U.S.$150,000,000 8.5 per cent. Loan Participation Notes due 2019
issued by, but with limited recourse to,
B&N BONDS D.A.C.
for the sole purpose of financing a loan to
B&N BANK (PUBLIC JOINT-STOCK COMPANY)
(*a public joint stock company organised under the laws of the Russian Federation*)
Issue Price: 100 per cent.

B&N Bonds Designated Activity Company, a designated activity company incorporated under the laws of Ireland (the "**Issuer**"), issued an aggregate principal amount of U.S.$150,000,000 8.5 per cent. Loan Participation Notes due 2019 (the "**Notes**") on 24 Marsh 2016 for the sole purpose of financing a loan (the "**Loan**") to B&N Bank (Public Joint-Stock Company), a public joint stock company organised under the laws of the Russian Federation (the "**Borrower**" or the "**Bank**"), pursuant to a loan agreement dated 22 March 2016 (the "**Loan Agreement**") between the Issuer and the Borrower.

Pursuant to the trust deed (the "**Trust Deed**") relating to the Notes between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**"), the Issuer provided certain security for all payment obligations in respect of the Notes for the benefit of the Noteholders, including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and an assignment to the Trustee of the Issuer's rights and interests under the Loan Agreement, other than in respect of the charged property and certain reserved rights (as more fully described in "*Description of the Transaction and the Security*"). Interest on the Loan is payable at a rate of 8.5 per cent. per annum semi-annually in arrears with the interest payment dates falling on 27 March and 27 September in each year, commencing on 27 September 2016, provided that the Issuer receives such payment in full, the Notes bear interest from, and including, 24 March 2016 payable at the same rate and on the same dates as interest payment dates set in respect of the Loan Agreement (provided that where the relevant date is not a business day, on the next succeeding business day).

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due, for an amount equivalent to the principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement. The Issuer has no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower in respect of the obligations of the Borrower under the Loan Agreement.

Except as set forth herein under "*Taxation*", payments in respect of the Notes (and the Loan) were made without any deduction or withholding for, or on account of, the taxes of any relevant jurisdiction. Except as otherwise expressly provided in this Prospectus and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, (or in any rights that the Trustee may receive by way of assignment in respect of the Loan), exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder is entitled to enforce any provisions of the Loan Agreement or have direct recourse to the Borrower.

AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 1.

The Notes and the Loan (together, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")).

The Prospectus has been approved by the Central Bank of Ireland as the competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank of Ireland only approves Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Notes that are to be admitted to trading on the regulated market of the Irish Stock Exchange (the "**Main Securities Market**") or on another regulated market for the purposes of Directive 2004/39/EC and/or that are to be offered to the public in any member state of the European Economic Area in circumstances that require the publication of a prospectus. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to its official list (the "**Official List**") and trading on the Main Securities Market. The Notes are also admitted to quotation on the Third Market (MTF) of the Vienna Exchange (Wiener Boerse AG) (the "**Vienna Stock Exchange**").

The Notes were offered and sold in the minimum denomination of U.S.$200,000 and higher integral multiples of U.S.$1,000. The Notes were initially represented by interests in a global note certificate in registered form (the "**Global Note Certificate**"), without interest coupons, which were deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), and registered in the name of a nominee, on 24 March 2016 (the "**Issue Date**"). Beneficial interests in the Global Note Certificate are shown on, and transfers thereof is effected only through records maintained by Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. See "*Clearing and Settlement*". Individual note certificates in registered form ("**Individual Note Certificates**") are only available in certain limited circumstances as described herein.

The date of this Prospectus is 20 June 2016

FORWARD-LOOKING STATEMENTS

The Borrower has made forward-looking statements in this Prospectus regarding, among other things, the Borrower's financial conditions, future expansion plans and business strategy. These forward-looking statements are based on the Borrower's current expectations about future events. Although the Borrower believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- inflation, interest rate fluctuations and exchange rate fluctuations in Russia;
- prices for securities issued by Russian entities;
- the health of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia and regulations promulgated by the Central Bank of Russia (the "**CBR**");
- the effects of competition in the geographic and business areas in which the Bank conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where the Bank conducts its operations;
- the Bank's ability to maintain or increase market share for its products and services and control expenses;
- the management of the rapid growth of the Bank's business and assets;
- acquisitions or divestitures;
- technological changes; and
- the Bank's success at managing the risks associated with the aforementioned factors.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Borrower undertakes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur and the Borrower's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements speak only as of the date of this Prospectus. The Borrower expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Borrower's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each of the Issuer and the Borrower accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Borrower (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Each of the Issuer and the Borrower confirms that the third party information used in this Prospectus has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the CBR and the Federal State Statistics Service of the Russian Federation ("**Rosstat**"), no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, the Borrower, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Borrower, the Loan and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Borrower are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Borrower are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Borrower, the Loan or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Borrower to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the immediately preceding sentence and below, the Borrower accepts responsibility for the information contained in this Prospectus. This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Borrower or the Trustee to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Borrower and the Trustee to inform themselves about and to observe any such restrictions.

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Borrower or the Trustee. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Borrower since the date of this Prospectus.

None of the Issuer, the Borrower, the Trustee or any of their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, the Borrower and the Trustee are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether, or the extent to which, the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

The contents of the Borrower's website do not form any part of this Prospectus.

No representation or warranty, express or implied, is made by the Trustee or any of its or their affiliates or any person acting on their behalf as to the accuracy or completeness of the information set forth in this Prospectus. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person contemplating making an investment in the Notes from time to time must make its own investigation and analysis of the creditworthiness of the Borrower and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

The Prospectus as approved by the Central Bank, will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of Prospectus (Directive 2003/71/EC) Regulations 2005.

The Issuer is not and will not be regulated by the Central Bank of Ireland as a result of issuing the Notes. An investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit scheme operated by the Central Bank of Ireland.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

THE NOTES AND THE LOAN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S).

NOTICE TO UNITED KINGDOM RESIDENTS

This document is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

NOTICE TO RUSSIAN INVESTORS

This Prospectus or information contained therein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. The information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**"), and the Prospectus must not be distributed or circulated into the Russian Federation or made available in the Russian Federation to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

ENFORCEABILITY OF JUDGMENTS

The Borrower is a public joint-stock company incorporated under the laws of the Russian Federation. The majority of the Borrower's directors and executive officers named in this Prospectus reside outside the United Kingdom. Moreover, the majority of the assets of the Borrower and substantially all of the assets of its directors and officers are located in the Russian Federation. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom upon any of the Borrower's directors or executive officers named in this Prospectus; or
- enforce, in the English courts, judgments obtained outside England against the Borrower or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom), and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation, as a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Borrower or its officers or directors. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes or under the Loan.

In the absence of an applicable treaty or federal law, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

The Loan Agreement and any non-contractual obligations arising out of or in connection with the Loan Agreement are governed by English law and provide for disputes, controversies and causes of action brought by any party thereto to be settled by arbitration in accordance with the rules of the LCIA (the "**LCIA Rules**"). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Loan Agreement and any non-contractual obligations arising out of or in connection with the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations (such as the Borrower) in particular.

CONTENTS

RISK FACTORS

An investment in the Notes involves certain risks. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Group's business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Group faces. These are the risks the Bank considers material. There may be additional risks that the Bank currently considers immaterial or of which it is currently unaware, and any of these risks could have similar effects to those described in this section.

Risks related to the Bank's business and the banking industry

The slowdown of growth of the global and the Russian economies and financial markets, and deteriorating conditions in the Russian economy, could have a material adverse effect on the Group's business

Slowdown of global and Russian economies and deteriorating conditions in Russian economy

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints during the global financial and economic crisis which started in the second half of 2008 (the "**2008/2009 crisis**"). In response to the global economic and financial crisis, many of the largest countries in the world, including Russia, the United States and EU countries, implemented significant rescue packages, which included, among other things, the recapitalisation of banks through the state purchase of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state, quantitative easing and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. While the effect of the global financial and economic crisis has continued, to some degree, in present, generally, global economies have recently been gradually recovering from the downturn caused by the 2008/2009 crisis which resulted in tapering the previously implemented rescue packages.

The volatility and market disruption in the global banking sector continues to impact global markets. In particular, global financial markets experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. Residual concerns regarding the creditworthiness of European sovereign debt, reflected in, among other factors, sovereign credit spreads, continued to diminish in 2014. In 2015, concerns have re-emerged specifically with respect to Greek sovereign debt following the general election victory of "anti-austerity" parties and subsequent referendum with regard to the debt restructuring plan, where the proposed measures were rejected by the Greek people. A unilateral Greek default on its debt or a Greek exit from the Eurozone or an increase in speculation about these matters could impact on sentiment towards other Eurozone bond markets and broader international debt markets. International debt markets could also be impacted by more general concerns over levels of fiscal deficits, requirement for support of the banking system, evolving sovereign debt levels of EU Member States, speculation about the stability of the Eurozone and the potential impact of these factors on the individual EU Member State economies.

The substantial majority of the Group's assets and customers are located in, or have businesses related to, Russia. As a result, the Group is substantially affected by the state of the Russian economy, which is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials.

Following a period of stabilisation after the acute stage of the 2008/2009 crisis, the Russian economy's growth has been gradually slowing down, and Russian economic conditions deteriorated significantly during 2014 and 2015. In particular, according to estimates of Rosstat, Russia's gross domestic product ("**GDP**") growth slowed from 4.3 per cent. in 2011 to 3.5 per cent. in 2012, to 1.3 per cent. in 2013 and to 0.7 per cent. in 2014. Under preliminary data of Rosstat, in 2015 Russia's GDP declined by 3.7 per cent. According to the Ministry of Economic Development of the Russian Federation, Russia's GDP is expected to decrease by 1.0 per cent. in 2016, subject to current global oil prices. The decreases in growth rates from 2011 to 2014 and decline in Russia's GDP in 2015 were mainly as a result of sharp decrease in global oil prices, decreased investments in the Russian economy, significant capital outflow, the monetary policy of the CBR aimed at inflation suppression and the increase in production costs. The negative developments affecting the Russian economy in 2014 and 2015 have been aggravated by the impact of the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) in response to the perceived actions of Russia in Ukraine. Such developments have been further impacted by a significant decline in global oil prices. The price of Brent crude oil decreased from U.S.$112.36 as at 30 June 2014 to U.S.$57.54 as at 31 December 2014. Following an increase to U.S.$67.58 as at 6 May 2015, the price of Brent crude oil continued to decrease to U.S.$37.57 as at 31 December 2015. As at 1 June 2016, the price of Brent crude oil was U.S.$49.58 and continues to be volatile and unstable. As a result of slowing growth, decline in global oil prices and capital outflows, the Rouble depreciated sharply against the U.S. Dollar and other foreign currencies during 2014, particularly, in the fourth quarter of 2014, and continued to be volatile in 2015 and in the first quarter of 2016. The Rouble to U.S. Dollar exchange rate of the CBR was RUB39.39 per U.S.$1.00 as at 30 September 2014, RUB67.79 per U.S.$1.00 as at 18 December 2014, RUB56.26 per U.S.$1.00 as at 31 December 2014 and RUB69.66 per U.S.$1.00 as at 3 February 2015. In the fourth quarter of 2015 and the first quarter of 2016, the Rouble depreciated from RUB66.24 per U.S.$1.00 as at 30 September 2015 to RUB83.59 per U.S.$1.00 as at 22 January 2016. As at 1 June 2016, the Rouble to U.S. Dollar exchange rate of the CBR was RUB66.00 per U.S.$1.00. In response to its inflation targeting policy, the CBR has regularly increased its key rate from 5.5 per cent. in February 2014 to 7.5 per cent. in April 2014, to 8.0 per cent. in July 2014, to 9.5 per cent. in October 2014, to 10.5 per cent. in December 2014 and further to 17.0 per cent. in December 2014 as part of the CBR's strategy to stabilise the volatility of the Rouble. Following stabilisation of the market, the CBR has been gradually decreasing the key rate in 2015 to 11.0 per cent. in August 2015, which was further confirmed by the CBR in January 2016.

In light of the decline in global oil prices, high volatility of Rouble, the geopolitical instability as a result of the Ukraine crisis and the Ukraine related sanctions have also reduced, to a significant extent, the ability of Russian companies and banks to raise new debt or refinance existing debt in international capital markets. Further depreciation of the Rouble, decline in global oil prices, further measures taken by the Russian Government and the CBR to address the depreciation of the Rouble or further sanctions that might be imposed by the U.S. and the EU and other countries on certain Russian entities or certain sectors of the Russian economy could contribute to a further deterioration of conditions in the Russian economy.

Any of these factors could adversely affect the financial condition of the Group's customers and may result, among other things, in a decrease in the funds that its customers hold on deposit with the Group, a change in the Group's strategy, a reduction in the demand for loans, foreign currency, investment and other banking transaction services that these customers carry out with the Group, as well as a general deterioration in the quality of the Group's loan book and/or a reduction in the market values of securities or other assets held on the Group's balance sheet, leading to possible defaults and/or the need for increased provisions.

Dislocation of the Russian banking sector

A decline in oil prices, sharp depreciation of the Rouble, volatility of the Russian stock market and the inability of Russian companies and banks to access international capital markets have negatively impacted the Russian banking sector. Disruption in the Russian securities and currency markets has had a negative impact on investor confidence and has adversely affected the interbank markets and debt issuance in terms of volume, maturity and credit spreads. The assets of the Russian banking sector increased in 2014 and 2015. Due to the decreased quality of loan portfolio and increased provisions for loan impairment, the increase in interest income slowed, as well as net interest margin in the Russian banking sector narrowed or, in some cases, became negative. Furthermore, the significant depreciation of Russian Rouble against foreign currencies increased volatility on Russian securities market and perceived high inflation have negatively impacted on the results of operations of Russian banks, including the Group.

In addition, the default, or a significant decline in the credit rating of the Russian Federation or financial institutions could cause severe stress in the Russian financial system generally and the business and economic condition and prospects of the Bank's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. The credit rating of the Russian Federation has been downgraded by each of Moody's, Fitch and S&P mainly driven by the negative impact on the Russian economy of the Ukraine crisis and related sanctions imposed on certain Russian individuals and legal entities in response to the perceived actions of Russia in Ukraine, which effects have been further aggravated by a significant decline in global oil prices as a result of Russia's heavily reliance on oil exports. In particular, in October 2014, Moody's downgraded the Russia's sovereign rating to "Baa2" with a negative outlook, and, in February 2015, Moody's further downgraded Russia's sovereign rating to "Ba1" with a negative outlook. In December 2015, Moody's changed Russia's sovereign rating's outlook to "stable". In March 2014, Fitch adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative", and, in January 2015, Fitch downgraded Russia's sovereign rating to "BBB-" with a negative outlook. In March 2014, S&P adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative", in April 2014, S&P downgraded Russia's sovereign rating from "BBB" to "BBB-" with a negative outlook and further downgraded it to "BB+" in January 2015.

There can be no assurance that the Group (the Bank taken together with its consolidated subsidiaries, the "**Group**") or the Russian Federation will be able to maintain their current credit ratings and any deterioration in the general economic or political environment or the Group's financial condition could lead to further downgrades.

Any such downgrades could adversely affect the Bank's liquidity and undermine confidence in the Group, which could lead to increased borrowing costs and restrict the Bank's access to capital markets. An increase in the Bank's cost or reduction in availability of funding could render it unable to meet deposit withdrawals on demand or at their contractual maturity, to service the credit facilities of existing customers or to fund new loans, investments and businesses. Furthermore, reduced liquidity and cost of capital could adversely affect the Bank's ability to repay its own borrowings as they mature, to meet covenants and other obligations under its own financing facilities or to raise further financing, for example, by issuances of debt securities, at favourable terms to the Bank, or at all. Should the Bank's access to new financing become limited, it could be forced to sell unencumbered assets to meet its liabilities. In a time of reduced liquidity, the Bank may be unable to sell some of its assets, or it could be forced to make such sales at depressed prices, which in either case could adversely affect the Group's business, financial condition, results of operations or prospects.

Furthermore, recently, a number of Russian banks have experienced other difficulties, including failure to make sufficient loss provisions, that have caused them to become insolvent and have their licences revoked or to recognise large loan impairments that required steps to replenish their capital. Intensified withdrawal of banking licences as a result of inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering regulations or due to other reasons could result in lower investor confidence in Russian banking system generally and investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of the Bank, which could be materially adverse to the Group's business, financial condition, results of operations and prospects, as well as the price of the Notes.

The current political and economic crisis in Ukraine and related sanctions imposed by the U.S. and the EU may have a material adverse effect on the Group

In late 2013 and the first half of 2014, deteriorating economic conditions and general social unrest caused Ukraine to be subjected to a wide-scale crisis provoking armed confrontations between various political groups. Amid concerns of possible civil war and alleged discrimination of ethnic Russians in predominately Russian regions, such as the Crimean peninsula and south-eastern parts of continental Ukraine, on 1 March 2014, the Russian Parliament officially authorised the use of Russian military force in Ukraine. On 6 March 2014, the Crimean Parliament voted for the region's secession from Ukraine and its accession to Russia. On 16 March 2014, the overwhelming majority of its citizens supported that choice in a public referendum and on 18 March 2014, the peninsula and the city of Sevastopol, the historic base of the Russian Black Sea Fleet, became new separate constituents of the Russian Federation.

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the U.S. and the EU (as well as other nations, such as Canada, Switzerland, Australia and Japan) imposed sanctions on certain Russian and Ukrainian persons and entities. A number of Russian government officials, entrepreneurs, banks and companies as well as companies owned or controlled by such persons or entities or certain entities that provide assistance to prohibited actions by such entities or persons have been subject to blocking sanctions. The sanctions imposed freeze all assets of the blocked persons and broadly prohibit transactions or other dealings (including the provision of services) for the benefit of the sanctioned persons, in each case involving U.S. persons or legal entities or any direct or indirect action within the United States (including the clearing of U.S. Dollar payments through the U.S. financial system).

Furthermore, the EU and U.S. have imposed sanctions on entities operating in certain sectors of the Russian economy, in particular in financial, oil and gas, defense and related materials sectors. With respect to the financial sector, the EU and U.S. imposed prohibitions on transactions by EU and U.S. persons or within the EU or U.S. with respect to transacting in, providing financing for, or otherwise dealing in debt with a maturity of longer than 30 days or equity, if that debt or equity is issued on or after prescribed dates by, or on behalf of, or for the benefit of named persons, their property, or their interests in property. These prohibitions were applied to transactions with Vnesheconombank (VEB), Gazprombank, Bank of Moscow, Sberbank, Rosselkhozbank and VTB in financial sector, Novatek, Rosneft, Transneft and Gazprom Neft in the oil and gas sector and Rostec in defense and related materials sectors. Moreover, the EU and U.S. prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve any named person in the Russian energy sector, its property, or its interests in property. These persons in the oil and gas sector include Gazprom, Gazprom Neft, Lukoil, Surgutneftegas and Rosneft. It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed.

No individual or entity within the Group has been designated by either the U.S. or the EU as a specific target of their respective sanctions imposed in connection with the Ukraine crisis. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against Russia that affect the Group, may not be imposed. Although no entity within the Group is a U.S. person, some Group entities, as well as the Issuer, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons. None of the proceeds of the issue of the Notes were used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. In the ordinary course of business, the Group transacts with Vnesheconombank (VEB), Gazprombank, Sberbank and VTB, which are the Bank's correspondent bank counterparties. All transactions with these financial institutions are reviewed for sanctions compliance purposes. The prevailing part of transactions with these banks are Rouble transfers limited to the territory of the Russian Federation, thus, are permissible pursuant to applicable law.

Other Group entities, including the Bank, are neither U.S. persons nor EU persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or EU jurisdiction, such as through the involvement of U.S. and/or EU persons or entities, business conducted on the territory of the U.S. or EU, clearing in U.S. Dollars, or some other nexus to the relevant jurisdiction. However, there can be no assurance that compliance issues under applicable U.S. and/or EU regulation, measures or similar laws and regulations will not arise with respect to the Group or its personnel. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant Group entities to contract with the U.S. and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or EU law, the imposition of significant fines and negative publicity and reputational damage. In addition, should the Group's dealings with sanctioned counterparties become material, the Group's ability to transact with U.S. or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of members of the Group to raise funding from international financial institutions or the international capital markets may be inhibited.

The sanctions imposed by the U.S. and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the U.S. and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should tensions in Ukraine continue.

Further confrontation in Ukraine and any escalation of related tensions between Russia and the U.S. and/or the EU, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks, including the Group and its Russian clients, to sustain required liquidity levels and comply with their financial obligations. These impacts could be more severe than those experienced to date. In particular, should either the U.S. or the EU expand their respective sanctions to include existing or future clients, suppliers or other counterparties of the Group, a large sector of the Russian economy or otherwise, such an expansion could result in the Group's dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between the Group and the designated persons could occur, and substantial legal and other compliance costs and risks on the Group's business operations could emerge. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

Although the Group has no reason to believe that it may be specifically targeted by the U.S. or EU sanctions, if sanctions targeting the Russian banking sector generally or the Group specifically are imposed, such sanctions will likely have a material adverse impact on the Group in a number of ways. For example, the Group's ability to use international payment networks (such as those administered by Visa and MasterCard) could be impaired, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in U.S. Dollars, raise funds from investors, or access international capital markets generally, use international settlement, clearing and/or information exchange systems, and/or the Group's existing funds might be blocked. In these circumstances, the Group could well be unable to effect payments to discharge any of its obligations under the loans, which would constitute an event of default thereunder and under the Notes consequently. In addition, investors in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes may be required to block those Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value.

The Bank's business is subject to interest rate risks and declining net interest margin

The Bank faces interest rate risk resulting from mismatches in the amounts, interest rates and maturities of its assets and liabilities. Although the Group monitors interest rate fluctuations and its asset liability tenor in order to mitigate such interest rate risk, interest rate movements on both the domestic and international markets may have a material adverse effect on the Group's business and financial condition.

The Bank's results of operations depend on its net interest income. Net interest income represented 11.76 per cent. of the Bank's operating income for the year ended 31 December 2014 and 46.6 per cent. for the year ended 31 December 2013. In the year ended 31 December 2015, the Group recorded a net interest expense amounting to RUB35,854.5 million. As a result of fluctuations in the net interest income, the Group has experienced significant volatility in net interest margin in 2013-2015. Although the Group's net interest margin increased from 3.9 per cent. in 2013 to 4.4 per cent. in 2014, then net interest margin decreased to 3.2 per cent. in 2015.

Movements in short- and long-term interest rates affect both the Group's interest income and expense. In 2012, due to the liquidity pressure resulting from the Eurozone sovereign debt crisis, the borrowing costs for Russian banks issuing their own securities, subordinated debt, or borrowing from other banks ("**wholesale borrowing**") increased. In order to attract additional funds and avoid outflow of customer deposits, banks significantly increased customer deposit rates. Rates on lending were also subsequently raised in an attempt to maintain margins. During 2013, average interest rates on deposits in the Russian market increased as compared to 2012 due to reduced liquidity resulting in an increase in the total amount of the Group's current accounts and deposits from customers. Average interest rates on loans to customers also increased in 2013. In 2014, due to the geopolitical instability as a result of the Ukraine crisis, related sanctions imposed by the U.S and EU in response to the perceived actions of Russia in Ukraine, as well as high volatility of Rouble, the international capital markets were largely inaccessible to Russian borrowers. In light of the liquidity constrain and increase by the CBR of the benchmark one-week repo rate during 2014 in response to perceived risk of high inflation and depreciation of Russian Rouble, the banks substantially increased rates on customer deposits. Rates on lending were also raised subsequently in an attempt to maintain margins. In 2015, there was increased pressure on margins resulting from interest rates on customer deposits increasing at a significantly higher rate in December 2014 as compared to lending rates as competitive pressures, concerns regarding customer defaults, fixed rates in existing loan commitments or facilities and legal requirements restricted the Group's ability to increase interest rates on loans to customers in a corresponding manner. In addition, in December 2014, due to increased volatility and perceived risks in the Russian economy, certain corporate customers prepaid their loans. Although interest rates on customer deposits have been gradually decreasing in line with the market trend in 2015, the significant portion of this funding has been completely replaced in the second half of 2015 by new liabilities at more commercially attractive terms. These factors, together with the necessity to maintain customer deposit interest rates at high levels, have resulted in increased pressure on margins and profitability. Under the Bank's preliminary estimates, as a result of these factors, the Group is likely to have a negative net interest margin and expects to make a net loss for in the year ended 31 December 2015.

Since loans to customers constitute the greatest portion of the Bank's interest-earning assets, the increased competition in the banking sector has had, and is expected to continue to have, an adverse effect on the Bank's results of operations. Reductions in market interest rates could affect the interest rates earned on the Bank's interest-earning assets, leading to a reduction in the Bank's net interest income and adversely affecting its financial position and results of operations.

The quality of the Bank's loan portfolio may continue to be tested in adverse economic conditions

The Bank has been subject to risks regarding the credit quality and recovery of loans to, and amounts due from, customers and market counterparties. The current downturn in the Russian economy has affected, and may continue to affect, the ability of many companies and individuals to repay their loans, particularly foreign currency-denominated loans. Factors including, without limitation, increased unemployment in Russia, inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or fluctuating interest rates may reduce the ability of the Bank's customers and market counterparties to repay loans.

In addition, changes in economic conditions may result in further deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default. Any changes in the credit quality of the Bank's Russian and/or international borrowers and counterparties, arising from systemic risks in the Russian and global financial systems, could accordingly reduce the value of the Bank's assets, and require an increase in the Bank's write-downs and allowances for loan impairment. As a result of the current slowdown of the Russian economy, the Bank is in the process of renegotiating and rescheduling a larger proportion of its loans to corporate borrowers than in prior years. As at 31 December 2015, the Group's loans to customers included loans with terms renegotiated in the amount of RUB3,025.1 million as compared to RUB5,992.2 million as at 31 December 2014 and RUB1,328.9 million as at 31 December 2013. In response to increased level of renegotiated loans, the Group has tightened its monitoring procedures through client managers which enables the Group to continue to classify the renegotiated loans as non-impaired. Where circumstances or risks occur which the Bank has not identified or anticipated in developing risk management methods for their non-performing loan levels (where "**non-performing loans**" or "**NPLs**" means loans with principal and/or interest overdue by more than 90 days, excluding letters of credit and guarantees), provisioning levels and write-offs could be greater than expected, which could have a material adverse effect on the Bank's business. The Bank's allowance for impairment losses was RUB12,533.0 million as at 31 December 2015, RUB9,966.8 million as at 31 December 2014 and RUB4,288.0 million as at 31 December 2013. Furthermore, as at 31 December 2015, the NPLs accounted for 4.4 per cent. of the total gross loan portfolio as compared to 5.8 per cent. of the total gross loan portfolio as at 31 December 2014 and 3.6 per cent. of the total gross loan portfolio as at 31 December 2013. The increase in the NPLs in the year ended 31 December 2014 was primarily attributable to the consolidation of the banks under financial rehabilitation. See "*Limited Financial Review – Consolidation of Acquired Banks*".

Any further deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, could have a material adverse effect on the development of the Bank's business, financial condition, results of operations and prospects, and, in particular, may adversely impact its ability to expand and achieve profitability in its loan portfolio.

The Bank is sensitive to fluctuations in the market prices of securities portfolio

The Bank's financial condition and operating results are affected by changes in market values in the Bank's securities portfolio. The Group trades various financial instruments and other assets, including debt, equity, currency and related derivatives as both agent and principal. As at 31 December 2015, the Group's securities portfolio (comprised of financial assets at fair value through profit or loss and investment securities) amounted to RUB101,694.3 million, or 12.4 per cent. of its total assets, as compared to RUB45,640.8 million, or 10.74 per cent. of its total assets, as at 31 December 2014 and RUB12,676.8 million, or 5.8 per cent. of its total assets, as at 31 December 2013.

The Bank is exposed to a number of risks related to the movement of market prices in the underlying instruments, including the risk of unfavourable market price movements relative to its long or short positions, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that instruments the Bank uses to hedge certain positions do not track the market value of those positions.

Particularly in an environment where interest margins are tightening, fluctuation in the Group's securities portfolio may be sufficient to move the Bank's results from profit to loss. The Bank utilises a number of risk management tools to enable the Group to limit the impact of market risk on the Bank's capital.

Fair value of securities is determined by the Bank based on quoted market information, where it exists, and appropriate valuation methodologies, with the exception of certain investment securities for which there are no available external independent market quotations. Despite the fact that the Bank's management has used all available market information at the time of estimating the fair value of financial instruments, the Russian Federation continues to display characteristics of an emerging market, and thus the fair value of financial instruments is not always properly reflected. Where no market information is available to calculate fair values the Bank uses other relevant information, such as discounted cash flows and financial data of the investees and application of other valuation methodologies in line with best international practices and regulatory recommendations.

The Group's results of operations were influenced by one-off events

In 2014, the Group received funds from the Deposit Insurance Agency (i) in the amount of RUB12.0 billion at the annual interest rate ranging from 4 per cent. to 6.5 per cent. for the period from 1 to 4 years as part of measures on financial stabilisation of B&N Bank Credit Cards and (ii) in the amount of RUB17.5 billion at the annual interest rate of 6.01 per cent. for the period from 3 to 6 years as part of measures on financial stabilisation of the banks under financial rehabilitation. As a result of these operations, for the year ended 31 December 2014, the Group recorded gain on initial recognition of financial instruments of RUB5,461.1 million and, for the year ended 31 December 2015, the Group had gain from a disposal of subsidiary of RUB29,199.7 million, which were key contributors to the Group's operating income. If the Group had not disposed of subsidiary and recognised gain on initial recognition of financial instruments in the periods under review, its results of operations for the respective periods would have been materially different. These one-off events did not occur in the year ended 31 December 2013 and may not reoccur in the future.

The Bank's development is subject to successful integration of acquired banks or assets

In 2014-2015, the Bank and its principal shareholders acquired a number of Russian banks, and anticipates to expand its business through acquisitions in the future. As part of its strategy, the Bank intends to merge and consolidate all acquired financial institutions into one legal entity on the basis of the Bank. There can be no assurance that the Bank will be able to fully or effectively integrate any banks or other entities it has acquired or which it acquires in the future. The Bank strives to achieve revenue and cost synergies, operating efficiencies, business growth opportunities, as well as other benefits from any acquisition. The integration of any such acquisition into the Bank, however, may be complex and expensive and may present a number of challenges for management. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because the assumptions upon which the Bank determined to proceed with any such acquisition may prove to be incorrect. It is the policy of the Bank to complete extensive diligence in relation to any potential acquisition, including the involvement of international strategic consultancy company, but there can be no guarantee that such diligence has been or would be sufficient to uncover all material issues or that the quality of assets acquired will not negatively impact upon the Group's overall portfolio. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or those achieved are materially different from those that were expected to be achieved prior to the acquisition, then this could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Following the acquisition of the financial institutions, the Bank has developed and started implementing an integration plan to improve the performance of the all institutions. The integration of financial institutions will require a significant allocation of management time and commitment, as well as changes and upgrading of its information technology and other systems, enhancement of the Bank's risk management systems, additional training and recruitment of management and other key personnel. As a result, the integration process is expected to be costly and may not be successful in the near future, or at all.

Devaluation of the Rouble against the U.S. Dollar may have a material adverse effect on the Bank's business

The Group maintains a conservative strategy of managing currency risk in compliance with the regulatory requirements of the CBR. Regulatory and internal open currency positions, as well as stop loss limits that are created in the ordinary course of the Group's business are principal risk management instruments with regard to currency risks. The positions and limits are constantly monitored and managed, yet certain exposures may still create currency risk.

While the Rouble appreciated against the U.S. Dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. Dollar in 2008 and in the beginning of 2009, largely as a result of the 2008/2009 crisis and the significant fall in prices in oil and commodities that are the principal generators of Russia's export earnings, as well as in 2014 and 2015 due to a combination of factors, including slowing growth and decline of Russia's GDP, substantial decrease in oil prices and capital outflows. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Between 1 August 2008 and 1 March 2009, the Rouble depreciated by 34 per cent. against the U.S. Dollar (from RUB 23.42 per U.S.$1.00 to RUB 35.72, according to the CBR); however, the exchange rate has fluctuated significantly in 2012-2015 ranging from RUB28.95 per U.S.$1.00 to RUB34.04 per U.S.$1.00 in 2012; from RUB29.93 per U.S.$1.00 to RUB33.47 per U.S.$1.00 in 2013; from RUB32.66 per U.S.$1.00 to RUB67.79 per U.S.$1.00 in 2014 and from RUB49.18 per U.S.$1.00 to RUB72.88 per U.S.$1.00 in 2015.

For the year ended 31 December 2015, the Group had net gain on foreign exchange operations of RUB17,492.0 million as compared to RUB4,454.9 million in 2014 and RUB1,893.0 million in 2013. This gain was one of the key contributors into the Group's operating income in 2015 and 2014, which may not reoccur in the future. Although the Bank was successful in managing the exchange rate risk in the past, there is no guarantee that it will be successful in avoiding the effects of exchange rate fluctuations in the future, which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Any depreciation of the Rouble against the U.S. Dollar could negatively affect the Bank in a number of ways, including, among other things, by increasing the actual cost to the Bank of financing its U.S. Dollar-based liabilities and by making it more difficult for Russian borrowers to service their U.S. Dollar loans. Volatility in the Russian currency market may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Significant off balance sheet credit related commitments may lead to potential losses

As part of its business, the Bank issues guarantees, letters of credit and commitments on loans and unused credit lines. As at 31 December 2015, the Group had total contingent liabilities and credit commitments amounting to RUB68,113.3 million as compared to RUB31,457.0 million as at 31 December 2014 and RUB25,504.0 million as at 31 December 2013. All such credit related commitments are classified as off balance sheet items in the Group's consolidated financial statements. With respect to credit risk on credit related commitments, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments, as 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.

There is significant competition in the Russian banking market

The Russian banking market is highly competitive. According to the CBR, as at 1 January 2016, 733 banks and non-bank credit organisations were registered in Russia and the five largest credit organisations held 54.1 per cent. of total banking assets in Russia.

The Bank's key competitors have historically been primarily in the corporate banking area (including commercial and small and medium enterprise ("**SME**") lending), such as Sberbank, Alfa Bank,VTB, Rosselkhozbank, Bank Uralsib, Bank Otkritie, Rosbank, Bank Avangard, Bank Tochka and Promsvyazbank; in the major corporate banking the Group competes with Sberbank, VTB, Rosselkhozbank, Gazprombank, Rosbank, Bank Avangard, Uniastrumbank, Raiffeisenbank, Moscow Credit Bank, Bank St.-Petersburg, Bank Zenit, Bank Vozrozhdenye and Transcapitalbank. With respect to retail activities, the Bank has faced competition from a number of Russian banks and Russian subsidiaries of international banks, including Sberbank, VTB24, Alfa Bank, Citibank, Raiffeisenbank, Rosbank, Orient Express Bank, Russian Standard Bank, Bank Otkritie, Promsvyazbank, Bank of Moscow and Home Credit & Finance Bank.

As a result of the 2008/2009 crisis, however, the Bank now faces far greater competition from state-controlled banks such as Sberbank, VTB Group (including Bank of Moscow), Gazprombank, and Rosselkhozbank. Due to the direct support of the Russian Federation, state-controlled banks had access to cheaper sources of funding from international capital markets prior to the imposition of sanctions by the U.S. and EU and were major beneficiaries of government programmes, including anti-crisis aid. Using these advantages, these banks were able to add branches to their respective networks through the acquisition of defaulting banks and could attract the largest clients and, as a result, maintain or increase their market share.

Another factor behind the significant competition is the limited size of the banking market in Russia. For most banks, other than some state-controlled banks, the potential market is limited to regions with large cities, as other locations have historically been unprofitable. The largest Russian banks are concentrated in Moscow, whilst large regional banks conduct most of their business in the central cities of their respective regions. Competition for client business among Russian banks is intense, which has led, among other things, to the narrowing of spreads between deposit and loan interest rates, affecting Russian banks' profitability.

Most of the Bank's national competitors are based in Moscow, although a few have regional branch networks and Sberbank and VTB 24 have a national network. Accordingly, the Bank faces competition in substantially all the business segments and regions in which it operates. See "*Business — Competition and Competitive Strengths*". Furthermore, because Russia's banking system is highly fragmented and because of the current liquidity constrains in the Russian economy, significant merger and acquisition activities are taking place which may result in the emergence of new strong competitors for the Bank. If the Bank fails to attract additional capital or engage in mergers and acquisitions in order to remain competitive, it could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank could be adversely affected by the deterioration of the soundness or the perceived soundness of other financial institutions

Against the backdrop of the limited liquidity and high cost of funds in the international and Russian domestic interbank lending markets, the Bank is subject to the risk of deterioration of the soundness and/or perceived soundness of other financial institutions within and outside Russia. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis, all of which could have an adverse effect on the Bank.

The Bank routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other financial institutions. As a result, the Bank is exposed to counterparty risk which is heightened due to the marked turbulence and volatility. See also "*The slowdown of growth of the global and the Russian economies and financial markets, and deteriorating conditions in the Russian economy, could have a material adverse effect on the Group's business – Dislocation of the Russian banking sector*" for information on the current activity of the CBR with regard to revocation of licences of Russian banks. A default by, or concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's risk management policies and procedures may be ineffective

The Bank's policies and procedures for managing credit risk, market risk, liquidity risk and operational risk may prove ineffective. Some of the Bank's methods for managing risk are based upon observations of historical market behaviour, and the Bank applies statistical techniques to these observations to arrive at quantifications of its potential risk exposures. In addition, the Bank utilises stress-tests. For all types of risk, the Bank uses the loss assessment instrument (expected and unexpected losses). With regard to credit risk, the Bank has a particular system aimed at modelling losses in the loan portfolio on the basis of 100,000 different factors. However, these methods may not accurately quantify the Bank's risk exposures, especially in situations that cannot be identified based on its historical data. In particular, if the Bank enters new lines of business, historical data may be incomplete or absent.

It is also possible that in times of financial and economic crisis the Bank's ability to assess credit exposure and asset values is impaired as the models and techniques used may be less predictive of future conditions, behaviours and valuations. As additional information becomes available, the Bank may need to make additional provisions if default rates are higher than expected. If circumstances arise whereby the Bank did not identify, anticipate or correctly evaluate certain risks in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. If a material deficiency in the Bank's risk management or other internal control policies or procedures arises, this may expose it to significant credit, liquidity, market or operational risk, which, in turn, may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank may be unable to meet the regulatory requirements relating to capital adequacy

According to CBR regulations, which apply to a methodology based on RAS, the Bank's shareholders' equity as a percentage of risk-weighted assets, or its capital adequacy ratio (N1.0), must be at least 8 per cent. As at 31 December 2015, the Bank's RAS-based capital ratio was 11.37 per cent. as compared to 11.82 per cent. as at 1 June 2016, which were both in compliance with CBR requirements. However, if the Bank's capital adequacy ratio were to fall below the 8 per cent. threshold after 1 January 2016, it would be in violation of the CBR mandatory ratio. In addition, the Basel Committee on Banking Supervision (the "**Basel Committee**") recommends a minimum risk-based total capital adequacy ratio of 8 per cent. calculated in accordance with the "International Convergence of Capital Measurement and Capital Standards" adopted in July 1988 and updated in April 1998 (the "**Basel Capital Accord**"). The Group's Tier 1 capital ratio and Tier 2 capital ratio calculated in accordance with the Basel Capital Accord were 7.3 per cent. and 10.5 per cent., respectively, as at 31 December 2015. In May 2014 and April 2015, the Bank increased its share capital by issue of additional shares in the aggregate amount of RUB10 billion. In August 2015, as part of the state programme of capitalisation of Russian banks, the Bank entered into subordinated loan agreements with the state corporation Agency for Deposit Insurance (the "**Deposit Insurance Agency**") in the aggregate amount of RUB8.8 billion, which has been included in full in the Bank's regulatory capital under the CBR regulations and the Basel Capital Accord. In 2016, the Bank expects that its share capital will be increased by issue of additional ordinary shares in the aggregate amount of RUB10 billion.

In recent years, the CBR, in cooperation with Russian banks, started preparing for the implementation of international standards for capital adequacy of credit organisations under "Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework", as issued by the Basel Committee ("**Basel II**"), as well as "International Regulatory Framework for Banks ("**Basel**

III").

