 300 371	911 213	103 367	423 395	219 174	155 456	200 201	121 395	306 724	4 741 296
31 December 2014	1 864 277	677 014	81 092	387 803	184 891	144 581	194 953	102 318	253 131	3 890 060
Provision for loan impairment (RAR)										
31 December 2015	(224)	(34 735)	(7 763)	(27 107)	(19 428)	(20 388)	(17 888)	(2 497)	(37 025)	(167 055)
31 December 2014	(800)	(25 859)	(5 515)	(17 062)	(15 209)	(13 933)	(14 747)	(2 084)	(40 533)	(135 742)

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

30 Segment Analysis (Continued)

In 2015 the Bank changed its approach to intersegment income and expense calculation that resulted in changes in expenses allocation to operating segments. Intersegment income and expense were adjusted to include gains less losses/(losses net of gains) arising from currency, in addition to transfer income and expenses, insurance premiums earned and staff costs. The presentation of the comparative figures for 2014 has been adjusted to be consistent with the new presentation.

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2015 and 31 December 2014 is as follows:

In millions of Russian Roubles	2015	2014
Additions/(disposals)*		
Head office	1 201	953
Central federal district	(2 067)	456
Siberian federal district	30	195
North-Caucasian federal district	163	156
Volga federal district	(231)	125
Far Eastern federal district	(3)	106
Ural federal district	22	62
Southern federal district	(162)	61
North-West federal district	69	58
Total (disposals)/additions	**(978)**	**2 172**

* Based on RAR.

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

Reconciliation of loss of the reportable segments for the reporting period ended 31 December 2015 and 31 December 2014 is as follows:

In millions of Russian Roubles	2015	2014
Total loss of reportable segments (after tax)	**(75 209)**	**(9 334)**
Adjustments of provision for impairment	(22 085)	(12 933)
Results of non-reportable segments, including the effect of consolidation*	1 875	(10 756)
Accounting for financial instruments at fair value	5 800	(7 890)
Adjustments of deferred tax	4 192	(5 663)
Losses net of gains from revaluation of other financial instruments at fair value through profit and loss	1 001	(1 088)
Accrued staff costs	(3)	(248)
Adjustments of financial assets and liabilities carried at amortized cost	(10 224)	423
Revaluation of premises	(570)	-
Other	1 003	(439)
The Group's loss under IFRS (after tax)	**(94 220)**	**(47 928)**

30 Segment Analysis (Continued)

Reconciliation of assets of the reporting segments for the reporting period ended 31 December 2015 and 31 December 2014 is as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Assets of reportable segments	**4 741 296**	**3 890 060**
Elimination of settlements between branches	(2 000 496)	(1 643 192)
Provision for loan impairment	(179 405)	(137 651)
Elimination of back-to-back deposits	(111 523)	(135 235)
Accounting for financial instruments at fair value	(13 600)	(15 013)
Adjustments of financial assets carried at amortized cost	(21 808)	(10 955)
Assets of non-reportable segments, including the effect of consolidation*	(17 932)	(4 820)
Other	(48 080)	(27 377)
The Group's assets under IFRS	**2 348 452**	**1 915 817**
Provision for loan impairment for loans and advances to customers of reportable segments	**(167 055)**	**(135 742)**
Accounting for provision under IFRS	(11 497)	(9 939)
Provision related to non-reportable segments, including the effect of consolidation*	(672)	8 202
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(179 224)**	**(137 479)**

* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of material items of income and expenses for the years ended 31 December 2015 and 31 December 2014 is as follows:

In millions of Russian Roubles	2015	2014
Total revenue of reportable segments from external customers	**219 061**	**173 791**
Reclassification of income not included in segment revenue	7 509	3 646
Interest income related to effective interest rate implication	(6 790)	1 436
Results of non-reportable segments, including the effect of consolidation*	(2 843)	(3 415)
Effect of disposal of loans	(8 383)	(5 201)
Other	2	1
The Group's revenue under IFRS**	**208 556**	**170 258**
Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments	**(174 459)**	**(101 658)**
Reclassification of interest expense not included in segment interest expenses	(26)	(890)
Effective interest rate adjustments	1 247	795
Results of non-reportable segments, including the effect of consolidation*	738	289
Other	-	(2)
The Group's interest expense under IFRS	**(172 500)**	**(101 466)**
Provision charge for impairment	**(56 072)**	**(34 366)**
Accounting for provision under IFRS	(29 585)	(18 245)
Provision related to non-reportable segments, including the effect of consolidation*	(4 975)	(3 642)
The Group's provision charge for impairment under IFRS	**(90 632)**	**(56 253)**
Administrative and maintenance expenses of reportable segments	**(39 600)**	**(38 692)**
Reclassification of payments to the Deposit Insurance Fund not included in segment administrative and maintenance expenses	(1 422)	(1 044)
Accrued staff costs	(3)	(248)
Expense of non-reportable segments, including the effect of consolidation*	(1 028)	(217)
Reclassification of expenses on cession to provision expense	(2 198)	-
Other	(3 679)	(1 752)
The Group's administrative and other operating expenses under IFRS	**(47 930)**	**(41 953)**

* Non-reportable segments are represented by subsidiaries of the Group.
** Group's revenue under IFRS comprises of interest income and net fee and commission income.

30 Segment Analysis (Continued)

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

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 35. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of financial assets including derivative financial assets (both at initial recognition and subsequent measurement) resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortized cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach under RAR.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method, whereas there is nominal rate accrual approach under RAR.
- Balances of intercompany settlements related to regional branches of the Bank are presented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.
- Revaluation of premises resulted under RAR are based on current replacement cost basis, whereas under IFRS on fair value basis.
- Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision) under RAR compared to IFRS and regulatory requirements of tax-filing date. Deferred tax accounting in RAR for credit organisations was introduced from 1 April 2014.
- Income, which is not included into segmental revenue, mainly relates to interest income, which is reclassified into "Other income less other expenses" line of management accounts according to its economic substance.

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

31 Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimizing exposures that can lead to unforeseen losses. Group provides coordinated management of significant risks such as credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

31 Risk Management (Continued)

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and revise measures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

According to the Risk management strategy, the key objectives of the bank's risk management system are as follows:

- maintaining the Bank's activity on the "going concern" basis;
- providing the Bank's financial stability;
- development of risk culture/risk-oriented model within the Bank.

The Bank's risk management strategy defines target model, main stages and directions for the Bank's risk management system development till 2020.

In order to ensure stable operation, the Bank took the following steps.

- In 2015 the Bank carried out and/or initiated the following measures related to the development of credit risk management.
  - The Bank continues to develop a rating system by widening the amount of internal credit rating models for more accurate credit risk assessment and increase of the amount of balance sheet assets and credit equivalents of credit related commitments subject to internal credit rating models.
  - In July 2015, the internal credit rating system for corporate borrowers was put into real operation by the Bank. The further development of approaches to the use of internal credit ratings in the system of decision-making, as well as in determining the premium for credit risk, establishing risk-rules on credit products and determining the authority to take on credit risk is in progress.
  - Currently, 100% of all applications from individuals are considered under the centralized "Application for credit decisions" project technology. The Bank continues to improve the decision making process over applications from individuals and increase its effectiveness, including the implementation of new technologies for retail lending.
  - The Bank has implemented a multi-level system of authorities and limits for the acceptance of different types of risks. In order to improve the efficiency of the system, the Bank developed the target system of authorities that should lead to optimization of the Bank's structure of authorities, procedures for their establishment as well as algorithms for their calculation. The above measures should increase the effectiveness of the Bank's risk limits. Currently, the Bank is actively implementing this system.
  - There is a vertical hierarchy to the RD in regional branches operating through Risk Assessment and Control Units for independent on-site control over the level of risks taken by the branches and operating offices. Also, the role of risk managers in decision-making process was increased.
  - The Bank has adopted a set of measures aimed at enhancing the work with problem debts, as well as the development of infrastructure for various methods of dealing with problem debts.
- In order to develop market risk management system, in 2015 The Bank continued to implement measures for automation of the system for control over the level of risk taken by the Bank.