To the extent that either the Bank has significant losses or the quality of its assets deteriorates or the CBR amends its capital adequacy requirements and increases the applicable capital adequacy ratio at any point then, in such circumstances, the Group may be forced to seek additional capital or alternative sources of financing in order to comply with these requirements, which may not be available or may only be available on commercially unacceptable terms. On 1 March 2013, Regulation No. 395-P "On the Methodology for Determining the Amount and Evaluating Adequacy of Own Funds (Capital) of Credit Organisations ("Basel III")" dated 28 December 2012, as amended (the "**Regulatory Capital Regulation**") entered into force in Russia. The new regulatory capital requirements provided by the Regulatory Capital Regulation are being phased in gradually starting from 1 January 2014 until 1 January 2018. The Group's management believes that the impact of new regulatory capital requirements on the Bank's capital adequacy ratios is currently neutral, but there can be no assurance that full implementation of the Regulatory Capital Regulation will not have a material adverse effect on the Bank's capital ratios, which means that the Bank might be forced to either raise additional capital or reduce the amount of its lending. The CBR may also amend the capital adequacy requirements or increase the capital adequacy ratios applicable to Russian banks at any time. Future alterations to the capital adequacy standards under Basel II or Basel III (or CBR regulations implementing Basel II or Basel III in the Russian Federation) with regard to limits on the deployment and use of capital may require the Bank to maintain higher capital levels or limit the use of significant portions of its capital, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Group deals. Consequently, these regulations may limit the Bank's activities, including its lending, and may increase the Bank's costs of doing business, or require the Bank to seek additional capital in order to maintain CBR capital adequacy requirements or different varieties of funding to satisfy the CBR's liquidity requirements. In addition, a regulatory breach of guidelines in the Russian Federation could expose the Bank to potential liability and other sanctions, including the loss of its general banking licence, which in turn may have material adverse effect on the Group's business, financial condition, results of operations or prospects.

A decline in the value of, or illiquidity of, the collateral securing the Bank's loans may adversely affect the Bank's loan portfolio

Under IFRS, as at 31 December 2015, 64.2 per cent. of the Bank's gross loan portfolio was secured, in whole or in part, by collateral such as guarantees of third parties, tradable securities, rights of claim, real estate, vehicles, goods in turnover, production equipment and other assets. The downturns in the relevant markets and a general deterioration of economic conditions in Russia have resulted in declines in the value of collateral securing a number of loans. As collateral values have declined, the collateral may not be sufficient to cover uncollectible amounts of secured loans. The decline in the value of collateral securing the Bank's loans or the Bank's inability to obtain additional collateral has, and may continue to, require the Bank to reclassify relevant loans, establish additional allowances for loan impairment losses and increase reserves, which could adversely affect the Bank's financial position and results of operations.

Furthermore, foreclosure under Russian law may be complex and time-consuming. Even if the Bank is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral, and, consequently, the collateral may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose the Bank to losses, which may adversely affect the Bank's financial position and results of operations.

The Group faces a number of risks relating to its relationship with the controlling shareholders

The interests of the Bank's controlling shareholders may contradict those of the Noteholders

As at 1 June 2016, Mr. Mikail Shishkhanov and Mikhail Gutseriev ultimately controlled the Bank. They have been and will continue to be able to exercise significant influence over the Bank's strategy, activities and may from time to time influence credit decisions and/or take actions in relation to the business of the Bank, including with regard to the nature of proprietary investments. Circumstances may arise in which the interests of the Bank's controlling shareholders and the interests of the Noteholders may differ. The rights of controlling persons as shareholders of the Borrower are contained in the Charter of the Borrower and the Borrower will be managed in accordance with the Charter and with the provisions of Russian law.

The Group relies on its controlling shareholders as significant providers of funding

To date, the Group has been dependent upon the controlling shareholders for its capital requirements and, while seeking to access alternative funding sources such as international or domestic capital markets, the Group will continue to seek to use the controlling shareholders as source of capital funding in the near future. During 2013-2015, the controlling shareholders increased the Bank's share capital by RUB13.0 billion by issue of additional shares. As at 31 December 2015 and 2014, the Group's subordinated debt amounted to RUB11,610.1 million and RUB13,988.3, respectively, and was provided by the related parties under common control. In 2016, the Bank expects that its share capital will be increased by issue of additional ordinary shares in the aggregate amount of RUB10.0 billion and the funds are expected to be provided by one of the controlling shareholders. There can be no guarantee that the Group will be able to secure capital contributions from the controlling shareholders in the future. Any discontinued or reduced support to the Bank from the controlling shareholders could have a material adverse effect on the Bank's business, financial condition and results of operations and prospects.

The industry and borrower concentrations in the Group's loan portfolio make it vulnerable to downturns in certain sectors

The Bank has concentration in its loan portfolio. As at 31 December 2015, the Group granted loans to 13 borrowers (or groups of related borrowers) amounting to RUB107,586.1 million, or 46.6 per cent. of the Group's gross loan portfolio. The outstanding debt of each group of related borrowers exceeded 10 per cent. of the Group's equity. Although the Bank has not experienced any defaults by its largest borrowers in 2013-2015, any impairment in the ability of any of the Bank's largest borrowers to service or repay their loans, which prospect has increased significantly in light of the ongoing downturn in the Russian economy, could have a material adverse effect on the Bank's financial condition and results of operations.

As at 31 December 2015, loans to trading, investments and other financial services and construction industries accounted for 46.3 per cent., 11.2 per cent. and 5.5 per cent., respectively, of the Group's total gross loan portfolio. As at 31 December 2015, loans to individuals accounted for 20.3 per cent. of the Group's gross loan portfolio. Loans to trading include loans to wholesale and retail trading companies, trade finance (including export) loans and other operations. Loans to investments and other financial services comprise of loans provided to companies to purchase securities. The higher concentration of such loans reflected particular market conditions and relative demands for credit at such time and the Bank expects that the proportion of these loans will be substantially decreased by natural amortisation in 2016. In August 2015, as part of the state programme of capitalisation of Russian banks, the Bank entered into subordinated loan agreements with the Deposit Insurance Agency in the aggregate amount of RUB8.8 billion, which have been included in full in the Group's regulatory capital under the CBR regulations and the Basel Capital Accord. Under this programme, the Bank has undertaken to expand its loan portfolio, including the provision of loans to corporates and SMEs operating in designated sectors of the Russian economy including agriculture and food processing, the chemical industry, machinery, construction, transportation, communication and energy. The implementation of this programme may lead to an increased level of concentration in certain industries such as these.

The CBR imposes a limit on all Russian banks' exposure to a single borrower or group of related borrowers of 25 per cent. of such bank's regulatory capital, which must be monitored on a daily basis. As at the date of this Prospectus, the Bank is in compliance with the CBR's limit on exposure to a single borrower or a group of related borrowers. However, the Bank's exposure to a single borrower or a group of related borrowers could rise above this limit, due to a change in the composition of the Bank's loan portfolio, fluctuations in foreign currency or changes in the CBR's limit level or interpretation of how the limit should be calculated. The sanctions for failure to comply with this requirement could include fines, temporary administration of the Bank by the CBR or revocation of the Bank's banking licence. If the Bank exceeded its exposure to a single borrower or a group of related borrowers and the CBR took such steps, the Bank's business, financial condition, results of operations or prospects could be materially adversely affected.

Although the Bank continues to take measures to diversify its loan portfolio, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its loan portfolio. The Bank's failure to do so may have a material adverse effect on its business, financial condition, results of operations or prospects.

Expansion of the Bank's operations exposes it to increased credit risk

In the past several years, the Group has experienced significant growth, particularly in the size of its gross loan portfolio, which increased from RUB136,264.1 million as at 31 December 2013 to RUB230,638.1 million as at 31 December 2015, and in the size of its branch network, which occurred mainly as a result of acquisition of Russian banks. As a result of the Bank's growth, the Bank's credit exposure has increased significantly, which has required continued and improved monitoring by management of credit quality and the adequacy of the Bank's provisioning levels, both of which have been adversely affected by the current financial downturn. Continued growth of the Bank's loan portfolio could put additional pressure on the Bank's loan monitoring and control procedures.

The Group is subject to liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and guarantees. 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 determines day trading instant liquidity, current term liquidity and structural liquidity risk. As at 31 December 2015, the Group had a cumulative liquidity gap between financial assets and financial liabilities that mature from one year to five years of RUB48,199.1 million. Any unexpected calls affecting the Group's cash resources and/or any deterioration in the Group's net liquidity gap for any period may adversely affect the Group's financial position.

The Bank's banking business entails operational and fraud risks

In common with other commercial banking groups, the Bank's business activities require accurate recording and processing of a very large number of transactions on a daily basis. The Bank's recording and processing of transactions are potentially subject to human and technological errors or a breakdown in its internal processes or systems controls relating to the due authorisation of transactions, either centrally or within the branch network. Given the Bank's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. Any failure or delay in recording or processing of transactions, or other material breakdown in internal controls, could subject the Bank to claims for losses and regulatory fines and penalties. If the Bank suffers reputational or financial harm, this could have a material adverse effect on its business, financial conditions, results of operations and prospects.

The Bank maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that the Bank will not suffer losses from any failure of these controls to detect or contain operational risk in the future. Consequently, the inadequacy or a failure of the Bank's internal processes or systems may result in unauthorised transactions and errors which may not be detected. The Bank's insurance may not cover the Bank's losses from such transactions or errors, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank has necessary policies and procedures to prevent fraud and money laundering activity and has taken administrative and disciplinary actions in relation to staff involved in activity in breach of the Bank's policies. The Bank has also developed a number of internal reports and procedures to prevent or detect fraud events. Furthermore, the Bank created a list of operations which are under tight monitoring and control within the Group.

In addition, while the Bank has implemented comprehensive measures in accordance with applicable Russian legislation aimed at preventing the use of the Bank as a vehicle for money laundering and/or terrorist financing, there can be no assurance that attempts to launder money or finance terrorist activities through the Bank will not be made or that its anti-money laundering and anti-terrorist financing measures will be completely effective. If the Bank were associated with money laundering and/or terrorist financing, the Bank's reputation and financial performance could be materially adversely affected.

The Bank's performance depends on management and key personnel

The Bank is dependent on its senior management for the implementation of its strategy and the management of its day to day activities. There can be no assurance that key members of senior management will remain at the Bank. In the event the key employees leave the Bank, the Group's day to day activities and implementation of strategy may be disrupted.

The Bank's employees may not adhere to compliance procedures

The Bank runs the risk that its employees will not adhere to its compliance procedures and limits on risk related activities. The Bank takes various precautions to prevent and detect misconduct; however, these may not be effective in all cases. Misconduct by existing employees could include binding the Bank to transactions that exceed authorised limits or present unacceptable risks, or concealing unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information that could result in regulatory and legal sanctions and significant reputational or financial harm which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is required to maintain its licences in order to carry on business

Banking and related operations in Russia require licences from the CBR and other regulators. The Bank has obtained the licences required for its banking operations. Although the Bank has been successful in obtaining the CBR licences, there is no assurance that it will be able to obtain or (as applicable) maintain such licences in the future. The CBR may, in its discretion, impose additional requirements or deny any request by the Bank for licences, which could adversely affect its business, financial condition, results of operations or prospects. The loss of a CBR licence, a breach of the terms of a CBR licence by the Bank or its failure to obtain CBR licences in the future could result in the Bank being unable to continue some or all of its banking activities and in penalties such as fines imposed by the CBR on the Bank. Any such failures could, in turn, have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is a highly regulated entity

Regulatory authorities in Russia exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations. The Bank is subject to strict regulation in the Russian Federation by governmental organisations, particularly the CBR. The requirements, including capital adequacy requirements, imposed by its regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Bank deals. These requirements are not designed to protect holders of the Notes and may limit the Bank's activities and increase its costs of doing business. A breach of regulatory guidelines could expose the Bank to potential liability and other sanctions, including the loss of its general banking licence.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing the Bank's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. If the existing interpretation of the regulations changed or future regulations were imposed on the Bank, it could have an adverse effect on its business, financial condition, results of operations and prospects.

Risks Relating to the Russian Federation

Emerging markets such as Russia are subject to different risks as compared to more developed markets, and turmoil in any emerging market could adversely affect the value of investments in Russia

Emerging markets such as Russia are subject to different risks as compared to more developed markets, including, in some cases, increased political, economic and legal risks. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as Russia are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to affect adversely the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the economy of such countries. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn, especially in the light of the negative developments, which affected the Russian economy in 2014 and 2015, including the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as a sharp decrease in oil prices. Thus, even if the Russian economy remains relatively stable notwithstanding internal and geopolitical instability, financial turmoil in another emerging market country could seriously disrupt the business of companies operating in Russia, as well as result in a decrease in the price of the Notes.

Investments in Russia may be adversely affected by fluctuations in the global economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas and metal products, the Russian economy is especially sensitive to commodity prices on the world markets. The sharp decrease in prices for natural resources in 2008 and 2014-2016 resulted in a significant decrease of governmental revenues, which had a negative effect on the Russian economy. Commodity prices continue to be volatile and future fluctuations in the global markets could substantially limit the Group's access to capital and could adversely affect the financial condition of the Bank's customers, which could result in increased loan losses to the Bank as a consequence of, among other things, decreased corporate deposits from these customers, a reduction in the volume of foreign currency held and/or foreign trade operations engaged in by these customers, decreases in the value of collateral (including immovable property, land, equipment, intangibles and machinery) underlying the obligations of these customers and defaults by these customers on their obligations. These developments could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Political risks could adversely affect the value of investments in Russia

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial branches of government, which negatively impacted Russia's business and investment climate. Although the political situation in Russia has stabilised since 2000, future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011 and the presidential elections in March 2012, controversy concerning alleged voting irregularities during such elections led to organised protests in several Russian cities, including Moscow. In addition, any change in the Government or the Government's programme of reform in Russia or lack of consensus between the President, the Prime Minister, the Government, Russia's Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of the Bank to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

Russia is a federative state consisting of 85 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the federal government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" ("*federal'nye okruga*"), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the operating environment in Russia, which may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations or prospects.

Economic risks could adversely affect the value of investments in Russia

During the 1990s, while simultaneously enacting political reforms, the Russian Government attempted to implement economic reforms and stabilise the economy. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-controlled enterprises, reforming natural monopolies, reforming the tax and bankruptcy systems and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

Despite these policies, the Russian economy has suffered abrupt downturns. On 17 August 1998, the Government defaulted on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, and the CBR abandoned the Rouble currency band and issued a temporary moratorium on certain hard-currency payments to foreign counterparties. These events led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, significant deterioration of the country's banking system, significant defaults on hard-currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds on the international capital markets.

From April through July 2004, the Russian banking sector experienced its first significant disruption since the financial crisis of August 1998, following the revocation by the CBR of the banking licences of several Russian banks. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity shortfalls and were unable to attract funds on the interbank market or from their client base.

Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers, which further reduced liquidity.

The financial crisis that began in the second half of 2008 negatively affected the growth of GDP in Russia and led to severe liquidity problems in the Russian banking sector, Rouble depreciation against the U.S. Dollar and Euro, and a decline in foreign currency and gold reserves. Following a period of recovery in the second half of 2009 through 2011 driven by increasing commodity prices, Russia's GDP growth slowed down to 3.5 per cent. in 2012. Notwithstanding relatively stable prices for key export commodities in 2012 and 2013, negative trends continued, particularly in 2013 and 2014 with GDP growing at 1.3 and 0.7 per cent., respectively.

The Russian economy and banking sector in particular faced a number of serious challenges in 2014 and 2015. Starting from July 2014 to the end of 2015, oil prices decreased by more than half, which caused a shock to the Russian economy due to the deterioration in trade conditions for Russia and the Rouble exchange rate plunged by more than 100 per cent. against the U.S. Dollar. This in turn had a negative impact on the already weakening consumer confidence. The cost of credit increased as a result of actions of the CBR to tighten monetary policy, which resulted in further freezing of lending and a reduction of bank margins. In addition, the geopolitical tensions that began in March 2014 with respect to Ukraine led to economic sanctions adopted against Russia by, among others, the EU and the U.S. Against the background of this tension, investors have become more cautious in investing in Russia and the cost of foreign loans for Russian banks and companies rose significantly. These negative developments continued to affect the Russian economy in 2015, aggravated by the impact of the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as a sharp decrease in oil prices and dramatic depreciation of the Rouble from RUB32.66 per U.S.$1.00 as at 1 January 2014 to RUB72.9 per U.S.$1.00 as at 31 December 2015. Furthermore, there have been periodic suspensions of trading in the Russian stock markets, as well as extreme volatility in Russian equity markets generally and sharp declines in the share prices of Russian financial institutions.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past 20 years. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity and in August 2009, an accident occurred at the Sayano Shushenskaya hydroelectric power plant, killing more than 70 people, causing billions of Roubles in damage and leading to severe power shortages for both residential and industrial consumers. The deterioration of Russia's physical infrastructure negatively affects its national economy, disrupts the transportation of goods and supplies, imposes additional costs on businesses and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the value of investments in Russia.

Social risks could adversely affect the value of investments in Russia

Emerging markets such as Russia are prone to social risks and increased lawlessness, including significant criminal activity. High levels of official corruption reportedly exist in locations where the Bank conducts its business, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in return for payment. Corruption and other illegal activities could disrupt the Bank's ability to conduct its business effectively, and claims that the Bank was involved in such corruption or illegal activities could generate negative publicity, either of which could harm the Bank's business and financial position.

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single-industry cities has in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt normal business operations, which also could materially adversely affect the Bank's business and financial condition.

If the Russian Federation were to return to heavy and sustained inflation, the Bank's results of operations could be adversely affected

During the period 2010-2014, the consumer price index in the Russian Federation measured by Rosstat was 8.8 per cent. in 2010, 6.1 per cent. in 2011, 6.6 per cent. in 2012, 6.5 per cent. in 2013, 11.4 per cent. in 2014 and 12.9 per cent. in 2015. A return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any one of these events could lead to decreased demand for the Bank's products and services and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Official data may be unreliable

The Bank and the Issuer have derived substantially all of the information contained in this Prospectus concerning the Bank's competitors from publicly available information, and they have relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Prospectus is derived from official data of the Russian Government agencies, including the CBR. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Due to the unavailability of alternative, reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of the Bank's corporate and small and medium-sized enterprises, which would have a material adverse effect on its business, financial condition, results of operations and prospects. Prospective investors should be aware that the information contained in this Prospectus may become outdated relatively quickly. Incomplete, unreliable or unavailable information, potentially including some of the information in this Prospectus, may compound the risks set forth in this Prospectus.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in Russia

The risks associated with the Russian legal system include: inconsistencies among laws, presidential decrees, and government and ministerial orders and resolutions; conflicting local, regional and federal laws and regulations; the untested nature of the independence of the judiciary and its sensitivity to economic, or political influences; a high degree of discretion on the part of governmental authorities; corruption within governmental authorities; the relative inexperience of some judges and courts in interpreting laws; and the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws regulating ownership, bankruptcy, internal control and corporate governance of Russian companies are relatively new and largely remain untested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and anti-fraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed. In addition, substantive amendments to several fundamental Russian laws, including those relating to the tax regime, corporations and licensing, are made on a relatively frequent basis.

The relatively recent nature of a significant part of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may conflict with market developments may each result in ambiguities, inconsistencies and anomalies in the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in more developed legal systems. All of these weaknesses could adversely affect the value of investments in Russia.

The independence of the Russian judiciary and its immunity from economic and political influences remain largely untested. The Russian court system is understaffed and underfunded. Some judges and courts are generally inexperienced in business and corporate law.

The uncertainties also extend to property rights. During its transition from a centrally-planned to a market economy, Russia has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and to political pressure, courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Bank's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on the Bank's business and financial condition.

Changes in the Russian tax system could adversely affect the Group's business

Generally, taxes payable by Russian companies are substantial and include, amongst others: profits tax, personal income tax, value added tax (or "**VAT**"), property tax and payroll related social security contributions.

Russian laws and regulations related to these taxes have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies. The implementation of Russian law and regulations is often unclear or inconsistent. Historically, the system of tax collection in the Russian Federation has been relatively ineffective, resulting in continuous changes being introduced into existing laws which may apply retroactively and occur with little notice.

Although the Russian Federation's tax climate and the quality of tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that the Government of the Russian Federation may impose arbitrary and/or onerous taxes, levies and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent changes and, in addition, some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these laws and regulations in practice.

Furthermore, the taxpayers, the Ministry of Finance of the Russian Federation and the Russian tax authorities often interpret tax laws differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance of the Russian Federation are not binding on the Russian tax authorities. There can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of Russian companies operating in various industries, including the financial services industry.

In practice, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by tax authorities to address many of existing problems. It is, therefore, possible that transactions and activities of the Bank and the Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In its decision No. 138-O of 25 July 2001 the Constitutional Court of the Russian Federation introduced the concept of a "taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of the Russian legislation. Nevertheless, in practice this concept has been used by the Russian tax authorities in order to deny, for instance, taxpayers' right to rely on the letter of the tax law. Based on the available practice the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006 the Plenum of the Supreme Arbitration Court of the Russian Federation issued Resolution No. 53 (the "**Ruling**") which introduced a concept of "unjustified tax benefit" defined mainly by reference to specific examples of tax benefits (such as tax benefit received in connection with the transactions that lack reasonable business purpose) which may lead to the disallowance of the application of that specific benefit for tax purposes. Based on the available court practice it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of tax law, based on the tax disputes relating to its application in cases which were brought to courts and are available to date, it can be concluded that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. The available court practice is rather contradictory. It is difficult to predict as to how the court practice will evolve in future. There are some cases where this concept has been successfully applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. In May 2015, a new draft law introducing a concept of unjustified tax benefit in the Russian Tax Code has passed first reading in the State Duma of the Russian Federation. The amendments prohibit taxpayers from deducting expenses for profits tax purposes and corresponding input VAT in cases where a business transaction was primarily aimed at tax avoidance, the primary documents were signed by unauthorised or unspecified persons, the seller did not actually sell goods (work, services) or transferred property rights, with certain exceptions. Although at the moment it is not clear how the final provisions of the draft law will be worded, it is expected that introduction of these changes would allow the tax authorities to refer to this concept more actively when making tax assessments.

Tax returns together with related documents are subject to review and investigation by the Russian tax authorities, which are empowered by Russian law to impose severe fines and penalties on taxpayers. Generally, tax returns together with the related documentation remain open and subject to inspection by the Russian tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. A repeat tax audit may be conducted under certain conditions. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

The Russian Tax Code provides for the possibility of an extension of the three-year statute of limitations under certain conditions. Since there are precedents in which the Russian tax authorities tend to apply new interpretations of tax laws retroactively, tax audits of periods for which the statute of limitations has expired and repeated tax audits may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. This uncertainty could possibly expose the Group to significant fines and penalties and to enforcement measures, despite the Group's best efforts at compliance, and could result in a greater than expected tax burden.

Russian State anti-offshore policy may have adverse impact on the Group's business, financial condition and results of operations

The amendments introduced into the Russian Tax Code by Federal Law No. 376-FZ dated November 24, 2014, as further amended and supplemented (the "**Anti-Offshore Law**"), came into force on January 1, 2015.

The Anti-Offshore Law introduced into the Russian Tax Code "controlled foreign companies" rules, the concept of tax residency for legal entities and beneficial ownership concept.

Introduction of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative burden on the Group. No assurance can be given as to the practical application of the Anti-Offshore Law and the interpretation of its provisions by the Russian tax authorities and, consequently, its potential impact (including additional tax liability, if any) on the Group. Therefore, we cannot exclude that we might be subject to additional tax liabilities as a result of the enforcement of the Anti-Offshore Law, which could have a material adverse effect on financial condition and results of operations and the value of the Notes.

It is at the moment unclear how the above measures will be applied in practice by the Russian tax authorities and courts. The Group operates in various jurisdictions and includes companies incorporated outside of Russia. It is possible that with the application of these rules and procedures the Group might become subject to additional taxation in Russia in respect of its operations outside Russia.

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Group. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition, the Bank is subject to periodic tax inspections that may result in additional tax assessments both in respect of the current and prior tax periods. The Bank's tax burden may become greater than the estimated amount that it has paid or accrued on its balance sheet. There also can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of taxation may affect the Group's overall tax efficiency and may result in significant additional tax liabilities. The Group cannot provide prospective investors with any assurance that additional Russian tax exposures will not arise whilst the Notes are outstanding. Additional tax exposures could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Russian transfer pricing rules may adversely affect the Group's business

The Russian transfer pricing legislation effective starting 1 January 2012 allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs). The list of the "controlled" transactions under the transfer pricing law includes transactions performed with related parties and certain types of cross-border transactions. Special transfer pricing rules continue to apply to transactions with securities and derivatives. The burden of proving market prices rests with the taxpayer.

Due to uncertainties in the interpretation of the current transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could affect our tax position unless the Group is able to justify the use of market prices with respect to "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations and financial condition.

The legislative framework governing bankruptcy in the Russian Federation

Russian bankruptcy laws often differ from comparable laws in other jurisdictions and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders or the Issuer against the Bank would be resolved in the case of the Bank's bankruptcy. In addition, under Russian law, the Bank's obligations under the Loan Agreement would be subordinated in the event of its insolvency to the following obligations: claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utility bills, legal expenses and other payments; first priority claims (including claims in tort for damages in respect of physical persons' life or health, as well as moral damages; claims of retail depositors and individuals holding current accounts (except for individual entrepreneurs); claims of the DIA in respect of deposits and current accounts transferred to it pursuant to the Deposit Insurance Law; claims under employment contracts and other social benefits and copyright claims; and claims secured by a pledge of the credit organisation's assets. Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.

The Bank's measures to prevent money laundering and/or terrorist financing may not be completely effective

During the last several years, the CBR has been excluding Russian banks from the deposit insurance system based on suspicions of money laundering and revoking banking licences for violations of reporting requirements under Federal Law No. 115-FZ "On Combating of the Legalisation of Illegal Earnings (Money Laundering) and Terrorism Financing" dated 7 August 2001, as amended (the "**Money Laundering Law**"). Notwithstanding the current anti-money laundering regulations, the risk remains, however, that Russian financial institutions could be used as vehicles for money laundering.

The Bank has implemented comprehensive internal measures to prevent it from being used as a conduit for money laundering or terrorist financing. The Bank also complies with applicable anti-money laundering and anti-terrorist financing laws and regulations. The Bank has procedures and documents aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures, as well as procedures for reporting to the Federal Service for Financial Monitoring of the Russian Federation. The Bank has not been subject to any investigation with respect to its involvement in money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use the Bank as a conduit for money laundering or terrorist financing without the Bank's knowledge. If the Bank is associated with money laundering or terrorist financing, its reputation could suffer, materially adversely affecting its business, financial condition, results of operations or prospects.

Corporate governance standards in Russia differ from those in other jurisdictions

The Bank's corporate affairs are governed by its Charter and internal regulations. Standards of corporate governance are different in Russia than in other jurisdictions. In particular, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia. Furthermore, the rights of shareholders and the responsibilities of members of the board of directors and management board under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in other jurisdictions. See "*Management*".

The Banking Law contains certain periodic disclosure requirements, including the requirement to publish annual financial statements in accordance with the Russian Accounting Standards ("**RAS**"). Because the Bank's systems and processes are tailored for Russian statutory requirements, it takes the

Bank longer than most Western companies to prepare its IFRS consolidated annual financial statements and interim condensed consolidated financial information.

In accordance with Russian regulation, the Bank is required to issue various reports on a daily, weekly, monthly, quarterly and annual basis and publish and file such reports with the CBR. Quarterly reports, which are prepared in accordance with RAS, include certain financial information, including the Bank's balance sheet, profit and loss account, information on capital adequacy, allowances for problem loans and other assets, but do not contain all of the information contained in the Bank's IFRS financial statements. Material differences exist between financial information prepared under RAS and IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such information when evaluating the financial performance of the Group. However, the Bank also issues IFRS interim consolidated condensed financial information for the six-month period, which are reviewed by its independent auditors, and annual IFRS consolidated financial statements, which are audited by independent auditors.

The relatively less transparent nature of corporate governance in Russia, as well as violations of disclosure and reporting requirements or breaches of fiduciary duties, could have a material adverse effect on the Bank's business, prospects, financial condition and results of operations and/or on the value of the Notes.

Risk relating to the Notes

Credit rating

Outstanding Eurobonds of the Russian Federation are rated "Ba1" (outlook "Negative") by Moody's Investors Service Limited ("**Moody's**"), "BB+" (outlook "Negative") by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and "BBB-" (outlook "Negative") by Fitch.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused, (ii) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. Standard & Poor's, Moody's and Fitch are established in the European Community and are registered under the CRA Regulation.

The Bank has received long term rating of "B-" (outlook "Negative") from Standard & Poor's. Any change in the credit rating of the Bank or the Russian Federation could adversely affect the trading price for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Limited recourse obligations of the Issuer

The Issuer has an obligation under the Terms and Conditions of the Notes and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from the Bank pursuant to the Loan Agreement. Consequently, if the Bank fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal and/or interest and/or additional amounts (if any) payable on the Notes.

No direct recourse of the noteholders to the Bank

Save as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under, or in respect of, the Loan Agreement exists for the benefit of the Noteholders. Subject to terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or have direct recourse to the Bank as borrower except through action by the Trustee pursuant to the Assignment (as defined in the Trust Deed) granted to the Trustee in the Trust Deed. Under the Trust Deed, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

There is no active trading market for the Notes and general market volatility

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Although the Notes are listed on the Third Market of the Vienna Stock Exchange and admitted to trading on the Main Securities Market of the Irish Stock Exchange, there is no assurance that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

In addition, securities markets in recent years have experienced and currently continue to experience significant price fluctuations which are often unrelated to the operating performance of the companies whose securities are traded on such securities markets. Market fluctuations, as well as adverse economic conditions, have negatively affected the market price of many securities and may affect the market price of the Notes.

The markets for emerging market debt have been subject to disruptions on account of different reasons that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on value of holders of the Notes.

The Bank's payments under the Loan and the Issuer's payments under the Notes may be subject to withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or organization to a non-Russian legal entity or organization having no registered presence or permanent establishment in the Russian Federation are subject to Russian withholding tax at the rate of 20 per cent., which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Generally, no withholding tax should arise on interest on the loan provided to the Russian borrower in connection with issuance of the notes by a foreign entity (the "Eurobond structure") by virtue of the special exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold income tax from interest and other payments on debt obligations made to foreign entities provided that certain conditions are met throughout the term of the Loan and the Notes. See "Taxation—Russian Federation."

Importantly, the release from the withholding tax liability effectively means that, in practice, withholding tax on interest payments should not arise in Russia, because currently there is no mechanism or requirement for non-resident legal entities and organisations to self-assess and pay the tax. However, there can be no assurance that such rules will not be introduced in the future which may result in the obligation of non-residents to self-assess and pay the tax. See Section "*Taxation — Russian Federation*".

If interest and/or any other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code would be available to the Borrower. See "Taxation—Russian Federation." There is a potential risk that Russian withholding tax in respect of payments of interest and some other amounts to the Trustee at the rate of 20 per cent. (or such other tax rate as may be effective at the time of payment) or, with respect to Non-Resident Individual Noteholders, Russian personal income tax at the rate of 30 per cent. (or such other tax rate that may be effective at the time of payment) should be deducted by the Borrower upon making such payments to the Trustee. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances.

If interest payments under the Loan are nevertheless subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the corresponding Notes by the amount of the tax withheld), the Bank will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging the Bank to gross up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that the interest payments made by the Bank under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by the Bank at the rate of 20 per cent. (or such other rate as may be in force at the time of payment) or, potentially, with respect to Non-Resident Noteholders – Individuals Russian personal income tax at a rate of 30 per cent. (or such other rate as may be in force at the time of payment).

If the Bank is obliged to pay additional amounts under the Loan Agreement, it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption.

Tax might be withheld on dispositions of the Notes in the Russian Federation reducing their value

Where proceeds from the sale or other disposal of the Notes (including accrued and paid interest on the Notes) are deemed to be received from a source within Russia by a Noteholder who is an individual not qualifying as a Russian tax resident, Russian personal income tax at a tax rate of 30 per cent (or such other tax rate as may be effective at the time of such sale or other disposal) will apply to the gross amount of sales or other disposal proceeds realized upon such sale or other disposal of the Notes, less any available duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available to the person responsible for calculating and withholding Russian personal income tax in a timely manner.

Although, technically, Russian personal income tax due could be reduced or eliminated based on provisions of an applicable double tax treaty entered into between Russia and the country of tax residency of a particular Noteholder, subject to timely compliance by that Noteholder with the formalities of the relevant treaty, in certain cases non-resident noteholders who are individuals may not be able to obtain advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia. Obtaining a refund of Russian personal income taxes that were excessively withheld in relation to this income can be extremely difficult, if not impossible, in practice.

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder - Legal Entity. However, where proceeds from sale or other disposal of the Notes are received from a source within Russia by a Non-Resident Noteholder - Legal Entity, we cannot rule out the risk that the payer of sales proceeds would follow the position expressed by the Russian Ministry of Finance in its private clarification letters and deduct withholding tax at a rate of 20 per cent. (or such other tax rate as could be effective at the time of such sale or other disposal) from the amount of sale or other disposal proceeds attributable to the amount of the accrued interest on the Notes.

While some Non-Resident Noteholders – Legal Entities might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See Section "*Taxation—Russian Federation*".

Enforcing arbitral awards

The Russian Federation (as successor to the Soviet Union) is a party to the New York Convention. Accordingly, the Loan Agreement contains a provision allowing for the arbitration of disputes. A foreign arbitral award obtained in a state which is party to that convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). Although the Arbitrazh Procedural Code adopted in 2002 is generally in conformity with the New York Convention and thus has not introduced any substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments which may be issued in relation to payments under the Loan Agreement, in the event that Russian procedural legislation is further changed, it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia.

Examiners, preferred creditors under Irish law and floating charges may impose additional risks on the Notes

COMI

The Issuer has its registered office in Ireland. As a result there is a rebuttable presumption that its centre of main interest ("**COMI**") is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice ("**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings, that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, Irish insolvency proceedings would not be applicable to the Issuer.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If, however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

- under the terms of the Trust Deed, the Issuer has charged to the Trustee on behalf of Noteholders by way of first fixed charge (the "**Charge**") as security for its payment obligations in respect of the Notes certain rights under the Loan Agreement and to the Account. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;
- under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

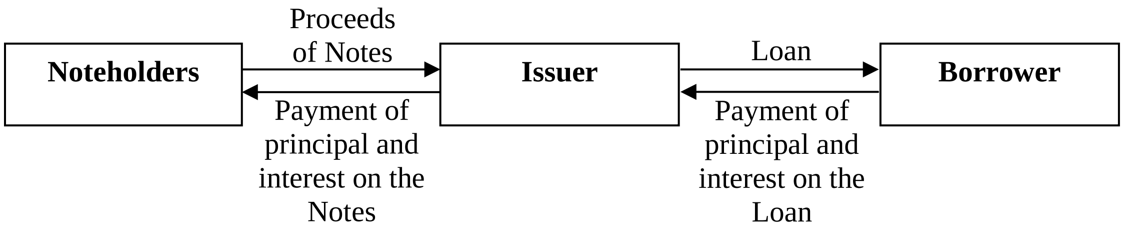
The EU Savings Directive may impose tax withholding

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State, except that Austria will instead impose a withholding system for a transitional period unless during such period it elects otherwise. The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements above. A number of countries and territories including Ireland have adopted similar measures.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a paying agent, the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to Directive (2003/48/EC).

DESCRIPTION OF THE TRANSACTION AND THE SECURITY

The following section contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by "Terms and Conditions of the Notes", "Clearing and Settlement" and the form of the Loan Agreement appearing elsewhere in the Prospectus.



The transaction is structured around the Loan provided to the Borrower by the Issuer. The Issuer issued the Notes, which are limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Loan has characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Notes.

The Notes are constituted by, be subject to, and have the benefit of, the Trust Deed. The obligations of the Issuer to make payments under the Notes constitutes an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) due under the Loan and actually received and retained (net of tax) by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement less any amount in respect of the Reserved Rights (as defined in the Trust Deed).

The Issuer has no other financial obligations under the Notes and no other assets of the Issuer are available to the Noteholders. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received, recovered or retained, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

As provided in the Trust Deed, the Issuer, with full title guarantee and as continuing security for the payment of all sums under the Trust Deed and the Notes charged in favour of the Trustee for the benefit of the Trustee and the Noteholders by way of first fixed charge (the "**Charge**"):

(a) the rights to all principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer under the Loan Agreement;

(b) the right to receive all sums which may be or become payable by the Borrower under or in respect of any claim, award or judgment relating to the Loan Agreement; and

(c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with the Bank of New York Mellon, London Branch (as account bank) in the name of the Issuer (the "**Account**") and the debts represented thereby (including interest from time to time earned on the Account),

provided that (i) for the avoidance of doubt, the Issuer remains the legal and beneficial owner of the property subject to the Charge following the creation of the Charge and (ii) that Reserved Rights and any amounts relating to Reserved Rights are excluded from the Charge.

In addition, the Issuer with full title guarantee assigned absolutely to the Trustee for the benefit of the Trustee and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (as amended from time to time) (including, without limitation, the right to take any action, steps or proceedings to enforce the rights of the Issuer thereunder) other than any rights, title, interests and benefits which are subject to the Charge and other than the Reserved Rights and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee has assumed the rights of the Issuer under the Loan Agreement as set out in the relevant provisions of the Trust Deed. Formal notice of the Charge and assignment was given to the Borrower and the Bank of New York Mellon, London Branch (as account bank), who will each be required to acknowledge the same.

The Issuer covenanted not to, without the prior written consent of the Trustee agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement, as the case may be. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with the Conditions.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes imposed and levied by or on behalf of the Russian Federation or Ireland, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives and retains (net of tax) corresponding amounts from the Bank pursuant to the Loan Agreement. In addition, payments under the Loan Agreement will be made without deduction or withholding for or on account of Taxes (as defined in the Loan Agreement), except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the Bank must, except in certain limited circumstances, increase the amounts payable under the Loan Agreement to ensure that the Issuer receives a net amount equal to the full amount it would have received had payment not been made subject to Taxes.

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

This Prospectus includes financial information of the B&N Bank (Public Joint-Stock Company) and its subsidiaries (the "**Group**") which has, unless otherwise indicated, been extracted from the audited consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 31 December 2014 (with 31 December 2013 comparatives) (the "**Financial Statements**"), which are included in this Prospectus and have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board.

The Financial Statements, together with the related report on review and independent auditor's report, as the case may be, are set out on pages F-2 to F-193 of this Prospectus.

Independent Auditors

Ernst & Young LLC ("**Ernst & Young**"), located at Sadovnicheskaya Nab., 77, bld. 1, Moscow, 115035, Russian Federation, conducted review and audit with respect to the Financial Statements. Ernst & Young is a member of the Self-Regulated Organisation Non-profit Partnership "Audit Chamber of Russia" ("*Auditorskaya Palata Rossii*").

Currency

In this Prospectus, the following currency terms are used:

- "**Russian Rouble**", "**RUB**" or "**rouble**" means the lawful currency of the Russian Federation;
- "**U.S. Dollar**" or "**U.S.$**" means the lawful currency of the United States; and
- "**EUR**" or "**euro**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on 7 February 1992.

Exchange rates

The Russian Rouble is the functional and presentation currency of the Financial Statements.

The table below sets forth, for the periods indicated, certain information regarding the exchange rate between the Russian Rouble and the U.S. Dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the Russian Rouble and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	Exchange Rate			
	High	Low	Average	Period End
	(*Rouble / U.S. Dollar*)			
Year/Period				
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.84	30.24
2010	31.78	28.93	30.36	30.48
2011	32.68	27.26	29.39	32.20
2012	34.04	28.95	31.07	30.37
2013	33.47	29.93	31.91	32.73
2014	67.79	32.66	38.60	56.26
2015	72.88	49.18	61.03	72.88
2016 (up to and including 1 June 2016)	83.59	64.33	71.04	66.00

The official Rouble/U.S. Dollar exchange rate quoted by the CBR on 1 June 2016 was RUB66.00 per U.S.$1.00.

Rounding

Certain numbers included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one tenth of one per cent.

Non-GAAP measures

This Prospectus includes certain non-IFRS financial measures, such as non-performing loans, asset quality ratios, capital adequacy and liquidity ratios (collectively, "**Non-IFRS measures**"). A body of generally accepted accounting principles such as IFRS Standards is commonly referred to as "GAAP." A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but that excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

The non-GAAP measures included in this Prospectus are not in accordance with or an alternative to measures prepared in accordance with IFRS Standards and may be different from similarly titled non-GAAP measures used by other companies. Non-IFRS measures are presented herein because the Bank considers them an important supplemental measure for evaluation of the Group's operating performance, asset quality and financial position and believes they are commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the Group's industry. Non-IFRS measures have limitations and may be incomparable to similarly titled measures calculated by other banks, and they should not be considered in isolation, or as a substitute for analysis of the Group's operating results and financial position as reported under IFRS. The Bank compensates for the limitations of Non-IFRS measures by relying primarily on its IFRS operating results and using Non-IFRS measures only supplementally.

OVERVIEW

The following summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the Financial Statements and notes thereto included elsewhere in this Prospectus. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered.

The Bank is the 15th largest bank in Russia in terms of assets, according to the Russian Interfax News Agency. As at 31 December 2015, the Group had total assets of RUB817,689.6 million, loans to customers of RUB218,105.4 million, customer accounts of RUB487,905.8 million and total equity of RUB46,105.2 million. The Bank's principal business areas are corporate and investment banking and retail and SME banking. In addition, its activities include securities trading, foreign exchange operations, precious metals operations and settlement services.

As at 1 June 2016, the Bank had 36 branches ("*filialy*"), 4 head offices of subsidiary banks, 239 additional offices ("*dopolnitelnye offisy*"), 265 other points of sale (including operational offices, stand-alone cash desks ("*operatsionnye kassy vne kassovogo uzla*") and portable stations of cash operations) and representative offices in London (United Kingdom) and the Athens (Greece).

The main objective of the Bank's strategy is to ensure the balanced growth of our business, inclusion in the top-3 largest Russian private banking groups by asset size, developing as a universal bank and creating a unified system of business-planning and infrastructure for the active growth of the Group's business.

In 2015, the Bank's Board of Directors approved the Group's strategy for the period through 2020, including strategies for the main business lines of the Group. These strategies are aimed at improving the Bank's financial results, steadily increasing the volume of operations and increasing the Bank's market capitalisation in the context of the rapidly changing economic environment. The Group's principal strategic objectives for the period from 2015 through 2020 are the following:

- creating a unified system of business-planning and infrastructure for the active growth of the Group's business units towards further diversification of the Bank's client base by industry and region;
- increasing the Bank's market capitalisation to RUB130 billion and further developing the Bank's market position, investor awareness and credit ratings to get an unimpeded access to the international capital markets and attract strategic investors, including for a potential IPO;
- introducing innovating solutions to maintain the growth of the Bank's business and to improve financial and operational efficiency;
- increasing a share of operations with corporate clients with state or quasi state credit rating to 50 per cent.;
- inclusion in the list of the 3 largest Russian private banking groups by asset size; and
- since 2014, the Bank has been an active participant of the market of mergers and acquisitions. The changes in the Group allowed increasing assets at faster pace, to expand its customer base and regional representation. One of the main objectives in the medium term is to complete the process of integration and create a unified system of business-planning and infrastructure.

Corporate banking

The Bank's corporate banking segment represents its extensive operations with major corporate clients, financial institutions and capital markets participants. The priority goals in corporate banking strategy are: increase in business volume; building focus on segmental model of coverage and industrial expertise; increase in employees' qualification and proficiency; geographical and source diversification of acquired financial investments, in particular through increase in the Bank's credit ratings and decrease in cost of funding; effective securities portfolio management enabling the bank to improve its investor awareness and market image as an active capital markets participant; and increase in profitability and net non-interest income for the sector.

Retail banking

The Bank intends to expand its presence in the retail market by increasing the number, and improving the quality, of the products and services offered to retail customers. Retail banking sector currently combines individuals retail banking operations, SME and bank cards operations. The priority goals in retail banking strategy are: transformation of the business model into a transactional and cash management banking for retaining and monetising the client base, combined with building up the bank's competitive advantage on the basis of digital banking; increase in share of the fee and commission income in the operation results through the growth in customer transactional activity and an increase in commission cross-products (insurance, etc.) sold together with the flagman bank product; introducing high level of cost and risk management; client value increase through maximising income per client ratio, prolonging the customer loyalty to exceed four year period and routine operations' costs decrease; and promotion of brand awareness and reaching a high level of customer loyalty.

The Bank plans to gradually increase its business volume both in assets and liabilities throughout the retail banking sector by introducing target banking products matching the clients' needs, including deposit, credit and consignment products; increasing its client base through a complex customer approach and an increase in the effectiveness of business processes; and increasing both the amount of the bank products issued and average number of bank products acquired per card holder.

Diversification of client base

The Bank intends to diversify its client base by industry and region in terms of funding and loan products. In addition, in the medium- and long-term perspective the Bank plans to increase the share of retail loans in its overall loan portfolio.

Increased product range

The Bank intends to increase its product range for each separate client group. It continues to expand its range of products for both retail customers (new loan products, promotions, savings offers, card products, transaction fees) and corporate clients (settlement and cash services complex, credit and deposit products, card products). In line with its strategy to generate fee and commission income, the Bank expects to further capitalise on fee income opportunities through the increase in commission cross-products (insurance, etc.) sold together with the flagman bank product.

Improving technology

The Bank considers information technology to be an integral part of its operations and is committed to continuing investment in IT infrastructure to support the efficient growth of its operations and enhance its risk management systems. As part of this process, the Bank intends to invest in further automation of its banking processes to improve the quality of its services and reduce associated costs.

In accordance with the strategy, Bank's total expenses for IT sector for the year ended 31 December 2015 amounted to RUB540.8 million.

OVERVIEW OF THE OFFERING

The following Overview of the Offering should be read in conjunction with, and is qualified in its entirety by "Terms and Conditions of the Notes", "Clearing and Settlement" and the form of the Loan Agreement.

The Notes

Issuer	B&N Bonds D.A.C., a designated activity company organised and existing under the laws of Ireland. The Issuer is not a direct or indirect subsidiary of the Borrower.
Notes Offered	U.S.$150,000,000 8.5 per cent. Loan Participation Notes due 2019.
Issue Price	100 per cent. of the principal amount of the Notes.
Issue Date	24 March 2016
Maturity Date	27 March 2019
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Interest	On each interest payment date (being 27 March and 27 September in each year and commencing on 27 September 2016 or such later date as payments of interest are actually received by the Issuer pursuant to the Loan Agreement), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement. Interest under the Loan Agreement accrues at the rate of 8.5 per cent. per annum ("**Rate of Interest**") during the period from and including 24 March 2016 to but excluding 27 March 2019 (the "**Repayment Date**") and is payable by the Borrower semi-annually in arrears. Interest under the Loan Agreement will cease to accrue from the date of the actual repayment of the Loan. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received and retained (net of tax) from the Borrower in respect of principal, interest or any additional amounts under the Loan Agreement less amounts in respect of the Reserved Rights (as defined under "*Terms and Conditions of the Notes*").
Form and Denomination	The Notes are issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes are represented by a Global Note Certificate. The Global Note Certificate is exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate.
Initial Delivery of Notes	On the Issue Date, the Global Note Certificate was registered in the name of a nominee of, and deposited with a common

depositary for, Euroclear and Clearstream, Luxembourg.

Status of the Notes

The Notes are limited recourse, secured obligations of the Issuer as more fully described in "*Terms and Conditions of the Notes — Status and Limited Recourse*".

The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights, all as more fully described in "*Terms and Conditions of the Notes — Status and Limited Recourse*" and no other asset of the Issuer is available to meet claims of the Noteholders.

Security

The Notes are secured by the Charge (as defined in "*Description of the Transaction and the Security*") on:

- the rights to all principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer under the Loan Agreement;
- the right to receive all sums which may be or become payable by the Borrower under or in respect of any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money now or in the future held on deposit in the Account (as defined in "*Description of the Transaction and the Security*") and the debts represented thereby, including interest from time to time earned on the Account, pursuant to the Trust Deed,

provided that Reserved Rights and any amounts relating to Reserved Rights are excluded from the Charge.

The Notes are also secured by an absolute assignment with full title guarantee by the Issuer to the Trustee of its rights under the Loan Agreement (save for the Reserved Rights and those rights subject to the Charge) pursuant to the Trust Deed.

Withholding Taxes and Increased Costs

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland, the Russian Federation or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where any such deduction or withholding is required by law,

	the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required, to the extent and at such time as it shall receive and retain equivalent sums from the Borrower under the Loan Agreement.
Early Redemption by the Issuer	If the Borrower prepays the Loan pursuant to and in accordance with the terms of the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all the Notes then remaining outstanding will thereupon become due and redeemable or repayable at their principal amount together with accrued and unpaid interest and additional amounts, if any, all as more fully described in "*Terms and Conditions of the Notes*".
Optional Redemption by the Noteholders upon a Change of Control	Upon the occurrence of a Change of Control (as defined in the Loan Agreement), Notes may be redeemed at the option of each Noteholder at their principal amount together with accrued and unpaid interest and additional amounts, if any, all as more fully described in "*Terms and Conditions of the Notes*".
Events of Default and Relevant Events	If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in "*Terms and Conditions of the Notes*") occurs, the Trustee may, subject to the provisions of the Trust Deed: (a) in the case of an Event of Default, declare the Loan and all amounts payable by the Borrower under the Loan Agreement to be due and payable and to take proceedings to enforce the obligations of the Borrower, as the case may be; or (b) in the case of a Relevant Event, enforce the security created by the Trust Deed. Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.
Listing	The Notes are admitted to quotation on the Third Market of the Vienna Stock Exchange and are admitted to the Official List and trading on the Main Securities Market of the Irish Stock Exchange.
Governing Law	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by and construed in accordance with English law.
Use of Proceeds	The gross proceeds to the Issuer from the offering of the Notes are U.S.$150,000,000 million, which the Issuer used for the sole purpose of financing the Loan to the Borrower.
Security Codes	Common code: 137931176 International Security Identification Numbers (“**ISIN**”):

	XS1379311761
	CFI Code: DYFXXR
	Ticker Bloomberg: AKBBIN 19
Clearing Systems	Euroclear, Clearstream, Luxembourg and Alternative Clearing System.
Yield	The annual yield of the Notes is 8.5 per cent.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price and the first payment of interest). Such further notes shall be consolidated and form a single series with the Notes. In the event of any such further issue, the Loan will be correspondingly increased.
Risk Factors	An investment in the Notes involves certain risks. See "*Risk Factors*".

The Loan

Lender	B&N Bonds D.A.C., a designated activity company organised and existing under the laws of Ireland.
Borrower	B&N Bank (Public Joint-Stock Company), a public joint stock company incorporated under the laws of the Russian Federation.
Status of the Loan	The Loan is a direct, unconditional, unsecured and unsubordinated obligation of the Borrower and obligations under the Loan will rank at least *pari passu* with all other direct, unconditional, and unsecured and unsubordinated indebtedness of the Borrower.
Principal Amount of the Loan	U.S.$150,000,000
Interest on the Loan	8.5 per cent. per annum, payable semi-annually in arrears on 27 March and 27 September in each year starting on 27 September 2016.
Use of Proceeds	The Borrower has used the proceeds of the Loan for general corporate purposes.
Withholding Taxes and Increased Costs	All payments to be made by the Borrower under the Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes (as defined in the Loan Agreement). If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under the Loan Agreement for or on account of any Taxes, it shall increase any payment due under the Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant taxing authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority.
Events of Default	On the occurrence of the Events of Default (as defined in the Loan Agreement) subject to certain conditions set out in the Loan Agreement the Lender or the Trustee in accordance with the Trust Deed may, by notice in writing to the Borrower declare the Loan to be immediately due and payable.
Governing Law	The Loan Agreement and any non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

SELECTED FINANCIAL INFORMATION

The following tables present selected financial information as at and for the years ended 31 December 2015, 2014 and 2013 and has been derived from the Financial Statements included in this Prospectus. This section should be read in conjunction with the Financial Statements and the notes thereto, as well as the sections entitled "Limited Financial Review" and "Presentation of Financial and Other Information".

Consolidated Statement of Comprehensive Income

	Year ended 31 December		
	2015	**2014**	**2013**
	(*thousands of roubles*)		
Interest income	74,636,948	29,226,405	18,371,018
Interest expense	(56,835,282)	(17,050,078)	(12,314,215)
Net interest income before allowance for impairment losses on interest bearing assets	**17,801,666**	**12,176,327**	**6,056,803**
Allowance for impairment losses on interest bearing assets	(53,656,141)	(9,979,369)	(797,086)
Net interest (expense)/income	**(35,854,475)**	**2,196,958**	**5,259,717**
Fee and commission income	5,900,397	3,850,608	2,574,612
Fee and commission expense	(1,953,358)	(1,094,036)	(686,227)
Net gain on foreign exchange operations	17,492,031	4,454,874	1,892,989
Net gain on financial assets and liabilities at fair value through profit or loss	408,070	318,215	821,944
Net gain on investments available for sale	1,265,844	-	-
Gain from disposal of subsidiary	29,199,733	-	-
Gain from a bargain purchase	3,322,617	-	-
Gain on initial recognition of financial instruments	102,005	5,461,104	-
Other provisions	(740,635)	(84,123)	25,034
Income from sale of loans	528,426	3,350,826	507,276
Loss from sale of bad debts	-	(460,532)	-
Income from sale of loans previously written-off		-	300,000
Other income	731,990	692,552	597,358
Net non-interest income	**56,257,121**	**16,489,488**	**6,032,986**
Operating income	**20,402,646**	**18,686,446**	**11,292,703**
Operating expenses	**(20,105,978)**	**(12,682,176)**	**(10,499,735)**
Profit before income tax expense	**296,668**	**6,004,270**	**792,968**
Income tax expense	(227,651)	(1,369,640)	(39,356)
Net profit for the year	**69,017**	**4,634,630**	**753,612**
Attributable to:			
Equity holders of the parent	454,336	4,873,924	737,396
Non-controlling interest	(385,319)	(239,294)	16,216
Other comprehensive income for the year			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
- Unrealised gain/ (losses) on investments available for sale	4,773,637	(891,284)	-
- Realised gain on investments available for sale reclassified into profit or loss	(1,265,844)	-	-
- Disposal of subsidiary	402,641	-	-
- Income tax recognised in other comprehensive income	(782,087)	178,257	-
Total comprehensive income for the year	**3,197,364**	**3,921,603**	**753,612**
Attributable to:			
Equity holders of the parent	3,582,683	4,160,897	737,396
Non-controlling interest	(385,319)	(239,294)	16,216

Consolidated Statement of Financial Position

	As at 31 December		
	2015	2014	2013
	(*thousands of roubles*)		
ASSETS			
Cash and balances with the Central bank of the Russian Federation	49,236,297	34,826,028	18,584,308
Precious metals	9,277	6,127	3,446
Financial assets at fair value through profit or loss:			
- held for trading	155,828	6,134,665	12,676,619
- held for trading pledged under repurchase agreements	44,848	-	-
Due from banks and other financial institutions	432,456,240	117,494,041	28,066,172
Loans to customers	218,105,366	214,176,810	136,264,139
Investment securities:			
- available for sale	19,844,177	24,955,899	135
- available for sale pledged under repurchase agreements	81,649,419	14,550,257	-
Property and equipment	8,206,350	6,200,278	4,535,989
Intangible assets	2,316,850	1,270,290	348,837
Investment property	414,696	289,117	12,844,887
Current income tax assets	1,195,054	462,681	388,737
Other assets	4,055,227	4,442,464	3,683,146
TOTAL ASSETS	**817,689,629**	**424,808,657**	**217,396,415**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to the Central bank of the Russian Federation	75,625,359	13,837,821	2,002,774
Due to banks and other financial institutions	45,604,158	50,778,170	1,809,092
Customer accounts	487,905,761	263,908,410	172,035,143
Debt securities issued	118,957,748	23,480,260	12,952,887
Deposits from the State Corporation “Deposit Insurance Agency”	27,998,269	25,372,208	-
Subordinated debt	11,610,139	13,988,284	7,547,441
Deferred income tax liabilities	1,433,598	1,090,779	-
Other liabilities	2,449,355	1,636,867	2,835,386
Total liabilities	**771,584,387**	**394,092,799**	**199,182,723**
EQUITY			
Equity attributable to owners of the parent:			
- share capital	13,773,752	10,885,666	8,960,275
- additional capital	24,744,559	15,584,189	9,250,594
- investments available for sale fair value reserve	2,415,320	(713,027)	-
- accumulated profit	5,270,969	4,866,004	2,823
Total equity attributable to owners of the parent	**46,204,600**	**30,622,832**	**18,213,692**
Non-controlling interest	(99,358)	93,026	-
Total equity	**46,105,242**	**30,715,858**	**18,213,692**
TOTAL LIABILITIES AND EQUITY	**817,689,629**	**424,808,657**	**217,396,415**

Selected Financial Ratios and Other Information

	As at and year ended 31 December		
	2015	2014	2013
		(%)	
Performance ratios (for the year):			
Net interest margin(1)	3.2	4.4	3.9
Net non-interest income/(loss) to operating income ratio	275.7	88.2	53.4
Cost to income ratio(2)	27.1	44.2	86.9
Return on average assets(3)	0.5	1.2	0.4
Return on average equity(4)	8.3	16.0	4.9
Balance sheet ratios (at the year-end):			
Customer loans (gross) to customer accounts	47.3	84.9	81.7
Customer loans (net) to total assets	26.7	50.4	62.7
Customer accounts to total liabilities	63.2	67.0	86.4
Capital adequacy ratios under the CBR regulations(5):			
Core Tier 1 (N1.1 ratio)(6)	6.12	8.02	-
Overall capital adequacy (N1.0 ratio (for 2014 and 2015)/ N1 ratio (for 2013))(7)	11,37	12.81	11.85
Asset quality (at the year-end):			
Provisions(8) to total customer loans (gross)	5.4	4.4	3.1
Cost of risk(9)	23.6	5.5	0.7
NPLs	4.4	5.8	3.6

(1) Net interest income before impairment losses, expressed as a percentage of total average interest-earning assets representing the average of the opening (31 December of previous year) and closing (31 December) balances for the respective year. Interest-earning assets for these calculations are presented by total amount of the following items in consolidated statement of financial position:
– Financial assets at fair value through profit or loss;
– Due from banks and other financial institutions;
– Loans to customers;
– Assets held for sale;
– Investment securities, including which are pledged under repurchase agreements.

(2) Cost to income ratio is calculated as general administrative expenses divided by operating income net of allowance for impairment losses on interest bearing assets.

(3) Total comprehensive income for the period divided by average total assets in the period.

(4) Total comprehensive income for the period divided by average equity in the period.

(5) According to CBR regulations Bank must abide by mandatory ratios and report them on daily basis.

(6) By the CBR regulations N1.1 ratio calculated since 1 January 2014 and minimum level of ratio is 5 per cent.

(7) By the CBR regulations minimum level of ratio is 10 per cent.

(8) Provisions include allowances for specific impairment that relates to individually significant exposures, and allowances for loans collectively assessed for impairment, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified as for loans subject to individual assessment for impairment.

(9) Impairment charges for the period divided by the average opening and closing balances of gross loans and advances to customers for the period.

LIMITED FINANCIAL REVIEW

Investors should read the following discussion and analysis of the financial condition and results of operations of the Group as at and for the years ended 31 December 2015, 2014 and 2013 in conjunction with the Financial Statements included at page F-1 in this Prospectus and "Presentation of Financial and Other Information". This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

B&N Bank was established in 1993 as an open joint-stock company under the laws of the Russian Federation. The Bank has a wide network that embraces more than 30 regions within Russia and has extensive relations with foreign banks and export credit agencies.

Significant Factors Affecting Results of Operations

The Group's business, financial condition, results of operations and prospects are affected by a variety of factors, including the following.

General Market Conditions and Operating Environment

Due to the substantial concentration of the assets and customers of the Bank in Russia, the Bank is primarily affected by Russian macroeconomic conditions. The following table sets forth certain Russian economic indicators as at or for the years ended 31 December 2015, 2014 and 2013.

	For the year ended 31 December		
	2015	**2014**	**2013**
Real GDP growth/(decline) (per cent.)	(3.7)	0.7	1.3
Inflation (per cent.)	12.9	11.4	6.5
Total nominal GDP (billions of RUB)	**80,413**	**77,893**	**71,055**
GDP per capita (RUB)	549,290	537,194	495,160

Sources: Rosstat.

The Russian Federation displays characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not widely convertible outside of the Russian Federation and relatively high inflation.

The Russian economy was severely impacted by weakening global economic conditions and turmoil in global financial markets caused by the financial and economic crisis that started in the second half of 2008. The Russian economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market in the second half of 2008 and first half of 2009 resulted in sharp decreases in revenues of the Russian Government and the revenues of privately held Russian companies operating in these sectors, which, in turn, had an adverse effect on overall levels of economic activity in Russia. Following a period of recovery in the second half of 2009 through 2011 driven by increasing commodity prices, Russia's GDP growth slowed down to 3.5 per cent. in 2012. Notwithstanding relatively stable prices for key export commodities in 2012 and 2013, negative trends continued, particularly in 2013 and 2014 with GDP growing at 1.3 and 0.7 per cent., respectively.

The Russian economy faced a number of serious challenges in 2014 and 2015. According to experts from the World Bank the Russian economy was impacted by two factors. In addition to a downturn in economy which started in 2012, Russia faced two shocks which have significantly affected the economy. The first such shock was caused by the Russian integration over the recent years into the world economy through the exports of natural resources and, respectively, its dependence upon the world commodity markets. Starting from July 2014 to the end of 2015, oil prices decreased by more than half, which caused a shock to the Russian economy due to the deterioration in trade conditions for Russia and the Rouble exchange rate plunged by more than 100 per cent. against the U.S. Dollar. This in turn had a negative impact on the already weakening consumer confidence. The cost of credit increased as a result of actions of the CBR to tighten monetary policy, which resulted in further freezing of lending and a reduction of bank margins. The second and more specific shock was related to the geopolitical tensions that began in March 2014 with respect to Ukraine and led to economic sanctions adopted against Russia by, among others, the EU and the U.S. Against the background of this tension, investors have become more cautious in investing in Russia and the cost of foreign loans for Russian banks and companies rose significantly. All these factors caused the Russia's GDP to decline by 3.7 per cent. in 2015.

These negative developments continued to affect the Russian economy in 2015, aggravated by the impact of the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as a sharp decrease in oil prices. The price for Urals crude oil, Russia's export blend of crude, decreased from a high of U.S.$109.6 on 25 June 2014 with a closing price of U.S.$36.6 on 31 December 2015. As a result of these events, Russian Rouble significantly depreciated against U.S. Dollar and other currencies. The Rouble depreciated against U.S. Dollar from RUB32.66 per U.S.$1.00 as at 1 January 2014 to a closing rate of RUB72.9 per U.S.$1.00 as at 31 December 2015. In light of the CBR policy of targeting inflation particularly in response to a significant volatility of Russian Rouble throughout 2014 and 2015, the CBR increased its key rate to 17.0 per cent. in December 2014 as compared to 5.5 per cent. in February 2014. Following the stabilization of the market, the CBR has gradually reduced its key rate in 2015 to 11.0 per cent. in August 2015.

Further depreciation of the Russian Rouble and further sanctions that might be imposed by the U.S. and the EU on certain Russian entities and/or certain sectors of the Russian economy in response to the perceived actions of Russia in Ukraine could contribute to deteriorating conditions in the Russian economy. These negative developments resulted in lower investment and consumption and had a negative impact on business sentiments.

During periods of deteriorating economic activity the ability of the Bank's borrowers to repay amounts due to the Bank, and the value of securities some borrowers pledge as collateral against loans extended by the Bank, may decrease. Accordingly, the Bank's provision for loan impairment increased significantly during such periods, resulting in a decrease in the Bank's profitability. In the current environment of negative general economic conditions in Russia the level of provisions may deteriorate in the future and negatively impact the Group's profitability.

Consolidation of Acquired Banks

During the periods under review, the Group consolidated the results of operations, assets and liabilities of B&N Bank Credit Cards, the banks under financial rehabilitation ("Rost Bank" (JSC), OJSC CB "KEDR" (subsequently renamed to KEDR PJSC CB), OJSC "SKA-Bank" (subsequently renamed to PJSC B&N Bank Smolensk), OJSC "Tveruniversal Bank" (subsequently renamed to B&N Bank Tver), OJSC "AKKOBANK" (subsequently renamed to PJSC B&N Bank Surgut) and JSC "Uralprivatbank", which in aggregate affected the financial condition and results of operations of the Group.

In April 2014, in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency, the Bank purchased a 79.2 per cent. interest in B&N Bank Credit Cards (formerly, JSC MKB Moscomprivatbank). Upon termination of the temporary administration, with effect from July 2014, B&N Bank Credit Cards became a consolidated subsidiary of the Group and the results of operations, assets and liabilities and cash flows of B&N Bank Credit Cards were consolidated with those of the Group. See Note 3 to the Financial Statements for the year ended 31 December 2014 for a detailed description of impact of the financial condition and results of operations of B&N Bank Credit Cards on the Financial Statements.

In November 2014, in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency, the Bank purchased controlling interests in a number of Russian banks under financial rehabilitation ("Rost Bank" (JSC), OJSC CB "KEDR", OJSC "SKA-Bank", OJSC "Tveruniversal Bank", OJSC "AKKOBANK") (the "**banks under financial rehabilitation**"). As at 31 December 2014, the banks under financial rehabilitation were under temporary administration of the Deposit Insurance Agency, and the Group was unable to control operations of these entities. Following termination of the temporary administration, results of operations, assets and liabilities and cash flows of the banks under financial rehabilitation were consolidated with those of the Group. In December 2015, following the changes in the financial rehabilitation plan approved by the Deposit Insurance Agency, the Bank sold 100 per cent. interest in "Rost Bank" (JSC) (one of the banks under financial rehabilitation) to Mr. Shishkhanov (one of the Bank's controlling shareholders) who will continue to stabilise the financial condition of "Rost Bank" (JSC). Following the disposal, results of operations, assets and liabilities and cash flows of "Rost Bank" (JSC) were removed from the Group's consolidated financial statements with effect from the disposal date. Financial rehabilitation and subsequent disposal of "Rost Bank" (JSC) had a significant impact on the Financial Statements for the year ended 31 December 2015. See Note 3 to each of the Financial Statements for a detailed description of impact of the financial condition and results of operations of the banks under financial rehabilitation on the Financial Statements and "*– Business – Recent Developments and Acquisitions*".

In March 2015, the Bank purchased a 99.84 per cent. interest in JSC "Uralprivatbank", which results of operations, assets and liabilities and cash flows were consolidated with those of the Group.

Exchange Rate Fluctuations

The Group is exposed to the foreign currency rate volatility. The exchange rate fluctuated significantly in 2012-2015 ranging from RUB28.95 per U.S.$1.00 to RUB34.04 per U.S.$1.00 in 2012; from RUB29.93 per U.S.$1.00 to RUB33.47 per U.S.$1.00 in 2013; from RUB32.66 per U.S.$1.00 to RUB67.79 per U.S.$1.00 in 2014 and from RUB49.18 per U.S.$1.00 to RUB72.88 per U.S.$1.00 in 2015. For the year ended 31 December 2015, the Group had net gain on foreign exchange operations of RUB17,492.0 million as compared to RUB4,454.9 million in 2014 and RUB1,893.0 million in 2013. This gain was one of the key contributors into the Group's operating income in 2015 and 2014.

Fluctuations in the Value of Securities

The value of the Group's securities portfolio has fluctuated in the past and the value of the Group's securities portfolio is likely to continue to fluctuate in the future, which may have an impact on the Group's results of operations and the structure of the consolidated statement of financial position. As at 31 December 2015, the Group's securities portfolio (comprised of financial assets at fair value through profit or loss and investment securities) amounted to RUB101,694.3 million, or 12.4 per cent. of its total assets, as compared to RUB45,640.8 million, or 10.74 per cent. of its total assets, as at 31 December 2014 and RUB12,676.8 million, or 5.8 per cent. of its total assets, as at 31 December 2013. The fair value of securities is based on market price or, if no market price is readily available or identifiable, the Group relies on its own assumptions and models to estimate fair value.

Instability of Financial Markets

The Bank's business has been affected by the instability of the global and Russian financial markets, including the exchange rates volatility resulting from the Ukraine crisis in 2014 and 2015. While the Bank's business focuses on the Russian market, the Bank historically has obtained financing from wholesale funding markets, including term loans and deposits from other banks, issuance of debt securities, and loans and other borrowings. Investors' lack of confidence in the banking industry globally has caused volatility in wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including the Bank. Further increase in borrowing costs, significant fluctuations in currency exchange rates or prices for securities may adversely affect the Group's financial condition and results of operations.

Interest Rate Environment and Funding

Changes in interest rates affect the Group's operations. During the periods under review, movements in short- and long-term interest rates have affected both the Group's interest income and interest expense, and the Group's level of gains and losses on its securities portfolio. Interest rates can be affected by factors such as rates set by the CBR, inflation, competition among banks and general macroeconomic conditions and access to funding sources.

The cost of state funding as well as the cost of the more limited funding methods available from international banks increased through 2008 and 2009 but started to decrease in 2010 and continued this downward trend in the first half of 2011. The banking sector experienced renewed liquidity tightening in the second half of 2011 and continued to do so in 2012, which in turn has led to an increase in costs of funding for Russian banks, including customer deposit interest rate costs. In 2012, asset yields generally decreased as a result of intense competition among Russian banks for both retail and corporate loan customers. The increase in the cost of funding was primarily a result of liquidity tightness in the banking system, which has led banks to increase retail and, to a larger extent, corporate deposit rates. In September 2012, the refinancing rate was increased by the CBR to 8.25 per cent. During the course of 2013, Russian banks saw a raise in the cost of interbank funding, as the one-day Rouble lending rate increased from 5.3 per cent. in January 2013 to 6.4 per cent. in December 2013. The CBR raised the interest rates at which it provides funding to Russian banks, including the key interest rate from 5.5 per cent. to 7.0 per cent. in March 2014, from 7.0 per cent. to 7.5 per cent. in April 2014 and in July 2014 to 8.0 per cent. in order to counter any risks of potential accelerated inflation or financial stability associated with the volatility of the financial markets in the first half of 2014. In response to accelerated inflation, depreciating Rouble and the volatility of the financial markets in 2014, the CBR progressively increased its key interest rate from 5.5 per cent. in February 2014 to 7.5 per cent. in April 2014, to 8.0 per cent. in July 2014, to 9.5 per cent. in October 2014, to 10.5 per cent. and subsequently to 17.0 per cent. in December 2014. Funding costs have increased throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. As the exchange rate of the Rouble against the U.S. dollar continued to stabilise during the first half of 2015, the CBR gradually reduced its key interest rate first by lowering the rate to 15.0 per cent. in January 2015, then to 14.0 per cent. in March 2015, to 12.5 per cent. in April 2015, to 11.5 per cent. in June 2015 and to 11.0 per cent. in August 2015.

Average lending rates on the Russian interbank market may also fluctuate significantly. For example, the average Rouble interbank lending rate (31 – 90 days maturity) was 10.9 per cent. in December 2015 as compared to 17.0 per cent. in December 2014 and 7.1 per cent. in December 2013. Higher average interest rates put pressure on the Group's net interest margins.

Results of Operations

For the year ended 31 December 2015, the Group's net profit amounted to RUB69.0 million, representing a sharp decrease from RUB4.6 billion for the year ended 31 December 2014. This decrease in the Group's profit was largely attributable to (i) an increase in interest expense from RUB17.1 billion in 2014 to RUB56.8 billion in 2015 principally caused by a 84.9 per cent. growth in customer accounts, and (ii) an increase in allowance for impairment losses in interest bearing assets from RUB10.0 billion in 2014 to RUB53.7 billion in 2015 mainly driven by creation of additional provision in respect of the loans granted by entities of the Group to "Rost Bank" (JSC) following its deconsolidation from the Group. The above expenses were partially offset by (i) a sharp increase in net gain on foreign exchange operations from RUB4.5 billion in 2014 to RUB17.5 billion in 2015 resulted from a 186.8 per cent. growth in the volume of translation differences; and (ii) RUB29,199.7 million gain from disposal of "Rost Bank" (JSC).

The Group recorded a net profit of RUB4.6 billion for the year ended 31 December 2014 as compared to RUB0.8 billion for the year ended 31 December 2013. The growth in net profit in 2014 was primarily attributable to an increase in net non-interest income from RUB6.0 billion in 2013 to

RUB16.5 billion in 2014, in particular, due to: (i) a RUB5.5 billion gain on initial recognition of financial instruments; (ii) a RUB3.4 billion gain on sale of loans; and (iii) a RUB4.5 billion gain on foreign exchange operations due to the 265.5 per cent. increase in the volume of translation differences. The net profit for 2014 was partially offset by (i) a decrease in net interest income to RUB2.2 billion in 2014 from RUB5.3 billion in 2013 principally due to an increase in allowance for impairment losses on interest bearing assets in line with general market trend; and (ii) a RUB2.2 billion increase in operating expenses mainly driven by the growth in staff costs as a result of consolidation of B&N Bank Credit Cards.

Capital Adequacy

The Group's capital adequacy ratio is calculated in accordance with the Basel Capital Accord, as defined in the International Convergence of Capital Measurements and Capital Standards (updated in April 1998) and also principles outlined in the second Basel Accords, published in 2004 (Basel I and II). As at 31 December 2015, the Group's Tier I capital ratio was 7.3 per cent. as compared to 7.5 per cent. as at 31 December 2014 and 8.5 per cent. as at 31 December 2013. As at 31 December 2015, the Group's Tier 2 capital ratio was 10.5 per cent. as compared to 10.9 per cent. as at 31 December 2014 and 12.1 per cent. as at 31 December 2013.

As at 31 December 2015, Tier 2 capital included subordinated debt of RUB11,610.1 million as compared to RUB13,988.3 million as at 31 December 2014 and RUB7,547.4 million as at 31 December 2013.

The Group and the Bank have complied with all externally imposed capital requirements throughout the years ended 31 December 2015, 2014 and 2013.

In August 2015, as part of the state programme of capitalisation of Russian banks, the Bank entered into subordinated loan agreements with the Deposit Insurance Agency in the aggregate amount of RUB8.8 billion, which has been included in full in the Bank's regulatory capital under the CBR regulations and the Basel Capital Accord.

Financial Position

During the year ended 31 December 2015, the Group's total assets increased by 92.5 per cent. to RUB817.7 billion as compared to RUB424.8 billion as at 31 December 2014 and RUB217.4 billion as at 31 December 2013. The sharp increase in 2015 was mainly due a 269.8 per cent. increase in amounts due from banks and other financial institutions driven by the Bank's participation in measures aimed at financial rehabilitation of the acquired banks and placement of deposits to the "Rost Bank" (JSC) and MDM Bank and a 156.9 per cent. increase in investment securities. The increase in 2014 resulted from, in addition to Bank's participation in financial rehabilitation measures, a 57.2 per cent. growth in loans to customers attributable to the expansion of the Group's loan portfolio in line with its strategy and as a result of consolidation of the acquired banks.

Notwithstanding the expansion of the Group's loan portfolio in 2014, in the year ended 31 December 2015 the Group's net loan portfolio remained stable in accordance with general market trend and amounted to RUB218.1 billion as compared to RUB214.2 billion as at 31 December 2014. In accordance with Group's risk-management strategy, the share of corporate loans in the structure of the Group's gross loan portfolio continues to prevail, but remains mainly on the same level, amounting to 79.7 per cent., 77.8 per cent. and 85.3 per cent. in the years ended 31 December 2015, 2014 and 2013, respectively.

As at 31 December 2015, the Group's corporate deposits amounted to RUB91.2 billion, representing a 67.3 per cent. increase from RUB54.5 billion as at 31 December 2014, following the decrease of 17.4 per cent. recorded in 2014 as compared to RUB66.0 billion as at 31 December 2013. The Group's retail deposits grew sharply through the periods under review from RUB106.0 billion as at 31 December 2013 to RUB209.4 billion and RUB396.7 billion as at 31 December 2014 and 2015, respectively. Customer accounts continue to be the principal source of funding for the Group, the share of which in the Group's total liabilities amounted to 63.2 per cent., 67.0 per cent. and 86.4 per cent. as at 31 December 2015, 2014 and 2013, respectively. The increase in the Group's deposits is mainly due to consolidation of the banks under financial rehabilitation.

As at 31 December 2015, the Group's securities portfolio (comprised of financial assets at fair value through profit or loss and investment securities) amounted to RUB101.7 billion, or 12.4 per cent. of its total assets, as compared to RUB45.6 billion, or 10.74 per cent. of its total assets, as at 31 December 2014 and RUB12.7 billion, or 5.8 per cent. of its total assets, as at 31 December 2013. The increase of the Group's securities portfolio is mainly driven an acquisition of state securities to be pledged under repurchase agreements with the CBR and by a significant rise in market value of securities, held by the Group.

Asset Quality

As at 31 December 2015, the Group's non-performing loans (loans that are more than 90 days overdue) represented 4.4 per cent. of the Group's gross loans to customers as compared to 5.8 per cent. and 3.6 per cent. as at 31 December 2014 and 2013, respectively. As at 31 December 2015, the Group's allowance for loan impairment amounted to 5.4 per cent. of the gross loans to customers as compared to 4.4 per cent. as at 31 December 2014 and 3.1 per cent. as at 31 December 2013.

Debt Instruments

In July 2015, the Bank established a RUB200 billion multicurrency programme for issuance of exchange bonds.

In August 2015, as part of the state programme of capitalisation of Russian banks, the Bank entered into subordinated loan agreements with the Deposit Insurance Agency in the aggregate amount of RUB8.8 billion, which have been included in full in the Bank's regulatory capital under the CBR regulations and the Basel Capital Accord.

In July and October 2015, under its U.S.$300 million Euro Commercial Paper Programme the Bank issued Series 8 (amounting to U.S.$25.0 million with a 7.00 per cent. interest rate and 6 months maturity), Series 9 (amounting to U.S.$25.0 million with a 8.875 per cent. interest rate 12 months maturity) and Series 10 (amounting to U.S.$38.6 million with a 6.25 per cent. interest rate 6 months maturity). In addition, in December 2015 the Bank placed Series 11 (amounting to EUR5.1 million with a 5.35 per cent. interest rate and 6 month maturity). In January and April 2016, Series 8 and 10 were redeemed, equalling the total amount of the Bank's ECP drawdowns outstanding to U.S.$25.0 million and EUR5.1 million.

BUSINESS

Overview

B&N Bank is a commercial bank organised as a public joint-stock company under the laws of the Russian Federation, which was incorporated in 1993.

As at 31 December 2015, the Group's total equity was RUB46,105.2 million and total assets were RUB817,689.6 million.

The Bank services its customers through a network of 545 points of services including branches ("*filialy*"), additional offices ("*dopolnitelnye offisy*"), operational offices and stand-alone cash desks, portable station of cash operations. As at 1 June 2016, the Group had 36 branches, 4 head offices of subsidiary banks, 239 additional offices and 265 other offices in Russia and representative offices in London (United Kingdom) and the Athens (Greece).

The Group's principal business focus is on corporate and retail banking. As at 31 December 2015, the Bank provided services to more than 1,800 active corporate and 1.6 million active individual customers. The Bank offers a wide range of products and services to corporate and retail customers. The Bank offers its corporate customers a range of current/settlement accounts, deposit facilities, loans and other credit facilities, confirmed letters of credit, foreign currency exchange services, bank cards issue and maintenance services. It offers retail customers a wide range of savings and deposit accounts, loan products, including mortgage loans, agency and commission services (including insurance, payment transfer and currency exchange services), as well as a number of card products.

The Bank has prepared its financial statements in accordance with IFRS since 2001. The Bank has its registered office at 3 Izveskoviy Pereulok, Moscow, 109004, Russian Federation, telephone number +7 (495) 755 50 75, has a main state registration number 1027700159442 and operates under the laws of the Russian Federation. The Bank has a general banking licence No. 2562 from the CBR and is regulated and supervised by the CBR. The Bank also holds a licence from the CBR to perform banking operations with precious metals.