31 Risk Management (Continued)

- In order to improve liquidity control risk system, in 2015 the Bank continued implementing measures for the system automation and enhancing approaches to liquidity control risk management in accordance with recommendations by CBRF and Basel Committee on Banking Supervision (BCBS).
- In order to enhance financial stability of the Group in case of crisis events in the economy and financial markets, in 2014 the Bank's Management Board approved the Plan of stabilizing activities developed in accordance with recommendations of CBRF #193-T. This Plan provides activities for solving potential problems with capital, liquidity and quality of the Bank's assets in case of unfavorable for the Bank scenarios.
- In order to avoid going concern issue, and (or) recovery of the Bank's operations in case of non-standard and emergency situations, in 2015 The Supervisory Board of the Bank adopted a new edition of the Action Plan, which aims to ensure the on-going operations and (or) recovery of the Bank's operations in case of non-standard and emergency situations.

Credit risk. The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

The risk management policy aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio of the Group, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The management of credit risk of the Bank comprises determination and evaluation risk before transactions, limitation of credit risk, with correspondent limits, structuring of the deals, subsequent monitoring and controlling of credit risk level.

Credit risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Bank, and also by structural departments of the Bank and executives within their scope of authorities.

The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

In selecting lending and investment programs, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors; and
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

31 Risk Management (Continued)

In order to decrease the Bank's credit risk and reduce problem loans, the Bank performs cession agreements. The main purpose of the Bank in making cessions is a full or partial termination of obligations of the borrower (groups of related borrowers) to the Bank by selling rights of the Bank's claims to borrowers, aimed at reducing problem loans. The extent to which this activity enables the Bank to pass credit risk of the loans transferred under cession agreements to third parties, as well as the share of credit risk that is not transferred, depends on the specific conditions of cession agreements. At the same time, credit risk appears and turns to be the main risk to the Bank only in case of cession to third parties with the delay of payment. In other cases, the credit risk of the Bank in cession transactions does not exist.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products. The market risk of the subsidiaries is estimated to be non-material due to proportion and structure of their assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk hedging mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board, Risk Management Committee and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

Decision-making authority in the event of sudden market changes is on the Chairman of the Management Board, Risk Management Committee or the Asset and Liabilities Management Committee depending on specified limiting control procedure.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The Bank's exposure to market risks is analysed by the Department of Operations on Financial Markets, Internal Treasury, the Capital Markets Department and the RD within their competence.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the effectiveness of the given operations and the comparison with the level of market risk.

The Bank's business units (the Capital Markets Department, Department of Operations on Financial Markets, the Internal Treasury) and the Operations Department are also in charge of current monitoring over compliance with limits of exposed to market risks positions in the process of entering into, and accounting for transactions.

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is mitigated by setting limits, which are set taking into account the portfolio (instruments) risk and the Bank's strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

31 Risk Management (Continued)

Limits are regularly reviewed by the Bank's authorised bodies, and the RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- authorities of the Bank's staff to adopt independent decisions concerning certain types of transactions (personal limits);
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Mismatching of the level of interest rates changes for various liquidity (risk of interest rates curve changes).
- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basic risk).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk as at 31 December 2015 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	235 227	327 147	265 878	348 400	639 366	421 291	2 237 309
Total interest bearing financial liabilities*	362 440	354 475	438 633	263 483	614 622	172 874	2 206 527
Sensitivity gap	**(127 213)**	**(27 328)**	**(172 755)**	**84 917**	**24 744**	**248 417**	**30 782**
Cumulative sensitivity gap	**(127 213)**	**(154 541)**	**(327 296)**	**(242 379)**	**(217 635)**	**30 782**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

31 Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk as at 31 December 2014 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	141 473	267 484	167 900	311 001	505 008	447 664	1 840 530
Total interest bearing financial liabilities*	328 300	310 798	199 824	330 630	422 938	241 021	1 833 511
Sensitivity gap	**(186 827)**	**(43 314)**	**(31 924)**	**(19 629)**	**82 070**	**206 643**	**7 019**
Cumulative sensitivity gap	**(186 827)**	**(230 141)**	**(262 065)**	**(281 694)**	**(199 624)**	**7 019**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the tables above are presented by maturity (repricing) dates.

For the year ended 31 December 2015, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit before tax for the year would have been RR 2 372 million higher (31 December 2014: if interest rates at that date had been 400 basis points lower with all other variables held constant, profit before tax for the year would have been RR 10 412 million higher). As at 31 December 2015, other components of equity (pre-tax) would have been RR 2 385 million higher (31 December 2014: RR 2 575 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale and at fair value through profit or loss.

For the year ended 31 December 2015, if interest rates at that date had been 100 basis points higher with all other variables held constant, profit before tax for the year would have been RR 2 372 million lower (31 December 2014: if interest rates at that date had been 400 basis points higher with all other variables held constant, profit before tax for the year would have been RR 10 412 million lower). As at 31 December 2015, other components of equity (pre-tax) would have been RR 2 385 million lower (31 December 2014: RR 2 575 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale and at fair value through profit or loss.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 95% or 99% (depending on the purpose of calculations) confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% (99%) probability; however, in 5% (1%) of cases losses may exceed this level.

VAR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR — losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.
The procedure of back-testing of methods used is conducted quarterly.

31 Risk Management (Continued)

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one 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 situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% (99%) confidence level does not take into account losses that may occur beyond this level. There is a 5% (1%) probability that the loss could exceed the VAR; and
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VAR and Expected Shortfall methods with 99% confidence level.

In millions of Russian Roubles	31 December 2015	31 December 2014
Short position	(2 458)	(391)
VAR	82	30
Expected Shortfall	86	37

31 Risk Management (Continued)

Geographical risk concentration

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	147 630	16 380	4 222	168 232
Mandatory cash balances with the CBRF	7 739	-	-	7 739
Trading securites	485	-	-	485
Financial instruments designated at fair value through profit or loss	-	5 069	-	5 069
Due from other banks	27 421	-	33 680	61 101
Derivative financial instruments	23 934	142 778	-	166 712
Loans and advances to customers	1 625 637	-	-	1 625 637
Investment securities available for sale	211 196	-	-	211 196
Investment securities held to maturity	28 758	-	-	28 758
Investment securities pledged under repurchase agreements	7 836	-	-	7 836
Deferred income tax asset	15 911	-	-	15 911
Intangible assets	2 613	-	-	2 613
Premises and equipment	23 624	-	-	23 624
Current income tax prepayment	1 024	-	-	1 024
Other assets	20 577	39	38	20 654
Assets of the disposal groups held for sale and assets held for sale	1 861	-	-	1 861
Total assets	**2 146 246**	**164 266**	**37 940**	**2 348 452**
Liabilities				
Derivative financial instruments	204	-	-	204
Due to other banks	59 238	37 882	136	97 256
Customer accounts	1 188 990	866	-	1 189 856
Promissory notes issued	14 637	-	-	14 637
Bonds issued	184 339	425 485	-	609 824
Deferred income tax liability	1 183	-	-	1 183
Current income tax liability	14	-	-	14
Other liabilities	12 769	26	-	12 795
Liabilities directly associated with disposal groups held for sale	1 769	-	-	1 769
Total liabilities before subordinated debts	**1 463 143**	**464 259**	**136**	**1 927 538**
Subordinated debts	124 641	100 468	-	225 109
Total liabilities	**1 587 784**	**564 727**	**136**	**2 152 647**
Net position in on-balance sheet instruments	**558 462**	**(400 461)**	**37 804**	**195 805**

* OECD — Organisation for Economic Cooperation and Development.