History and Development

The Bank was established on 23 April 1993 and registered by the CBR on 1 November 1993. The Bank was originally established to provide banking services to other companies within the B.I.N. Group, a diversified group of companies operating in various industries including natural resources, real estate, warehousing and construction. In 2000, the Bank began to diversify its strategy and business and, in particular, develop its lending to small and medium-size enterprises and retail banking operations, as well as to extend its corporate operations beyond the B.I.N. Group.

In January 2016, Standard & Poor's Rating Service affirmed long-term counterparty credit rating at "B-" with negative outlook. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

The Bank has also been a member of the system of mandatory insurance of individual deposits since 29 December 2004, which enables the Bank to accept retail customer deposits. See "— *Banking services and activities* - *Retail banking*".

Recent Developments and Acquisitions

In April 2014, in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency, the Bank purchased a 79.2 per cent. interest in Moskomprivatbank (currently B&N Bank Credit Cards). Upon termination of the temporary administration, with effect from July 2014 B&N Bank Credit Cards became a consolidated subsidiary of the Group and the results of operations, assets and liabilities and cash flows of B&N Bank Credit Cards were consolidated with those of the Group. See Note 3 to the Annual Financial Statements for a detailed description of impact of the financial condition and results of operations of B&N Bank Credit Cards on the Financial Statements.

In November 2014, in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency, the Bank purchased controlling interests in a group of Russian banks under financial rehabilitation. As at 31 December 2014, the banks under financial rehabilitation were under temporary administration of the Deposit Insurance Agency, and the Group was unable to control operations of these entities. Following termination of the temporary administration, the banks under financial rehabilitation results of operations, assets and liabilities and cash flows were consolidated with those of the Group. In December 2015, following the changes in the financial rehabilitation plan approved by the Deposit Insurance Agency, the Bank sold 100 per cent. interest in "Rost Bank" (JSC) (one of the banks under financial rehabilitation) to Mr. Shishkhanov (one of the Bank's controlling shareholders) who will continue to stabilise the financial condition of "Rost Bank" (JSC). Following the disposal, results of operations, assets and liabilities and cash flows of "Rost Bank" (JSC) were removed from the Group's consolidated financial statements with effect from the disposal date. See Note 3 to the Financial Statements for the year ended 31 December 2015 for a detailed description of impact of the financial condition and results of operations of banks under financial rehabilitation on the Financial Statements.

In March 2015, the Bank completed acquisition of controlling interest in "URALPRIVATBANK" Joint-Stock Company. The aim of this acquisition was to expand the retail business of the Bank and its regional operations and to expand the customer base of the Bank. Following the acquisition, results of operations, assets and liabilities and cash flows of JSC "URALPRIVATBANK" were consolidated with those of the Group. See Note 3 to the Financial Statements for the year ended 31 December 2015 for a detailed description of impact of the financial condition and results of operations of JSC "URALPRIVATBANK" on the Financial Statements.

In December 2015, the principal shareholders of the Bank, Mr. Shishkhanov and Mr. Gutseriev, acquired 84.38 per cent. interest in MDM Bank. Mr. Shishkhanov and Mr. Gutseriev plan to increase their shareholding in MDM Bank to 100 per cent. by July 2016 through buying out the minority shareholders' stakes in the bank. See – "*Principal Shareholders*". According to Interfax, MDM Bank is rated as the 26th largest Russian bank in terms of assets with total assets equalling to RUB339 billion. The Bank has been informed by its principal shareholders that MDM Bank is expected to be legally merged into the Bank by the end of 2016.

Organisational Structure

B&N Bank conducts its banking operations through its network of branches, representative offices, cash and credit offices and stand-alone cash desks in 59 regions of the Russian Federation. The Bank's day to day activities are overseen by the Management Board under the supervision of the Board of Directors. See - "*Management*". The principal operational committees within the Bank are Credit Committees, Assets and Liabilities Committee, Problem Assets Committee, Technology Committee, Principal Managing Committee of the Retail Bank, Budget Committee and Personnel Committee. The principal business units of the Bank are the departments comprising the Retail Business Section and Corporate and Investment Business Section. Corporate and Investment Business Section includes, in particular, International Business and Financial Institutions Department, Structured Finance Unit, Department of Financial Markets Transactions, Large Corporate Business Section and other units. The business units are supported by Legal Department, Risks Section, Treasury, Internal Supervision Service, Security Department, IT section, various business support units and others.

Competition and competitive strengths

According to the CBR, as at 1 January 2016, there were 733 banks and non-banking credit organisations operating in the Russian Federation. According to Interfax, the Bank was ranked the 15th largest bank in Russia in terms of assets.

Due to the large number of Russian banks and the market segments in which they operate, B&N Bank faces competition in substantially all of the areas and locations in which it operates, in many cases from institutions much larger than the Bank. The following table sets forth the Bank's principal competitors in each of the corporate credit, consumer credit, corporate loans and individual loans markets.

Corporate credit	**Consumer credit**	**Corporate loans**	**Individual loans**
Sberbank(*)	Sberbank(*)	Sberbank(*)	Sberbank(*)
VTB(*)	VTB 24(*)	VTB(*)	VTB 24(*)
Bank Avangard	Rosbank	Gazprombank(*)	Citibank
Rosselkhozbank(*)	Rosselkhozbank(*)	Bank of Moscow(*)	Alfa Bank
Alfa Bank	Home Credit and Finance Bank	Rosselkhozbank(*)	Raiffeisenbank
Bank Tochka	Russian Standard Bank	Alfa Bank	Rosbank
Rosbank	Gazprombank(*)	UniCredit Bank	Orient Express Bank
Promsvyazbank	Alfa Bank	Promsvyazbank	Russian Standard Bank
Bank Otkritie	Raiffeisenbank	Bank Otkritie	Promsvyazbank
			Bank Otkritie
			Bank of Moscow
			Home Credit & Finance Bank

(*) State-owned institution.

B&N Bank believes that it has a number of competitive strengths:

- *Extensive network*

  The Bank has a broad geographic footprint in the Russian Federation. As at 1 June 2016, the Bank had 545 branches, representative offices, cash and credit offices, operational offices and stand-alone cash desks across 59 regions of Russia and had the 13th largest branch network in Russia. The Bank believes its network is appropriately sized and puts the Bank in a good position in the current market environment.

- *Corporate and retail focus*

  The Bank generally focuses on corporate and retail customers, which represent markets in which it is already strong or in which it believes there may be significant medium- or long-term growth prospects. The Bank utilises specialty software and technology that allows it to tailor products and services to these types of customers. Recently the Bank has also focused on providing services for its larger retail clients, including state officers and individual entrepreneurs. In addition, the Bank employs relationship bankers with extensive experience and know-how in order to develop and expand its relationships with small and medium sized corporate customers. The Bank had over 1,800 active corporate customers as at 1 June 2016.

- *Well-balanced assets and liabilities*

  The Bank has a well-balanced asset-liability structure focused on loans to customers, which constituted 26.7 per cent. of total assets as at 31 December 2015. The Bank had been constantly increasing its business volume (assets and liabilities) throughout 2013-2015, with a growth of 92.5 per cent. in assets and 95.8 per cent. in liabilities in the year ended 31 December 2015 as compared to the year 2014 alone. The Bank has a developed and growing loan book and highly liquid securities portfolio, allowing it to ensure a well-balanced assets/liabilities structure.

- *Implementation of a universal bank strategy*

  To achieve its strategic objectives, the B&N Bank seeks to provide customers a full range of products to meet the banking needs.

The development of the Bank’s investment banking division and the introduction of other corporate products has permitted the Bank to provide its corporate customers with a wide range of financing facilities, including different complex bank products.

- *History of the shareholders’ support*

The Group is one of the main strategic assets of its shareholders. The Group’s principal shareholders have historically provided financial support to the Group in a form of capital contributions and acquisition of securities under additional share issuances. Although under no continuing obligation and while the shareholders may in time withdraw excess capital, the Group’s principal shareholders have publicly expressed their commitment to provide support to the Group in the future, if needed. Namely, Mr. Shishkhanov and Mr. Gutseriev plan to acquire RUB10 billion worth of ordinary voting shares of the Bank under its planned additional share issuance by the end of 2016. See – “*Principal Shareholders*”.

- *Use of advanced technologies for risk management and data mining.*

Since the inception of its consumer finance operations, the Bank has invested significantly in the development and implementation of sophisticated and integrated risk management and operational solutions, as well as data gathering technology. The enhanced risk management controls and credit screening procedures of the Bank enable it to better identify those potential customers that are more likely to fail to meet their loan obligations. Such controls and procedures were also intended to assist in reducing the percentage of non-performing loans in the Bank's loan portfolio, thereby improving asset quality and increasing revenue. The Bank is constantly implementing opportunities to enhance its risk-management controls, in particular, by engaging into joint projects with McKinsey & Co, Roland Berger и Oliver Wyman.

- *Diversified client base and loan portfolio*

The Bank’s client base and loan portfolio are relatively balanced and diversified and consist of both corporate and retail clients, with corporate clients from a range of industry sectors. As at 31 December 2015, the Bank had over 1,800 active corporate clients and over 1.6 million active retail clients. The Bank’s domestic corporate customer base includes private and state-controlled companies (involved in the production, real estate, trading, hospitality, construction, services, food, energy, and transportation industries. As at 31 December 2015, customer account balances attracted from corporate clients and private individuals (through accounts and various deposits) amounted to RUB487,905.8 million, as compared to RUB263,908.4 million as at 31 December 2014.

- *B&N Bank is well positioned as a consolidator in the Russian banking sector*

The Bank was ranked the 15th largest Russian bank by total assets for 2015, according to Interfax. Over the recent time, it has continued to grow its business to significantly increase its regional footprint and client base diversification, particularly through acquiring banking businesses on the Russian market with at a discount to their book value. The Bank is involved in three types of acquisitions: (i) deals on the open market, which include acquisition of the DNB Bank (subsequently renamed to B&N Bank Murmansk) by the Banks’s principal shareholder; (ii) acquisition of the controlling interest in a company through its financial rehabilitation, namely buying a 79.2 per cent. interest in B&N Bank Credit Cards in April 2014 in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency and controlling interests in a group of Russian banks under financial rehabilitation in November 2014 in the course of financial stabilisation to prevent bankruptcy implemented by the Deposit Insurance Agency, which allowed the Bank to significantly increase its presents in several Russian regions; and (iii) acquisition of assets and liabilities of restructured banks, such as Probisnesbank, from the Deposit Insurance Agency. In addition, in December 2015 the principal shareholders of the Bank acquired a controlling interest in MDM

Bank, which is expected to be merged with the Bank by the end of 2016. These acquisitions have been complementary to Bank's regional presence, and management believes it represented a significant opportunity to expand its client base and generate various revenue and cost synergies and to otherwise enhance the Bank's operations. The Bank expects that its strong internal capital generation capacity and proven financial rehabilitation and mergers and acquisitions execution capabilities, combined with shareholder support, should enable it to make further targeted acquisitions in the fragmented Russian banking market.

Strategy

The Bank's overall long-term strategy is to continue to develop and strengthen its market position by improving and diversifying its product and services offerings to corporate and retail customers. To achieve these goals and to continue to add value for its customers, employees and shareholders, the Bank has identified the following principal medium and long term strategies:

- create a unified system of business-planning and infrastructure for the active growth of the Group's business units towards further diversification of the Bank's client base by industry and region;
- increase the Bank's market capitalisation to RUB130 billion and further develop the Bank's market position, investor awareness and credit ratings to get an unimpeded access to the international capital markets and attract strategic investors, including for a potential IPO;
- introduce innovating solutions to maintain the growth of the Bank's business and to improve financial and operational efficiency;
- increasing a share of operations with corporate clients with state or quasi state credit rating to 50 per cent.;
- be included in the list of the 3 largest Russian private banking groups by asset size; and
- since 2014, the Bank has been an active participant of the market of mergers and acquisitions. The changes in the Group allowed increasing assets at faster pace, to expand its customer base and regional representation. One of the main objectives in the medium term is to complete the process of integration and create a unified system of business-planning and infrastructure.

Retail banking

The Bank intends to expand its presence in the retail market by increasing the number, and improving the quality, of the products and services offered to retail customers. Retail banking sector currently combines individuals retail banking operations, SME and bank cards operations.

The priority goals in retail banking strategy are:

- transformation of the business model into a transactional and cash management banking for retaining and monetising the client base, combined with building up the bank's competitive advantage on the basis of digital banking;
- increase in share of the fee and commission income in the operation results through the growth in customer transactional activity and an increase in commission cross-products (insurance, etc.) sold together with the flagman bank product;
- reaching top level ratings for product lines among Russian banks;
- client base diversification and segmentation;
- reaching a high customer satisfaction level (NPS) through use of best market practices, minimisation of "time to market" and service development;

- introducing high level of cost and risk management;
- client value increase through maximising income per client ratio, prolonging the customer loyalty to exceed four year period and routine operations' costs decrease;
- increase of the corporate clients' participation share in retail banking products by promoting remuneration projects and customer awareness within the corporates' employee base;
- promotion of brand awareness and reaching a high level of customer loyalty;
- increase in the Bank's employees' satisfaction and the Bank's HR brand appeal.

The Bank plans to gradually increase its business volume both in assets and liabilities throughout the retail banking sector by introducing target banking products matching the clients' needs, including deposit, credit and consignment products; increasing its client base through a complex customer approach and an increase in the effectiveness of business processes; and increasing both the amount of the bank products issued and average number of bank products acquired per card holder.

Corporate banking

The Bank's corporate banking segment represents its extensive operations with major corporate clients, financial institutions and capital markets participants.

The priority goals in corporate banking strategy are:

- increase in business volume (assets and liabilities), as well as in the amounts of guarantees issued, fee income received and profitability of the segment operations;
- client base increase and diversification;
- reaching top level of financial results and profitability;
- building focus on segmental model of coverage and industrial expertise;
- increase in employees' qualification and proficiency;
- geographical and source diversification of acquired financial investments, in particular through increase in the Bank's credit ratings and decrease in cost of funding;
- reaching planned level of borrowings on international capital markets and an increase in the volume of unfunded transactions;
- effective securities portfolio management enabling the bank to improve its investor awareness and market image as an active capital markets participant; and
- increase in profitability and net non-interest income for the sector.

Diversification of client base

The Bank intends to diversify its client base by industry and region in terms of funding and loan products. In addition, in the medium- and long-term perspective the Bank plans to increase the share of retail loans in its overall loan portfolio.

Increased product range

The Bank intends to increase its product range for each separate client group. It continues to expand its range of products for both retail customers (new loan products, promotions, savings offers, card products, transaction fees) and corporate clients (settlement and cash services complex, credit and deposit products, card products). In line with its strategy to generate fee and commission income, the

Bank expects to further capitalise on fee income opportunities through the increase in commission cross-products (insurance, etc.) sold together with the flagman bank product.

Improving technology

The Bank considers information technology to be an integral part of its operations and is committed to continuing investment in IT infrastructure to support the efficient growth of its operations and enhance its risk management systems. As part of this process, the Bank intends to invest in further automation of its banking processes to improve the quality of its services and reduce associated costs.

In accordance with the strategy, Bank's total expenses for IT sector for year ended 31 December 2015 amounted to RUB540.8 million.

Banking services and activities

B&N Bank's two principal operating business divisions are (i) corporate and investment banking and (ii) retail banking and SME. For the purposes of IFRS financial statements, the Group divides its two operating lines into four reporting segments – corporate banking, retail banking, investment banking and SME.

In addition, the Bank provides a full range of related banking products and services, including investment banking, correspondent banking and precious metals operations.

Corporate banking

The corporate banking business segment represented 22.7 per cent. of the Group's total segment assets and 8.5 per cent. of the Group's total segment liabilities as at 31 December 2015. As at 1 June 2016, the Bank had more than 1,800 active corporate customers. The Bank's corporate banking services include direct debit facilities, current/settlement accounts, deposit facilities, loans, overdraft services and confirmed letters of credit, as well as investment securities, brokerage services, foreign currency/exchange services, derivative products and settlement services. The Bank's corporate customer base includes state and public organisations, as well as private corporate and other legal entities.

Deposits

The Bank's corporate customer accounts represented 18.7 per cent. of total customer accounts as at 31 December 2015 as compared to 20.7 per cent. at 31 December 2014. As at 31 December 2015, the Bank's corporate customer accounts amounted to RUB54.5 billion as compared to RUB66.0 billion as at 31 December 2014.

As at 31 December 2015, customer accounts of investments and other financial services, construction and services accounted for 4.5 per cent., 3.9 per cent. and 3.2 per cent., respectively, of the Group's customer accounts.

The following tables set forth the Group's customer accounts by type of deposit, depositor and currency as at 31 December 2015, 2014 and 2013.

	As at 31 December					
	2015		**2014**		**2013**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(in millions of roubles, except percentages)					
Time deposits	439,050.4	90.0	236,997.4	89.8	121,457.1	70.6
Demand accounts	48,855.4	10.0	26,911.0	10.2	50,578.0	29.4
Total customer accounts	**487,905.8**	**100**	**263,908.4**	**100**	**172,035.1**	**100**

	As at 31 December					
	2015		2014		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Individuals	396,725.6	81.3	209,386.2	79.3	106,042.4	61.6
Corporates	54,522.2	18.7	54,522.2	20.7	65,992.7	38.4
Total customer accounts	**487,905.8**	**100**	**263,908.4**	**100**	**172,035.1**	**100**

The Bank's corporate customer accounts are primarily denominated in Roubles and, to a lesser extent, in U.S. Dollars and other currencies. As at 31 December 2015, 83 per cent. of the Group's corporate customer accounts were denominated in Roubles.

Lending

B&N Bank's corporate lending activities involve the provision of loans for a variety of purposes including project financing, working capital and capital investments. The Bank provides its corporate customers with both term loans and credit lines under which a customer can borrow funds at any time within an agreed period.

As part of its corporate lending activities, the Bank lends to small and medium sized companies, as well as to sole proprietorships. The majority of the loans were issued at fixed interest rates, with an average term of between one and five years.

The Group's gross corporate loan portfolio amounted to RUB183.8 billion as at 31 December 2015. Loans to companies operating in the trading, investments and other financial services, construction industries accounted for 63.0 per cent. of total gross corporate loans as at 31 December 2015. In August 2015, as part of the state programme of capitalisation of Russian banks, the Bank entered into subordinated loan agreements with the Deposit Insurance Agency in the aggregate amount of RUB8.8 billion, which has been included in full in the Bank's regulatory capital under the CBR regulations and the Basel Capital Accord. Under this programme, the Bank has undertaken to expand its loan portfolio, including the provision of loans to corporates and SMEs operating in designated sectors of the Russian economy including agriculture and food processing, the chemical industry, machinery, construction, transportation, communication and energy. The implementation of this programme may lead to an increased level of concentration in certain industries such as these.

Investment banking

The Bank provides a range of investment projects for its large corporate clients, including rouble-denominated debt market deals on the internal Russian market allowing the companies to attract financing in the current political and sanctions environment and unavailability of international financing. The provided products include arrangement of loan participation notes issuance by a corporate client, arrangement of debut and secondary rouble-denominated debt issues for clients, accompanied by bridge financing, market making function in respect of clients' rouble-denominated notes and refinancing and restructuration opportunities for clients' LPN and rouble-denominated notes issuances. The Group's development strategy for the investment banking sector involves the creation of a comprehensive product line, which will allow the Bank to attract a RUB100 million fee and commission income for investment banking sector in 2016.

Retail banking

As at 1 June 2016, the Bank had over 1.6 million individual customers. The Group's retail customer accounts accounted for 81.3 per cent. and 79.3 of the Group's total customer accounts as at 31 December 2015 and 2014, respectively. The Bank offers a wide range of term deposit, savings and other current accounts, debit cards and consumer lending products. As at 1 June 2016, the Bank served its individual customers through a total of 545 branches, representative offices, cash and credit offices, operational offices and stand-alone cash desks.

Deposits

The Bank's retail customer accounts are primarily denominated in Roubles, U.S. Dollars and Euro. As at 31 December 2015, individuals held a total of RUB18,316.4 million in demand accounts and RUB378,127.2 million in time deposits as compared to RUB9,808.2 million in demand accounts and RUB199,578.30 million in time deposits as at 31 December 2014. The majority of the Bank's retail customer deposits as at 31 December 2015, or 68.6 per cent. of the Group's retail customer accounts, was denominated in Roubles.

Lending

The Bank provides a wide range of loans to its retail customers including mortgages, multipurpose (general purpose) consumer loans and credit cards.

The Bank's retail loans are primarily denominated in Roubles and are predominantly unsecured. As at 31 December 2015, the Group's gross retail loan portfolio amounted to RUB46,826.1 million, or 20.3 per cent. of the Group's gross loan portfolio.

In 2012, the Group discontinued its own mortgage and car lending operations. Currently, the Group's loan portfolio contains only amortising mortgage loans and loans issued under the programme of Agency for Housing Mortgage Lending (the "**AHML**"). Under the AHML's programme, the Bank issues mortgage loans to customers matching certain AHML's criteria, and subsequently refinances these loans with AHML. The Bank continues to be responsible for servicing the loan for commission until its maturity, while AHML accepts the loan on its balance and issues mortgage-backed securities to the open market.

Debit cards

The Bank offers debit cards through systems such as MasterCard Worldwide and Visa International. As at 31 December 2015, the Bank had over 3 million debit cards in issue, mainly concentrated in the Bank's subsidiary B&N Credit Cards. In addition to standard debit cards, the Bank issues debit cards with the benefit of bank overdraft facilities, which permit holders to make purchases on the basis of a pre-arranged overdraft facility at the Bank.

The Bank has developed a loyalty programme "BIN Bonus" involving its debit cards business, which allows holders to accumulate points as they pay for goods and services and then use the points to make purchases and receive services at a discount.

B&N Bank provides its customers a high level of customer service and implement new technology solutions based on bank cards, including such technologies as one-touch payments PayPass and payWave. These cards allow customers to pay for everyday purchases instantly with one-touch for purchases up to RUB1,000 without a PIN code.

As at 1 June 2016, the Bank's terminal network consists of more than 3,255 ATMs (automated teller machines), 18,000 POS terminals (point of sale terminal that allows cardholders to pay for goods and services via their cards) and more than 720 kiosks – which allow customers to make top-up payments (for mobile phones, internet, utilities and so on), including replenishment of their cards by making cash-in transactions.

SME

Small and medium entities segment represents approximately 10 per cent. share of the Bank's loan portfolio, providing such banking products as maintenance of current accounts, deposits, overdrafts, loans and other credit facilities, operations with foreign currency and derivatives to legal entities and individual entrepreneurs with annual revenue under RUB900.0 million. The Bank has compiled a comprehensive product line for its SME clients, including introduction of a new deposit line and cash and settlement services package in 2015, which had a penetration rate of 85 per cent. and lead to a 30 per cent. increase in revenue within the mass segment. The Bank expects the share of the SME segment to remain unchanged in the future periods despite the expected quantitative growth, due to the general increase in the total loan portfolio.

The Bank also participates in the state-run programme implementing for provision of funds to small and medium size enterprises through AO MSP-Bank. In 2015, the Bank entered into 10 loan agreements under this programme in the aggregate amount of RUB2,250.0 million. The term of these loans is up to seven years with interest rates of up to 13.25 per cent. The funding received from AO MSP-Bank represents the main source of funds for the SME segment development and banking operations.

Private banking

The Bank offers private banking services to the HNWI/U-HNWIs through its B&N Exclusive brand. At the moment, B&N Exclusive covers about 3,000 VIP clients with total AUM nearly RUB77.2 billion, including classic banking products and investment solutions. The programme offers clients a qualified personal account manager, individual offices and priority service in the Bank's branches. Clients of B&N Bank Exclusive have access both to an exclusive range of private banking services and products, and 24-hour support from a personal manager. Additional benefits include tax and legal consulting, private insurance and personal private equity products.

Other banking operations

Settlement services and foreign trade transactions

B&N Bank provides a wide range of services relating to the management of Rouble and foreign currency accounts used in foreign trade transactions and to settlement of such transactions. This includes arranging trade contract financing and import and export letters of credit. Through a network of correspondent accounts with Russian and foreign banks, the Bank aims to provide efficient and effective settlement of transactions for its customers.

Correspondent network

As of 1 June 2016 the Bank's correspondent network includes 18 Russian Banks (including CIS banks) and 30 leading European, US and Asian Banks allowing B&N Bank to settle transactions in the world's principal currencies USD, EUR, CNY, GBP (as well as in PKO, NOK, JPY and CHF) on a worldwide basis. **TBC**

Foreign exchange accounts are opened in several world's largest banks, including the following: J.P. Morgan Chase Bank, Deutsche Bank AG, Deutsche Bank Trust Company Americas, BNY Mellon, Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank of China and ING-BANK (Belgium) N.V./S.A.

Precious metals

B&N Bank obtained a licence (No. 2562) to accept deposits and to deposit precious metals from the CBR on 6 June 2006 which was renewed on 11 February 2015.

Investment banking

B&N Bank's principal investment banking activities include corporate finance consulting services and debt underwriting. B&N Bank's principal investment banking activities include corporate finance consulting services and debt underwriting.

Payroll services

B&N Bank actively works with Russian companies to provide enhanced payroll services through its employee debit card offering. Payroll cards represent the majority of debit cards issued by the Bank. As at 1 June 2016, the Bank provided payroll and employee debit card services to over 2,700 companies and other legal entities including industrial companies, agricultural companies, trade companies and state organisations.

Financial markets operations

B&N Bank trades corporate and government securities on behalf of its customers on major stock exchanges in Russia and in the over the counter market. On behalf of its corporate customers, the Bank carries out a range of money market operations and foreign currency exchange trading.

The Bank is also involved in proprietary trading in the financial markets as part of its liquidity management. The Bank has a substantial securities portfolio, comprised primarily of Russian Government and municipal debt securities, as well as corporate debt and equity securities issued by Russian companies, the majority of which is included in the CBR' Lombard list. In response to the significant volatility of the Russian financial markets in 2014, the Bank's policy has changed towards composition of the securities portfolio with an increased proportion of debt securities. See "Limited *Financial Results*". The Bank does not engage in proprietary trading of derivatives, except for foreign currency futures trading, which the Bank does not consider to be material to its operations.

The steps the Bank takes to address credit, market, investment and liquidity risk include entering into hedging transactions to address market risks related to asset origination and trading activities and prescribing limits on the amount of credit risk per counterparty or per country that may be incurred in lending and capital markets activities. These hedging transactions may include over-the-counter derivative contracts or the purchase or sale of securities, financial futures, options or forward contracts. If any of the variety of instruments and strategies used to hedge the Bank's exposure to credit, market, currency, investment and liquidity risks are not effective in fully covering its risks, the Bank may incur losses. Unexpected market developments may in the future also affect a number of the Bank's hedging strategies. Due to the significant volatility of the Russian financial markets and depreciation of Russian Rouble, the availability of hedging tools has been reduced. Certain hedging strategies and other methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not correctly predict future risk exposures, which could be significantly greater than historical results indicate. To manage risk, the Bank depends on the evaluation of information regarding markets, issuers and investors. The Bank can give no assurance that this information will in all cases be accurate, up-to-date and properly evaluated. The Bank's policies and procedures may not be fully effective in managing these risks. If the measures, which the Bank uses to identify, monitor and manage risks, prove insufficient, the Bank may experience unanticipated disruptions to its operations and consequential losses which could have a material adverse effect on its business, financial condition and results of operations and prospects.

Subsidiaries

Below is a description of the Bank's principal subsidiaries as at 31 December 2015:

- *B&N Bank Credit Cards.* In April 2014, the Bank acquired controlling stake in the share capital in JSC MKB Moscomprivatbank which was undergoing a pre-bankruptcy financial rehabilitation process initiated by the CBR. This acquisition was made by the Bank for the purpose of expanding its retail business and regional coverage. In September 2014, the official name of Moscomprivatbank was changed to JSC "B&N Bank Credit Cards". The Bank plans to use and expand the existing platform of B&N Bank Credit Cards to develop the Group's credit cards operations.

- *Banks under financial rehabilitation.* In December 2014, the Bank was chosen by CBR to participate in financial rehabilitation of five banks, including "Rost Bank" (JSC), OJSC CB "KEDR", OJSC "SKA-Bank", OJSC "Tveruniversal Bank" and OJSC "AKKOBANK". As a result of this participation, the Group acquired controlling stakes in these five banks and JSC "URALPRIVATBANK". The Bank aims to use the assets of the acquired banks to expand its retail banking business, regional coverage and client base.

In December 2015, following the changes in the financial rehabilitation plan approved by the Deposit Insurance Agency, the Bank sold 100 per cent. interest in “Rost Bank” (JSC) (one of the banks under financial rehabilitation) to Mr. Shishkhanov (one of the Bank’s controlling shareholders) who will continue to stabilise the financial condition of “Rost Bank” (JSC). Following the disposal, results of operations, assets and liabilities and cash flows of “Rost Bank” (JSC) were removed from the Group’s consolidated financial statements with effect from the disposal date. See “- *Recent Developments and Acquisitions*” above.

A description of the main operations of the principal consolidated subsidiaries is included in Note 1 to the Financial Statements.

Distribution network

Branches and other offices

As at 1 June 2016, B&N Bank had 36 branches (“*filialy*”), 4 head offices of subsidiary banks, 239 additional offices (“*dopolnitelnye offisy*”), 265 other points of sale (including operational offices, stand-alone cash desks (“*operatsionnye kassy vne kassovogo uzla*”) and portable stations of cash operations) and representative offices in London (United Kingdom) and the Athens (Greece).

Remote banking services

The Internet Bank System

The Bank’s advanced Internet Bank system allows clients to make electronic payments online, obtain statements of account and manage their accounts remotely. The system means that clients no longer have to submit physical payment documents to the Bank, and provide comprehensive protection against potential fraud. It is easy to use and can be set up on any computer that has access to Internet. This system allows: (i) create and process payment documents in Roubles and foreign currency; (ii) receive information on account transactions and balances, statements of account and attachments; (iii) correspond with the Bank and send the Bank payroll lists for salary payment into deposit accounts or onto special salary cards, subject to the relevant contracts being in place; (iv) grant access to company documents and delegate powers; (v) digital signature support for authentication of document content and authorship.

SMS Info

This service allows clients to receive information by mobile phone on incoming and outgoing payments and on their company's settlement account balances in Roubles and foreign currency. Clients can have information sent to a specified mobile phone number on incoming and outgoing payments and on their company's settlement account balances in Roubles and foreign currency.

Electronic Statement

Electronic statement allows clients to produce statements of their account with the Bank in real time, with secure Internet access, from any computer or mobile phone, using a scratch card password. The service does not require any additional software. It enables clients to keep their financial details for settlement accounts in Roubles and foreign currency up to date.

Telephone Client

Clients can call the Bank at any time for accurate information on their account balance. Clients benefit from a convenient voice menu, the opportunity to work with an unlimited number of accounts, access to the system from anywhere in the world, and information security and protection. This requires nothing more than a telephone with a dial tone and for the client to want to be informed.

Telephone Client Service

The telephone client service allows clients to obtain information on their bank account quickly and easily. With the telephone client service, clients can get information on their account 24 hours a day by telephone. The call centre receives and processes incoming inquiries, advises clients and prospective clients on the Bank's products and services and provides other advice to customers. The call centre also has an interactive voice response system which is available to the customers at all times.

Employees

As at 31 December 2015, the Group had 10,935 employees as compared to 7,301 employees as at 31 December 2014 and 5,012 employees as at 31 December 2013. As at 31 December 2015, 2,783 employees were located in Moscow, 8,131 employees were located elsewhere in the Russian Federation and 22 were located outside of the Russian Federation (including representative office in London and a "KEDR" Bank's Greece branch).

In order to ensure the efficient operation of its human resources, the Bank makes extensive use of state of the art technologies and complies with a code of best practice. The Bank's personnel management policy is aimed at developing skilled, highly productive staff who are successful at conducting their business.

In the selection and assignment of personnel, the Bank applies a mandatory evaluation procedure to assess applicants' professional skills and personal qualities. For instance, all applicants undergo an evaluation whereby their technical skills and aptitude are tested; they are interviewed; and they undergo psychological screening. When filling vacant positions, the Bank looks at both internal and external applicants.

The Bank continues to strive to create optimal conditions for personnel development and to maximise its employees' intellectual and professional potential. The Bank has developed an internal training programme for its employees aimed at professional growth, increased labour productivity and instilling corporate values. Not only does this foster the development of employees' skills, but it also ensures that its employees master modern technologies and receive training tailored to their responsibilities. The Bank's training system covers all employees, including key personnel.

Whilst there is no trade union within the Bank, employees are permitted to belong to any independent trade union. The Bank has not, to date, experienced any strikes, work stoppages, labour disputes or actions that have had a material effect on its operations and it considers its relationship with its employees to be good.

Litigation

As at the date of this Prospectus, B&N Bank has no legal or arbitration proceedings pending or threatened that could have a material adverse effect on the Bank's financial condition, nor has the settlement of any such proceedings since 1993, when the Bank was established, had any such material adverse effect. The Bank and its subsidiaries are, however, involved in a number of legal proceedings that have arisen in the ordinary course of business. The Bank does not expect that these pending or threatened legal proceedings will have a material adverse effect on its consolidated financial statements or its business prospects.

Properties

B&N Bank owns and leases property at various locations throughout the Russian Federation. The Bank's material properties represent a total of 57,916.4 square metres under ownership and a total of 110,325.7 square metres which are held under lease. In addition, the registration of ownership of 6,010.6 square metres main office property is currently in progress.

Insurance

Russian banking or other legislation does not require banks to maintain insurance in respect of their material assets or liabilities (other than the mandatory insurance on the deposits of individuals). Currently, B&N Bank does not maintain voluntary insurance on buildings or premises owned and does not have business interruption insurance. However, the Bank does insure all the motor vehicles and armoured cars that it owns, as well as its cash dispensers. Since December 2004, the Bank has been a member of the system of the mandatory insurance of deposits of individuals.

RISK MANAGEMENT

Overview

The principal categories of risk inherent in the Bank's business are credit risk (including concentration risk), liquidity risk, market risk (which consists of interest rate risk, currency risk and price risk) and operational risk. The primary objective of financial risk management comprises the establishment of risk limits and subsequent monitoring procedures to ensure that such limits are complied with. As part of the risk management process, the Bank evaluates, monitors and manages the size and concentration of risks relating to the maturities of its assets and liabilities, its interest rate and exchange rate exposure and its counterparties' creditworthiness, in order to minimise the effect of these risks on profitability. The Bank's system of risk control and risk management is reviewed frequently and is modified as necessary. The Bank's system of risk control and risk management has been fully integrated into the Bank's internal systems for planning, management and control.

The Group has a system of risk management that ensures identification, measurement, and control over all the risks accepted by the Group for the purposes of their reasonable mitigation, including:

- availability of approved procedures ensuring effective identification, measurement, monitoring, and control over the risks accepted by the Group, and sustaining risks within the established limits as per the Group's internal regulations;
- tools helping to establish compliance of the existing procedures with the size and nature of the Group's business, and to regularly review them in accordance with changes in the risks accepted by the Group and its position on the market;
- control over the operation of the risk management system by the Board of Directors and management of the Group;
- plans of recovery from emergencies that may undermine the Group's financial stability, prompt crisis or loss of paying capacity, exercise a material influence on its financial performance;
- formalised procedures of assessing potential impact of the given changes in risk factors that correspond to extraordinary, but probable events, on the Group's financial position.

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations.

Credit Risk

General

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

The Group is exposed to the credit risk. Credit risk is the risk that one party to the financial instrument will incur a loss because the other party failed to discharge its contractual obligations.

Risk management and monitoring are performed within limits set by the Credit Committees and Management Board of the Group. Before any action is taken by the Credit Committee, all recommendations on credit processes (approved borrower's limits or amendments of loan agreements) are considered and approved by the Risk Management Department. Risk management routine is performed by the Head of the Credit Department and Risk Management Department.

The Group structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, to industry (and geographical) segments and NPLs.

Limits on the level of credit risk by borrower (by industry sector, by NPL ratio) are approved quarterly by the Management Board. The exposure in relation to each borrower, including banks and brokers, is further restricted by sub-limits which cover on and off-balance sheet risks and are established by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of substantial part of loans, the Group obtains a collateral and corporate and personal guarantees, but a significant portion of loans is given to individuals, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

Off-balance sheet credit commitments represent unused portions of credit lines, guarantees or letters of credit. Credit risk related to off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

With respect to the credit risk related to off-balance sheet financial instruments, the Group is potentially exposed to a loss equal to the total unused credit lines, guarantees or letters of credit. However, the likely amount of loss is less than the total unused credit lines, guarantees or letters of credit. In most cases, commitments to issue loans, guarantees or letters of credit depend on the clients' compliance with special credit standards. The Group applies the same credit policy to contingent liabilities as to balance sheet financial instruments, i.e. the one based on the procedures of approving the issue of loans, using limits to mitigate risk, and current monitoring. The Group monitors the term to maturity, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

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

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

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

Collateral

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

The main types of collateral obtained for commercial lending are charges over real estate properties and land, for retail lending – mortgages over residential properties and vehicles. Securities and guarantees are also obtained from counterparties for all types of lending.

The Group has a policy to dispose of the repossessed properties. The proceeds are used to reduce or fully repay the outstanding claim.

Collateral is considered for risk reduction of an acceptable lending proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against collateral, full details, including the type, value, and the frequency of review of the collateral should be provided in the

Application for Credit Facility Form. Where appropriate, the credit officer must review the documents confirming the existence of the collateral offered and, wherever possible, inspect the actual collateral.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure, where applicable, that an adequate difference in amounts of collateral and credit risk is obtained and maintained throughout the term of the facility. The appropriate authority responsible for collateral assessment sets parameters for each individual credit facility.

Total proceeds from the sale of collateral may not exceed total collateralized loan debt. The property received by the Group as collateral against loans includes real estate and land, securities, equipment, vehicles, goods in turnover.

The Group applies fundamentally the same risk management policies for the off-balance sheet risks as for the balance sheet risks. In case of commitments to lend, customers and counterparties are subject to the same credit management policies as for loans to customers. Collateral may be sought depending on the characteristics of the counterparty and the nature of the transaction.

Geographical Concentration

The Assets and Liabilities Management Committee exercises control over the risk in the legislation and assesses its influence on the Group's activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the Russian Federation. See Note 34 to the Financial Statements for the year ended 31 December 2015 and Note 35 to the Financial Statements for the year ended 31 December 2014 for a detailed discussion of geographical concentration of the Group's assets and liabilities as at 31 December 2015, 2014 and 2013.

Liquidity Risk

One of the main risks inherent to the Group's operations is liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The objective of the Group's liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To limit liquidity risk, the Group maintains diversified and stable funding base comprising core retail and corporate customer accounts, as well as institutional balances. The Group also maintains portfolios of highly marketable and diverse assets that can be easily liquidated to respond quickly and smoothly to unforeseen liquidity requirements. The Group also has committed lines of credit that it can access to meet liquidity needs.

Management of the Group manages assets with liquidity in mind and monitors future cash flows and liquidity position on a daily basis. The Group's liquidity management process includes:

- projection of expected cash flows and assessment of the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources and monitoring depositor concentration in order to avoid undue reliance on large individual depositors;
- managing the concentration and profile of debt maturities, as well as maintaining debt financing plans;
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises.

As at 31 December 2015, the Group had a cumulative liquidity gap between financial assets and financial liabilities that mature from one year to five years of RUB48,199.1 million. See Note 34 to the Financial Statements for the year ended 31 December 2015 and Note 35 to the Financial Statements for the year ended 31 December 2014 for a detailed analysis of the liquidity risks.

Market Risk

General

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest and foreign exchange rates. The Group is exposed to interest rate risk, as the member firms of the Group raise funds at both fixed and floating rates. The Group manages this risk by maintaining the balance between loans at a fixed rate and loans at a floating rate.

Business Development Committee and Risk Management Department manage interest rate and respective market risks by managing the Group's interest rate position, which provides the Group with a positive interest margin. The Management Board, Business Development Committee, and Financial Department monitor the Group's current financial performance, estimate the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

See Note 34 to the Financial Statements for the year ended 31 December 2015 and Note 35 to the Financial Statements for the year ended 31 December 2014 for a detailed analysis of the market risks as at 31 December 2015, 2014 and 2013.

Interest Rate Risk

The Group manages this risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Financial Control Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

The majority of loans to corporate customers are issued under the conditions, which allow the Group to renegotiate interest rates in case of changes in market rates. The sensitivity of the profit as presented above does not take into account this option of the Group.

Currency Risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Financial Committee controls currency risk by determining an open currency position on the estimated basis of foreign currency fluctuations and other macroeconomic indicators, which gives the Group an opportunity to minimise losses from significant currency rate volatility. Treasury performs monitoring of the Group's open currency position on daily basis in order to match the CBR statutory requirements and limits, established by the Financial Committee.

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks as a result of its products being subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation of the Group, have legal or regulatory implications, or lead to financial loss of the Group. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

MANAGEMENT

Management Structure

In line with other Russian banks, B&N Bank is managed through a multi-tier system of governing bodies comprised of the General Shareholders' Meeting, the Board of Directors and the Management Board, as well as the Chairman of the Management Board.

The General Shareholders' Meeting is the highest governing body of the Bank. The General Shareholders' Meeting elects the Board of Directors, which is responsible for the general management of the Bank as well as the coordination of its overall strategy and general supervision. The Board of Directors appoints the members of the Management Board upon the presentation of candidates by the Chairman of the Management Board. The Management Board, which is the collective executive body of the Bank, and the Chairman of the Management Board, who acts as the chief executive officer of the Bank, direct and conducts day to day activities of the Bank. Certain powers may be delegated by the Chairman of the Management Board to his deputies, members of the Management Board, and department heads. A brief description of the General Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board is set out below.

None of the members of the Board of Directors or the Management Board have been included to the list of designated persons under the sanctions regime introduced by the United States, European Union and several other countries

General Shareholders' Meeting

There are annual general meetings and extraordinary general meetings of the shareholders. The annual General Shareholders' Meeting is convened no earlier than two months and no later than six months after the end of the Bank's financial year.

The General Shareholders' Meeting is the highest governing body of the Bank. The powers of the General Shareholders' meeting are set forth in the Joint Stock Companies Law (the "**JSC Law**") and the Bank's Charter. The procedure for convening, preparation and conducting of the General Meeting is stipulated in the Regulation for the General Shareholders' Meeting of Public Joint-Stock Company B&N Bank.

Shareholders have the power to decide the following issues, among others:

- amendments and modifications to the Bank's Charter;
- increase or decrease of the share capital by relatively amending the nominal value of shares;
- increase of share capital by (a) placement of additional shares or other securities convertible into shares for private subscription; (b) placement of additional ordinary shares or other securities convertible into ordinary shares for public subscription in the amount of more than 25 per cent. of the previously placed shares; and (c) placement of additional shares within the announced amount and type paid by the Bank's assets by way of distribution between all shareholders (only by way of approval of the suggested decision of the Board of Directors);
- decrease of the share capital by way of acquisition of the shares by the Bank and by subsequent cancellation of the acquired shares;
- reorganisation (only by way of approval of the suggested decision of the Board of Directors) or liquidation of the Bank, appointment of a commission to liquidate the Bank and approval of preliminary and final liquidation balances;
- determining the number of members of the Board of Directors, election and termination of powers of the Board of Directors;

- appointment and removal of the members of the Bank's audit committee and approval of the Bank's external auditor;
- approval of the Bank's annual reports and financial statements;
- payment (announcement) of dividends;
- placement of securities convertible into shares by way of private subscription (only by way of approval of the suggested decision of the Board of Directors);
- approval of certain interested party transactions and large scale transactions (only by way of approval of the suggested decision of the Board of Directors and with the exception of such transactions which must be approved by the Board of Directors);
- approval of the Bank's participation in financial and industrial groups, associations and other groups of commercial organisations (only by way of approval of the suggested decision of the Board of Directors); and
- other issues according to the JSC Law and the Bank's Charter.

Decisions of the General Shareholders' Meeting are generally adopted by a simple majority of voting shareholders who are present at the meeting, unless the JSC Law or the Bank's Charter requires qualified majority or set additional rules. Pursuant to the JSC Law and the Bank's Charter, motions such as amendment of the Bank's Charter, increase of the share capital in most cases, placement of securities convertible into shares, reorganisation and liquidation must be approved by a three quarters majority vote of the voting shares participating in the General Shareholders' Meeting of the Bank.

Board of Directors

The Board of Directors is responsible for the general management of the Bank, with the exception of those matters which are within the exclusive authority of the General Shareholders' Meeting or the executive bodies of the Bank in accordance with the JSC Law and the Bank's Charter. The Board of Directors meets as often as necessary and not less than once every six weeks and exercises exclusive authority over certain matters including business priorities, convening annual meetings and approving the agenda and the placement of securities. Overall control of the Bank's current operations is vested in the Management Board which is accountable to the Board of Directors and the General Shareholders' Meeting.

Members of the Board of Directors are elected by the annual General Shareholders' Meeting for a one year period and may be re-elected an unlimited number of times. Currently, there are 8 members on the Bank's Board of Directors. The name, position and certain other information for each member of the Board of Directors of the Bank are set out below.

In October 2015, the General Shareholders' Meeting elected a new Board of Directors. Dmitry Eropkin, Anastasia Anshakova and Alexander Filatov were appointed as independent directors.

Name	Position	Date of appointment
Angelika Anshakova	Member	2010
Galina Danilova	Member	2011
Dmitry Eropkin	Member	2015
Alexander Filatov	Member	2011
Margarita Konovalova	Member	2011
Kirill Lyubentsov	Member	2012
Sergey Maryin	Member	2005
Mikail Shishkhanov	Chairman	2008

Angelika Anshakova has been a member of the Board of Directors since 2010. Mrs. Anshakova graduated from the Kiev State Economic University in 1991. Mrs. Anshakova has been a director of

CJSC Promsvyazcapital, PJSC “Karacharovskiy mechanicheskiy zavod”, OJSC “Kochetkov” and since 2006 serves as a director at CJSC “IB Link Capital”. In September 2013 Mrs. Anshakova has been elected to be a member of the Board of Directors of the Bank of Cyprus.

Galina Danilova has been a member of the Board of Directors since 2011. Mrs. Danilova graduated from the Moscow Financial Academy in 1995. Currently, Mrs. Danilova serves as General Director (since 2010) of LLC “Tradewest”, as well as a director at MDM Bank.

Dmitry Eropkin has been a member of the Board of Directors since 2015. Mr. Eropkin graduated from the Moscow Aviation Institute in 1993 and Financial Academy with the Government of the Russian Federation in 1995. During the period of 2010-2015 served as a Chairman of the Management Board of PJSC “ACB “Russian Capital”. Mr. Eropkin is an independent director and a member of the Risk Management Committee.

Alexander Filatov has been a member of the Board of Directors since 2011. Mr. Filatov graduated from the Plekhanov Institute in 1980 and has a PhD in Economics since 1983. Currently Mr. Filatov serves as a director at the OJSC “Agency for Mortgage Housing Lending”, MDM Bank and as a General Director of “Expertise Centre for Corporate Relations” LLC. He is a member of the Strategy and Corporate Governance Committee and the Chairman of the Remuneration Committee.

Margarita Konovalova has been a member of the Board of Directors since 2011. Mrs. Konovalova graduated from the Kuibyshev Planning and Economic Institute in 1990 and Danish Centre for Management in 2002. Prior to becoming the member of the Board of Directors of the Bank, Mrs. Konovalova served as a manager of the Ulyanovsk Branch of the Bank.

Kirill Lyubentsov has been a member of the Board of Directors since 2012. Mr. Lyubentsov graduated from the Russian Extramural Financial and Economic Institute in 1997. Currently he serves as a director at the MDM Bank and as the President (Chairman of the Management Board) of “Rost Bank” (JSC). Mr. Lyubentsov is a member of the Audit Committee and the Risk Management Committee.

Sergey Maryin has been a member of the Board of Directors since 2005. Mr. Maryin graduated from the Financial Academy with the Government of the Russian Federation in 1995. He currently serves as a director at MDM Bank and as a member of the Management Board at CJSC “Mospromstroy”. Mr. Maryin is a member of the Remuneration Committee and the Chairman of the Strategy and Corporate Governance Committee.

Mikail Shishkhanov has been a member of the Board of Directors since 2008 and the Chairman of the Board since 2015. Mr. Shishkhanov graduated from the Russian Peoples' Friendship University in 1995 and the Financial Academy with the Government of the Russian Federation in 2000 and has a PhD in Economics since 2002. Mr. Shishkhanov currently serves as the Chairman of the Board of Directors at “Business Centre “Parus” LLC, CJSC “Rublevo-Arkhangenskoe”, CJSC “INTECO”, “Atakaycement” LLC and JSC “Europlan”. He also serves as a director at MDM Bank, “Rost Bank” (JSC), “Alpinvest Holding” LLC, OJSC “NK “RussNeft”, etc. Mr. Shishkhanov is a member of the Strategy and Corporate Governance Committee.

The business address of each of the members of the Board of Directors of the Bank is 3 Izveskoviy Pereulok, Moscow, 109004, Russian Federation, telephone number +7 (495) 755 5060.

Management Board and the Chairman of the Management Board

The day to day management and administration of the Bank is carried out by the Management Board and the Chairman of the Management Board. The Chairman of the Management Board is elected by the Board of Directors for a period of five years an indefinite period of time and can be removed by the Board of Directors. In July 2015, the Board of Directors elected Mr. Alexander Lukin as the Chairman of the Management Board of the Bank.

The Management Board members are appointed by the Board of Directors for a period of three years and their power may be terminated by the Board of Directors. Its activities are coordinated by the Chairman of the Management Board and are regulated by JSC Law, the Bank's Charter and Regulations of the Management Board. The Management Board meets as often as necessary and makes its decisions by a simple majority vote, with the Chairman of the Management Board having a casting vote (subject to a minimum 50 per cent. quorum requirement).

Currently, there are seven members of the Management Board. The name, position and certain other information for each member of the Management Board are set out below.

Name	**Position**	**Date of appointment**
Dmitriy Cheremisin	Member	2014
Aleksey Farafontov	Member	2014
Konstantin Kalagin	Member	2014
Alexey Kitaev	Member	2013
Irina Komarova	Member	2008
Artem Konovalov	Member	2015
Alexander Lukin	Chairman	2015

Dmitriy Cheremisin has been a member of the Management Board since 2014. Mr. Cheremisin graduated from the Financial Academy with the Government of the Russian Federation and Seattle State University in 2001 and has a PhD in Economics since 2005. Mr. Cheremisin currently holds an office of a non-executive director at PJSC B&N Bank Surgut, KEDR PJSC CB, "Rost Bank" (JSC), PJSC B&N Bank Smolensk and B&N Bank Tver. He also serves as a Counsel for the Chairman of the Management Board at MDM Bank.

Aleksey Farafontov was appointed as a member of the Management Board in 2014. Mr. Farafontov graduated from the Amur State University in 2002. He is the Head of the Regional Directions block of the Bank's business. Mr. Farafontov currently holds an office of a non-executive director at JSC "B&N Bank Credit Cards" and "Rost Bank" (JSC), as well as the Chairman of the Board of Directors at PJSC B&N Bank Surgut, "URALPRIVATBANK", Joint-Stock Company, KEDR PJSC CB, PJSC B&N Bank Smolensk, JSC B&N Bank Murmansk and B&N Bank Tver. He also serves as a Managing Director at MDM Bank.

Konstantin Kalagin has been appointed as a member of the Management Board since 2014. Mr. Kalagin first graduated from the Ulyanovsk State University in 1997. He is the Head of the Large Corporate Business Section. Mr. Kalagin currently serves also as a Managing Director at MDM Bank. Mr. Kalagin currently holds an office as a non-executive director at "URALPRIVATBANK", Joint-Stock Company and JSC B&N Bank Murmansk.

Alexey Kitaev was appointed as a member of the Management Board in 2013. Mr. Kitaev graduated from the S. Ordzhonikidze State Management Academy in 1995. Mr. Kitaev is the CFO of the Bank and also holds an office of a non-executive director at JSC "B&N Bank Credit Cards", "Rost Bank" (JSC) and "Alpinvest Holding" LLC. Mr. Kitaev currently serves also as a Managing Director at MDM Bank.

Irina Komarova has been a member of the Management Board since 2008. Mrs. Komarova graduated from the Moscow S. Ordzhonikidze Aviation University in 1987 and has obtained PhD in Technical Science (1994). She is supervising International Business, Capital Markets and Financial Institutions of the Bank. Mrs. Komarova currently serves also as a Managing Director (same businesses) at MDM Bank.

Artem Konovalov has been a member of the Management Board since 2015. Mr. Konovalov graduated from the Moscow State Law Academy in 2003 and obtained PhD in Law in 2007. He is the Director of the Law Department of the Bank. Mr. Konovalov currently serves as a Counsel and a Managing Director in MDM Bank, as a counsel at "Rost Bank" (JSC) and holds an office of non-managing director at B&N Bank Tver.

Alexander Lukin has been a member of the Management Board since 2007 and the Chairman of the Management Board since 2015. Mr. Lukin graduated from the Plekhanov Academy in 1997 and obtained PhD in Economics in 2001. Mr. Lukin currently serves as a Managing Director at MDM Bank and holds an office as a non-managing director at JSC "Europlan", AO NPF SAFMAR, "Rost Bank" (JSC), "Alpinvest Holding" LLC, JSC "B&N Bank Credit Cards" and "Finvestorg-Ufa" LLC.

The business address of each of the members of the Management Board of the Bank is 3 Izveskoviy Pereulok, Moscow, 109004, Russian Federation, telephone number +7 (495) 755 5060.

Conflicts of interest

JSC Law, the Bank's Charter of the Bank and the Regulation on the Management Board of the Bank provides for an obligation of the members of the Management Board to act in the best interest of the Bank. Further, they are obliged to disclose information regarding their ownership and acquisition of the Bank's securities, shareholding interest into share capital of any entity or an office in any other financial institutions or legal entities. Respectively, the Bank is in a position to manage conflict of interest and to comply with the legislation regarding interested party transactions. Mr. Mikail Shishkhanov, in addition to being the Chairman of the Board of Directors, is one of the controlling shareholders of the Bank. Although Mr. Mikail Shishkhanov does not have a conflicting interest from the Russian law perspective, there is potential for there to be a conflict of interests between his respective duties as the Chairman of the Board of Directors of the Bank and his private interests as the controlling shareholder of the Bank. Save as disclosed above, no other actual or potential conflicts of interest exist between the duties that any member of the Board of Directors owes to the Bank and such member's private interests or other duties.

Corporate governance

In 2014 and 2015, Bank continued to develop corporate governance procedures in accordance with the best Russian and international practices. The main aim in developing such procedures is to create an effective system of internal control over the financial activity maintaining the Bank's stability; to increase the effectiveness of its activity; and to protect the rights and legal interests of its shareholders.

The Board of Directors within its responsibilities actively uses its powers to deal with solving the issues of business strategy and risk management, financial stability and corporate governance, holds effective control over the executive bodies, etc.

Every year the newly elected Board of Directors forms permanently operating Committees. These are advisory and consultative bodies created to raise efficiency and improve the collaboration between the Board of Directors.

Control over the Bank's financial activity is carried out by an external auditor and the Audit (revision) commission which reports directly to the General Meeting of the Shareholders.

SHAREHOLDERS

Share Capital

As at 1 January 2016, the nominal amount of share capital was RUB12,229,701,400 divided into 61,148,507 registered ordinary (voting) shares with a nominal value of RUB200 each. All shares were placed and the authorised capital of the Bank was paid in full. The Charter of the Bank allows for up to 199,051,493 declared registered ordinary shares with a nominal value of RUB200 each. The Charter of the Bank allows for up to 62,500,000 declared registered preference shares with a nominal value of RUB200 each with a liquidation value of 10 per cent.

Ownership

The following table sets forth ownership of the Bank's ordinary shares as at 1 January 2016.

Beneficial owners	**Percent of Share Capital**
	(%)
Mikail Shishkhanov	59.4064
Mikhail Gutseriev	39.3589
Other	1.2347
Total:	**100.0**

The rights of controlling persons as shareholders of the Borrower are contained in the Charter of the Borrower and the Borrower will be managed in accordance with the Charter and with the provisions of Russian law.

Dividends

Dividend policy is regulated by the Bank's Charter.

Each shareholder has the right to receive net profit in the forms of dividends. Decisions on the declaration of dividends and on the recommended amount and form of payments are concluded at the General Shareholders' Meeting, on the basis of the recommendations by the Board of Directors. These recommendations accommodate the interests of both shareholders and the Bank, from the perspective of future business development.

The recommended amount of dividend payments is determined on the basis of the Bank's financial results at year end, and is normally not less than 10 per cent. of net profit under RAS. In addition, in assessing the amount of dividends, the Board of Directors also takes into account the net profit under IFRS accounts.

In 2015, the General Shareholders' Meeting made a decision to pay dividends of RUB13,453 thousand on ordinary shares of the Bank for 2014.

RELATED PARTY TRANSACTIONS

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

In the years ended 31 December 2015, 2014 and 2013, the Group had no transactions with related parties, prices and terms of which might differ from prices and terms of the transactions between unrelated parties.

The following table sets forth the outstanding balances with related parties as at 31 December 2015, 2014 and 2013.

	As at 31 December					
	2015		2014		2013	
			(in thousands of roubles)			
	Related party balances	Total	Related party balances	Total	Related party balances	Total
Due from banks and other financial institutions	369,175,478	432,456,240	13,940,784	117,494,041	-	28,066,172
- entities under common control	369,175,478		-		-	
- other related parties	-		13,940,784		-	
Loans to customers	4,739,967	230,638,119	5,911,297	224,143,633	6,824,257	140,552,163
- key management personnel of the Group	8,211		11,237		7,470	
- entities under common control	4,731,756		5,900,060		6,816,787	
Allowance for impairment losses on loans to customers	(142,803)	(12,532,753)	(17,163)	(9,966,823)	(29,029)	(4,288,024)
- key management personnel of the Group	(375)		(510)		(325)	
- entities under common control	(142,428)		(16,653)		(28,704)	
Investments available for sale	70	19,844,177	70	24,955,899	70	135
- entities under common control	70		70		70	
Due to banks and other financial institutions	25,986,732	45,604,158	11,999,325	50,778,170	-	1,809,092
- entities under common control	22,416,476		-		-	
- other related parties	3,570,257		11,999,325		-	
Customer accounts	5,276,059	487,905,761	1,708,500	263,908,410	801,797	172,035,143
- key management personnel of the Group	1,053,178		312,518		202,914	
- entities under common control	4,219,414		1,395,982		598,883	
- other related parties	3,467		-		-	
Subordinated debt	11,610,139	11,610,139	13,988,284	13,988,284	7,547,441	7,547,441
- entities under common control	11,610,139		13,988,284		7,547,441	
Guarantees issued and similar commitments	189,989	48,280,031	33,257	20,569,053	35,617	12,538,470
- key management personnel of the Group	21,865		16,878		9,819	
- entities under common	168,124		16,379		25,798	

control....................................						
Commitments on loans and unused credit lines	44,282	19,515,437	988	10,147,845	350,381	10,253,362
- key management personnel of the Group...........................	13,060		750		5,000	
- entities under common control....................................	31,222		238		345,381	

THE ISSUER

Overview

The Issuer was incorporated in Ireland as a designated activity company on 29 February 2016, registered number S77955, under the Companies Act 2014 of Ireland (the "**Companies Act**"). The registered office of the Issuer is 12 Merrion Square, Dublin 2, Ireland and phone number +353 61 715 744.

The authorised share capital of the Issuer is EUR100 divided into 100 ordinary shares of par value EUR1 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held on trust by First Name Trust Company (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 29 February 2016, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

First Names Corporate Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 22 March 2016 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party.

The Corporate Services Provider's principal office is 12 Merrion Square, Dublin 2, Ireland.

Business

The principal objects of the Issuer are set forth in clause 3 of its Constitution (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures, loan participation notes, enter into derivatives and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance a loan to the Borrower.

Since its incorporation the Issuer has not engaged in material activities other than those incidental to its registration as a designated activity company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Constitution provides that the Board of Directors of the Issuer consists of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

- Lisa O'Sullivan, 12 Merrion Square, Dublin 2, Ireland;

- Joanne McEnteggart, 12 Merrion Square, Dublin 2, Ireland.

The Company's Secretary is First Names Corporate Secretaries (Ireland) Limited.

Financial Statements

Since its date of incorporation no financial statements of the Issuer have been prepared. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2016. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than 9 months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The auditors of the Issuer are Grant Thornton, 24-26 City Quay, Dublin 2, D02 NY19 Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

THE LOAN AGREEMENT

THIS AGREEMENT is made on 22 March 2016

BETWEEN:

(1) **B&N BANK (PUBLIC JOINT-STOCK COMPANY)**, a public joint stock company incorporated under the laws of the Russian Federation whose registered address is at 3 Izvestkovy pereulok, 109004 Moscow, Russian Federation (the "**Borrower**"); and

(2) **B&N BONDS DESIGNATED ACTIVITY COMPANY,** a designated activity company incorporated under the laws of Ireland whose registered address is at 12 Merrion Square, Dublin 2, Ireland (the "**Lender**").

WHEREAS:

(A) The Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan in the amount of U.S.$150,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended that the Lender will issue certain loan participation notes for the purpose of financing the Loan (as defined below).

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the following meanings:

"**Account**" means the account with account number 8795288400 in the name of the Lender with The Bank of New York Mellon, London Branch;

"**Account Bank Agreement**" means the secured account bank agreement dated 24 March 2016 between The Bank of New York Mellon, London Branch as account bank, the Lender and the Trustee, as may be amended or supplemented from time to time;

"**Affiliate**" of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified person or (ii) any other person who is a director or officer (a) of such specified person, (b) of any Subsidiary of such specified person or (c) of any person described in (i) above. For the purposes of this definition, "**control**" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Agency**" means any agency, authority, central bank, committee, department, government, legislature, ministry, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the paying agency agreement dated 24 March 2016 between the Lender, the Borrower, the Trustee and the agents named therein, as may be amended or supplemented from time to time;

"**Agreement**" means this Agreement as originally executed or as it may be amended or supplemented from time to time;

“**Auditors**” means the auditors of the Group’s IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, any other internationally recognised firm of accountants;

“**Borrower Agreements**” means this Agreement, the Subscription Agreement, the Agency Agreement, the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

“**Business Day**” means a day on which (a) the London interbank market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City, Dublin, Moscow and in the city where the Specified Office of the Principal Paying Agent is located;

“Change of Control” means Mr. Mikail Shishkhanov and Mr. Mikhail Gutseriev together (i) cease to own and control (directly or indirectly) at least 50 per cent. plus one share of the issued and outstanding voting share capital of the Borrower or, (ii) no longer have the right to appoint or remove a majority of the Borrower's board of directors (supervisory board);

“**Change of Control Put Option**” means the put option granted to Noteholders pursuant to the Conditions;

“**Closing Date**” means, subject to clause 10.2 (*Postponed Closing*) of the Subscription Agreement, 24 March 2016;

“**Conditions**” means the terms and conditions of the Notes as set out in Part B of Schedule 2 to the Trust Deed as the same may be modified prior to the Closing Date, and any reference to a numbered “**Condition**” is to the correspondingly numbered provision thereof;

“**Event of Default**” has the meaning assigned to such term in Clause 11.1 (*Events of Default*) hereof;

“**Financial Indebtedness**” means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements which would, in accordance with IFRS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount for such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of a member of the Group), at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) any guarantee, indemnity or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

"**Group**" means the Borrower and its consolidated Subsidiaries from time to time taken as a whole and a "**member of the Group**" means any of the Borrower or any of its consolidated Subsidiaries from time to time;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Group has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**Independent Appraiser**" means any third party appraiser of international standing selected by the Borrower and approved by the Lender and the Trustee (such approval not to be unreasonably withheld or delayed), *provided, however, that* such Independent Appraiser is not an Affiliate of any member of the Group;

"**Interest Payment Date**" means 27 March and 27 September in each year commencing on 27 September 2016;

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Closing Date, and ending on (but excluding) the next Interest Payment Date;

"**Lender Agreements**" means this Agreement, the Subscription Agreement, the Trust Deed, the Agency Agreement, the Account Bank Agreement, the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Loan**" at any time, means the loan in the amount of U.S.$150,000,000 granted by the Lender to the Borrower pursuant to this Agreement or, as the context may require, the aggregate principal amount of the Loan outstanding from time to time;

"**Material Adverse Effect**" means a material adverse effect on (a) the business, financial condition , results of operations of the Borrower or the Group, (b) the Borrower's ability to perform its obligations under the Borrower Agreements, or (c) the validity, legality or enforceability of the Borrower Agreements or the rights or remedies of the Lender or other parties thereto under the Borrower Agreements;

"**Material Subsidiary**" means at any time a Subsidiary of the Borrower:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 10 per cent. of the consolidated net interest income of the Group (before allowance for impairment losses on interest bearing assets), or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 10 per cent. of the consolidated assets of the Group, each as set forth in the most recent available consolidated financial statements of the Group for such IFRS Fiscal Period (with effect from the date of issuance of such statements); or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

"**Noteholder**" means the person in whose name the Note is registered in the register of noteholders (or in the case of joint holders, the first named holder thereof);

"**Notes**" means the U.S.$150,000,000 8.5 per cent. loan participation notes due 2019 proposed to be issued by the Lender as issuer pursuant to the Trust Deed for the purpose of financing the Loan;

"**Officer's Certificate**" means a certificate signed by an officer of the Borrower who shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"**Ongoing Fee Side Letter**" means the letter agreement dated 24 March 2016 between the Borrower, the Lender and the other persons named therein, as may be amended or supplemented from time to time;

"**Opinion of Counsel**" means a written opinion from international legal counsel as reasonably selected by the Borrower with the written consent of the Lender and the Trustee (such consent not to be unreasonably withheld or delayed);

"**Permitted Lien**" means:

(a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, provided that:

(i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group (save for any Lien created by a member of the Group following the acquisition of such asset, provided that such Lien is discharged upon completion of the acquisition transaction and does not extend to any other assets or property); and

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group;

(b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, provided that:

(i) such Lien was not created in contemplation of the acquisition of such company (save for any Lien created by a member of the Group following the acquisition of such company, provided that such Lien is discharged upon completion of the acquisition transaction and does not extend to any other assets or property); and

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;

(c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;

(d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3, does not, at any such time, exceed 30 per cent. of the loans to customers, as determined at any time by reference to the Group’s consolidated financial statements as at the end of the most recent IFRS Fiscal Period;

(e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;

(f) any Lien arising by operation of law or in the normal (ordanary) course of business;

(g) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(h) Liens for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(i) any Lien granted in favour of the Borrower or any Subsidiary of the Borrower;

(j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(l) any Liens existing on the date of this Agreement;

(m) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (l), *provided, however, that* such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (m) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question); and

(n) any other Lien not otherwise described in paragraphs (a) through (m) above, provided that the aggregate amount of Financial Indebtedness secured thereby shall not exceed 25 per cent. of the total liabilities of the Group, as determined at any time by reference to the Group’s consolidated financial statements as at the end of the most recent IFRS Fiscal Period;

“**Permitted Reorganisation**” means a reorganisation or other type of corporate reconstruction pursuant to which:

(a) any of Public Joint Stock Company MDM Bank, PJSC B&N Bank Surgut, KEDR PJSC CB, "Rost Bank" (JSC), PJSC B&N Bank Smolensk, B&N Bank Tver, "URALPRIVATBANK", Joint-Stock Company, JSC "B&N Bank Credit Cards", JSC B&N Bank Murmansk or any Subsidiary of the Borrower merges (by way of a merger, accession or other bases or procedures for reorganisation of similar nature) with the Borrower; or

(b) any of the legal entities listed in (a) above merges (by way of a merger, accession or other bases or procedures for reorganisation of similar nature) with any other legal entity listed in (a) above;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

"**Potential Event of Default**" means any event which would (after notice, passage of time, or both) be an Event of Default;

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch;

"**Rate of Interest**" has the meaning given to it in Clause 4.1 (*Rate of Interest*);

"**Registrar**" means The Bank of New York Mellon (Luxembourg) S.A;

"**Repayment Date**" means 27 March 2019;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in freely transferable U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Sanctions Target**" means a target of any sanctions, prohibitions, asset freeze or other measures ("**Sanctions**") administered by the Office of Foreign Assets Control of the US Department of Treasury ("**OFAC**") or any other Sanctions imposed by any other U.S. sanctions authority, the European Union, Her Majesty's Treasury or the United Nations;

"**Specified Office**" has the meaning given to it in the Agency Agreement;

"**Subscription Agreement**" means the agreement dated the date hereof between the Lender, the Borrower, SC Lowy (Financial) HK Ltd. and XiaXin Securities (HK) Limited relating to the Notes.

"**Subsidiary**" means, in relation to any person (the "**first person**") at any particular time, any other person (the "**second person**"):

(a) whose affairs and policies the first person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first person;

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any taxing authority thereof or therein, *provided, however, that* for the purposes of this definition (a) references to the Russian Federation or Ireland shall, upon the occurrence of the Relevant Event (as defined in the Trust Deed), be deemed to include references to the jurisdiction in which the Trustee is domiciled for tax purposes, and (b) if the Borrower or the Lender becomes subject to any taxing jurisdiction other than or in addition to the Russian Federation or Ireland, references to the Russian Federation or Ireland shall be construed as including such other jurisdiction and the term "**taxation**" shall be construed accordingly;

"**Trust Deed**" means the trust deed dated 24 March 2016 between the Lender and the Trustee, as may be amended or supplemented from time to time;

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"**Upfront Fee Side Letter**" means the letter agreement dated the date hereof between the Borrower and the Lender; and

"**U.S.$**" and "**U.S. dollars**" denote the lawful currency for the time being of the United States of America.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Conditions, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to "**Clause**" or "**sub-Clause**" are references to a Clause or a sub-Clause of this Agreement;

1.3.2 the terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 all references to "**taxes**" include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly;

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof;

1.3.6 any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;

1.3.7 all references in this Agreement to an agreement, instrument or other document shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time; and

1.3.8 principal and/or interest in respect of the Loan shall be deemed also to include references to any additional amounts.

2. THE LOAN

2.1 The Loan

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, the Loan in the amount of U.S.$150,000,000.

2.2 Purpose

The proceeds of the Loan will be used by the Borrower for general corporate purposes, *provided, however, that* the Lender shall not be concerned with the application thereof.

2.3 Expenses

In consideration of the Lender making the Loan to the Borrower, the Borrower shall:

2.3.1 in Same-Day Funds by 3:00 pm (London time) one Business Day prior to the Closing Date, pay to the Lender, in accordance with the Upfront Fee Side Letter, the upfront fees, commissions and expenses incurred in connection with the arrangement of the Loan (the "**Facility Fee**"); and

2.3.2 on demand of the Lender, reimburse to the Lender each year for all ongoing fees, commissions, costs, taxes and expenses as set forth in the Ongoing Fee Side Letter.

3. DRAWDOWN AND DISBURSEMENT

3.1 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Loan to the Borrower and the Borrower shall make a single drawing in the full amount of the Loan.

3.2 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the full amount of the Loan, in Same-Day Funds, to the Borrower's account with the following details:

B&N Bank (Public Joint-Stock Company), Moscow, Russia
SWIFT: BINO RU MM
Acc. 854273430
J.P.MORGAN CHASE BANK, NEY YORK, USA
SWIFT: CHAS US 33

4. INTEREST

4.1 Rate of Interest

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan at a rate per annum of 8.5 per cent. (the "**Rate of Interest**"). Interest will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

4.2 Payment of Interest

Interest on the Loan shall accrue at the Rate of Interest from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 3:00 pm (London time) one Business Day prior to each Interest Payment Date to the Account. Interest on the Loan will cease to accrue from the date of the actual repayment of the Loan.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 3:00 pm (London time) one Business Day prior to the Repayment Date.

5.2 Prepayment for Tax Reasons

If, as a result of the application of or any amendment, change or clarification to (including a change in interpretation or application of), the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority therein having power to tax, or any change in the application or official interpretation of such treaty, laws or regulations, which amendment, change or clarification would become effective on or after the date hereof, the Borrower would thereby be required to make or increase any payment due pursuant to this Agreement as provided in Clause 6.2 or 6.3, or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days' notice to the Lender (copied to the Trustee) (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

5.3 Illegality

If, at any time after the date of this Agreement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency, the Lender reasonably determines (such determination setting out in reasonable detail the nature and extent of the relevant circumstances and being supported, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Notes and/or to charge or receive or to be paid interest at the rate then applicable to the Loan or the Notes, then upon notice by the Lender to the Borrower in writing (copied to the Trustee) (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such other date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

5.4 Prepayment in the Event of a Change of Control

5.4.1 If, following the occurrence of a Change of Control any Noteholder has exercised its Change of Control Put Option in accordance with Condition 6(c) (Redemption at the Option of Noteholders), the Borrower shall on the Put Settlement Date specified in such Condition, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes in relation to which the Change of Control Put Option has been duly exercised in accordance with the Conditions.

5.4.2 Promptly, and in any event within 10 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

5.4.3 The Lender shall, not more than three Business Days after receipt from the Principal Paying Agent of notice of the amount of the Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholder, notify the Borrower of such amount.

5.5 Reduction of Loan Upon Redemption and Cancellation of Notes

The Borrower, or any Subsidiary of the Borrower, may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that the Notes so purchased have been surrendered to the Lender for cancellation by the Borrower, or any Subsidiary of the Borrower, together with a request for the Lender to procure cancellation of such Notes by the Registrar, the Lender shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the Loan shall be deemed to have been prepaid by the Borrower in an amount equal to the aggregate principal amount of the Notes surrendered to the Lender for cancellation and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of this Agreement, the Borrower shall, simultaneously with such prepayment, pay to the Lender interest thereon accrued to the date of actual receipt of payment by the Lender and all other sums (if any) payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5 (*Redemption of Loan Upon Redemption and Cancellation of Notes*), then no interest shall accrue or be payable during the period from the preceding Interest Payment Date up to the date upon which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower, or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest which would otherwise have accrued in respect of the cancelled Notes during that period.

5.7 Provisions Exclusive

The Borrower shall not voluntarily prepay or repay the whole or any part of the Loan and this Agreement shall not be terminated early except in accordance with the express terms of this Agreement, and the Borrower shall not be entitled to re-borrow from the Lender any amount prepaid or repaid under this Agreement.

6. PAYMENTS

6.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 3:00 pm (London time) one Business Day prior to each Interest Payment Date, the Repayment Date or the date of any prepayment (as the case may be) in Same-Day Funds to the Account. The Lender agrees with the Borrower that it will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with this Agreement, the Trust Deed and the Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under or in respect of this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due hereunder to such amount as may be necessary to ensure that the Lender receives (free from any liability in respect of such withholding or deduction) a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant taxing authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender (copied to the Trustee) without undue delay evidence from the relevant taxing authority of such deduction or withholding and of the accounting therefor to such taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligations of the Lender pursuant to Clause 6.6 (*Withholding Tax Exemption*).

6.3 Withholding on Notes

If the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes, the Borrower agrees to pay to the Lender, no later than 3:00 pm (London time) one Business Day prior to the date on which payment is due to the Noteholders, in Same-Day Funds to the Account, such additional amounts as are equal to the additional amounts (if any) which the Lender (acting as Issuer) is required to pay pursuant to Condition 8 (*Taxation*); *provided, however, that* immediately upon receipt by the Lender of any sums paid pursuant to this provision, to the extent that a Noteholder is not entitled to such additional amount pursuant to the Conditions, the Lender shall repay the relevant additional amount to the Borrower (it being understood that the Lender shall not have any obligation to determine whether any Noteholder is entitled to such additional amount). Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6 (*Payments*), the Lender shall pay promptly to the Borrower so much of (but in any event no amount greater than) the benefit received as will leave the Lender in exactly the same position as it would have been had no additional amounts been required to be paid by the Borrower pursuant to this Clause 6 (*Payments*); *provided, however, that* the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender acting reasonably. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations.

If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed referred to in Clause 6.2: (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 6.2 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of Tax as referred to above, the Borrower applies on behalf of the Lender to the relevant tax authority for a tax refund and such tax refund is credited by the relevant tax authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and (upon instructions by the Borrower) promptly transfer the entire amount of the tax refund (net of any tax imposed on the Lender) in the currency actually received and less any applicable costs to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights or the Borrower's obligations under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5.

6.6 Withholding Tax Exemption

6.6.1 The Lender shall use its best endeavours to provide the Borrower no later than ten Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than ten Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent authorities in Ireland, confirming that the Lender is tax resident in Ireland *provided that* the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent authorities in Ireland, but shall notify the Borrower without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. At the cost of the Borrower, such certificate shall be appropriately apostilled at the Irish Department of Foreign Affairs.

6.6.2 The Borrower and the Lender agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in sub-Clause 6.6.1 will be deemed changed accordingly.

6.6.3 The Lender shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) deliver to the Borrower such other information or forms to be duly completed and delivered as may be needed to obtain a tax relief or refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this sub-Clause 6.6.3 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Ireland and any requisite power of attorney issued by the Lender to the Borrower shall be duly signed and apostilled or otherwise legalised. The Lender shall provide the Borrower with all assistance it may reasonably require to ensure that the Borrower can deliver to the tax authorities the information or forms specified in this sub-Clause 6.6.3. The Borrower shall indemnify the Lender for all out of-pocket costs and expenses incurred by the Lender as a result of steps undertaken pursuant to this sub-Clause 6.6.3. The Lender shall not be obligated to take any step under this sub-Clause 6.6.3 if, in the reasonable opinion of the Lender, to so take would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

7. CONDITIONS PRECEDENT

The obligation of the Lender to make the Loan shall be subject to the following:

7.1 Proceeds

The Lender Agreements shall have been executed and delivered, and the Lender shall have received (i) the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement and (ii) the full amount of the Facility Fee pursuant to Clause 2.3 (*Expenses*).

7.2 Representations and Warranties

The representations and warranties made and given by the Borrower in Clause 9.1 (*Borrower's Representations and Warranties*) shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing.

7.3 No Breach of this Agreement

The Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement.

7.4 No Event of Default

No event has occurred and is continuing that constitutes an Event of Default or a Potential Event of Default.

8. CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the official interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of such authority, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*)); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*)); or

8.1.3 imposes, modifies or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by the Lender; *provided, however, that* the foregoing shall not include any increase in the rate of tax payable on the overall net income or capital gains of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or

8.1.4 imposes or will impose on the Lender any other condition affecting this Agreement or the Loan,

and if as a result of any of the foregoing:

(a) the cost to the Lender of making, funding or maintaining the Loan is increased; or

(b) the amount of principal, interest or other amount payable to or received by the Lender this Agreement is reduced; or

(c) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(i) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two directors of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificates; and

(ii) the Borrower, in the case of sub-Clauses 8.1.4(a) and 8.1.4(c) above, shall within three Business Days of the respective demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause 8.1.4(b) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return, *provided, however, that* the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and *provided, further, that* the Lender will not be entitled to such additional amount where such increased cost arises as a result of the gross negligence or wilful default of the Lender,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*).

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder, unless the Borrower agrees to reimburse such costs and expenses.