Assets and liabilities have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption “Russia”. Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

31 Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2014 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	94 997	10 011	1	105 009
Mandatory cash balances with the CBRF	9 373	-	-	9 373
Trading securites	2 090	-	-	2 090
Financial instruments designated at fair value through profit or loss	-	6 902	-	6 902
Due from other banks	20 593	-	13 443	34 036
Derivative financial instruments	27 711	104 108	-	131 819
Loans and advances to customers	1 416 463	-	-	1 416 463
Investment securities available for sale	113 638	-	-	113 638
Investment securities held to maturity	11 568	-	-	11 568
Investment securities pledged under repurchase agreements	26 278	-	-	26 278
Deferred income tax asset	13 317	-	-	13 317
Intangible assets	2 330	-	-	2 330
Premises and equipment	24 314	-	-	24 314
Current income tax prepayment	450	-	-	450
Other assets	17 687	131	1	17 819
Assets held for sale	411	-	-	411
Total assets	**1 781 220**	**121 152**	**13 445**	**1 915 817**
Liabilities				
Derivative financial instruments	324	883	-	1 207
Due to other banks	249 753	35 888	135	285 776
Customer accounts	760 940	655	-	761 595
Promissory notes issued and deposit certificates	18 680	-	-	18 680
Bonds issued	174 959	379 609	-	554 568
Deferred income tax liability	1 245	-	-	1 245
Current income tax liability	5	-	-	5
Other liabilities	10 131	350	-	10 481
Total liabilities before subordinated debts	**1 216 037**	**417 385**	**135**	**1 633 557**
Subordinated debts	-	84 261	-	84 261
Total liabilities	**1 216 037**	**501 646**	**135**	**1 717 818**
Net position in on-balance sheet instruments	**565 183**	**(380 494)**	**13 310**	**197 999**

* OECD — Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Risk Management Committee, Assets and Liabilities Management Committee, the Internal Treasury and the Department of Operations on Financial Markets within their competence. Ensuring the solvency of the Bank within one business day and controlling the liquidity within 30 days is carried by the Department of Operations on Financial Markets within the established limits on attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the RD at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Internal Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts, and due to other banks.

The Group develops and instantly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board, Risk Management Committee and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the CBRF is forecasted on a regular basis for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses liquidity limits which compliance is supervised by the RD as part of ongoing monitoring.

The table below shows distribution of financial liabilities as at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(12 904)	(5 389)	(6 890)	(279 460)	-	(304 643)
- outflow	5 332	4 931	5 716	117 901	-	133 880
Net settled derivative financial instruments (liabilities)	-	(128)	(76)	-	-	(204)
Due to other banks	17 717	883	596	79 788	6 801	105 785
Customer accounts	365 998	545 996	256 864	143 507	42 465	1 354 830
Promissory notes issued	3 899	8 068	1 389	190	2 006	15 552
Bonds issued	4 685	139 005	70 875	442 579	22 977	680 121
Other financial liabilities	1 714	1 141	20	94	249	3 218
Subordinated debts	942	6 920	7 859	45 146	273 034	333 901
Off-balance sheet financial liabilities						
Financial guarantees issued	109 250	-	-	-	-	109 250
Letters of credit	10 926	-	-	-	-	10 926
Other credit related commitments*	142 461	-	-	-	-	142 461
Total potential future payments for financial obligations	**650 020**	**701 427**	**336 353**	**549 745**	**347 532**	**2 585 077**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 492)	(4 160)	(48 942)	(144 009)	(91 628)	(290 231)
- outflow	981	7 853	31 539	92 356	58 494	191 223
Net settled derivative financial instruments (liabilities)	373	1 588	432	11	9	2 413
Due to other banks	49 853	141 614	29 863	92 233	7 248	320 811
Customer accounts	257 031	250 333	187 834	109 497	2 873	807 568
Promissory notes issued	3 324	10 909	3 551	1 597	138	19 519
Bonds issued	3 301	77 470	116 360	282 249	149 078	628 458
Other financial liabilities	731	-	1 592	-	248	2 571
Subordinated debts	-	2 737	2 738	21 989	96 079	123 543
Off-balance sheet financial liabilities						
Financial guarantees issued	150 415	-	-	-	-	150 415
Letters of credit	18 542	-	-	-	-	18 542
Other credit related commitments*	50 289	-	-	-	-	50 289
Total potential future payments for financial obligations	**533 348**	**488 344**	**324 967**	**455 923**	**222 539**	**2 025 121**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 34.

31 Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right for accrued interest. Refer to Note 18.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The table below summarizes contractual maturity analysis as at 31 December 2015:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	168 232	-	168 232
Mandatory cash balances with the CBRF	7 739	-	7 739
Trading securities	485	-	485
Financial instruments designated at fair value through profit or loss	4 008	1 061	5 069
Due from other banks	54 774	6 327	61 101
Derivative financial instruments	6 940	159 772	166 712
Loans and advances to customers	836 217	789 420	1 625 637
Investment securities available for sale	5 160	206 036	211 196
Investment securities held to maturity	20 468	8 290	28 758
Investment securities pledged under repurchase agreements	-	7 836	7 836
Other financial assets	11 189	315	11 504
Total financial assets	**1 115 212**	**1 179 057**	**2 294 269**
Financial liabilities			
Derivative financial instruments	(204)	-	(204)
Due to other banks	(18 744)	(78 512)	(97 256)
Customer accounts	(1 104 109)	(85 747)	(1 189 856)
Promissory notes issued	(13 097)	(1 540)	(14 637)
Bonds issued	(73 014)	(536 810)	(609 824)
Other financial liabilities	(2 874)	(344)	(3 218)
Total financial liabilities before subordinated debts	**(1 212 042)**	**(702 953)**	**(1 914 995)**
Subordinated debts	(2 264)	(222 845)	(225 109)
Total financial liabilities	**(1 214 306)**	**(925 798)**	**(2 140 104)**
Net liquidity gap	**(99 094)**	**253 259**	**154 165**
Cumulative liquidity gap	**(99 094)**	**154 165**	**-**

31 Risk Management (Continued)

The table below summarizes contractual maturity analysis as at 31 December 2014:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	105 009	-	105 009
Mandatory cash balances with the CBRF	9 373	-	9 373
Trading securities	1 699	391	2 090
Financial instruments designated at fair value through profit or loss	3 596	3 306	6 902
Due from other banks	29 495	4 541	34 036
Derivative financial instruments	35 404	96 415	131 819
Loans and advances to customers	692 263	724 200	1 416 463
Investment securities available for sale	9 926	103 712	113 638
Investment securities held to maturity	595	10 973	11 568
Investment securities pledged under repurchase agreements	628	25 650	26 278
Other financial assets	4 968	193	5 161
Total financial assets	**892 956**	**969 381**	**1 862 337**
Financial liabilities			
Derivative financial instruments	(1 207)	-	(1 207)
Due to other banks	(210 358)	(75 418)	(285 776)
Customer accounts	(664 443)	(97 152)	(761 595)
Promissory notes issued and deposit certificates	(17 117)	(1 563)	(18 680)
Bonds issued	(44 206)	(510 362)	(554 568)
Other financial liabilities	(2 347)	(304)	(2 651)
Total financial liabilities before subordinated debts	**(939 678)**	**(684 799)**	**(1 624 477)**
Subordinated debts	(2 374)	(81 887)	(84 261)
Total financial liabilities	**(942 052)**	**(766 686)**	**(1 708 738)**
Net liquidity gap	**(49 096)**	**202 695**	**153 599**
Cumulative liquidity gap	**(49 096)**	**153 599**	**-**

The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers' accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Operational risk. Operational risk is the risk of losses in a result of mismatch of character and range of Bank's activity, internal rules and procedures of making bank operations and other deals, staff or other person infraction (as a result of unintentional or intended activity or inactivity), mismatch (insufficiency) functional abilities using information technical and other system and (or) there multifunction (disrupting operation) and also as a result of influence of external events.

Main principles of Operational risk management are incorporated in Bank's internal documents.

The main goal of Bank's operational risk management is maintain acceptable operation risk level, undertake by Bank for secure Bank reliability during its usual operation activity and achievement strategic aims and objectives.