9. REPRESENTATIONS AND WARRANTIES

9.1 Borrower's Representations and Warranties

The Borrower represents and warrants to the Lender, to the intent that such shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date, that:

9.1.1 it and each of its Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under the Borrower Agreements and to borrow the Loan; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of the Borrower Agreements and all other documents to be executed and/or delivered by it in connection therewith, and the performance of the Borrower Agreements in accordance with their terms;

9.1.2 the Borrower Agreements have been duly executed and delivered by and constitutes legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity and (ii) to the fact that the gross-up provisions contained in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on Notes*) of this Agreement may not be enforceable under Russian law;

9.1.3 the execution, delivery and performance of the Borrower Agreements by the Borrower will not conflict with or result in any breach or violation of (i) any applicable law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Borrower or the terms of the banking licence granted to the Borrower by the Central Bank of the Russian Federation or (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Subsidiaries is a party or which is binding upon the Borrower or any of its Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument, save where, in respect of (iii) above, such breach or violation or Liens would not have a Material Adverse Effect;

9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the Central Bank of the Russian Federation) (other than any Russian law requirements to provide a Russian court with a duly notarised Russian translation of this Agreement in connection with any proceedings in respect thereof) required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;

9.1.5 no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an (i) Event of Default or (ii) a default under any agreement or instrument evidencing any Financial Indebtedness of the Borrower or any of its Material Subsidiaries which, in the case of (ii) only, could reasonably be expected to have a Material Adverse Effect, and no such event will occur upon the making of the Loan;

9.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Material Subsidiaries the adverse determination of which could reasonably be expected to have a Material Adverse Effect;

9.1.7 except for Liens of the types referred to in the definition of Permitted Liens, the Borrower and each of its Material Subsidiaries has good title to its property necessary for the conduct of its business and free and clear of all Liens and the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness;

9.1.8 the Group's audited consolidated financial statements as at and for the years ended 31 December 2014 and 2913 and the Group’s interim condensed consolidated financial statements as at and for the six months ended 30 June 2015:

(a) were prepared in accordance with IFRS, as consistently applied;

(b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

(c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial period;

9.1.9 there has been no material adverse change since 30 June 2015 in the business condition (financial or otherwise), results of business, operations or immediate prospects of the Borrower or any of its Material Subsidiaries or on the Borrower's ability to perform its obligations under this Agreement;

9.1.10 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);

9.1.11 neither the Borrower nor any of its Subsidiaries nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;

9.1.12 the Borrower and each of its Material Subsidiaries is in compliance in all material respects with all applicable provisions of law;

9.1.13 there are no material strikes or other employment disputes against the Borrower or any of its Subsidiaries which have been started or are pending or, to its knowledge, threatened;

9.1.14 in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in Russia;

9.1.15 no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;

9.1.16 all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations;

9.1.17 it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and

9.1.18 the Borrower and each of its Material Subsidiaries has no material overdue tax liabilities.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

9.2.1 The Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute the Lender Agreements, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate action to approve and authorise the same.

9.2.2 The execution of the Lender Agreements, the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

9.2.3 The Lender is a designated activity company which at the date hereof is a resident of Ireland only and is subject to taxation in Ireland on the basis of its incorporation as an Irish legal entity and the location of its effective management.

9.2.4 The Lender Agreements and the Notes have been duly executed by, and constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms subject, as to enforceability, to applicable bankruptcy, insolvency, examinership, moratorium and similar laws affecting creditors' rights generally.

9.2.5 All authorisations, consents and approvals in Ireland required by the Lender for or in connection with the execution of the Lender Agreements, the issue of the Notes and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10. COVENANTS

So long as any amount remains outstanding hereunder:

10.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Financial Indebtedness unless, at the same time or prior thereto, the Borrower's obligations under this Agreement (a) are secured equally and rateably therewith to the satisfaction of the Lender and the Trustee or (b) have the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

10.2 Mergers

(i) The Borrower shall not, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) the Borrower shall ensure that, without the prior written consent of the Lender and the Trustee, none of its Material Subsidiaries (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary of the Borrower incorporated in a jurisdiction other than Russia, participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably result in a Material Adverse Effect. This Clause 10.2 shall not apply to any Permitted Reorganisation.

10.3 Disposals

The Borrower shall not and shall ensure that its Material Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's length basis in the ordinary course of business) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets unless such transaction(s) is/are (a) on an arm's length basis and on commercially reasonable terms, (b) competent governing body of the Borrower or, as the case may be, the Material Subsidiary, and (c) would not result in a Material Adverse Effect.

This Clause 10.3 shall not apply to (a) any Permitted Reorganisation, or (b) any transaction with Public Joint Stock Company MDM Bank, “Rost Bank” (JSC) or JSC B&N Bank Murmansk, provided that such transaction would not result in a Material Adverse Effect, or (c) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of “Permitted Liens” and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans to customers, as determined at any such time by reference to the Group’s consolidated financial statements as at the end of the most recent IFRS Fiscal Period.

10.4 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Material Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”) including, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of the Borrower or such Material Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction involving aggregate payments or value in excess of 1 per cent. of the total consolidated assets of the Group (as determined by reference to the Group's consolidated financial statements as at the end of the most recent IFRS Fiscal Period), the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Material Subsidiary, as the case may be.

This Clause 10.4 does not apply to (a) any Permitted Reorganisation, or (b) compensation or employee benefit arrangements with any officer or director of the Borrower or a Subsidiary of the Borrower, as the case may be, arising as a result of their employment contract, or (c) any Affiliate Transaction between the Borrower and any of its Subsidiaries or between any Subsidiaries of the Borrower, or (d) any Affiliate Transaction between the Borrower or any of its Subsidiaries and Public Joint Stock Company MDM Bank, "Rost Bank" (JSC) or JSC B&N Bank Murmansk, *provided that* such transaction would not result in a Material Adverse Effect.

10.5 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or its relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, *provided that*, in any case if the Borrower and/or its relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 which is capable of being remedied, within 90 days of such failure or of the occurrence of such event or if such failure could not reasonably result in a Material Adverse Effect, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

The Borrower shall, and shall ensure that its Material Subsidiaries will, cause all property that is material in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or any of its Material Subsidiaries, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if the Borrower or any such Material Subsidiary can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding 1 per cent. of the total consolidated assets of the Group (as determined by reference to the Group's consolidated financial statements as at the end of the most recent IFRS Fiscal Period), this covenant shall be deemed not to have been breached.

10.7 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of the

Borrower and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Material Subsidiaries; *provided, however, that* none of the Borrower or any of its Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied, or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, could not, if not paid, reasonably result in Material Adverse Effect. Financial Information

10.8 Financial Information

10.8.1 The Borrower shall as soon as the same become available, but in any event within 120 days after the end of each of its financial years, deliver to the Lender the Group's consolidated financial statements for such financial year, in each case audited by the Auditors.

10.8.2 The Borrower shall as soon as the same become available, but in any event within 90 days after the end of each half of the first of its financial years, deliver to the Lender the Group's consolidated financial statements for such period.

10.8.3 The Borrower shall, so long as the Loan or any other sum owing under this Agreement remains outstanding, deliver to the Lender, without undue delay, such additional information (other than information that the Borrower in good faith determines is required to be kept confidential, in which case the Borrower shall promptly give details of the basis of confidentiality) regarding the financial position or the business of the Borrower or the Group as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

10.8.4 The Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10 is:

(a) prepared in accordance with IFRS and consistently applied;

(b) in the case of the statements provided pursuant to sub-Clauses 10.8.1 and 10.8.2, accompanied by a report thereon of the Auditors referred to in sub-Clause 10.8.1 (including opinions of such Auditors with accompanying notes and annexes) in each case, in a form satisfactory to the Lender; and

(c) in the case of the statements provided pursuant to sub-Clause 10.8.3, accompanied by an Officer's Certificate confirming that they give a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

10.8.5 The Borrower consents that any information provided to the Lender pursuant to this Clause 10.8 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to the Borrower under the laws of Ireland.

10.9 Capital Adequacy

The Borrower shall comply at all times with all capital adequacy requirements and mandatory ratios and all other requirements and restrictions imposed in each case by the Central Bank of the Russian Federation and any other relevant authorities responsible for supervising financial institutions in the Russian Federation.

10.10 Change of Business

The Borrower shall procure that no material change is made to the general nature of the business of itself or the Group from that carried on at the date of this Agreement.

10.11 Use of proceeds

The Borrower shall use the proceeds of the Loan for the general corporate purposes, and none of the Borrower or any member of the Group will:

10.11.1 directly or indirectly use the proceeds of the Loan for any purpose which would violate, when and as applicable, any economic sanctions administered by the Office of Foreign Assets Control of the US Department of Treasury (OFAC) or any other US, EU, United Nations, UK or Russian Federation economic sanctions, the US Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 or any equivalent Russian legislation; or

10.11.2 lend, invest, contribute or otherwise make available the proceeds of the Loan to or for the benefit of any then-current Sanctions Target.

10.12 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other present and future unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.13 Officer's Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), the Borrower shall deliver to the Lender, written notice in the form of an Officer's Certificate stating whether any Event of Default or Potential Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

10.14 Notes Held by the Borrower

Upon being so requested in writing by the Lender, the Borrower shall deliver to the Lender an Officer's Certificate setting out the total principal amount of Notes which, at the date of such certificate, are held by the Borrower or any Subsidiary of the Borrower and have not been cancelled and are retained by it for its own account or for the account of any other company.

10.15 FATCA Compliance

The Borrower hereby covenants with the Lender that it will provide the Lender with sufficient information to the extent it is not prohibited from so doing under Russian law, provide all reasonable assistance necessary, and pay any costs associated with, compliance by the Lender with Section 1471(b) of the US Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Section 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof.

11. EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3 (*Default Remedies*):

11.1.1 The Borrower fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Payment Business Days.

11.1.2 The Borrower fails to perform or observe any covenant or agreement contained herein to be performed or observed by it, including its covenants under Clause 10 (*Covenants*), provided such failure, if capable of being remedied, continues for more than 30 Business Days.

11.1.3 Any representation or warranty of the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with any Borrower Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated.

11.1.4 Any Financial Indebtedness of the Borrower or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period) or any such Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or its relevant Material Subsidiary, as the case may be, or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Financial Indebtedness, *provided that* the amount of Financial Indebtedness referred to above, individually or in the aggregate, exceeds U.S.$15,000,000 (or its equivalent in any other currency or currencies).

11.1.5 The occurrence of any of the following events: (i) the Borrower or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower or any of its Subsidiaries, as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower or any of its Material Subsidiaries in any court of competent jurisdiction, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or any of its Material Subsidiaries (ignoring any petition that is not accepted by such court or Agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender and the Trustee to be vexatious or frivolous; (iii) the institution of any of the procedures set out in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 in respect of the Borrower or any of its Material Subsidiaries, (iv) any judicial liquidation in respect of the Borrower or any of its Material Subsidiaries; and/or (v) revocation of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries.

11.1.6 The Borrower or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness; the value of the assets of the Borrower or any of its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Financial Indebtedness of the Borrower or any of its Material Subsidiaries.

11.1.7 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part, in the reasonable opinion of the Lender, of the property, undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries.

11.1.8 Any authorisation, consent, approval or licence from any Agency required by the Borrower for the performance of any of its obligations under this Agreement fails to be in full force and effect.

11.1.9 Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect, including, without prejudice to the foregoing: (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) the Borrower's banking licence or its licence for taking deposits from individuals is revoked.

11.1.10 The shareholders of the Borrower have approved any plan of liquidation or dissolution of the Borrower other than by way of a reorganisation permitted pursuant to Clause 10.2 (*Mergers*).

11.1.11 Subject to Clause 10.7 (*Payment of Taxes and Other Claims*), the aggregate amount of unsatisfied final judgments, decrees or orders of courts or other appropriate law-enforcement bodies of competent jurisdiction for the payment of money against the Borrower and its Material Subsidiaries in the aggregate exceeds U.S.$15,000,000 (or its equivalent in any other currency or currencies) and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 11.2.

11.1.12 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.13 The Borrower or any of its Material Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

11.1.14 The Borrower repudiates or evidences an intention to repudiate any of the Borrower Agreements.

11.1.15 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware thereof and within 10 calendar days of any written request by the Lender, written notice in the form of an Officer's Certificate of any event which is an Event of Default or a Potential Event of Default, its status and what action the Borrower or the relevant Subsidiary, as the case may be, is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender or the Trustee in accordance with the Trust Deed may, by notice in writing to the Borrower, (a) declare the Loan and the obligations of the Lender hereunder to be immediately terminated, whereupon the Loan and such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by the Borrower; *provided, however, that* if any event of any kind referred to in sub-Clauses 11.1.5 or 11.1.6 occurs, the Loan and the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 Other remedies

If an Event of Default occurs and is continuing, the Lender and/or the Trustee may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement. A delay or omission by the Lender or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default.

11.5 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. INDEMNITY

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any director, officer, employee or agent of the Lender (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation Taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was caused either by such indemnified party's negligence or wilful misconduct. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause.

12.2 Independent Obligation

Clause 12.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issuance of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of the Loss described in Clause 12.1 (*Indemnification*) and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in U.S. dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in U.S. dollars. Any obligation of the Borrower not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

13. SURVIVAL

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Gross Up*), 6.3 (*Withholding on Notes*), 12.1 (*Indemnification*), 12.4 (*Currency Indemnity*) and 14.2 (*Stamp Duties*) shall survive the execution and delivery of this Agreement, the making of the Loan and the repayment of the Loan, in each case by the Borrower.

14. GENERAL

14.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder. In any legal action or proceeding arising out of or in connection with the Agreement, the entries made in the Account shall (in the absence of manifest error) constitute *prima facie* evidence of the existence and amounts of the obligations of the Borrower therein recorded.

14.2 Stamp Duties

The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs, expenses or penalties which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges, upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related thereto as well as the Notes and any documents related thereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties and shall indemnify the Lender against any and all costs and expenses properly documented and connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by fax (subject to the subsequent dispatch of the original by post), by hand or by courier to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

14.4.1 if to the Borrower:

B&N Bank (Public Joint-Stock Company)

3, Izvestkovy pereulok
109004, Moscow
Russian Federation

Fax: +7 495 755 5081
Attention: Irina Komarova, Senior Vice-President
Aysylu Yakusheva, Head of Foreign Debt Capital Markets

14.4.2 if to the Lender:

B&N Bonds Designated Activity Company
12 Merrion Square
Dublin 2 Ireland

Fax: +353 1 631 6009
Attention: The Directors

or to such other address or fax number as any party may hereafter specify in writing to the other.

Any notice, request, demand or other communication sent in accordance with this Clause 14.4 shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by fax on the day of transmittal thereof, in each case if given during the normal business hours of the recipient, and on the business day during which such normal business hours next occur if not given during such hours on any day.

14.5 Assignment

14.5.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security as contemplated by the Trust Deed, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

14.5.2 The Borrower shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except as contemplated by the Trust Deed.

14.6 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 12 (*Prescription*) of the Notes.

14.7 Rights of Third Parties

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14.8 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

14.9 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of this Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

14.10 Counterparts

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

15. GOVERNING LAW AND ARBITRATION

15.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

15.2 Arbitration

Any dispute, controversy or claim of whatever nature arising out of or in connection with this Agreement, including a dispute regarding the existence, validity or termination of this Agreement, any non-contractual obligation arising out of or in connection with this Agreement, or the consequences of its nullity, (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of the LCIA (the "**Rules**") as at present in force and as modified by this Clause 15.2, which Rules shall be deemed incorporated into this Clause 15.2. The seat of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three. Each party shall nominate an arbitrator, and the two party-nominated arbitrators shall jointly nominate a third who shall act as Chairman of the Tribunal. If the second arbitrator has not been nominated within thirty (30) days after the initiating party (or parties) serves the Request for Arbitration, the LCIA Court shall nominate and appoint an arbitrator on behalf of the respondent(s). The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages.

The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

15.3 Waiver of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

15.4 Consent to Enforcement

The Borrower consents generally in respect of any proceedings arising out of or in connection with this Agreement to the giving of any relief or the issue of any process in connection with such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

16. LIMITED RECOURSE AND NON-PETITION

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received and retained net of tax by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always to (i) the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Joint Lead Managers (as defined in the Subscription Agreement) shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any or all such Joint Lead Managers and/or the Borrower shall be reduced (with any claim of the Borrower being reduced first and any claim of any or all Joint Lead Managers only being reduced in the event that such reduction of the claim of the Borrower is insufficient) so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither any Joint Lead Manager, the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither any Joint Lead Manager nor the Borrower (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Lender, or join with any other person as instituting or joining, insolvency proceedings (or any proceedings mentioned in the paragraph above) against the Lender.

No parties to this Agreement shall have any recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

The provisions of this Clause 16 shall survive the termination of this Agreement.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year before written.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be endorsed on each Individual Note Certificate and will be attached and (subject to the provisions thereof) apply to the Global Note Certificate:

The U.S.$150,000,000 8.5 per cent. Loan Participation Notes due 2019 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 *(Further Issues)* and forming a single series therewith) of B&N Bonds Designated Activity Company (the "**Issuer**", which expression includes (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 13(c) (*Substitution*)) are constituted by, are subject to, and have the benefit of, a trust deed dated 24 March 2016 (as amended or supplemented from time to time, the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 24 March 2016 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, B&N Bank (Public Joint – Stock Company) (the "**Borrower**"), The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes) and transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Account Bank (as defined below) and the Transfer Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement, the Account Bank Agreement (as defined below) and the Loan Agreement (as defined below). Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Account Bank Agreement applicable to them. Copies of the Trust Deed, the Agency Agreement, the Account Bank Agreement and the Loan Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at One Canada Square, London E14 5AL, United Kingdom, at the registered office of the Issuer, being at the date hereof at 12 Merrion Square, Dublin 2, Ireland, and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out at the end of these Conditions.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.$150,000,000 (the " **Loan**") to the Borrower. The terms of the Loan are recorded in a loan agreement dated 22 March 2016 between the Issuer (in its capacity as lender) and the Borrower (the "**Loan Agreement**") and the Noteholders are deemed to have notice of the provisions thereof.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by and retained (net of tax) or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must therefore rely solely and exclusively on (a) the Borrower's covenant to pay under the Loan Agreement and (b) the Security Interests (as defined below) and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Trustee and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed, together with its rights, title and interest in and to all sums of money now or in the future deposited in a secured account in the name of the Issuer with The Bank of New York Mellon, London Branch as account bank (the "**Account Bank**") pursuant to a secured account bank agreement dated 24 March 2016 (as amended or supplemented from time to time, the "**Account Bank Agreement**") between the Issuer, the Account Bank and the Trustee, together with the debt represented thereby (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction and to the non-petition covenant in Condition 1 (*Status and Limited Recourse*)) be required by Noteholders holding at least 25 per cent. of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

1. Status and Limited Recourse

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan the proceeds of which will be used by the Borrower for general corporate purposes. The Notes constitute the secured, limited recourse obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves. The Issuer has obligations to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed).

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received and retained (net of tax) by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set off or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly **provided that**, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Borrower under the Loan Agreement;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;

(e) the representations and warranties given by the Borrower in the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower with respect to such representations or warranties;

(f) the financial servicing and performance of the Notes in accordance with their terms depends solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to make payments under the Loan Agreement and its credit and financial standing, and the Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower;

(g) the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any other investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security;

(h) the Trustee shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion pursuant to these Conditions or the Trust Deed, including in relation to any deduction from any enforcement proceeds in connection with any insolvency proceedings following a Relevant Event, if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it;

(i) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Borrower the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been sufficiently assured that it will receive such funds;

(j) the Issuer will not be liable for any withholding or deduction or for any payment on account of tax (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement which will or may affect payments made or to be made by the Issuer in respect of the Notes save to the extent that it has actually received additional amounts under the Loan Agreement in respect of such withholding or deduction or payment and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement;

(k) under the Trust Deed, the obligations of the Issuer in respect of the Notes constitute secured and limited recourse obligations of the Issuer ranking *pari passu* and rateably without any preference among themselves; and

(l) in the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, such payments will pro tanto satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except its rights against the Issuer through action by the Trustee pursuant to the Security Interests granted to the Trustee in the Trust Deed. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, following the enforcement of the Security Interests created in the Trust Deed, the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 9 (*Application of moneys*) of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums from the Issuer shall be extinguished.

None of the Trustee, the Noteholders or other creditors (nor any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. **Form and Denomination**

The Notes are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

The Notes will be sold to investors outside the United States in reliance on Regulation S under the Securities Act. The Notes will be represented by a global certificate (the "**Global Note Certificate**"), which will be exchangeable for individual note certificates ("**Individual Note Certificates**" and, together with the Global Note Certificate, "**Note Certificates**") in the circumstances specified therein. The Global Note Certificate will be registered in the name of The Bank of New York Depositary (Nominees) Limited acting as nominee of The Bank of New York Mellon, London Branch acting as common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**").

Ownership of beneficial interests in the Global Note Certificate will be limited to the persons that have accounts with Euroclear or Clearstream, Luxembourg or the persons that may hold interests through such participants. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by Euroclear and/or Clearstream, Luxembourg and their participants, as applicable.

3. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided*, *however*, *that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder for collection at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Restrictive Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment, modification, waiver or authorisation shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices).*

Save as provided above, so long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, incur any indebtedness for borrowed moneys (other than issuing Further Notes (which may be consolidated and form a single series with the Notes) and/or creating or incurring further obligations relating to such Notes, or issuing further limited recourse loan participation notes from time to time for the sole purpose of financing loans to the Borrower, entering into related agreements and transactions and performing any act incidental to or necessary in connection with any of the foregoing), engage in any other business, declare any dividends (other than from accounts held in Ireland), have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in the Conditions and the Trust Deed), issue any shares (other than such shares as are in issue at the date of the Trust Deed or those necessary to convert its status to that of a public limited company), give any guarantee, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. Interest

On each Interest Payment Date (or such later date as payments of interest are actually received by the Issuer pursuant to the Loan Agreement), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement. Interest under the Loan Agreement accrues, at the rate of 8.5 per cent. per annum (the "**Rate of Interest**") during the period from and including 24 March 2016 (the "**Issue Date**") to but excluding 27 March 2019 (the "**Repayment Date**") and is payable by the Borrower semi-annually in arrear not later than one Business Day (as defined below) prior to each Interest Payment Date (as defined below).

Interest under the Loan Agreement will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clauses 5 (*Repayment and Prepayment*) of the Loan Agreement) unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest (before or after any judgment) to, but excluding, the date on which payment in full of the principal thereof is made.

The amount of interest payable under the Loan Agreement on each Interest Payment Date will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

In these Conditions:

"**Business Day**" means a day on which (a) the London interbank market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City, Dublin, Moscow and in the city where the Specified Office of the Principal Paying Agent is located; and

"**Interest Payment Date**" means 27 March and 27 September in each year, starting from 27 September 2016;

6. Redemption and Purchase

(a) *Scheduled Redemption*: Unless previously prepaid or repaid pursuant to Clause 5 (*Repayment and Prepayment*) of the Loan Agreement, the Borrower will be required to repay the Loan not later than one Business Day prior to the Repayment Date and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Loan is actually received by the Issuer, be redeemed or repaid by the Issuer at par.

(b) *Early Redemption*: If the Loan should become repayable (and be repaid) or be prepaid pursuant to Clause 5 (*Repayment and Prepayment*) of the Loan Agreement prior to the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable and, to the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Borrower in connection with any such prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (*Payments*)) following receipt of such amounts, subject as provided in Condition 7 (*Payments*). If the Notes are to be redeemed early in accordance with this Condition 6(b), the Issuer shall give not less than 20 nor more than 45 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 15 (*Notices*).

(c) *Redemption at the Option of Noteholders*: If a Change of Control (as defined below) occurs while a Note is outstanding, the holder of each such Note will have the option (the "**Put Option**") (unless, prior to the delivery of the Put Option Notice referred to below, the Issuer gives notice under Condition 6(b) (Early Redemption)) to require the Issuer to redeem that Note on the Put Settlement Date (as defined below) at par together with interest and additional amounts (if any) accrued to the Put Settlement Date.

As soon as reasonably practicable after the receipt by the Issuer from the Borrower of the notice referred to in Clause 5.4 (Prepayment in the Event of Change of Control) of the Loan Agreement stating that a Change of Control has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 15 (Notices), specifying the details relating to the occurrence of the Change of Control and the procedure for exercising the Put Option.

In order to exercise the Put Option, the holder of a Note must deliver no later than 30 days after the Put Event Notice is given (the "**Put Period**"), to the Specified Office of the Principal Paying Agent or any Transfer Agent or Paying Agent evidence satisfactory to the Transfer Agent and Paying Agent of such holder's entitlement to such Note and a duly completed put option notice ("**Put Option Notice**") specifying the principal amount of the Notes in respect of which the Put Option is exercised, in the form obtainable from the Principal Paying Agent and any Transfer Agent or any Paying Agent. The Principal Paying Agent, the Transfer Agent or the Paying Agent will provide such Noteholder with a non transferable receipt. Provided that the Note Certificates in respect of the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent or, a Transfer Agent or a Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower pursuant to Clause 5.4 (Prepayment in the Event of Change of Control) of the Loan Agreement, and (ii) as provided in Condition 7 (Payments)) redeem all such Notes on the date falling five Business Days after the expiration of the Put Period (the "**Put Settlement Date**"). No Put Option Notice, once delivered in accordance with this Condition 6 (c), may be withdrawn.

In these Conditions, "**Change of Control**" means Mr. Mikail Shishkhanov and Mr. Mikhail Gutseriev together (i) cease to own and control (directly or indirectly) at least 50 per cent. plus one share of the issued and outstanding voting share capital of the Borrower or, (ii) no longer have the right to appoint or remove a majority of the Borrower's board of directors (supervisory board).

(d) *No Other Redemption*: Except where the Loan is accelerated pursuant to Clause 11.3 (*Default Remedies*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to the due date for their redemption otherwise than as provided in Conditions 6(b) (*Early Redemption*) and 6(c) (*Redemption at the Option of Noteholders*).

(e) *Purchase*: The Borrower may at any time and to the extent permitted by law purchase Notes in the open market or by tender or by a private agreement and at any price. Such Notes may be held, reissued, resold or surrendered by the Borrower through the Issuer to the Registrar for cancellation. Notes held by the Borrower or any of its Subsidiaries will cease to carry the right to attend and vote at meetings of Noteholders and will not be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed, and will not be taken into account, *inter alia*, for the purposes of Conditions 9 (*Enforcement*) and 13 (*Meetings of Noteholders; Modification and Waiver; Substitution*).

(f) *Cancellation*: All Notes so redeemed or purchased by the Borrower or any of its Subsidiaries and surrendered for cancellation to the Issuer pursuant to Clause 5.5

(*Reduction of Loan Upon Redemption and Cancellation of Notes*) of the Loan Agreement, together with an authorisation addressed to the Registrar, shall be cancelled and may not be reissued or resold. For so long as the Notes are listed on the Vienna Stock Exchange and the rules of that exchange so require, the Issuer shall promptly inform the Vienna Stock Exchange of the cancellation of any Notes under this Condition 6(f).

7. **Payments**

(a) *Principal*: Payments of principal shall be made by cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

For so long as the Notes are represented by a Global Note Certificate, payments of principal shall be made by the Principal Paying Agent in U.S. dollars in accordance with the procedures of Euroclear and/or Clearstream, Luxembourg or any other clearing system, as agreed by the Issuer, the Borrower and the Paying Agent.

(b) *Interest*: Payments of interest shall be made by cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

For so long as the Notes are represented by a Global Note Certificate, payments of interest shall be made by the Principal Paying Agent in U.S. dollars in accordance with the procedures of Euroclear and/or Clearstream, Luxembourg.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments. In these Conditions, "**FATCA**" means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Trust Deed and any current or future regulations or agreements thereunder or official interpretations thereof.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

For so long as the Notes are represented by a Global Note Certificate, each payment in respect of the Global Note Certificate shall be made (in the relevant clearing system) to the person shown as the Holder in the Register at the close of business on the Clearing System Business Day before the due date for such payment where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

(g) *Accrued interest and additional amounts*: In accordance with the Loan Agreement, whenever the Loan is to be repaid or prepaid, the Borrower will be required to repay the principal amount of the Loan outstanding on the due date for its redemption together with all accrued and unpaid interest and any additional amounts payable in accordance with the Loan Agreement. Upon receipt of any such amounts in respect of accrued interest or additional amount (if any) from the Borrower, the Issuer shall account to the Noteholders for an amount equivalent thereto.

(h) *Payments by the Borrower*: Save as directed by the Trustee, at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Borrower to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to a secured account in the name of the Issuer held with the Account Bank. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Trustee and the Noteholders.

8. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland, the Russian Federation or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall, subject to the receipt thereof from the Borrower pursuant to the Loan Agreement, pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a Holder (i) who is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority, or (ii) who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Ireland other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(c) held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA or any treaty, law, regulation or other official guidance enacted by a Relevant Jurisdiction (as defined below) implementing FATCA, or any agreement between the Issuer and the United States or a Relevant Jurisdiction, or any authority of the foregoing implementing FATCA.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 8 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Borrower becomes subject at any time to any taxing jurisdiction other than Ireland and the Russian Federation, as the case may be, references in these Conditions to Ireland and the Russian Federation shall be construed as references to Ireland, the Russsian Federation and/or such other jurisdiction (in each case, a "**Relevant Jurisdiction**").

For the avoidance of doubt, the obligation of the Issuer to pay any additional amounts pursuant to this Condition 8 (*Taxation*) shall constitute an obligation only to account to the Noteholders on each date upon which such additional amounts are due in respect of the Notes, for an amount equivalent to additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer in respect thereof pursuant to Clause 6.3 (*Withholding on Notes*) of the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed).

9. Enforcement

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, the Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed), the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction and to the non-petition covenant in Condition 1 (*Status and Limited Recourse*), take the action permitted to be taken by the Issuer as lender under the Loan Agreement (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Loan or the receipt in full of all principal and interest accrued plus any additional amounts under the following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

11. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

12. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are set out at the end of these Conditions. The Issuer reserves the right (with the prior approval of the Trustee and the Borrower) at any time to terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain (a) a principal paying agent and a registrar, (b) if and for so long as the Notes are listed on a stock exchange and the rules of such stock exchange so require, a paying agent (which may be the Principal Paying Agent) having its specified office in a European city approved by the Trustee, and (c), a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 15 (*Notices*).

13. **Meetings of Noteholders; Modification and Waiver; Substitution**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, these Conditions or the Trust Deed. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons holding or representing Noteholders whatever the aggregate principal amount of the outstanding Notes held or represented; *provided, however, that* Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Noteholders*) of the Trust Deed, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Notes, the Trust Deed, the Agency Agreement or pursuant to the Transferred Rights, the Loan Agreement which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification (other than in respect of a Reserved Matter) will not be materially prejudicial to the interests of the Noteholders and to any modification of these Conditions, the Notes, the Trust Deed, the Agency Agreement or pursuant to the Transferred Rights, the Loan Agreement which is of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders.

In addition, the Trustee may, without the consent of the Noteholders:

(i) authorise or waive any proposed breach or breach of the Notes, the Agency Agreement or the Trust Deed or, following the creation of the Security Interests by the Borrower of the terms of the Loan Agreement (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the sole opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby; or

(ii) determine that any event which could or might otherwise give rise to a right of acceleration or any action against the Borrower under the Loan Agreement shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of Reserved Matters);

and *provided always that* the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution of the Noteholders. Any such determination, waiver or authorisation shall be binding on the Noteholders.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

(c) *Substitution*: The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as lender under the Loan Agreement, substitute any entity in place of the Issuer as lender under the Loan Agreement, as issuer and principal debtor in respect of the Notes and as principal debtor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the substitute obligor to the Noteholders in accordance with Condition 15 (*Notices*).

(d) *Exercise of Powers*: In connection with the exercise of any of its powers, trusts, authorities or discretions under these Conditions and the Trust Deed, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to nor be responsible for, any consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any substitution upon individual Noteholders.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price and the first payment of interest) so as to form a single series with the Notes. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a supplemental loan agreement or an amendment agreement to the Loan Agreement with the Borrower on the same terms as the Loan Agreement (or on the same terms except for the principal amount and the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, only relate to the Reserved Rights and would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further or amended Loan Agreement to secure amounts due on the Notes and such further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders. Such further Notes forming a single series with the Notes shall be issued under a deed supplemental to the Trust Deed.

15. **Notices**

Notices to the Noteholders will be valid if, so long as the Notes are listed on the Vienna Stock Exchange and the rules of that exchange so require, they are filed with the Vienna Stock Exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notices will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

16. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. **Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "Dispute") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee from taking proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee may take concurrent Proceedings in any number of jurisdictions.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificate

The Notes are represented by a Global Note Certificate which is registered in the name of The Bank of New York Depositary (Nominees) Limited acting as nominee for a common depositary for Euroclear and Clearstream, Luxembourg.

For so long as all of the Notes are represented by a Global Note Certificate and such Global Note Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the Trustee shall, for the purposes of performing the functions under the Trust Deed, be entitled to deem, treat and have regard to the interests of each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of such person shall be conclusive and binding for all purposes) as the holder of such principal amount of such Notes for all purposes in place of the holder of the Global Note Certificate (the "**Holder**") to the extent of the principal amount of Notes in respect of which such person is an Accountholder.

Exchange

The Global Note Certificate will be exchanged in whole (but not in part) for Individual Note Certificates if: (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (ii) a Relevant Event (as defined in the Trust Deed) occurs. The Issuer shall notify the Holder of the occurrence of any of the events specified in (i) and (ii) above as soon as practicable thereafter

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the Holder, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office (as defined in the Conditions) of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Amendments to Conditions

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Promise to pay

The Issuer, for value received, promises to pay the Holder, in respect of each Note represented by the Global Note Certificate, such amount or amounts, corresponding and equivalent to sums actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Loan Agreement in respect of the principal of and interest and additional amounts (if any) on the Loan, as shall become due in respect of the Notes represented by this Global Note Certificate in accordance with the Conditions and otherwise comply with the Conditions.

Payment Record Date

Each payment made in respect of the Global Note Certificate will be made (in the relevant clearing system) to the person shown as the Holder in the Register at the close of business on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Notices

Notwithstanding Condition 15 (*Notices*), so long as the Global Note Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or (as the case may be) such Alternative Clearing System, *provided, however*, that, so long as the Notes are admitted to quotation on the Third Market of the Vienna Stock Exchange, notices will also be published in such manner as may be required by the rules of the Vienna Stock Exchange in relation to such admission.

Meetings

The Holder of the Global Note Certificate will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each USD 1,000 in principal amount of Notes represented by the Global Note Certificate.

Trustee's Powers

In considering the interests of Noteholders whilst the Global Note Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to the Global Note Certificate and may consider such interests as if such Accountholders were the Holders of the Global Note Certificate.

Redemption at the Option of Noteholders

If a Change of Control occurs, for so long as all of the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or an Alternative Clearing System, the option of the Noteholders to require redemption of the Notes contained in Condition 6(c) (*Redemption at the Option of Noteholders*) may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg and/or an Alternative Clearing System as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg and such Alternative Clearing System of the principal amount of the Notes in respect of which such option is to be exercised, during the Put Period.

Cancellation

Cancellation of any Note evidenced by the Global Note Certificate required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Global Note Certificate by a record made in the Register.

Prescription

Claims in respect of principal and interest payable in respect of the Global Note Certificate on redemption will become void unless it is surrendered for payment within 10 years of the appropriate Relevant Date.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the Holder of the Notes in respect of which the Global Note Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the Holder as if they were themselves the Holders of Notes in such principal amounts.

Benefit of the Conditions

Unless the Global Note Certificate has been exchanged or cancelled the Holder hereof shall, except as provided in the Global Note Certificate, be entitled to the same rights and benefits and subject to the Conditions as if such Holder were the holder of the Individual Note Certificates for which the Global Note Certificate may be exchanged.

The Global Note Certificate shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar. The Global Note Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

TAXATION

The following section describing certain tax consequences of the purchase, ownership and disposition of the Notes as well as the taxation of interest payments on the Loan is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Prospectus are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

Russian Federation

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as taxation of interest and some other payments on the Loan. The summary is based on the laws of the Russian Federation as in effect on the date of this Prospectus (whereas they are subject to changes which could occur frequently, at short notice and could apply retrospectively). The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation. Similarly this summary does not seek to address the availability of double tax treaty relief to, and the eligibility for double tax relief of any Noteholder in respect of income payable to that Noteholder on the Notes, or practical difficulties connected with claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock lending transactions with the Notes or into term deals, derivatives and/or any similar types of transactions with the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in differing interpretations and inconsistent application thereof by the various Russian authorities in practice.

Further, the substantive provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent application as compared to jurisdictions with more developed capital markets and tax systems. The interpretation and application of such provisions will, in practice, to a large extent rest substantially with local tax inspectorates and such interpretations may often be inconsistent or may often change.

In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters adopted by different courts relating to the same or similar circumstances may be also inconsistent or contradictory.

Prospective investors should consult their own tax advisors regarding tax consequences of investing in the Notes that will arise in their own particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made hereby.

Taxation of the Notes

General

For the purposes of this summary, the term "**Resident Noteholder**" means:

- a Noteholder that is (1) a Russian legal entity which acquires, holds and disposes the Notes, or (2) a legal entity or an organisation, in each case organized under a non-Russian law, which acquires, holds and disposes the Notes through its permanent establishment in Russia (as defined by Russian tax law), or (3) a legal entity or an organisation established under a non-Russian law and recognized as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes the Notes (the "**Resident Noteholder-Legal Entity**"). A legal entity or an organisation established under a non-Russian law shall be recognized as the Russian tax resident if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty and/ or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty;
- a Noteholder who is an individual and satisfies the criteria for being a Russian tax resident, who acquires, holds and disposes the Notes (the "**Resident Noteholder-Individual**"). A "**Russian tax resident**" is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term "**Non-Resident Noteholder**" means:

- a Noteholder that is a legal entity or an organisation in each case established under a non-Russian law which acquires, holds and disposes the Notes other than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Legal Entity**"),
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes the Notes (the "**Non-Resident Noteholder-Individual**").

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in Russia for the full calendar year. Consequently, if the travel pattern dictates a differing tax residency status for a part of the tax year, the application of the Russian personal income resident tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to the provisions of the Russian Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by outcomes of tax controversy through the courts.

Although, the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in Russia, starting 2015 the Federal Tax Service of the Russian Federation has issued several private clarifications promulgating a view that besides number of days of physical presence such factors as permanent home and central of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Even though there may be insufficient legislative grounds for this position, there is a risk of challenge of non-resident status for individuals who do not meet the physical presence test for residents but have ties (property, family, business, etc.) to Russia.

Tax residency rules and Russia's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of interest payments made by the Borrower to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders (see "-*Taxation of Interest Payments on the Loan*" below).

Resident Noteholders

The Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

The Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of the Non-Resident Noteholders-Legal Entities

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders-Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders-Legal Entities.

Interest on the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of interest on the Loan (see "- *Taxation of Interest Payments on the Loan*" below).

Sale or other Disposal of the Notes

Historically there was some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest on the notes. The amended Russian Tax Code imposes an obligation to tax interest income by withholding tax to the extent that it arises in respect of Russian state and municipal securities or debt obligations of Russian entities only. Interest income paid from sources within Russia as part of the sale or disposal price of debt obligations (such as the Notes) issued by non-Russian entities should not technically constitute the Russian source income and, therefore, should not be subject to Russian withholding tax. Despite of the legislative change, the Russian Ministry of Finance in its private clarification letters indirectly opined that the amount of sale or other disposal proceeds attributable to the accrued interest on debt obligations the proceeds from the issuance of which were used to provide debt financing to the Russian borrowers, constitute Russian source income subject to Russian income tax withholding at a rate of 20 per cent. (or such other tax rate as could be effective at the time of such sale or other disposal). It creates practical uncertainty and differing positions among withholding tax agents regarding taxation by withholding tax of sales or other disposal proceeds paid on the Notes from sources within Russia.

Redemption of the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of the Non-Resident Noteholders—Individuals

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders—Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-Resident Noteholders—Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the Notes are purchased "in Russia." In the absence of any guidance as to what should be considered as a purchase of securities "in Russia," the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders—Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

Interest on the Notes

The Non-Resident Noteholders—Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of interest on the Loan (see "- *Taxation of Interest Payments on the Loan*" below).

Sale or other Disposal of the Notes

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Non-Resident Noteholders–Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if receipt of any proceeds from the sale or other disposal of the Notes by a Non-Resident Noteholder—Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will become subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment). Since the Russian Tax Code does not contain any guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are sold or disposed "in Russia". In absence of any guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders—Individuals will not become taxed in Russia.

The tax will apply to the gross amount of sales or disposal proceeds received upon the disposition of the Notes (including accrued and paid interest on the Notes) decreased by the amount of any duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes) provided that such documentation is duly executed and is made available to the person obliging to calculate and withhold the tax in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or the person remitting the respective income to the Non-Resident Noteholders—Individuals (where such person is considered as the tax agent obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and the tax will apply to the gross amount of the sales or disposal proceeds.

Under certain circumstances, if sales and/ or disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder—Individual by a licensed broker or an asset manager that is a Russian legal entity or organization carrying out operations for the benefit of the Non-Resident Noteholder—Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) should be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition cost and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder-Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by 1 March of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of reporting and payment of such tax on the Non-Resident Noteholder-Individual.

If the duly documented acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes were born within the relationship with a party other than the tax agent who is currently obliged to calculate and withhold Russian personal income tax, then these original duly documented costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

When the Notes are sold to other legal entities, organisations (other than licensed brokers or asset managers acting under the agreements mentioned in preceding paragraphs) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder—Individual will be required to file a personal income tax return individually, report the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax will then have to be paid by the Non-Resident Noteholder—Individual on the basis of the personal income tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or nontraded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes which would affect the total amount of personal income tax payable by a Non-Resident Noteholder—Individual in Russia.

There is also a risk that any gains derived by a Non-Resident Noteholder—Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and rubles.

Non-Resident Noteholders—Individuals should consult their own tax advisors with respect to tax consequences of the purchase of the Notes, sale or other disposition of the Notes, including the receipt of sales proceeds from a source within Russia.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing the reduction or elimination of Russian taxes applicable to income received by a Non-Resident Noteholder from Russian sources in connection with the acquisition, holding, sale or other disposal of the Notes.

To the extent double tax treaty benefits are available, in order to obtain the benefits available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements which are in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility for treaty benefits).

Starting from 2016 in order to enjoy benefits of an applicable double tax treaty a Non-Resident Noteholder-Individual will have to provide to the tax agent a passport of a foreign citizen in order to prove his/ her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes.

It is not clear from the law how the tax agent shall determine whether a passport is sufficient to confirm the individual’s eligibility to double tax treaty benefits.

Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty the tax agent is obliged to submit information to the Russian tax authorities on foreign individuals (passport details and citizenship) and income paid to them (type of income, amount of income and date of payment).

It is not explicit whether under the new law Russian citizens would be able to enjoy exemption from taxation at source under an applicable double tax treaty in practice. The procedure of elimination of double taxation of the Non-Resident Noteholders-Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code. A treaty benefit may be claimed within 3 years from the end of the tax period when respective income was received.

The Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition and the sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder—Legal Entity was withheld at source, despite the domestic release of such income from Russian withholding tax, a claim for a refund of the tax that was excessively withheld at source can be filed by that Non-Resident Noteholder—Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, either based on general tax reclaim procedures or provided that such Non-Resident Noteholder—Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be available in practice.

Starting from 2016 claim for refund of tax withheld in excess and application of the benefits of the applicable double tax treaty may be filed by the Non-Resident Noteholder-Individual with the tax agent within three years following the year when the corresponding income was received. In the absence of a tax agent to withhold the Russian personal income tax on such income (e.g., in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) with the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming, for instance, a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest Payments on the Loan

Payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia or Non-Resident Individual are subject to Russian withholding tax at the rate of 20 per cent. and 30 per cent., respectively, which could be potentially reduced or eliminated under the terms of an applicable double tax treaty.

Beneficial ownership concept which is broadly in line with the concept developed by the Organisation for Economic Cooperation and Development has been introduced into the Russian Tax Code by the Anti-Offshore Law starting from 1 January 2015 and may impact the application of the tax benefits under double tax treaties in Eurobond structures.

However, no Russian withholding tax should arise in Eurobond structures by virtue of the special exemption envisaged by the Russian Tax Code. The Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold tax from interest and other payments made to foreign entities provided that the following conditions are all met:

(1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of "issued bonds" which are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that have been registered in the qualifying foreign depository/clearing organisations;

    The lists of qualifying foreign exchanges and foreign depositary/clearing organizations were approved by Order No. 12-91/pz-n dated 25 October 2012 of the former Federal Financial Markets Service of the Russian Federation. The Irish Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the above-mentioned lists. The connection between the loan and the issued bonds should be evident and supported with certain documents, which are set forth in the Russian Tax Code.

(2) the recipient of interest on the Loan is a foreign entity which is the issuer of issued bonds (i.e., the Issuer), or a foreign entity authorized to receive interest income payable on the issued bonds, or a foreign entity to which rights and obligations under bonds issued by another foreign

entity have been assigned which is a tax resident of a jurisdiction with which Russia concluded a double tax treaty which can be confirmed by a tax residency certificate.

The Group believes that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold tax from payments of interest and certain other amounts, as the case may be, on the Loan to the Issuer, which satisfies the conditions set forth above throughout the term of the Loan and the Notes.

Importantly, the Russian Tax Code does not provide exemption to the foreign interest income recipients from Russian withholding tax, although currently there is no requirement in the Russian tax legislation for the foreign income recipients being the legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance acknowledged in its information letter published on its website that the release from obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. In a separate letter issued by the Russian Ministry of Finance on a later date, it opined that the foreign income recipient remains liable to tax, if the amount of tax was due for withholding and was not withheld by the Russian tax agent. The letter was not however issued in connection with Eurobonds. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code would be available to the Borrower.

Specifically, there is some uncertainty whether the Trustee will qualify for the "entity authorised to receive interest income payable on the issued bonds" containing in the Russian Tax Code which creates a potential risk that Russian withholding tax in respect of payments of interest and some other amounts to the Trustee at the rate of 20 per cent. (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 per cent. (or such other tax rate that may be effective at the time of payment) should be deducted by the Bank upon making such payments to the Trustee. It is not expected that the Trustee will, or will be able, to claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances.

If any payments under the Loan become subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the Notes by the amount of such withholding tax) the Borrower will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase payments made under the Loan, as may be necessary, so that the net payments received by the Issuer will be equal to the amounts it would have received in absence of such withholding tax.

It is currently unclear whether provisions of the Loan Agreements obliging the Borrower to gross-up any payments under the Loan will be enforceable under Russian law as currently in effect. There is a risk that gross-up for Russian withholding tax will not take place and that payments made by the Borrower under the Loan will be reduced by the amount of Russian withholding tax or Russian personal income tax withheld by the Borrower at source.

If the Borrower is obligated to increase any payments under the Loan or to make additional payments on the Loan as described above, the Borrower may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, the outstanding Notes will be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under the Loan.

Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

    (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

    (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

    (i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or

    (ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

    (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

        i. from whom the Issuer has acquired assets;

        ii. to whom the Issuer has made loans or advances; or

iii. with whom the Issuer has entered into a Swap Agreement,

where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the aggregate value of the assets of the Issuer, or

(iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory, where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that –

(i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75 per cent. parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.

Each purchaser of Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Borrower or a person acting on behalf of such an affiliate.

2. It understands that the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S and in accordance with any applicable securities laws of any state of the United States.

3. It acknowledges that the Issuer, the Borrower, the Registrar and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Issuer and the Borrower. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

4. It acknowledges that for the period until and including the 40th day after the commencement of the Offering, it will not make and offer or sale of the Notes to, or for the account or benefit of, a U.S. person within the meaning of Regulation S.

5. It acknowledges that any offer, sale, pledge or other transfer made other than in compliance with the applicable laws shall not be recognised by Issuer, the Borrower and the Registrar.

6. It understands that the Global Note Certificate and any Individual Note Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS.

CLEARING AND SETTLEMENT

The Global Note Certificate has an ISIN and a Common Code and is registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein. The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F Kennedy, L-1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg for his share of each payment made by the Issuer to the holder of the Global Note Certificate and in relation to all other rights arising under the Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' or Indirect Participants' records (as the case may be).

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant (as the case may be) through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system are affected by entries made on the books of Direct Participants or Indirect Participants (as the case may be) acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note Certificate held within a clearing system are exchanged for Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants or Indirect Participants (as the case may be) to Beneficial Owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Global Note Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg are conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and are settled using the procedures applicable to conventional Eurobonds.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common code and the ISIN numbers for the Notes are 137931176 and XS1379311761, respectively. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

2. The Borrower has its registered offices at 3 Izvestkovy pereulok, 109004 Moscow, Russian Federation.

3. Application has been made to the Irish Stock Exchange for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and admitted to trading on the Main Securities Market of the Irish Stock Exchange. It is expected that admission to the official list and trading on the Main Securities Market will be granted on or about 20 June 2016. The Notes are also listed on the Third Market of the Vienna Stock Exchange.

4. For so long as the Notes remain outstanding, physical copies of the following documents may be inspected at the offices of the Issuer and the Principal Paying Agent during usual business hours on any weekday (Saturdays and public holidays excepted):

   (a) a copy of this Prospectus, together with any supplement to this Prospectus;

   (b) the constitutional documents of the Borrower;

   (c) the constitutional documents of the Issuer;

   (d) the Financial Statements, including the reports thereon;

   (e) the Loan Agreement;

   (f) the Agency Agreement; and

   (g) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificates.

5. No authorisation is required to enter into the Loan Agreement by the Borrower. The issue of the Notes and the granting of the Loan were authorised by a decision of the Board of Directors of the Issuer dated 22 March 2016.

6. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Ireland for maintaining the Loan or for issuing the Notes.

7. Since the date of its incorporation, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the financial or trading position of the Issuer. The Issuer has no subsidiaries.

8. So far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

9. There has been no significant change in the financial or trading position of the Borrower since 31 December 2015 and no material adverse change in the financial position or prospects of the Borrower since 31 December 2015.

10. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any of the Issuer or the Borrower is aware), during the previous 12 months in relation to the Issuer or the Borrower, which may have, or have had in the recent past, significant effects on the Issuer's or the Borrower's financial position or profitability.

11. Since the date of incorporation, the Issuer has not commenced operations other than with respect to the issue and sale of the Notes.

12. The Bank of New York Mellon (Luxembourg) S.A. will act as Registrar in relation to the Notes.

13. BNY Mellon Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Mellon Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Issuer is unable to procure a new trustee to be appointed and the Issuer has not procured the appointment of a new trustee within 30 days of the expiry of the trustee's retirement notice, the trustee shall have the power of appointing new trustee(s).

14. The Financial Statements included in this Prospectus have been audited by Ernst & Young LLC, independent auditors, as stated in their reports appearing herein. Ernst & Young LLC has its registered office at building 1, 77, Sadovnicheskaya Emb., 115035, Moscow, Russian Federation. Ernst & Young LLC is a member of self-regulatory organisation of auditors Non-profit partnership “Russian Audit Chamber”.

15. The Issuer does not intend to provide any post-listing transaction information regarding the Notes or the Loan.

16. The total fees and expenses in connection with the admission of the Notes to trading on the Irish Stock Exchange are expected to be approximately EUR7,500.

17. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the official list of the Irish Stock Exchange or to trading on the Main Securities Market.

INDEX TO FINANCIAL STATEMENTS

B&N BANK
(PUBLIC JOINT-STOCK COMPANY)

Consolidated financial statements

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

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Shareholders and Board of Directors of
B&N Bank (Public Joint-Stock Company)

We have audited the accompanying consolidated financial statements of B&N Bank (Public Joint-Stock Company) and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 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 then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on 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 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 B&N Bank (Public Joint-Stock Company) and its subsidiaries as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 26, 2016

Moscow, Russia

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Interest income	5	74,636,948	29,226,405
Interest expense	5	(56,835,282)	(17,050,078)
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		17,801,666	12,176,327
Allowance for impairment losses on interest bearing assets	6	(53,656,141)	(9,979,369)
NET INTEREST (EXPENSE)/INCOME		(35,854,475)	2,196,958
Fee and commission income	9	5,900,397	3,850,608
Fee and commission expense	9	(1,953,358)	(1,094,036)
Net gain on foreign exchange operations	8	17,492,031	4,454,874
Net gain on financial assets and liabilities at fair value through profit or loss	7	408,070	318,215
Net gain on investments available for sale		1,265,844	-
Gain from disposal of subsidiary	3	29,199,733	-
Gain from a bargain purchase	3	3,322,617	-
Gain on initial recognition of financial instruments	15, 25	102,005	5,461,104
Other provisions	6	(740,634)	(84,123)
Income from sale of loans	16	528,426	2,890,294
Other income	10	731,990	692,552
NET NON-INTEREST INCOME		56,257,121	16,489,488
OPERATING INCOME		20,402,646	18,686,446
OPERATING EXPENSES	11	(20,105,978)	(12,682,176)
PROFIT BEFORE INCOME TAX EXPENSE		296,668	6,004,270
INCOME TAX EXPENSE	12	(227,651)	(1,369,640)
NET PROFIT FOR THE YEAR		**69,017**	**4,634,630**
Attributable to:			
Equity holders of the parent		454,336	4,873,924
Non-controlling interest		(385,319)	(239,294)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
- Unrealised gain/(loss) on investments available for sale		4,773,637	(891,284)
- Realised gain on investments available for sale reclassified into profit or loss		(1,265,844)	-
- Disposal of subsidiary		402,641	-
- Income tax recognised in other comprehensive income		(782,087)	178,257
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**3,128,347**	**(713,027)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,197,364**	**3,921,603**
Attributable to:			
Equity holders of the parent		3,582,683	4,160,897
Non-controlling interest		(385,319)	(239,294)

On behalf of the Management Board:

ОГРН 1027700159442 «БИНБАНК» ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО МОСКВА БИНБАНК

Chairman of the Management Board
Lukin Alexander

April 22, 2016

Deputy Chief Accountant
Gmiryansky Maksim

April 22, 2016

The accompanying notes 1-35 form an integral part of these consolidated financial statements.

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015
(in thousands of Russian rubles)

	Notes	December 31, 2015	December 31, 2014
ASSETS:			
Cash and balances with the Central bank of the Russian Federation	13	49,236,297	34,826,028
Precious metals		9,277	6,127
Financial assets at fair value through profit or loss:			
- held for trading	14	155,828	6,134,665
- held for trading pledged under repurchase agreements	14	44,848	-
Due from banks and other financial institutions	15	432,456,240	117,494,041
Loans to customers	16	218,105,366	214,176,810
Investment securities:			
- available for sale	17	19,844,177	24,955,899
- available for sale pledged under repurchase agreements	17	81,649,419	14,550,257
Property and equipment	18	8,206,350	6,200,278
Intangible assets	18	2,316,850	1,270,290
Investment property	19	414,696	289,117
Current income tax assets		1,195,054	462,681
Other assets	20	4,055,227	4,442,464
TOTAL ASSETS		**817,689,629**	**424,808,657**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the Central bank of the Russian Federation	21	75,625,359	13,837,821
Due to banks and other financial institutions	22	45,604,158	50,778,170
Customer accounts	23	487,905,761	263,908,410
Debt securities issued	24	118,957,748	23,480,260
Deposits from the State Corporation "Deposit Insurance Agency"	25	27,998,269	25,372,208
Subordinated debt	26	11,610,139	13,988,284
Deferred income tax liabilities	12	1,433,598	1,090,779
Other liabilities	27	2,449,355	1,636,867
Total liabilities		**771,584,387**	**394,092,799**
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	28	13,773,752	10,885,666
Additional capital		24,744,559	15,584,189
Investments available for sale fair value reserve		2,415,320	(713,027)
Accumulated profit		5,270,969	4,866,004
Total equity attributable to owners of the parent		**46,204,600**	**30,622,832**
Non-controlling interest		(99,358)	93,026
Total equity		**46,105,242**	**30,715,858**
TOTAL LIABILITIES AND EQUITY		**817,689,629**	**424,808,657**

On behalf of the Management Board:

Chairman of the Management Board
Lukin Alexander

April 22, 2016

Deputy Chief Accountant
Gmiryansky Maksim

April 22, 2016

The accompanying notes 1-35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Russian rubles)

	Notes	Share capital	Additional capital	Investments available for sale fair value reserve	Accumulated profit/(deficit)	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
December 31, 2013		**8,960,275**	**9,250,594**	**-**	**2,823**	**18,213,692**	**-**	**18,213,692**
Net profit for the year		-	-	-	4,873,924	4,873,924	(239,294)	4,634,630
Unrealised loss on investments available for sale		-	-	(891,284)	-	(891,284)	-	(891,284)
Income tax recognised in other comprehensive income		-	-	178,257	-	178,257	-	178,257
Total comprehensive income for the year		**-**	**-**	**(713,027)**	**4,873,924**	**4,160,897**	**(239,294)**	**3,921,603**
Increase in capital	28	1,925,391	2,074,609	-	-	4,000,000	-	4,000,000
Dividends paid on ordinary shares	28	-	-	-	(10,743)	(10,743)	-	(10,743)
Business combinations		-	-	-	-	-	332,320	332,320
Free of charge financing	28	-	4,258,986	-	-	4,258,986	-	4,258,986
December 31, 2014		**10,885,666**	**15,584,189**	**(713,027)**	**4,866,004**	**30,622,832**	**93,026**	**30,715,858**
Net profit for the year		-	-	-	454,336	454,336	(385,319)	69,017
Unrealised gain on investments available for sale		-	-	4,773,637	-	4,773,637	-	4,773,637
Realised gain on investments available for sale reclassified into profit or loss		-	-	(1,265,844)	-	(1,265,844)	-	(1,265,844)
Disposal of subsidiary		-	-	402,641	-	402,641	-	402,641
Income tax recognised in other comprehensive income		-	-	(782,087)	-	(782,087)	-	(782,087)
Total comprehensive income for the year		**-**	**-**	**3,128,347**	**454,336**	**3,582,683**	**(385,319)**	**3,197,364**
Increase in capital	28	2,888,086	3,111,914	-	-	6,000,000	-	6,000,000
Sale of non-controlling interests		-	-	-	(35,918)	(35,918)	102,934	67,016
Dividends paid on ordinary shares	28	-	-	-	(13,453)	(13,453)	-	(13,453)
Business combinations	3	-	-	-	-	-	90,001	90,001
Free of charge financing	28, 26	-	6,048,456	-	-	6,048,456	-	6,048,456
December 31, 2015		**13,773,752**	**24,744,559**	**2,415,320**	**5,270,969**	**46,204,600**	**(99,358)**	**46,105,242**

On behalf of the Management Board:

Chairman of the Management Board
Lukin Alexander

April 22, 2016

Deputy Chief Accountant
Gmiryansky Maksim

April 22, 2016

The accompanying notes 1-35 form an integral part of these consolidated financial statements.

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations before income tax		296,668	6,004,270
Adjustments for:			
Allowance for impairment losses on interest bearing assets	6	53,656,141	9,979,369
Other provisions	6	740,634	84,123
Gain on initial recognition of financial instruments	15, 25	(102,005)	(5,461,104)
Gain from a bargain purchase	3	(3,322,617)	-
Loss on disposal of property and equipment, intangible assets		83,696	104,168
Net gain on translation differences	8	(14,496,226)	(5,053,975)
Net change in accrued discount on issued debt securities		26,102	(2,827)
Depreciation and amortisation expense on property, equipment, intangible assets and investment property	11	833,746	420,610
Change in interest accruals, net		(2,196,162)	462,350
Net change in fair value of financial assets and liabilities at fair value through profit or loss	7	89,914	92,915
Gain on disposal of subsidiary	3	(29,199,733)	-
Impairment loss on inventories	11	154,146	21,207
Cash inflow from operating activities before changes in operating assets and liabilities		**6,564,304**	**6,651,106**
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central bank of the Russian Federation		1,091,719	(1,251,142)
Precious metals		259	(2,681)
Financial assets at fair value through profit or loss		11,859,254	(9,647,439)
Due from banks and other financial institutions		(147,507,349)	(24,697,960)
Loans to customers		(210,867,623)	(66,189,178)
Other assets		1,523,004	1,235,794
Increase/(decrease) in operating liabilities:			
Due to the Central bank of the Russian Federation		50,541,390	11,833,013
Due to banks and other financial institutions		281,692,168	31,764,337
Customer accounts		141,468,827	73,758,138
Promissory notes issued		1,627,900	977,865
Other liabilities		2,204,028	734,453
Cash intflow from operating activities before taxation		140,197,881	25,166,306
Income tax paid		(301,857)	(174,548)
Net cash inflow from operating activities		**139,896,024**	**24,991,758**

The accompanying notes 1-35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 (CONTINUED)
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, intangible assets	18	(1,764,710)	(1,462,482)
Proceeds from sale of property and equipment, intangible assets		620,030	336,842
Acquisition of subsidiaries, net of cash acquired	3	10,101,747	-
Disposal of subsidiaries, net of cash in subsidiaries	3	(3,020,714)	-
Purchase of investment property	19	(96,599)	-
Proceeds from sale of investment property	19	26,149	1,956,000
Purchase of investments held to maturity		(56,742,542)	-
Purchase of investments available for sale		(187,918,871)	(65,211,476)
Sale of investments available-for-sale		173,464,083	43,198,216
Purchase of units in mutual investment fund		(6,787,851)	-
Proceeds from sale of units in mutual investment fund		-	7,648,065
Placement of funds in the rehabilitated banks	15	-	(17,500,000)
Net cash outflow from investing activities		**(72,119,278)**	**(31,034,835)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares and share premium	28	6,000,000	4,000,000
Free of charge financing		-	1,773,034
(Repayment)/inflow of funds from the State Corporation "Deposit Insurance Agency"		(3,000,000)	32,000,000
Proceeds from sale of subsidiary		10	-
Funds received from the rehabilitated banks		-	13,830,000
Proceeds from the sale of non-controlling interests		67,016	-
Subordinated loans received		-	1,725,043
Debt securities issued		101,299,285	19,711,608
Debt securities redeemed		(11,212,683)	(10,269,408)
Dividends paid	28	(13,453)	(10,743)
Net cash inflow from financing activities		**93,140,175**	**62,759,534**
Effect of changes in foreign exchange rate on cash and cash equivalents		(1,292,209)	27,930,626
NET INCREASE IN CASH AND CASH EQUIVALENTS		159,624,712	84,647,083
CASH AND CASH EQUIVALENTS, beginning of the year	13	**123,775,176**	**39,128,093**
CASH AND CASH EQUIVALENTS, end of the year	13	**283,399,888**	**123,775,176**

Interest paid and received by the Group during the year ended December 31, 2015 amounted to RUR 52,927,712 thousand and RUR 68,559,318 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2014 amounted to RUR 15,366,494 thousand and RUR 28,002,344 thousand, respectively.

The consolidated statement of cash flows includes the cash flows of JSC ROST BANK. The Group obtained control over this bank in March 2015 and lost control on it on December 25, 2015 (Note 3).

(in thousands of Russian rubles, unless otherwise indicated)

1. ORGANIZATION

B&N Bank (Public Joint-Stock Company) (hereinafter, the "Bank") is a public joint-stock bank, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation (hereinafter, the "CBR") and conducts its business under general license number 2562 and renders a complete package of banking services to corporate clients engaged in various industries as well as to individuals.

Since December 29, 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal Laws and regulations and is governed by the State Corporation "Deposits Insurance Agency" (hereinafter, the SC "DIA"). Since January 1, 2015, insurance covers the Bank's liabilities to individual deposits in the amount up to RUR 1,400 thousand for each individual in case of business failure or revocation of the banking license by the CBR.

As at December 31, 2015, the registered office of the Bank was located at: 5a Grodnenskaya St., Moscow, 121471, Russian Federation. On February 9, 2016, a record was made in the Unified State Register of Legal Entities under State Registration Number 2167700076157 concerning the state registration of the new version of the Charter of the Bank with a new legal address. The Bank's new legal address is 3 Izvestkovy pereulok, Moscow, 109004, Russian Federation.

As at December 31, 2015, the Bank has 7 branches, 307 sub-branches and 1 representative office operating in the Russian Federation (network of the consolidated Group includes more than 500 offices in 60 regions of the Russian Federation as well as offices in Greece and Great Britain).

As at December 31, 2014, the Bank has 7 branches operating in the Russian Federation, 176 sub-branches and 1 representative office.

The Bank is a parent company of a banking group (the "Group") which consists of the following companies consolidated in the financial statements:

Name	Country of operation	Ownership/ Effective ownership, %	
		December 31, 2015	December 31, 2014
B&N Bank (Public Joint-Stock Company)	Russian Federation	Parent company	Parent company
B&N FINANCE LIMITED	Republic of Cyprus	100%	100%
JSC B&N Bank Credit Cards	Russian Federation	79.18%	79.18%
PJSC B&N Bank SMOLENSK	Russian Federation	98.81%	-
PJSC B&N Bank TVER	Russian Federation	88.76%	-
PJSC B&N Bank SURGUT	Russian Federation	98.89%	-
PJSC CB KEDR	Russian Federation	97.50%	-
JSC URALPRIVATBANK	Russian Federation	99.69%	-
LLC SAFMAR PENSIONS	Russian Federation	100%	-
LLC Privat-Leasing	Russian Federation	100%	100%
LLC Standard Development	Russian Federation	-	100%

B&N FINANCE LIMITED is 100% subsidiary of the Bank and is consolidated into the Group's financial statements. The company was created in 2012 according to the legislation of the Republic of Cyprus specifically for the purposes of acting as the issuer of Euro-commercial papers of the Bank and to place the raised funds on the deposit in the Bank. It does not conduct any economic activities in the Russian Federation.

Joint-Stock Company B&N Bank Credit Cards (hereinafter, "JSC B&N Bank Credit Cards") is engaged in banking activities in the Russian Federation. The financial statements of JSC B&N Bank Credit Cards were consolidated into the Group's financial statements beginning from July 2, 2014.

Public Joint-Stock Company B&N Bank SMOLENSK (hereinafter, "PJSC B&N Bank SMOLENSK") is engaged in banking activities in the Russian Federation. The financial statements of PJSC B&N Bank SMOLENSK were consolidated into the Group's financial statements beginning from May 19, 2015.

Public Joint-Stock Company B&N Bank TVER (hereinafter, "PJSC B&N Bank TVER") is engaged in banking activities in the Russian Federation. The financial statements of PJSC B&N Bank TVER were consolidated into the Group's financial statements beginning from March 25, 2015.

Public Joint-Stock Company B&N Bank SURGUT (hereinafter, "PJSC B&N Bank SURGUT") is engaged in banking activities in the Russian Federation. The financial statements of PJSC B&N Bank SURGUT were consolidated into the Group's financial statements beginning from March 25, 2015.

Public Joint-Stock Company CB KEDR (hereinafter, "PJSC CB KEDR") is engaged in banking activities in the Russian Federation and Greece where PJSC CB KEDR has a branch. The financial statements of PJSC CB KEDR were consolidated into the Group's financial statements beginning from March 25, 2015.

Joint-Stock Company URALPRIVATBANK (hereinafter, "JSC URALPRIVATBANK") is engaged in banking activities in the Russian Federation. The financial statements of JSC URALPRIVATBANK were consolidated into the Group's financial statements beginning from March 6, 2015.

Limited Liability Company SAFMAR PENSIONS (hereinafter, "LLC SAFMAR PENSIONS") is engaged in the provision of pension account maintenance services to non-state pension funds and the management of financial and industrial groups and holding companies. This company was formed and registered on April 1, 2015. The financial statements of this company were consolidated into the Group's financial statements beginning from the date of registration.

Limited Liability Company Privat-Leasing (hereinafter, "LLC Privat-Leasing") is engaged in the leasing out of its own non-residential real estate properties. LLC Privat-Leasing operates in the Russian Federation. The financial statements of LLC Privat-Leasing were consolidated into the Group's financial statements beginning from July 2, 2014.

Joint-Stock Company ROST BANK (hereinafter, "JSC ROST BANK") is engaged in banking activities in the Russian Federation. JSC ROST BANK was a subsidiary of PJSC B&N Bank from March 25, 2015, to December 24, 2015, and its financial results were consolidated into the Group's financial statements for the corresponding period. On December 24, 2015, M.O. Shishkhanov, the major shareholder of PJSC B&N Bank, purchased shares of JSC ROST BANK from the Group. The plan of participation in efforts to prevent bankruptcy of JSC ROST BANK was respectively amended which was approved by the CBR. In addition, M.O. Shishkhanov was approved as the new investor. He controls JSC ROST BANK at the date of the authorization of these financial statements. The Board of Directors which includes members of the Management Board of PJSC B&N Bank was approved in accordance with the plan of participation in JSC ROST BANK. JSC ROST BANK is planned to be merged with PJSC B&N Bank by the end of 2025.

Closed-end Mutual Investment Fund rental "Finam-Kapitalnie Vlozheniya" (hereinafter, "CMIF rental "Finam-Kapitalnie Vlozheniya") was a subsidiary acquired by the Group in 2015. It is engaged in agricultural land investment activities in Krasnodar Region, Rostov Region, Saratov Region, Lipetsk Region and Penza Region in the Russian Federation. The land plots are leased. The Fund units are listed and included in MICEX quotation list "A1". The units of CMIF rental "Finam-Kapitalnie Vlozheniya" were purchased during the first half of 2015. The Group lost control over CMIF rental "Finam-Kapitalnie Vlozheniya" in the second half of 2015 as a result of disposal of JSC ROST BANK.

Limited Liability Company Standard Development (hereinafter, “LLC Standard Development”) is engaged in consulting on commercial and management activities. LLC Standard Development operates in the Russian Federation. The financial statements of LLC Standard Development were consolidated into the Group’s financial statements beginning from January 1, 2011. In March 2015, the Bank terminated its participation in LLC Standard Development by selling its 100% interest to a third party.

As at December 31, 2015 and December 31, 2014, the following shareholders owned the ordinary shares of the Group:

	December 31, 2015, %	December 31, 2014, %
First level shareholders:		
Limited Liability Company "TradeWest"	54.98%	71.97%
Limited Liability Company "HANBERG FINANCE LIMITED"	39.36%	20.61%
Limited Liability Company "RIZANTO SECURITIES INC."	2.80%	3.66%
Shishkhanov Mikail Osmanovich	1.64%	2.14%
Close Joint-Stock Company "Smart Finance Group"	0.49%	0.64%
Peganova Natalia Vasilevna	0.42%	0.55%
Other	0.31%	0.43%
Total	**100%**	**100%**
Ultimate shareholders:		
Shishkhanov Mikail Osmanovich	59.42%	77.77%
Gutseriev Mikhail Safarbekovich	39.36%	20.61%
Other	1.22%	1.62%
Total	**100%**	**100%**

Non-controlling interests in subsidiary companies and banks where the Group holds between 50% and 75% of voting shares are classified by the Group as significant non-controlling interests. Certain subsidiaries which net assets form a significant part of the Group’s net assets may also be classified as described above even if the Group holds over 75% of the voting shares in such companies and banks. As at December 31, 2015 and December 31, 2014, the Group had no significant non-controlling interests in subsidiary companies and banks.

2. SIGNIFICANT ACCOUNTING POLICIES

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Russian rubles (“RUR thousand”), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at amortized cost or fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank and its consolidated companies maintain their accounting records and prepare consolidated financial statements in accordance with Russian accounting and banking legislation and related instructions ("RAL"), except for B&N FINANCE LIMITED, which maintains the accounting records in accordance with the laws of the Republic of Cyprus. These consolidated financial statements are based on the Group's RAL books and Cyprus accounting records, as adjusted and reclassified in order to comply with IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 34.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Inflation accounting

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

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC during the year:

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

Annual improvements 2010-2012 cycle

IFRS 2 Share-based Payment – This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments had no impact on the Group's accounting policies.

IFRS 3 Business Combinations – The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments – The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- The Group has not applied the aggregation criteria in IFRS 8.12. The Group reconciled segment assets to total assets in previous periods and continues to disclose the same in Note 4 to these consolidated financial statements, as the reconciliation is reported to the chief operating decision maker.

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

IAS 24 Related Party Disclosures – The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

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

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

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

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

IAS 40 Investment Property – The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. 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.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Meaning of effective IFRSs – The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the shareholders of the parent.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”) or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value through profit or loss classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”).

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as deposit collateralized with assets within the Group’s financial liabilities.

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss and other comprehensive income based on the difference between the sale price and the repurchase price, accrued to date using the effective interest method.

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income is recognized on the ex-dividend date (provided that it is probable that the economic benefits will flow and the amount of income can be measured reliably by the Bank).

Recognition of rental income

The Group’s policy for recognition of income as a lessor is set out in the “operating leases” section of this note.

Financial instruments

Financial assets and liabilities are carried in the Group’s consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group recognizes regular purchases and disposals of financial assets and liabilities by the date of settlement.

Upon initial recognition, financial instruments are measured at fair value adjusted, in case instruments are not recognized at fair value through profit or loss, for directly attributable fees and costs.

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

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

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities and derivatives at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in Note 31.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, financial assets held to maturity, available for sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss at the time upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis or
- the financial asset forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 31. The net gain or loss recognized in profit or loss incorporates any dividend earned on the financial asset and is included in the "net gain/(loss) on financial assets and liabilities at fair value through profit or loss" line item in the consolidated statement of profit or loss and other comprehensive income.

Interest income on fair value through profit or loss is included in the "interest income" line item in the consolidated statement of profit or loss and other comprehensive income.

Financial assets held to maturity

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

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

Financial assets available for sale

Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) financial assets held to maturity or (c) financial assets at fair value through profit or loss.

Trading securities and investment securities available for sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of monetary assets available for sale denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Repurchase and reverse repurchase agreements and securities lending

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

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty.
- Breach of contract, such as default or delinquency in interest or principal payments.
- Default or delinquency in interest or principal payments.
- It becoming probable that the borrower will enter bankruptcy or financial reorganization.
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets with no evidence of individual impairment are additionally assessed for impairment on collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market interest rate for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the allowance account are recognized in profit or loss.

If an asset available for sale is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in other comprehensive income is transferred from equity to profit or loss.

In respect of equity securities available for sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of debt securities available for sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the financial assets can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Write-off of loans

Loans are written off against the allowance for impairment losses when deemed uncollectible. Loans are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an "other income" line item in the consolidated statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized.

If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables presented above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value at the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Offsetting of financial assets

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

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

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

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Financial liabilities

Financial liabilities are classified as either "financial liabilities at fair value through profit or loss" or "other financial liabilities".

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchase in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is communicated internally on that basis;
- the financial liability forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the “Net gain/(loss) on financial assets and liabilities at fair value through profit or loss” line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 31.

Other financial liabilities

Other financial liabilities, including deposits from the Central Bank of the Russian Federation, deposits from banks and customers, debt securities issued, subordinated debts and other liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, canceled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”).
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps and options on foreign currency.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and due from banks and other financial institutions with original maturities within 90 days (except for margin deposits for operations with plastic cards), which may be converted to cash within a short period of time and thus are considered liquid). For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability.

Operating leases

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

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following annual depreciation rates were used by the Group during 2015:

Buildings and constructions	2%
Furniture and equipment, other	16.67%
Intangible assets	15%-33.3%

Freehold land of the Group is not depreciated.

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

The carrying amounts of property and equipment are reviewed at each reporting date by the Group to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying amounts exceed the estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Intangible assets

Intangible assets other than goodwill

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

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

Impairment of non-financial assets other than goodwill

The Group constantly reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at historical cost net of accumulated depreciation and recognized impairment loss.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

The depreciation rates of investment property are equivalent to the depreciation rates of property and equipment.

Goodwill

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

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

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

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

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

Inventories

Inventories are recognized at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to sell.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences provided that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred income tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

Operating taxes

The Russian Federation also has various other taxes, except for income tax, which are applicable to the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle the liabilities are expected to be recovered by a third party, the corresponding receivables are recognized as assets it is virtually certain that the receivables will be settled and the amount of such receivables can be measured reliably.

Retirement and other employee benefit obligations

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Contingencies

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

Foreign currencies

The consolidated financial statements are presented in Russian rubles, which is the Bank’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

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

	December 31, 2015	December 31, 2014
RUR / 1 US dollar	72.8827	56.2584
RUR / 1 Euro	79.6972	68.3427

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values: (1) of the assets transferred by the Group, (2) liabilities incurred by the Group to the former owners of the acquiree and (3) the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities, or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively.
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date.
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5") are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (“IAS 36”) as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2015 and December 31, 2014, the gross loans to customers amounted to RUR 218,105,366 thousand and RUR 214,176,810 thousand, respectively, and allowance for impairment amounted to RUR 12,532,753 thousand and RUR 9,966,823 thousand, respectively (Note 16).

Future changes in accounting policies

New and revised standards and interpretations issued but not yet effective

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

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

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

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

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

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

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

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

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

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

Amendments to IAS 27 – Equity Method in Separate Financial Statements – The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

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

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

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

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception – The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

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

The amendment to IAS 12 clarifies that deductible temporary differences may arise on the basis of unrecognized loss from debt instruments recorded at fair value in the financial statements but measured at cost for taxation purposes. The amendments also clarify that estimates of future taxable profits should not be limited by the carrying amount of the asset and while comparing the deductible temporary differences with future taxable profit that future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. These amendments must be applied retrospectively and are effective from January 1, 2017, with early adoption permitted.

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

Annual improvements 2012-2014 cycle

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts – IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is effective for annual periods beginning on or after January 1, 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.

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 January 1, 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 January 1, 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 January 1, 2016, with earlier application permitted.

3. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

Disposal of CMIF rental "Finam-Kapitalnie Vlozheniya"

In March and April 2015, the Group sold and purchased units in CMIF rental "Finam-Kapitalnie Vlozheniya". On June 19, 2015, the Group obtained control by increasing its interest in this investment up to 54.76%. The cost of acquisition amounted to RUR 6,787,851 thousand. This investment was classified in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* since the Group intended and actively performed necessary actions to sell the controlling interest in the investment during the year. As at June 30, 2015, the fair value of assets and liabilities less costs to sell amounted to RUR 11,094,349 thousand and RUR 4,306,498 thousand, respectively.

In December 2015, the Group lost control over the fund due to disposal of JSC ROST BANK.

Acquisition of banks under efforts to prevent bankruptcy

Since November 2014, the Bank has been participating in efforts to prevent bankruptcy of the following banks: JSC ROST BANK, PJSC CB KEDR, PJSC B&N Bank SMOLENSK (JSC SKA-Bank), PJSC B&N Bank TVER (JSC Tveruniversal Bank), PJSC B&N Bank SURGUT (JSC Akkobank) (hereinafter, the "banks under financial rehabilitation"). Based on the analysis of the financial position of the banks under financial rehabilitation, the State Corporation "Deposit Insurance Agency" (hereinafter, "SC "DIA") together with the Bank of Russia prepared the Plans of Participation in efforts to prevent their bankruptcy (hereinafter, the "Plans"). The Plans were adopted by decision of SC "DIA" Management Board and approved by the Bank of Russia Committee on Banking Supervision in November 2014. In accordance with the Plans, the banks under financial rehabilitation were taken into temporary administration by SC "DIA"; the powers of the executive bodies were suspended. In December 2014, the Bank purchased 100% interest in JSC ROST BANK, 78.75% interest in PJSC CB KEDR, 94.11% interest in PJSC B&N Bank TVER. In its turn, as at the acquisition date the share of JSC ROST BANK in the share capital of PJSC B&N Bank SMOLENSK, PJSC B&N Bank SURGUT and PJSC CB KEDR accounted for 99.41%, 99.44% and 19.99%, respectively. Since as at December 31, 2014 the banks under financial rehabilitation were in temporary administration and the Bank was not able to manage their operations, these investments were recognized within investments available for sale.

In the first half of 2015, according to the respective orders of the Bank of Russia, the powers of the temporary administration of the banks under financial rehabilitation were terminated. The extraordinary general shareholders' meetings of the banks under financial rehabilitation elected new members of the Boards of Directors and the Management Boards. As a result, in the first half of 2015, the Group obtained control over the banks under financial rehabilitation. In the second half of 2015, the Bank acquired interests in PJSC B&N Bank SMOLENSK, PJSC B&N Bank SURGUT and PJSC CB KEDR from JSC ROST BANK.

The principal activities of the banks under financial rehabilitation are accepting deposits, customer accounts opening and maintenance, lending and issuing guarantees, conducting cash and settlements operations, operations with foreign currencies and securities. The main goal of the banks under financial rehabilitation acquisition was to develop retail business and regional operations and expand the customer base of B&N Bank.

(in thousands of Russian rubles, unless otherwise indicated)

Disposal of JSC ROST BANK

The Group obtained control over JSC ROST BANK on March 25, 2015. The fair value of the acquired identifiable assets and liabilities of JSC ROST BANK and goodwill arising as at the date of acquisition were as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	5,288,268
Reserve deposits with the Central bank of the Russian Federation	408,194
Financial assets at fair value through profit or loss	12,057,037
Due from banks and other financial institutions	15,233,468
Loans to customers	76,211,867
Investments available for sale	2,998,016
Property and equipment, intangible assets	1,455,143
Investment property	8,921
Current income tax assets	207,354
Other assets	109,862
TOTAL ASSETS	**113,978,130**
LIABILITIES:	
Due to banks and other financial institutions	76,484,668
Customer accounts	39,016,377
Debt securities issued	1,016,684
Deposits from the State Corporation "Deposit Insurance Agency"	6,289,603
Subordinated debt	1,613,349
Deferred income tax liabilities	62,925
Other liabilities	1,121,602
TOTAL LIABILITIES	**125,605,208**
Identifiable net assets of subsidiary at fair value	(11,627,078)
Goodwill arising on acquisition	11,627,078
Purchase consideration transferred	-

Since the date of acquisition, the contribution of JSC ROST BANK to the net interest income of the Group, net non-interest income and the decrease in the Group's financial result before tax has amounted to RUR 8,514,975 thousand, RUR 4,864,326 thousand and RUR 29,485,422 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounted to RUR 5,288,268 thousand.