31 Risk Management (Continued)

The Bank's Management Board, Risk Management Committee of the Bank and other collegial bodies of the Bank perform operational risk management in the Bank within their authorities. Responsibility for completeness, quality and timeliness of reporting on operational risks, inherent in the activities of the independent structural bodies of the Bank, and losses in case of its realization, as well as responsibility for compliance with principles and procedures of operational risk management in the process of operational activity lies with the heads of divisions of the Bank and regional branches.

The Group manages operational risk using the following methods:

- creating internal culture of operational risk management on all levels of Groups organizational structure, including levels of regional branches;
- methodological support of operational risk management process. Developing and enhancing Groups internal documents regulating the process of operational risk management;
- identification and assessment of operational risk on all material business lines, business processes, products and information systems of the Group, as well as developing and providing measures necessary for maintaining operational risk at the acceptable for the Bank level;
- selection and analyse of any data relating to operational risks, supporting the Data warehouse of operational risk trigger events and losses in case of its realization;
- developing and providing the actual plan for minimization of operational risk and probable subsequent losses in case of its realization;
- developing actual plans for providing regularity or/and recover of Groups activity in case of unobservable and unexpected circumstances, and for limiting Groups losses in case of adverse circumstances arisen;
- monitoring and preparing the report of operational risk level on regular basis;
- maintaining effective internal control environment within the framework of operational risk management.

The internal culture of operational risk management is the combination of individual and corporate values, settings, competences and behavioural models which determine Bank's attitude to operational risk management and assume knowledge by the Bank's employees of the main operational risk management principles and methods and their active participation in the process of operational risk management.

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group provides non-life insurance services, i.e. property insurance, agricultural insurance and personal accident insurance.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Insurance Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

32 Offsetting Financial Assets and Financial Liabilities

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2015 and 31 December 2014:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments	Cash collateral received	Net amount of exposure
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	396	-	396	(42)	-	354
Cash and cash equivalents (reverse repurchase agreements)	5 036	-	5 036	(5 036)	-	-
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	204	-	204	(42)	-	162
Due to banks (repurchase agreements)	5 138	-	5 138	(5 138)	-	-

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments	Cash collateral received	Net amount of exposure
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	15 872	-	15 872	(499)	(114)	15 259
Cash and cash equivalents (reverse repurchase agreements)	1 310	-	1 310	(1 310)	-	-
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	1 207	-	1 207	(499)	-	708
Due to banks (repurchase agreements)	1 116	-	1 116	(1 116)	-	-

The Group has master netting arrangements with stock exchange and counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Information on such balances is subject to disclosure as they were set off in the statement of financial position.

33 Management of Capital

The Group's objectives when managing capital are:

i. to comply with the capital requirements set by the CBRF;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Basel Capital Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

33 Management of Capital (Continued)

Compliance with the capital adequacy ratio set by the CBRF is monitored by the Group's management on a monthly basis.

Under the capital requirements set by the CBRF effective at 31 December 2015 banks had to maintain a ratio of capital and assets weighted to risk ("Capital Adequacy Ratio") above a prescribed minimum level of 10% (N1.0), while a prescribed minimum level for Tier 1 Ratio (N1.1) is set at 5% and for Common Equity Tier 1 Ratio (CET1 ratio) (N1.2) is set at 6%. Starting from 1 January 2016, the CBRF set the minimum level of statutory capital ratio at 8%, of statutory basic capital ratio — at 4.5%, statutory main capital ratio — remained the same.

During 2015 and 2014 the Bank's capital adequacy ratio in accordance with CBRF requirements exceeded the minimum level and as at 31 December 2015 and 31 December 2014 was as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Capital of the Bank	404 730	275 109
Tier 1 Ratio (N1.1)	9.0%	10.5%
CET1 Ratio (N1.2)	9.0%	10.5%
Capital Adequacy Ratio (N1.0)	16.3%	13.0%

Capital of the Bank and capital adequacy is calculated as required by the CBRF Regulation # 395-P *"Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III)"* effective from 1 January 2014.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures. The level of capital adequacy ratio under Basel II requirements equals 8%.

The composition of the Group's capital calculated based on IFRS in accordance with Basel II Capital Accord is as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Share capital	327 598	248 798
Retained earnings	(134 018)	(39 922)
Goodwill	(5)	(8)
Total tier 1 capital	*193 575*	*208 868*
Revaluation reserves	1 339	(11 209)
Subordinated debts	96 786	77 980
Total tier 2 capital	*98 125*	*66 771*
Total capital	**291 700**	**275 639**
Risk weighted assets	**2 497 777**	**2 121 189**
Tier 1 capital adequacy ratio	7.7%	9.9%
Total capital adequacy ratio	11.7%	13.0%

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the CBRF and loan covenants.

34 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2015, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these consolidated financial statements (31 December 2014: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these consolidated financial statements). Refer to Note 21.

34 Contingencies and Commitments (Continued)

Tax contingencies. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to changes which may occur frequently, at short notice and could be applied retrospectively. As a result it is subject to varying interpretations and selective and inconsistent application in practice. It is therefore possible that transactions and activities of the Group may be challenged at any time in the future by relevant regulatory authorities. The tax authorities may be taking a more assertive position in their interpretation and application of the legislation and in making tax assessments. Consequently, the tax authorities may successfully challenge transactions and tax accounting methods that have not been challenged in the past.

Fiscal periods remain open and subject to review by the tax authorities in course of the on-site tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

Russian transfer pricing legislation allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices and such deviation resulted in the underpayment of the tax to the revenue. The list of "controlled" transactions includes transactions performed with related parties (subject to certain conditions) and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities and derivatives.

During the year ended 31 December 2015, the Group determined its tax liabilities arising from the "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of the stable practice of the application of the Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian companies of the Group for tax purposes under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate that the respective transactions are arms' length for tax purposes.

As of 31 December 2015 the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

Capital expenditure commitments. As at 31 December 2015, the Group has contractual capital expenditure commitments of RR 27 million (31 December 2014: RR 266 million).

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

In millions of Russian Roubles	31 December 2015	31 December 2014
Not later than 1 year	4 912	4 351
Later than 1 year and not later than 5 years	9 389	10 365
Later than 5 years	2 009	2 266
Total operating lease commitments	**16 310**	**16 982**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

34 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	Note	31 December 2015	31 December 2014
Financial guarantees issued		109 336	150 415
Undrawn credit lines		129 693	37 506
Letters of credit		10 966	18 542
Less: provision for impairment	21	(100)	-
Total credit related commitments		**249 895**	**206 463**

As at 31 December 2015, credit related commitments included no financial guarantees issued to the CBRF for Russian banks individually above 10% of the Group's equity (31 December 2014: credit related commitments included commitments for one Russian bank individually above 10% of the Group's equity in the amount of RR 22 554 million, or 11% of total credit related commitments). As at 31 December 2015, the amount of financial guarantees issued to the CBRF for other Russian banks was RR 531 million, or less than 1% of total credit related commitments (31 December 2014: the amount of financial guarantees issued to the CBRF for Russian banks was RR 61 264 million, or 30% of total credit related commitments).

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 31 December 2015 and 31 December 2014, there were no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Russian Roubles	224 862	175 201
Euros	17 610	25 167
US Dollars	6 926	6 080
Other currencies	497	15
Total	**249 895**	**206 463**

Assets pledged and restricted. The Group had the following assets pledged and restricted:

In millions of Russian Roubles	Note	31 December 2015	31 December 2014
Assets pledged under loan agreements with banks (including CBRF)		68 778	237 396
Security deposit under the lease agreement	16	202	202

As at 31 December 2015, mandatory cash balances with the CBRF of RR 7 739 million (31 December 2014: RR 9 373 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2015 and 31 December 2014 assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P *"On the Procedures of Granting Loans Secured by Assets or Guarantees by CBRF to Credit Organisations"* dated 12 November 2007.

34 Contingencies and Commitments (Continued)

Financial assets transferred without derecognition

Transferred financial assets that are not derecognized in their entirely are represented by securities transferred without derecognition and pledged under repurchase agreements. As at 31 December 2015, the associated liabilities of these agreements in the current amount of RR 7 139 million are included in due to other banks (31 December 2014: RR 20 009 million were included in due to other banks and RR 15 million were included in customer accounts).

The following table provides a summary of financial assets transferred without derecognition:

	31 December 2015		31 December 2014	
In millions of Russian Roubles	**Carrying amount assets**	**Carrying amount associated liabilities**	**Carrying amount assets**	**Carrying amount associated liabilities**
Repurchase agreements				
Corporate bonds	6 616	6 023	3 034	2 729
Municipal and subfederal bonds	1 220	1 116	1 486	1 160
Corporate Eurobonds	-	-	20 396	15 019
Federal loan bonds (OFZ)	-	-	1 362	1 116
Total	**7 836**	**7 139**	**26 278**	**20 024**

35 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognized as assets (in case of positive fair value) or liabilities (in case of negative fair value).

In the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as deposits placed by the Group in US Dollars, Chinese Yuans and Japanese Yens to six large OECD banks and one Russian banking group with maturities from January 2016 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

Part of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due; if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

As at 31 December 2015, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2014: not less than BB- (S&P)).

Interest rate swaps entered into by the Group has underlying assets of RR and USD floating interest rates and are entered into with the aim of interest rate risk management.

35 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2015 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	317 453	(150 945)	166 712	(204)
Total	**317 453**	**(150 945)**	**166 712**	**(204)**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2014 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	258 636	(140 614)	119 132	(1 110)
- Interest rate	30 484	(17 894)	12 590	-
Options	892	(892)	97	(97)
Total	**290 012**	**(159 400)**	**131 819**	**(1 207)**

As at 31 December 2015, the Group had three foreign exchange swaps with two foreign banks and one Russian bank with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity (31 December 2014: one foreign exchange swap with one foreign bank with rating not lower than BB- (S&P) with fair value above 10% of the Group's equity). As at 31 December 2015, receivables and payables on settlement of these foreign exchange swaps amounted to RR 198 339 million and RR 74 209 million, respectively, or 73% of total receivables or 71% of total payables on settlement of foreign exchange swaps (31 December 2014: RR 80 334 million and RR 36 234 million, respectively, or 36% of total receivables or 34% of total payables on settlement of foreign exchange swaps).

Refer to Note 36 for the disclosure of fair value hierarchy for derivative financial instruments. Geographical and liquidity analyses of derivative financial instruments are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

36 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

36 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, and related trading and investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices and valuation techniques with all material inputs observable.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortized cost. The fair value for held to maturity securities and securities held to maturity pledged under repurchase agreements is based on quoted market prices and valuation techniques with all material inputs observable.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

36 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value

	31 December 2015		31 December 2014	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents	168 232	168 232	105 009	105 009
Mandatory cash balances with the CBRF	7 739	7 739	9 373	9 373
Due from other banks	61 101	60 203	34 036	31 790
Loans and advances to customers				
- Loans to corporates	1 314 446	1 270 805	1 132 282	1 078 121
- Lending for food interventions	16 020	16 020	10 097	10 097
- Reverse repo agreements	10 913	10 913	425	425
- Investments in agricultural cooperatives	328	328	369	369
- Loans to individuals	283 930	278 653	273 290	252 732
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	8 269	7 817	8 920	7 430
- Municipal and subfederal bonds	-	-	325	317
- Federal Loan bonds (OFZ)	2 245	1 856	2 323	1 681
- Corporate Eurobonds	20 266	20 017	20 396	19 785
Other financial assets	11 504	11 504	5 161	5 161
Total financial assets carried at amortised cost	**1 904 993**	**1 854 087**	**1 602 006**	**1 522 290**
Financial assets carried at fair value	**389 276**	**389 276**	**260 331**	**260 331**
Total financial assets	**2 294 269**	**2 243 363**	**1 862 337**	**1 782 621**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	55 006	57 899	64 629	63 804
- Term borrowings from the CBRF	41 725	41 032	203 732	203 732
- Correspondent accounts and overnight placements of other banks	525	525	17 415	17 415
Customer accounts				
- State and public organisations	242 050	242 527	101 258	100 362
- Other legal entities	461 278	465 732	353 579	349 516
- Individuals	486 528	485 566	306 758	302 146
Promissory notes issued and deposit certificates	14 637	14 637	18 680	18 680
Bonds issued				
- Eurobonds issued	425 485	429 526	379 609	337 719
- Bonds issued on domestic market	184 339	186 098	174 959	169 641
Other financial liabilities	3 218	3 218	2 651	2 651
Total financial liabilities carried at amortised cost before subordinated debts	**1 914 791**	**1 926 760**	**1 623 270**	**1 565 666**
Subordinated debts	225 109	219 298	84 261	62 393
Total financial liabilities carried at amortised cost	**2 139 900**	**2 146 058**	**1 707 531**	**1 628 059**
Financial liabilities carried at fair value	**204**	**204**	**1 207**	**1 207**
Total financial liabilities	**2 140 104**	**2 146 262**	**1 708 738**	**1 629 266**

36 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value hierarchy

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

Analysis of financial and non-financial instruments as at 31 December 2015 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	-	485	-	485
Financial instruments designated at fair value through profit or loss	-	5 069	-	5 069
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	138 247	78 763	-	217 010
Derivative financial instruments	-	166 712	-	166 712
Office premises	-	-	7 827	7 827
Assets for which fair values are disclosed				
Cash and cash equivalents	-	168 232	-	168 232
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	7 739	7 739
Due from other banks	-	60 203	-	60 203
Loans and advances to customers	-	-	1 576 719	1 576 719
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	9 673	20 017	-	29 690
Other financial assets carried at amortised cost	-	-	11 504	11 504
Total financial and non-financial assets	**147 920**	**499 481**	**1 603 789**	**2 251 190**
Liabilities measured at fair value				
Derivative financial instruments	-	204	-	204
Liabilities for which fair values are disclosed				
Due to other banks	-	99 456	-	99 456
Customer accounts	-	-	1 193 825	1 193 825
Promissory notes issued and deposit certificates	-	-	14 637	14 637
Bonds issued				
- Eurobonds issued	377 294	52 232	-	429 526
- Bonds issued on domestic market	164 793	21 305	-	186 098
Other financial liabilities	-	-	3 218	3 218
Total financial liabilities before subordinated debts	**542 087**	**173 197**	**1 211 680**	**1 926 964**
Subordinated debts	82 032	137 266	-	219 298
Total financial liabilities	**624 119**	**310 463**	**1 211 680**	**2 146 262**

36 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2014 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	391	1 699	-	2 090
Financial instruments designated at fair value through profit or loss	-	6 902	-	6 902
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	115 371	4 149	-	119 520
Derivative financial instruments	-	131 819	-	131 819
Office premises	-	-	8 636	8 636
Assets for which fair values are disclosed				
Cash and cash equivalents	-	105 009	-	105 009
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	9 373	9 373
Due from other banks	-	31 790	-	31 790
Loans and advances to customers	-	-	1 341 744	1 341 744
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	9 428	19 785	-	29 213
Other financial assets carried at amortised cost	-	-	5 161	5 161
Total financial and non-financial assets	**125 190**	**301 153**	**1 364 914**	**1 791 257**
Liabilities measured at fair value				
Derivative financial instruments	-	1 207	-	1 207
Liabilities for which fair values are disclosed				
Due to other banks	-	284 951	-	284 951
Customer accounts	-	-	752 024	752 024
Promissory notes issued and deposit certificates	-	-	18 680	18 680
Bonds issued				
- Eurobonds issued	317 929	19 790	-	337 719
- Bonds issued on domestic market	160 720	8 921	-	169 641
Other financial liabilities	-	-	2 651	2 651
Total financial liabilities before subordinated debts	**478 649**	**314 869**	**773 355**	**1 566 873**
Subordinated debts	51 641	10 752	-	62 393
Total financial liabilities	**530 290**	**325 621**	**773 355**	**1 629 266**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 31 December 2015 (31 December 2014: none).

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2015:

	Transfers between Level 1 and Level 2	
In millions of Russian Roubles	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	2 257	927
Total transfers of financial assets	**2 257**	**927**

36 Fair Value of Financial Instruments (Continued)

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2014:

In millions of Russian Roubles	**Transfers between Level 1 and Level 2**
	From Level 1 to Level 2
Financial assets	
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	3 613
Total transfers of financial assets	**3 613**

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy when they become traded in active markets and fair value can be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 when they ceased to be traded in active markets. The liquidity on the market is not sufficient to use market prices for valuation and as a result fair value is determined using valuation techniques with all material inputs observable.

There were no other transfers between levels of the fair value hierarchy during 2015 and 2014.

The following table shows the quantitative information as at 31 December 2015 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

			Inputs used		
Assets	**Fair value,** in millions of Russian Roubles	**Valuation technique**	**Input**	**Min**	**Max**
Office premises	7 827	Comparative method	Trade discount	8.0%	20.0%

37 Presentation of Financial Instruments by Measurement Category

According to the IAS 39 *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading.

The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2015.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial instruments designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
Financial as sets						
Cash and cash equivalents						
- cash on hand	39 175	-	-	-	-	39 175
- cash balances with the CBRF (other than mandatory reserve deposits)	38 424	-	-	-	-	38 424
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	69 263	-	-	-	-	69 263
- settlement accounts with stock and currency exchanges, clearing organisations and other	21 370	-	-	-	-	21 370
Mandatory cash balances with the CBRF	7 739	-	-	-	-	7 739
Trading securities	-	-	485	-	-	485
Financial instruments designated at fair value through profit or loss	-	-	-	5 069	-	5 069
Due from other banks	61 101	-	-	-	-	61 101
Derivative financial instruments	-	-	166 712	-	-	166 712
Loans and advances to customers						
- Loans to corporates	1 314 446	-	-	-	-	1 314 446
- Lending for food interventions	16 020	-	-	-	-	16 020
- Deals with securities purchased under "reverse-repo agreements"	10 913	-	-	-	-	10 913
- Investments in agricultural cooperatives	328	-	-	-	-	328
- Loans to individuals	283 930	-	-	-	-	283 930
Investment securities available for sale	-	211 196	-	-	-	211 196
Investment securities held to maturity	-	-	-	-	28 758	28 758
Investment securities pledged under repurchase agreements	-	5 814	-	-	2 022	7 836
Other financial assets	11 504	-	-	-	-	11 504
Total financial assets	**1 874 213**	**217 010**	**167 197**	**5 069**	**30 780**	**2 294 269**
Non-financial assets						**54 183**
Total assets	**1 874 213**	**217 010**	**167 197**	**5 069**	**30 780**	**2 348 452**

37 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2014.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial instruments designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- cash on hand	36 834	-	-	-	-	36 834
- cash balances with the CBRF (other than mandatory reserve deposits)	37 930	-	-	-	-	37 930
- correspondent and settlement accounts and placements with other banks with original maturities of less than one month	24 488	-	-	-	-	24 488
- settlement accounts with stock and currency exchanges and clearing organisations	5 757	-	-	-	-	5 757
Mandatory cash balances with the CBRF	9 373	-	-	-	-	9 373
Trading securities	-	-	2 090	-	-	2 090
Financial instruments designated at fair value through profit or loss	-	-	-	6 902	-	6 902
Due from other banks	34 036	-	-	-	-	34 036
Derivative financial instruments	-	-	131 819	-	-	131 819
Loans and advances to customers						
- Loans to corporates	1 132 282	-	-	-	-	1 132 282
- Lending for food interventions	10 097	-	-	-	-	10 097
- Deals with securities purchased under "reverse-repo agreements"	425	-	-	-	-	425
- Investments in agricultural cooperatives	369	-	-	-	-	369
- Loans to individuals	273 290	-	-	-	-	273 290
Investment securities available for sale	-	113 638	-	-	-	113 638
Investment securities held to maturity	-	-	-	-	11 568	11 568
Investment securities pledged under repurchase agreements	-	5 882	-	-	20 396	26 278
Other financial assets	5 161	-	-	-	-	5 161
Total financial assets	**1 570 042**	**119 520**	**133 909**	**6 902**	**31 964**	**1 862 337**
Non-financial assets						**53 480**
Total assets	**1 570 042**	**119 520**	**133 909**	**6 902**	**31 964**	**1 915 817**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property, the Ministry of Finance of the Russian Federation and The State Corporation "Deposit Insurance Agency". Refer to Note 1.

In these consolidated financial statements, significant balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

38 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	31 December 2015	31 December 2014
Cash and cash equivalents		
CBRF	38 424	37 930
Other banks	55 640	15 199
Loans and advances to customers		
Loans and advances to customers (before impairment)	91 363	60 580
Less: provision for loan impairment	(3 294)	(2 453)
Derivative financial instruments — assets	23 538	27 658
Securities		
Securities issued by Russian Federation	97 479	23 623
Securities of entities and banks	47 365	52 924
Due from other banks	2 334	1 903
Other assets		
State Corporation Deposit Insurance Agency	5 308	1 239
Customer accounts		
Entities	335 091	170 898
Key management and their family members	1 493	956
Due to other banks		
CBRF	41 725	203 732
Other banks	12 529	33 210
Derivative financial instruments — liabilities	204	246
Subordinated debts	84 776	-
Credit related commitments		
Undrawn credit lines	74 145	7 222
Financial guarantees issued	12 478	41 449
Financial guarantees received	20 729	16 860

38 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

In millions of Russian Roubles	2015	2014
Interest income on cash and cash equivalents		
CBRF	400	132
Other banks	2 698	785
Interest income on due from other banks	498	372
Interest income on loans and advances to customers	10 389	5 040
Interest income on securities		
Securities issued by Russian Federation	3 237	2 463
Securities of entities and banks	5 430	3 223
Losses net of gains from securities		
Securities issued by Russian Federation	(2 693)	(1 587)
Securities of entities and banks	(559)	(1 100)
Gains less losses from derivative financial instruments	4 017	21 103
Interest expense on customer accounts		
Entities	(36 614)	(21 023)
Key management and their family members	(74)	(16)
Interest expense on subordinated debts	(895)	(1 287)
Interest expense on due to other banks		
CBRF	(10 894)	(6 837)
Other banks	(1 333)	(1 430)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund (SC DIA)	(1 422)	(1 044)

In 2015 and 2014, the only transactions with the shareholder were share capital increase, taxes and dividends paid. Refer to Notes 23, 28 and 29.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2015 total remuneration of the key management amounted to RR 246 million (2014: RR 328 million).

	2015		2014	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits				
Salary, social security costs and short-term bonuses included in salary	163	60	224	73
Post-employment benefits				
State pension and social costs	23	-	31	-
Total	**186**	**60**	**255**	**73**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale

a) Disposal of Subsidiaries

In March 2015 as a result of insolvency procedures the Group lost the control over LLC Dominant and recognized loss from disposal of subsidiary in the amount of RR 381 million.

In August 2015 as a result of insolvency procedures the Group lost the control over LLC Karlamansky Sakhar and recognized gain from disposal of subsidiary in the amount of RR 528 million.

b) Groups Classified as Held for Sale

As at 31 December 2015 the Group has classified the assets and liabilities related to companies in Tula Region as disposal groups held for sale. The Group intends to complete the sale by the end of 2016.

Major classes of assets of disposal groups held for sale are as follows:

In millions of Russian Roubles	31 December 2015
Premises and equipment	547
Trade receivables	55
Inventory	21
Other	152
Total assets of disposal groups held for sale	**775**

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	31 December 2015
Due to other banks	1 685
Trade payables	27
Other	57
Total liabilities directly associated with disposal groups held for sale	**1 769**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale as part of gains net of losses from non-banking activity:

In millions of Russian Roubles	2015
Sales of goods	5
Cost of goods sold	(24)
Other income	8
Other expenses	(85)
Deferred tax	(44)
Total expense directly associated with disposal groups held for sale	**(140)**

c) Assets held for sale

During 2013, 2014 and 2015 the Group transferred certain assets from premises and equipment and repossessed collateral to assets held for sale. The Group expects the sale to be completed by the end of 2016.

Assets held for sale are accounted for at the lower of net carrying value and fair value less costs to sell with expenses recognized in profit or loss after reclassification.

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale (Continued)

As at 31 December 2015, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	Note	Balance amount (before reclassi-fication)	Accumula-ted depre-ciation (before reclassi-fication)	Net carrying value before reclassi-fication	Impairment	Carrying value after reclassi-fication
Reclassified from repossessed collateral before 2015		110	(2)	108	(22)	86
Reclassified from repossessed collateral in 2015	16	1 136	-	1 136	(136)	1 000
Total		**1 246**	**(2)**	**1 244**	**(158)**	**1 086**

As at 31 December 2014, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	Balance amount (before reclassi-fication)	Accumula-ted depre-ciation (before reclassi-fication)	Net carrying value before reclassi-fication	Impairment	Carrying value after reclassi-fication
Reclassified from repossessed collateral in 2013	688	(23)	665	(471)	194
Reclassified from repossessed collateral in 2014	230	(10)	220	(56)	164
Reclassified from premises and equipment in 2013	53	-	53	-	53
Total	**971**	**(33)**	**938**	**(527)**	**411**

The movement in net carrying value of assets held for sale before reclassification is as follows:

In millions of Russian Roubles	Note	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
Net carrying value before reclassification as at 1 January 2015		**885**	**53**	**938**
Reclassified during the period	16	1 136	-	1 136
Disposed during the period		(812)	(18)	(830)
Net carrying value before reclassification as at 31 December 2015		**1 209**	**35**	**1 244**

The movement in the impairment of assets held for sale is as follows:

In millions of Russian Roubles	Note	Reclassified from repossessed collateral	Total
Impairment as at 1 January 2015		**(527)**	**(527)**
Loss from impairment for the current year	16	(136)	(136)
Realized impairment loss from reclassification into repossessed collateral and premises and equipment		448	448
Realized impairment loss at disposal of assets		57	57
Impairment as at 31 December 2015		**(158)**	**(158)**

40 Events after the End of the Reporting Period

In January 2016 the Group made investments in Closed Mutual Investment Real Estate Fund.

In January, February and March 2016, the Group re-issued on the domestic market RR 2 340 million of previously bought back bonds maturing in November 2018, with semi-annual payments of coupon at 12.5% p.a.

In January 2016, the Group repaid Eurobonds (loan participation notes) (placed at par) denominated in Chinese yuan in the amount of CNY 1 000 million, equivalent to RR 12 438 million as at maturity date, issued in February 2013.

In February 2016 as a result of insolvency procedures the Group lost control over one of its subsidiaries (JSC “Optovie tekhnologii”).

In February 2016, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 5 851 million at the put option date.

In February 2016, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 10 000 million prior to put option date by agreement with bonds holders.

In February, March and April 2016, the Group re-issued on the domestic market RR 2 088 million of previously bought back bonds maturing in February 2017, with semi-annual payments of coupon at 12.0% p.a.

In February and March 2016, the Group re-issued on the domestic market RR 4 812 million of previously bought back bonds maturing in January 2020, with semi-annual payments of coupon at 11.95% p.a.

In March 2016, the Group re-issued on the domestic market RR 470 million of previously bought back bonds maturing in February 2025, with quarterly payments of coupon at 11.50% p.a.

In March 2016, the Group repaid at the maturity date Eurobonds (loan participation notes) denominated in RR in the amount of RR 20 000 million issued in March 2011.

In March 2016, the Group repaid at the maturity date Eurobonds (loan participation notes) denominated in RR in the amount of RR 12 000 million issued in April 2011.

In March 2016, the Group re-issued on the domestic market RR 2 120 million of previously bought back bonds maturing in June 2018, with semi-annual payments of coupon at 11.55% p.a.

10. Addendum

10.1. Regional Branch Addresses[24]

Adygea Regional Branch

Reg. Nº 3349/12 as of 27 September 2000
24 Krasnooktiabrskaya St., Maikop,
Russia, 385000
Tel/Fax: +7 (8772) 52-30-24, 57-12-01
E-mail: Direktor@adg.rshb.ru

Altai Regional Branch

Reg. Nº 3349/18 as of 18 December 2000
80b Lenina Ave., Barnaul, the Altai Territory,
Russia, 656015
Tel/Fax: +7 (3852) 53-89-48, (3852) 53-89-13
E-mail: bank@altay.rshb.ru

Amur Regional Branch

Reg. Nº 3349/23 as of 18 December 2000
142 Lenina St., Blagoveshchensk,
Russia, 675000
Tel/Fax: +7 (4162) 22-18-02, 22-18-05
E-mail: referent@amur.rshb.ru

Arkhangelsk Regional Branch

Reg. Nº 3349/48 as of 4 October 2001
34 Karla Libchnechta St., Arkhangelsk,
Russia, 163000
Tel/Fax: +7 (8182) 65-38-42
E-mail: info@arh.rshb.ru

Bashkir Regional Branch

Reg. Nº 3349/62 as of 26 April 2004
70 Lenina St., Ufa, Russia, 450008
Tel/Fax: +7 (3472) 73-54-32
E-mail: info@bash.rshb.ru

Belgorod Regional Branch

Reg. Nº 3349/30 as of 10 April 2001
49 Pushkina St., Belgorod, Russia, 308015
Tel/Fax: +7 (4722) 23-50-23, 23-50-33
E-mail: BRF@belg.rshb.ru

Bryansk Regional Branch

Reg. Nº 3349/69 as of 14 September 2006
23 Lenin Ave., Sovetskiy District, Bryansk,
Russia, 241050
Tel/Fax: +7 (4832) 68-19-23, 68-19-65
E-mail: dir@bryansk.rshb.ru

Buryatia Regional Branch

Reg. Nº 3349/59 as of 1 August 2002
57D Smolina St., Ulan-Ude, Russia, 670000
Tel/Fax: +7 (3012) 28-71-00
E-mail: bank@bur.rshb.ru

Chechen Regional Branch

Reg. Nº 3349/34 as of 10 April 2001
10/77 M.A. Esambaeva Ave., Grozny,
Russia, 364024
Tel/Fax: +7 (8712) 22-27-50, 22-28-01
E-mail: erihanov@rshb.ru

Chelyabinsk Regional Branch

Reg. Nº 3349/78 as of 7 August 2008
26-A Lenina Ave., Chelyabinsk,
Russia, 454091
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E-mail: bank@chel.rshb.ru

24 Note: Bank information as of April 2016.

Chita Regional Branch

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Administrative District, Chita, Russia, 672039
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Chukotka Regional Branch

Reg. Nº 3349/77 as of 7 April 2008
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E-mail: director@chukotka.rshb.ru

Chuvash Regional Branch

Reg. Nº 3349/11 as of 27 September 2000
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Dagestan Regional Branch

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Gorno-Altaysk Regional Branch

Reg. Nº 3349/70 as of 6 October 2006
68 Kommunistichesky Ave., Gorno-Altaysk,
the Republic of Altai, Russia, 649000
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Ivanovo Regional Branch

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Irkutsk Regional Branch

Reg. Nº 3349/66 as of 13 October 2005
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Ingush Regional Branch

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Kabardino-Balkaria Regional Branch

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Kaliningrad Regional Branch

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Russia, 236008
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Kaluga Regional Branch

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E-mail: Director@kaluga.rshb.ru

Kamchatka Regional Branch

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Karachay-Cherkessia Regional Branch

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Karelia Regional Branch

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Kemerovo Regional Branch

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Khabarovsk Regional Branch

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Khakassia Regional Branch

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Kirov Regional Branch

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Komi Regional Branch

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Krasnodar Regional Branch

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Krasnoyarsk Regional Branch

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Kursk Regional Branch

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Lipetsk Regional Branch

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Murmansk Regional Branch

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Nizhny Novgorod Regional Branch

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North Ossetia Regional Branch

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Novosibirsk Regional Branch

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Orenburg Regional Branch

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Orel Regional Branch

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Penza Regional Branch

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Perm Regional Branch

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Primorsky Regional Branch

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Pskov Regional Branch

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Ryazan Regional Branch

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Samara Regional Branch

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E-mail: tmas@samara.rshb.ru

St. Petersburg Regional Branch

Reg. Nº 3349/35 as of 12 April 2001
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Russia, 119014
Tel/Fax: +7 (812) 335-06-30
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Saratov Regional Branch

Reg. Nº 3349/52 as of 6 February 2002
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E-mail: info@saratov.rshb.ru

Sakhalin Regional Branch

Reg. Nº 3349/72 as of 19 April 2007
107 Mira Ave., Yuzhno-Sakhalinsk,
the Sakhalin Region, Russia, 693020
Tel/Fax: +7 (4242) 31-21-01, 31-21-07
E-mail: office@shl.rshb.ru

Smolensk Regional Branch

Reg. Nº 3349/43 as of 25 June 2001
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Russia, 214014
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E-mail: info@smol.rshb.ru

Stavropol Regional Branch

Reg. Nº 3349/6 as of 27 September 2000
26 Marshala Zhukova St., Stavropol,
the Stavropol Territory, Russia, 355035
Tel/Fax: +7 (8652) 25-80-80
E-mail: referent@stavropol.rshb.ru

Sverdlovsk Regional Branch

Reg. Nº 3349/73 as of 18 May 2007
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Russia, 620014
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E-mail: office@sverdlovsk.rshb.ru

Tambov Regional Branch

Reg. Nº 3349/2 as of 27 September 2000
20 Maksim Gorky St., Tambov, Russia, 392000
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E-mail: office@tambov.rshb.ru

Tatarstan Regional Branch

Reg. Nº 3349/67 as of 16 March 2006
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Tomsk Regional Branch

Reg. Nº 3349/64 as of 11 May 2005
8b Moskovsky Tract, Tomsk, Russia, 634050
Tel/Fax: +7 (3822) 20-22-24, 42-60-69
E-mail: info@tomsk.rshb.ru

Tver Regional Branch

Reg. Nº 3349/19 as of 18 December 2000
37 Dmitry Donskoy St., Tver, Russia, 170006
Tel/Fax: +7 (4822) 31-07-20, 31-07-32,
E-mail: mail@tver.rshb.ru

Tuva Regional Branch

Reg. Nº 3349/57 as of 6 March 2002
23 Tyvinskie Dobrovoltsy St., Kyzl, the Tuva
Republic, Russia, 667000
Tel/Fax: +7 (39422) 1-41-01, 1-41-04
E-mail: rshb@tuva.ru

Tula Regional Branch

Reg. Nº 3349/1 as of 27 September 2000
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Tyumen Regional Branch

Reg. Nº 3349/71 as of 29 December 2006
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Udmurt Regional Branch

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30 Telegina St., Izhevsk, Russia, 426006
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Ulyanovsk Regional Branch

Reg. Nº 3349/65 as of 17 June 2005
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Vladimir Regional Branch

Reg. Nº 3349/41 as of 21 June 2001
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Russia, 600000
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Volgograd Regional Branch

Reg. Nº 3349/46 as of 4 October 2001
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Vologda Regional Branch

Reg. Nº 3349/50 as of 11 January 2002
4 Petina St., Vologda, Russia, 160002
Tel/Fax: +7 (8172) 53-33-05, 53-61-02
E-mail: info@vologda.rshb.ru

Voronezh Regional Branch

Reg. № 3349/14 as of 29 September 2000
19b Moskovskiy Ave., Voronezh,
Russia, 394016
Tel/Fax: +7 (4732) 69-71-71, 46-21-72
E-mail: vrf@vrn.rshb.ru

Yakutsk Regional Branch

Reg. № 3349/60 as of 11 February 2003
12 Pushkina St., Yakutsk, Russia, 677000
Tel/Fax: +7 (4112) 40-21-01
E-mail: office@yakutia.rshb.ru

Yaroslavl Regional Branch

Reg. № 3349/61 as of 11 June 2003
28a Pobedy St., Yaroslavl, Russia, 150040
Tel/Fax: +7 (4852) 32-12-44, 30-16-19
E-mail: dir@yar.rshb.ru

10.2. Licenses and Certificates

Licenses

- General license for banking operations № 3349 (issued by the Bank of Russia 12.08.2015)
- License for attracting deposits and operations with precious metals № 3349 (issued by the Bank of Russia 12.08.2015)
- License for the depositary activity (issued by the Federal Financial Markets Service 19.05.2005 № 007-08461-000100)
- License for the dealing operations (issued by the Federal Financial Markets Service 19.05.2005 № 007-08456-010000)
- License for the brokerage activity (issued by the Federal Financial Markets Service 19.05.2005 № 007-08455-100000)
- License of the stock market agent for concluding commodity futures and options transactions in stock trading (issued by the Federal Financial Markets Service 17.11.2009 № 1473)
- License for the development, production, distribution of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, for works and services in the field of data encryption, technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities (except where technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, are performed for the own needs of the legal entity or individual entrepreneur) (issued by the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets 17.02.2016 № 14953 N)
- Certificate of conformity of JSC Rosselkhozbank to requirements of the Payment Card Industry Data Security Standard (PCI DSS) № DN-2016-01 (issued by JSC "DialogueScience", QSA-auditor, certificated by PCI DSS Council, 14.01.2016)

Certificates

- Certificate of state registration of the credit organisation, registration number 3349 (issued by the Bank of Russia 24.04.2000)
- Certificate of inclusion of the bank in the State Register of Banks – participants of the obligatory deposit insurance system (issued by the State Agency for Deposit Insurance 14.03.2005 № 760)
- Certificate of registration of the legal entity in the tax authority for the location within the Russian Federation (issued by the Department of the Federal Tax Service of the city of Moscow)
- Certificate of registration in the Unified State Register of Legal Entities on the legal entity registered before July 1, 2002 (issued by the Office of the Ministry of Taxation of Russia of the city of Moscow 22.10.2002)
- Insurance certificate (issued by the Moscow regional branch of the Social Insurance Fund of the Russian Federation № 13, 14.03.2001)
- Certificate of registration in the Municipal Register of Enterprises of the city of Moscow (issued by the Moscow Registration Chamber 18.05.2000 № 002.003.381)
- Certificate of registration in the Unified State Register of Legal Entities (issued by the Office of the Federal Tax Service of the city of Moscow 25.12.2008)

10.3. Contact and Payment Details

Full Corporate Name	Joint stock company Russian Agricultural Bank
Short Corporate Name	JSC Rosselkhozbank
Bank of Russia Registration Date	April 24, 2000
Registration Number	3349
Legal Address	3 Gagarinsky Pereulok, Moscow, Russia, 119034
Contact Number	+ 7(495)787-77-87
E-mail	office@rshb.ru
Internet Website	www.rshb.ru, www.rusagrobank.com

International Contacts

Address	1 Arbat Street, Moscow, Russia, 119019
Tel/Fax	+7(495)363-06-53
E-mail	**Investor Relations** IR_RusAgroBank@rshb.ru
	Financial Institutions fininst@rshb.ru
	Structured and Trade Finance exterfin@rshb.ru

Account Details

OPERU Moscow	30101810200000000111
Tax Identification Number (TIN) / KPP	7725114488 / 997950001
BIC	044525111
OKPO Code	52750822
OKONKH Code	96120
OKOGU	15001
OKATO Code	45286590000
OKFS	12
OGRN	1027700342890
OKVED	65.12
OKOPF	47
Telex	485493 RSB RU
SWIFT	RUAGRUMM

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