The above goodwill of RUR 11,627,078 thousand included the expected improvement of performance efficiency as at the date of acquisition due to business combination and the expansion of the customer base. The expected positive effect resulting from business synergy between the Group and JSC ROST BANK was not achieved due to short period of the Group's ownership of this investment and was written off on its disposal.

(in thousands of Russian rubles, unless otherwise indicated)

On December 24, 2015, the Group lost control over JSC ROST BANK due to the sale of 100% of shares of JSC ROST BANK to Mr. M.O. Shishkhanov. On January 18, 2016, the Group made an early repayment of a portion of deposit from SC “DIA” in the amount of RUR 11,840,000 thousand (Note 35) in accordance with the new Plan; the deposit at the interest rate of 6.01% p.a. was received earlier in the course of the procedure of financial rehabilitation and was recognized in the consolidated financial statements at fair value. The effect of the revision of cash flows resulting from the early repayment of the deposit was recognized as a decrease in gain from disposal of a subsidiary. As a result, the income that compensates the losses incurred by the Group from the date of acquisition amounted to RUR 29,199,733 thousand.

The disposed assets and liabilities were as follows:

	Value at disposal date
ASSETS	
Cash and cash equivalents	3,020,714
Financial assets at fair value through profit or loss	6,203,568
Due from banks and other financial institutions	32,149,248
Loans to customers	273,587,229
Investments available for sale	43,476,463
Property and equipment, intangible assets	1,262,287
Investment property	29,329
Current income tax assets	62,191
Other assets	2,297,771
TOTAL ASSETS	**362,088,800**
LIABILITIES:	
Financial liabilities at fair value through profit or loss	2,309,251
Due to banks and other financial institutions	380,953,290
Customer accounts	11,823,509
Debt securities issued	929,393
Deposits from the State Corporation "Deposit Insurance Agency"	6,809,993
Subordinated debt	1,671,934
Other liabilities	1,534,516
TOTAL LIABILITIES	**406,031,886**
Identifiable negative net assets of subsidiary at fair value	43,943,086
Non-controlling interest	-
Goodwill write-off	(11,627,078)
Loss from early repayment of deposits from the State Corporation "Deposit Insurance Agency"	(3,116,275)
Gain from a disposal of subsidiary	29,199,733
Consideration obtained for the sale	-

(in thousands of Russian rubles, unless otherwise indicated)

Acquisition of PJSC CB KEDR

The Group obtained control over PJSC CB KEDR on March 25, 2015. The fair value of the acquired identifiable assets and liabilities of PJSC CB KEDR was as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	2,717,122
Reserve deposits with the Central bank of the Russian Federation	527,853
Precious metals	3,409
Financial assets at fair value through profit or loss	268,863
Due from banks and other financial institutions	9,217,154
Loans to customers	10,492,940
Investments available for sale	563
Investments held to maturity	104,488
Property and equipment, intangible assets	1,590,617
Deferred income tax assets	14,947
Current income tax assets	10,849
Other assets	2,286,321
TOTAL ASSETS	**27,235,126**
LIABILITIES:	
Due to the Central bank of the Russian Federation	95,347
Due to banks and other financial institutions	3,411,224
Customer accounts	20,713,373
Subordinated debt	527,648
Deferred income tax liabilities	21,973
Other liabilities	101,373
TOTAL LIABILITIES	**24,870,938**
Identifiable net assets of subsidiary at fair value	2,364,188
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(29,791)
Gain from a bargain purchase	(1,914,483)
Fair value of the previously held equity interests	(419,914)
Purchase consideration transferred	-

The fair value of loans to customers totaled RUR 10,492,940 thousand. The contractual amount of loans to customers totaled RUR 13,154,058 thousand. The best estimate as at the date of acquisition of contractual cash flows not expected to be received was RUR 2,661,118 thousand.

Since the date of acquisition, the contribution of PJSC CB KEDR to the net interest income of the Group, net non-interest income and the decrease in the Group's financial result before tax has amounted to RUR 1,572,575 thousand, RUR 190,112 thousand and RUR 384,732 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounts to RUR 2,717,122 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

Management of the Group believes that gain on a bargain purchase recorded on the acquisition of PJSC CB KEDR resulted from the fact that the previous owner sold its share during the process of financial rehabilitation. This gain compensates outflow of economic benefits of the Group expected due to measures to be taken to improve the liquidity ratios of PJSC CB KEDR in accordance with the Plan.

Acquisition of PJSC B&N Bank SMOLENSK

The Group obtained control over PJSC B&N Bank SMOLENSK on May 19, 2015. The fair value of the acquired identifiable assets and liabilities of PJSC B&N Bank SMOLENSK was as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	441,487
Reserve deposits with the Central bank of the Russian Federation	31,109
Due from banks and other financial institutions	1,255,213
Loans to customers	2,485,341
Property and equipment, intangible assets	198,552
Investment property	5,581
Current income tax assets	20,042
Other assets	41,664
TOTAL ASSETS	**4,478,989**
LIABILITIES:	
Due to banks and other financial institutions	438,945
Customer accounts	3,083,148
Subordinated debt	49,279
Deferred income tax liabilities	34,180
Other liabilities	15,727
TOTAL LIABILITIES	**3,621,279**
Identifiable net assets of subsidiary at fair value	857,710
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(5,146)
Gain from a bargain purchase	(169,581)
Fair value of the previously held equity interests	(682,983)
Purchase consideration transferred	-

The fair value of loans to customers totaled RUR 2,485,341 thousand. The contractual amount of loans to customers totaled RUR 2,742,253 thousand. The best estimate as at the date of acquisition of contractual cash flows not expected to be received was RUR 256,912 thousand.

Since the date of acquisition, the contribution of PJSC B&N Bank SMOLENSK to the net interest income of the Group, net non-interest income and the decrease in the Group's financial result before tax has amounted to RUR 236,244 thousand, RUR 113,736 thousand and RUR 80,267 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounts to RUR 441,487 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

Management of the Group believes that gain on a bargain purchase recorded on the acquisition of PJSC B&N Bank SMOLENSK results from the fact that the previous owner sold its share during the process of financial rehabilitation. This gain compensates outflow of economic benefits of the Group expected due to measures to be taken to improve the liquidity ratios of PJSC B&N Bank SMOLENSK in accordance with the Plan.

Acquisition of PJSC B&N Bank TVER

The Group obtained control over PJSC B&N Bank TVER on March 25, 2015. The fair value of the acquired identifiable assets and liabilities of PJSC B&N Bank TVER was as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	622,036
Reserve deposits with the Central bank of the Russian Federation	44,686
Due from banks and other financial institutions	1,873,449
Loans to customers	2,967,818
Property and equipment, intangible assets	532,021
Investment property	77,646
Current income tax assets	15,962
Other assets	220,259
TOTAL ASSETS	**6,353,877**
LIABILITIES:	
Due to banks and other financial institutions	605,885
Customer accounts	4,648,224
Debt securities issued	100,765
Deferred income tax liabilities	119,824
Other liabilities	17,288
TOTAL LIABILITIES	**5,491,986**
Identifiable net assets of subsidiary at fair value	861,891
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(50,775)
Gain from a bargain purchase	(811,116)
Purchase consideration transferred	-

The fair value of loans to customers totaled RUR 2,967,818 thousand. The contractual amount of loans to customers totaled RUR 3,191,682 thousand. The best estimate as at the date of acquisition of contractual cash flows not expected to be received was RUR 223,864 thousand.

Since the date of acquisition, the contribution of B&N Bank TVER to the net interest income of the Group, net non-interest income and the increase in the Group's financial result before tax has amounted to RUR 256,428 thousand, RUR 102,778 thousand and RUR 73,401 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounts to RUR 622,036 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

Management believes that gain on a bargain purchase recorded on the acquisition of PJSC B&N Bank TVER results from the fact that the previous owner sold its share during the process of financial rehabilitation. This gain compensates outflow of economic benefits of the Group expected due to measures to be taken to improve the liquidity ratios of PJSC B&N Bank TVER in accordance with the Plan.

Acquisition of PJSC B&N Bank SURGUT

The Group obtained control over PJSC B&N Bank SURGUT on March 25, 2015. The fair value of the acquired identifiable assets and liabilities of PJSC B&N Bank SURGUT was as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	865,857
Reserve deposits with the Central bank of the Russian Federation	10,128
Due from banks and other financial institutions	247,411
Loans to customers	569,007
Property and equipment, intangible assets	302,821
Other assets	13,304
TOTAL ASSETS	**2,008,528**
LIABILITIES:	
Due to banks and other financial institutions	241,165
Customer accounts	979,389
Debt securities issued	19,730
Deferred income tax liabilities	41,624
Other liabilities	37,953
TOTAL LIABILITIES	**1,319,861**
Identifiable net assets of subsidiary at fair value	688,667
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(3,857)
Gain from a bargain purchase	(153,556)
Fair value of the previously held equity interests	(531,254)
Purchase consideration transferred	-

The fair value of loans to customers totaled RUR 569,007 thousand. The contractual amount of loans to customers totaled RUR 716,335 thousand. The best estimate as at the date of acquisition of contractual cash flows not expected to be received was RUR 147,328 thousand.

Since the date of acquisition, the contribution of PJSC B&N Bank SURGUT to the net interest income of the Group, net non-interest income and the increase in the Group's financial result before tax has amounted to RUR 125,595 thousand, RUR 144,482 thousand and RUR 143,097 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounts to RUR 865,857 thousand.

Management of the Group believes that gain on a bargain purchase recorded on the acquisition of PJSC B&N Bank SURGUT results from the fact that the previous owner sold its share during the process of financial rehabilitation. This gain compensates outflow of economic benefits of the Group expected due to measures to be taken to improve the liquidity ratios of PJSC B&N Bank SURGUT in accordance with the Plan.

(in thousands of Russian rubles, unless otherwise indicated)

Acquisition of JSC URALPRIVATBANK

In March 2015, the Bank purchased 99.84% of shares in JSC URALPRIVATBANK.

The principal activities of JSC URALPRIVATBANK are attracting deposits, customer accounts opening and maintenance, lending and issuing guarantees, conducting cash and settlements operations and operations with foreign currencies and securities. The main goal of JSC URALPRIVATBANK acquisition was to develop retail business and regional operations and expand the customer base of B&N Bank.

The fair value of the acquired identifiable assets and liabilities of JSC URALPRIVATBANK was as follows:

	Fair value recognised on acquisition
ASSETS:	
Cash and cash equivalents	166,977
Reserve deposits with the Central bank of the	6,299
Due from banks and other financial institutions	176,212
Loans to customers	290,516
Investments available for sale	124,867
Property and equipment, intangible assets	20,761
Other assets	18,650
TOTAL ASSETS	**804,282**
LIABILITIES:	
Customer accounts	458,322
Subordinated debt	70,000
Deferred income tax liabilities	177
Other liabilities	1,470
TOTAL LIABILITIES	**529,969**
Identifiable net assets of subsidiary at fair value	274,313
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(432)
Gain from a bargain purchase	(273,881)
Purchase consideration transferred	-

The fair value of loans to customers totaled RUR 290,516 thousand. The contractual amount of loans to customers totaled RUR 356,139 thousand. The best estimate as at the date of acquisition of contractual cash flows not expected to be received was RUR 65,623 thousand.

Since the date of acquisition, the contribution of JSC URALPRIVATBANK to the net interest income of the Group, net non-interest income and the decrease in the Group's financial result before tax has amounted to RUR 53,149 thousand, RUR 62,113 thousand and RUR 4,512 thousand, respectively.

Net cash acquired with the subsidiary (included in cash flows from investing activities) amounts to RUR 166,977 thousand.

If the above mentioned combinations had occurred at the beginning of the year, the Group's loss for the year ended December 31, 2015 would have been RUR 1,573,672 thousand, net interest income – RUR 19,511,801 thousand and net non-interest income – RUR 56,470,733 thousand.

4. SEGMENT REPORTING

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* ("IFRS 8") and other standards that require specific disclosures in the form of segment reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

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

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance regards the types of services provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services for individuals, maintenance of current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, premium service B&N Exclusive.
- Corporate banking – representing maintenance of current accounts, deposits, overdrafts, loans to legal entities and individual entrepreneurs with annual revenue equal to or exceeding RUR 900 mln and other credit facilities, operations with foreign currency and derivative instruments.
- Small and Medium Entities – representing maintenance of current accounts, deposits, overdrafts, loans to legal entities and individual entrepreneurs with annual revenue not exceeding RUR 900 mln and other credit facilities, operations with foreign currency and derivative instruments.
- Investment banking – representing financial instruments trading, bank lending transactions, capital market transactions, foreign exchange transactions, structured financing, expenditure on investment property, mergers and acquisitions consulting services.
- Centralized management – other operations (including taxation) that are not included in the above segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are transferred between segments, resulting in reallocation of funding cost used in calculation of operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense arising from the operations between business segments Segment assets and liabilities comprise assets and liabilities, being the majority of the balance sheet, but excluding items such as taxation. Internal charges for items such as central administration and key management salary as well as transfer pricing adjustments have been reflected in the performance of the respective segments. This measure is reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(in thousands of Russian rubles, unless otherwise indicated)

Segment information is presented below:

	Corporate banking	Small and Medium Entities	Investment banking	Retail banking	Centralized management	As at and for the year ended December 31, 2015 Total
Interest income	44,159,480	2,239,400	15,794,575	12,443,493	-	74,636,948
Interest expense	(9,674,911)	(1,069,691)	(13,426,837)	(32,663,843)	-	(56,835,282)
Allowance for impairment losses on interest bearing assets	(34,886,089)	(3,096,745)	(5,343,832)	(10,329,475)	-	(53,656,141)
Gain from a bargain sale	32,021,198	2,119,720	(5,962,169)	1,020,984	-	29,199,733
Gain from disposal of subsidiary	-	-	-	3,322,617	-	3,322,617
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	408,070	-	-	408,070
Net gain on investments available for sale	-	-	1,265,844	-	-	1,265,844
Net gain on foreign exchange operations	435,857	58,226	15,581,994	1,402,491	13,463	17,492,031
Fee and commission income	1,314,442	1,115,343	278,010	3,191,604	998	5,900,397
Fee and commission expense	(196,825)	(56,698)	(919,736)	(772,506)	(7,593)	(1,953,358)
Dividends received	-	-	-	-	566	566
Other provisions	(523,554)	11,489	(206,310)	(12,697)	(9,562)	(740,634)
Income from sale of loans	528,426	-	-	-	-	528,426
Other income	691,328	(307,020)	164,391	55,955	228,775	833,429
External operating income/(expense), net	33,869,352	1,014,024	7,634,000	(22,341,377)	226,647	20,402,646
(Expense)/income from other segments	(31,401,098)	640,934	(5,355,702)	36,895,204	(779,338)	-
Total operating income	**2,468,254**	**1,654,958**	**2,278,298**	**14,553,827**	**(552,691)**	**20,402,646**
Operating expenses	(1,642,099)	(3,504,175)	(559,896)	(11,951,548)	(2,448,260)	(20,105,978)
Profit/(loss) before income tax	**826,155**	**(1,849,217)**	**1,718,402**	**2,602,279**	**(3,000,951)**	**296,668**
Income tax expense	-	-	-	-	(227,651)	(227,651)
NET PROFIT/(LOSS) FOR THE YEAR	**826,155**	**(1,849,217)**	**1,718,402**	**2,602,279**	**(3,228,602)**	**69,017**
Segment assets	185,221,849	6,970,592	569,259,245	42,464,835	13,773,108	817,689,629
Segment liabilities	65,907,020	25,456,199	281,038,122	396,638,304	2,544,742	771,584,387
Depreciation charge on property and equipment, intangible assets and investment property	(282,300)	(78,999)	(10,240)	(406,583)	(55,624)	(833,746)
Capital expenditures	349,909	65,823	701,783	742,985	809	1,861,309

(in thousands of Russian rubles, unless otherwise indicated)

	Corporate banking	Small and Medium Entities	Investment banking	Retail banking	Centralized management	As at and for the year ended December 31, 2014 Total
Interest income	16,787,380	1,143,233	2,885,745	8,410,047	-	29,226,405
Interest expense	(2,928,961)	(270,346)	(3,109,862)	(10,740,909)	-	(17,050,078)
Allowance for impairment losses on interest bearing assets	(1,274,234)	(1,327,421)	-	(7,377,714)	-	(9,979,369)
Gain on initial recognition of financial instruments	-	-	5,461,104	-	-	5,461,104
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	318,215	-	-	318,215
Net gain on foreign exchange operations	197,276	64,686	3,270,600	922,312	-	4,454,874
Fee and commission income	202,271	689,169	191,276	2,767,892	-	3,850,608
Fee and commission expense	(185,540)	-	(459,675)	(448,821)	-	(1,094,036)
Other provisions	(49,562)	-	-	-	(34,561)	(84,123)
Income from sale of loans	3,350,826	-	-	-	-	3,350,826
Expense from sale of bad debts	(460,532)	-	-	-	-	(460,532)
Other income	663,789	6,648	8,678	7,208	6,229	692,552
External operating income/(expense), net	16,302,713	305,969	8,566,081	(6,459,985)	(28,332)	18,686,446
(Expense)/income from other segments	(12,722,890)	243,971	(2,102,617)	11,963,060	2,618,476	-
Total operating income	**3,579,823**	**549,940**	**6,463,464**	**5,503,075**	**2,590,144**	**18,686,446**
Operating expenses	(565,556)	(1,974,659)	(637,478)	(8,336,938)	(1,167,545)	(12,682,176)
Profit/(loss) before income tax	**3,014,267**	**(1,424,719)**	**5,825,986**	**(2,833,863)**	**1,422,599**	**6,004,270**
Income tax expense	-	-	-	-	(1,369,640)	(1,369,640)
NET PROFIT/(LOSS) FOR THE YEAR	**3,014,267**	**(1,424,719)**	**5,825,986**	**(2,833,863)**	**52,959**	**4,634,630**
Segment assets	173,950,890	4,718,551	191,937,547	46,340,053	7,861,616	424,808,657
Segment liabilities	44,978,064	12,087,875	126,223,504	209,471,378	1,331,978	394,092,799
Other segment items						
Depreciation charge on property and equipment, intangible assets and investment property	(131,645)	(10,505)	(154,610)	(123,850)	-	(420,610)
Capital expenditures	457,736	36,525	537,588	430,633	-	1,462,482

The Group did not have revenue from transactions with a single external counterparty amounting to 10% or more of its total revenue in 2015 and 2014.

The Group mainly operates on the territory of the Russian Federation. Interest income received from non-resident clients in 2015 totaled RUR 9,922,403 thousand (2014: RUR 4,470,027 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

5. NET INTEREST INCOME

Net interest income comprises:

	December 31, 2015	December 31, 2014
Interest income comprises:		
Interest income on financial assets recorded at amortised cost comprises:	60,962,915	27,522,806
Interest income on impaired financial assets	6,091,758	2,094,668
Interest income on unimpaired financial assets	54,871,157	25,428,138
Interest income on investments, available for sale	11,179,148	92,905
Total interest income on financial assets recorded at amortised cost and on invetsments available for sale	**72,142,063**	**27,615,711**
Interest income on assets at fair value through profit or loss	2,494,885	1,610,694
Total interest income	**74,636,948**	**29,226,405**
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers	56,104,354	26,345,091
Interest on due from banks and other financial institutions	2,341,509	1,177,715
Interest income on assets held to maturity	2,517,052	-
Total interest income on financial assets recorded at amortised cost	60,962,915	27,522,806
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortised cost comprises:		
Interest on customer accounts	(40,072,953)	(14,177,904)
Interest on debt securities issued	(6,844,974)	(1,488,067)
Interest on deposits from the State Corporation "Deposit Insurance Agency"	(4,077,963)	(130,098)
Interest on deposits from the Central bank of the Russian Federation	(3,205,775)	(245,042)
Interest on deposits from banks and other financial institutions	(1,514,398)	(255,804)
Interest on subordinated debt	(1,119,219)	(753,163)
Total interest expense	**(56,835,282)**	**(17,050,078)**
Net interest income before allowance for impairment losses on interest bearing assets	**17,801,666**	**12,176,327**

(in thousands of Russian rubles, unless otherwise indicated)

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

	Loans to customers	Loans to individuals	Loans to banks and other financial institutions	Total
December 31, 2013	**1,348,553**	**2,939,471**	**-**	**4,288,024**
Additional allowance recognised	2,601,655	7,377,714	-	9,979,369
Write-off of assets	(732,747)	(3,567,823)	-	(4,300,570)
December 31, 2014	**3,217,461**	**6,749,362**	**-**	**9,966,823**
Additional allowance recognised	37,688,829	10,660,512	5,306,800	53,656,141
Write-off of assets	(2,422,235)	(8,199,242)	-	(10,621,477)
Disposal of business	(34,140,950)	(1,020,984)	(5,306,800)	(40,468,734)
December 31, 2015	**4,343,105**	**8,189,648**	**-**	**12,532,753**

The movements in other provisions were as follows:

	Other assets	Guarantees and letters of credit	Legal claims	Total
December 31, 2013	**59,504**	**38,062**	**-**	**97,566**
Additional allowance recognised	60,050	24,073	-	84,123
Write-off of assets	(2,114)	-	-	(2,114)
December 31, 2014	**117,440**	**62,135**	**-**	**179,575**
Additional allowance recognised	193,481	342,379	204,774	740,634
Disposal of business	-	(298,730)	**-**	(298,730)
December 31, 2015	**310,921**	**105,784**	**204,774**	**621,192**

Allowance for impairment losses is deducted from the respective assets. Allowance for impairment losses on guarantees, letters of credit and litigations is recorded within other liabilities (Note 27).

7. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	December 31, 2015	December 31, 2014
Dealing, net	497,984	411,130
Fair value adjustment, net	(89,914)	(92,915)
Total net gain on financial assets and liabilities at fair value through profit or loss	**408,070**	**318,215**

(in thousands of Russian rubles, unless otherwise indicated)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2015	Year ended December 31, 2014
Dealing, net	2,995,805	(605,345)
Translation differences, net	14,496,226	5,053,975
Currency derivative contracts, net	-	6,244
Total net gain on foreign exchange operations	**17,492,031**	**4,454,874**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	December 31, 2015	December 31, 2014
Fee and commission income:		
Plastic cards operations	1,807,154	1,211,354
Settlements	1,547,369	705,051
Guarantees and letters of credit	807,335	249,685
Cash operations	661,203	452,757
Comissions for acting as insurance agent	626,445	863,556
Information services	127,868	79,475
Accounts openning	80,384	6,145
Currency control	74,143	69,206
Salary payment services	69,899	55,695
Documents processing	33,825	26,169
Other	64,772	131,515
Total fee and commission income	**5,900,397**	**3,850,608**
Fee and commission expense:		
Plastic cards services	1,279,789	565,499
Services of Settlements Clearing Center	211,427	48,853
Settlements	194,979	124,881
Banking Services	130,352	201,408
Cash operations	101,088	93,870
Agency services	29,041	15,006
Documentary operations	-	36,739
Other	6,682	7,780
Total fee and commission expense	**1,953,358**	**1,094,036**

(in thousands of Russian rubles, unless otherwise indicated)

10. OTHER INCOME

Other income comprises:

	December 31, 2015	December 31, 2014
Income from excess of settlement value over acquisition date fair value of assets acquired in business combinations	152,543	391,509
Gain on disposal of property and equipment, intangible assets and inventories	143,916	36,825
Property rental income	120,691	225,234
Income from repayment of loans written-off	82,140	-
Income from effective settlement of previously existing relations	61,544	-
Penalties and interest received	34,156	2,482
Income on cash surplus	7,580	6,088
Income from sale of claims on loans	6,888	-
Refund of overpaid funds	2,942	-
Dividends received	566	-
Net income on disposal of Closed-end Investment Fund rental "Finam-Kapitalnie Vlozheniya"	-	28,342
Other income	119,024	2,072
Total other income	**731,990**	**692,552**

11. OPERATING EXPENSES

Operating expenses comprise:

	December 31, 2015	December 31, 2014
Staff costs	7,338,309	4,807,682
Operating leases (Note 29)	1,883,247	1,293,916
Contributions to social insurance fund	1,870,083	1,107,538
Professional services	1,180,438	415,449
Contributions to Deposits Insurance Fund	1,149,706	564,033
Taxes, other than income tax	1,132,854	686,587
Advertising and marketing expenses	1,029,206	650,559
Depreciation and amortisation expense on property, equipment, intangible assets and investment property (Notes 18, 19)	833,746	420,610
Property and equipment maintenance	830,324	560,626
Communication expense	705,553	375,354
Software maintenance	540,816	265,619
Stationery and other office expenses	428,125	308,824
Loss on disposal of property, equipment, intangible assets and inventories	220,520	140,993
Security expenses	185,234	119,853
Insurance expenses	179,399	29,701
Property impairment loss	154,146	21,207
Business trip expenses	124,885	57,467
Transportation expenses	94,755	75,726
Representation expenses	64,142	119,703
Debt collection services	61,195	8,110
Charity and sponsorship expenses	58,365	51,819
Other operating expense	40,930	600,800
Total operating expenses	**20,105,978**	**12,682,176**

12. INCOME TAXES

The Group prepares calculation of income taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2015 and December 31, 2014 relate mostly to different methods of income and expense recognition as well as to accounting values of certain assets.

The tax rate used for the reconciliation of income tax expenses and accounting profit is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under its tax law and 10% payable by corporate entities in the Republic of Cyprus.

The operations with the Russian Federation government securities are taxable at the rate of 15% payable by corporate entities in the Russian Federation on taxable profits under its tax law.

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(in thousands of Russian rubles, unless otherwise indicated)

	December 31, 2013	Origination and reversal of temporary differences: In the statement of profit or loss	Origination and reversal of temporary differences: In other compre-hensive income	December 31, 2014	Origination and reversal of temporary differences: In the statement of profit or loss	Origination and reversal of temporary differences: In other compre-hensive income	Origination and reversal of temporary differences: Business combinations	December 31, 2015
Tax effect of deductible temporary differences:								
Tax losses carried forward	12,746	66,311	-	79,057	750,399	-	-	829,456
Loans to customers	-	11,514	-	11,514	123,685	-	341,600	476,799
Debt securities issued	-	37,163	-	37,163	(16,339)	-	-	20,824
Due to banks and other financial institutions	-	886,416	-	886,416	(125,487)	-	201,753	962,682
Property and equipment, intangible assets	17,857	-	-	17,857	(17,857)	-	-	-
Investment property	907	907	-	1,814	(907)	-	-	907
Financial assets at fair value through profit or loss	68,631	-	-	68,631	(68,631)	-	-	-
Other assets	293,915	387,383	-	681,298	(557,809)	-	(31,616)	91,873
Gross deferred tax asset	**394,056**	**1,389,694**	**-**	**1,783,750**	**87,054**	**-**	**511,737**	**2,382,541**
Unrecognised deferred tax asset	**(16,323)**	**(237,350)**	**-**	**(253,673)**	**(664,454)**	**-**	**-**	**(918,127)**
Deferred tax asset	**377,733**	**1,152,344**	**-**	**1,530,077**	**(577,400)**	**-**	**511,737**	**1,464,414**
Tax effect of taxable temporary differences:								
Investments available for sale	(1,695)	-	-	(1,695)	1,695	-	-	-
Loans to customers	(299,872)	-	-	(299,872)	299,872	-	-	-
Investments available for sale	-	-	178,257	178,257	-	(782,087)	-	(603,830)
Investments available for sale	-	(281,971)	-	(281,971)	(1,688,344)	-	-	(1,970,315)
Deposits from the State Corporation "Deposit Insurance Agency"	-	(1,330,841)	-	(1,330,841)	1,128,547	-	-	(202,294)
Property and equipment, intangible assets	-	(161,623)	-	(161,623)	312,196	-	(186,162)	(35,589)
Due to banks and other financial institutions	(19,277)	(646,945)	-	(666,222)	580,238	-	-	(85,984)
Customer accounts	(50,213)	-	-	(50,213)	50,213	-	-	-
Debt securities issued	(6,356)	-	-	(6,356)	6,356	-	-	-
Subordinated debt	(320)	-	-	(320)	320	-	-	-
Deferred tax liability	**(377,733)**	**(2,421,380)**	**178,257**	**(2,620,856)**	**691,093**	**(782,087)**	**(186,162)**	**(2,898,012)**
Net deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net deferred tax liability	**-**	**(1,269,036)**	**-**	**(1,090,779)**	**113,693**	**(782,087)**	**325,575**	**(1,433,598)**

(in thousands of Russian rubles, unless otherwise indicated)

Reconciliation of income tax expenses and profit before income tax expense for the years ended December 31, 2015 and December 31, 2014 is presented as follows:

	December 31, 2015	December 31, 2014
Profit before income tax	296,668	6,004,270
Tax at the statutory tax rate (20%)	(59,334)	(1,200,854)
Effect of tax rate, different from 20% (at 15%)	90,484	33,701
Tax exempt income	405,653	34,863
Change in unrecognised deferred tax assets	(664,454)	(237,350)
Income tax expense	**(227,651)**	**(1,369,640)**
Current income tax expense	(341,344)	(100,604)
Deferred income tax (charge)/benefit	113,693	(1,269,036)
Income tax expense	**(227,651)**	**(1,369,640)**

As at December 31, 2015, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognized was RUR 803,311 thousand (31 December 2014: none).

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central Bank of the Russian Federation comprise:

	December 31, 2015	December 31, 2014
Balances with the Central bank of the Russian Federation	31,540,798	15,247,278
Cash	17,693,225	14,578,750
Deposit with the Central bank of the Russian Federation	2,274	5,000,000
Total cash and balances with the Central bank of the Russian Federation	**49,236,297**	**34,826,028**

Cash and cash equivalents presented in the statement of cash flows comprise the following:

	December 31, 2015	December 31, 2014
Cash and balances with the Central bank of the Russian Federation	49,236,297	34,826,028
Correspondent accounts and time deposits with other banks with original maturity within 90 days	237,386,754	92,179,656
	286,623,051	127,005,684
Less minimum reserve deposits with the Central bank of the Russian Federation	(3,161,058)	(3,224,508)
Less minimum reserve deposits with the Bank of Greece	(48,105)	-
Less guarantee deposit with the National Clearing Center	(14,000)	(6,000)
Total cash and cash equivalents	**283,399,888**	**123,775,176**

(in thousands of Russian rubles, unless otherwise indicated)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise financial assets held for trading.

	Interest rate to nominal	December 31, 2015	Interest rate to nominal	December 31, 2014
Financial assets at fair value through profit or loss:				
Bonds of banks	8.7-9.8%	60,592		-
US treasury bonds		-	0.3%	5,886,407
		60,592		**5,886,407**
Corporate shares	-	95,236	-	248,258
		95,236		**248,258**
		155,828		**6,134,665**
Financial assets at fair value through profit or loss pledged under repurchase agreements:				
Bonds of banks	7.8%	44,848		-
		44,848		**-**
Total financial assets at fair value through profit or loss		**200,676**		**6,134,665**

Financial assets at fair value through profit or loss pledged under repurchase agreements in the amount of RUR 44,848 thousand were pledged under repurchase agreements with the Central Bank of the Russian Federation (Note 21).

As at December 31, 2015, the bank bonds had maturities from February 2016 to October 2020.

Reclassifications

In mid-December 2014, the Group changed its intention to hold securities classified as financial assets at fair value through profit or loss for the purpose of selling in the near term. The decision was due to the uncertainty in the market and a number of negative factors that were considered "rare circumstances" and included, among other things, a significant increase in the key interest rate of the Central Bank of the Russian Federation and, as a consequence, a liquidity deficit. On December 16, 2014, the Group reclassified a portion of securities out of financial assets at fair value through profit or loss to investments available for sale. The information about the reclassified assets is presented in the table below:

	Investments available for sale	
	December 31, 2015	**December 31, 2014**
Carrying amount	6,255,439	16,189,393
Fair value	6,255,439	16,189,393
Fair value gain/(loss) that would have been recognised on the reclassified assets in profit or loss for the year if the reclassification had not been made	250,235	(63,856)
Fair value gain/(loss) that have been recognised on the reclassified assets in other comprehensive income	250,235	(63,856)
Fair value gain/(loss) that have been recognised on the reclassified assets in profit or loss up to date of reclassification	-	(825,372)

(in thousands of Russian rubles, unless otherwise indicated)

The effective interest rate on the reclassified financial assets determined as of the reclassification date ranges between 7.8% and 36.4% for RUR-denominated securities. Current value of estimated cash flows, which the Group expects to recover, equals the fair value of the reclassified financial assets as of the reclassification date.

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	December 31, 2015	December 31, 2014
Time deposits with banks other than the Central bank of the Russian Federation	399,664,795	65,908,558
Correspondent accounts with banks and other financial institutions	32,791,445	51,585,483
Total due from banks and other financial institutions	**432,456,240**	**117,494,041**

As at December 31, 2015 and December 31, 2014, the Group had placements with 3 and 6 banks amounting to RUR 388,233,530 thousand and RUR 88,459,200 thousand, respectively, the outstanding debt of which individually exceeded 10% of the Group's equity.

As at December 31, 2015 and December 31, 2014, amounts due from clearing institutions of RUR 17,130,678 thousand and RUR 16,512,534 thousand, respectively, used for the fulfillment of obligations accepted for clearing were included in correspondent accounts with banks and other financial institutions.

As at December 31, 2014, the Group placed RUR 17,500,000 thousand with the interest rate of 6.01% p.a. and maturities from 3 to 6 years with the banks under financial rehabilitation. These funds were received from SC "DIA" as part of measures on financial stabilization of the banks under financial rehabilitation (Notes 1, 25). The Group recognized these loans issued at fair value totaling RUR 12,847,359 thousand. The amount of loss arising from the initial recognition of the loans amounted to RUR 4,652,641 thousand for the year ended December 31, 2014.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2015	December 31, 2014
Loans to customers	230,638,119	218,829,533
Loans under reverse repurchase agreements	-	5,314,100
	230,638,119	224,143,633
Less allowance for impairment losses	(12,532,753)	(9,966,823)
Total loans to customers	**218,105,366**	**214,176,810**

Movements in the allowances for impairment losses for the years ended December 31, 2015 and December 31, 2014 are disclosed in Note 6.

(in thousands of Russian rubles, unless otherwise indicated)

	December 31, 2015	December 31, 2014
Loans collateralized by pledge of real estate and land	42,896,511	29,461,838
Loans collateralized by corporate guarantees	95,465,871	76,105,588
Loans collateralized by pledge of claim rights	4,338,471	2,991,108
Loans collateralized by pledge of cash	32,503	719
Loans collateralized by pledge of vehicles	2,073,011	7,984,216
Loans collateralized by pledge of securities	1,765,954	6,078,177
Loans collateralized by pledge of goods in turnover	1,058,981	3,294,550
Loans collateralized by pledge of equipment	533,484	7,579,836
Unsecured loans	82,473,333	90,647,601
	230,638,119	224,143,633
Less allowance for impairment losses	(12,532,753)	(9,966,823)
Total loans to customers	**218,105,366**	**214,176,810**

In 2015, loans to legal entities with the total amount of RUR 15,374,163 thousand were sold for the consideration of RUR 15,902,589 thousand to unrelated parties. As a result of the sale, the Group recorded income in the amount of RUR 528,426 thousand. The loans were fully secured by real estate property, and no provision for these loans was recorded at the time of sale.

In 2014, loans to legal entities with the total amount of RUR 19,828,750 thousand were sold for the consideration of RUR 23,179,576 thousand to unrelated parties. As a result of the sale, the Group recorded income in the amount of RUR 3,350,826 thousand. The loans were fully secured by real estate property, and no provision for these loans was recorded at the time of sale. In 2014, the Group incurred losses resulting from sale of non-performing debt in the amount of RUR 460,532 thousand.

	December 31, 2015	December 31, 2014
Analysis by sector:		
Trading	106,797,792	85,447,025
Individuals	46,826,059	49,769,402
Investments and other financial services	25,916,988	24,013,080
Other services	14,757,193	8,659,681
Construction	12,679,642	6,534,491
Production	4,990,466	13,507,084
Oil & Gas	3,329,795	12,429,008
Energy	2,108,535	2,317,677
Mining industry	1,800,149	408,984
Real estate	1,599,245	11,054,632
Chemical industry	1,418,950	2,000,253
Agriculture	1,034,409	74,025
Transport and logistics	739,939	328,451
Food industry	656,168	124,301
Metallurgy	609,494	561,272
Hospitality	592,836	1,206,487
Printing industry	154,526	126,496
Factoring	98,200	4,925,991
Woodworking industry	20,559	7,740
Other	4,507,174	647,553
	230,638,119	224,143,633
Less allowance for impairment losses	(12,532,753)	(9,966,823)
Total loans to customers	**218,105,366**	**214,176,810**

(in thousands of Russian rubles, unless otherwise indicated)

Loans to individuals comprise the following products:

	December 31, 2015	December 31, 2014
Credit cards	24,271,928	27,328,883
Consumer loans	18,891,138	19,718,207
Mortgage loans	3,258,440	1,242,701
Car loans	244,702	321,633
Other	159,851	1,157,978
	46,826,059	49,769,402
Less allowance for impairment losses	(8,189,648)	(6,749,362)
Total loans to individuals	**38,636,411**	**43,020,040**

As at December 31, 2015 and December 31, 2014, the Group granted loans to 13 and 16 customers or groups of related customers, totaling RUR 107,586,139 thousand and RUR 105,231,276 thousand, respectively, the outstanding debt of which individually exceeded 10% of the Group's equity.

As at December 31, 2015, non-performing loans or loans with payments overdue by more than ninety days comprise RUR 10,140,585 thousand or 4.4% of the loan portfolio before allowance for impairment (31 December 2014: RUR 8,481,916 thousand or 3.8%, respectively).

As at December 31, 2015 and December 31, 2014, loans to customers included loans totaling RUR 3,025,110 thousand and RUR 5,992,174 thousand, respectively, with terms renegotiated. Otherwise these loans would have been past due or impaired.

Loans to customers are divided into three major categories based on the number of days overdue and the provision rate for the loan. Not past due and not impaired loans are those loans are not that carry no overdue amounts and the provision rate is less than 21%. Past due but not impaired loans are those loans that are overdue by not more than 30 days and the provision rate is less than 21%. Impaired loans are those loans that are overdue by more than 30 days or the provision rate is over 21%. The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2015			December 31, 2014		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Not past due and not impaired	215,853,499	(2,452,588)	213,400,911	210,963,625	(1,841,903)	209,121,722
Past due but not impaired	438,584	(51,668)	386,916	555,386	(89,843)	465,543
Impaired loans	14,346,036	(10,028,497)	4,317,539	12,624,622	(8,035,077)	4,589,545
Total	**230,638,119**	**(12,532,753)**	**218,105,366**	**224,143,633**	**(9,966,823)**	**214,176,810**

In accordance with the requirements of the Central Bank of the Russian Federation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the court.

(in thousands of Russian rubles, unless otherwise indicated)

17. INVESTMENT SECURITIES

	December 31, 2015		December 31, 2014	
	Ownership interest	**Carrying value**	**Ownership interest**	**Carrying value**
Equity instruments				
Units in investment funds	4.4%-19.6%	4,638,718	4.4%-19.0%	3,448,630
Participation in charter of limited liability companies	-	200,406	-	70
Corporate shares	-	137,846	-	94,230
Units of SWIFT	-	263	-	-
Debt instruments				
Corporate bonds	-	12,496,869	-	15,703,603
Municipal bonds	-	1,270,157	-	2,805,330
Bank bonds	-	755,571	-	2,565,320
Russian State bonds	-	344,347	-	338,716
Investments available for sale		**19,844,177**		**24,955,899**
Equity instruments				
Units in investment funds	-	-	4.9%	553,392
Debt instruments				
Russian State bonds	-	39,746,853	-	-
Corporate bonds	-	23,844,605	-	1,005,282
Bank bonds	-	16,349,248	-	11,664,314
Municipal bonds	-	1,708,713	-	1,327,269
Investments available for sale, pledged under repurchase agreements		**81,649,419**		**14,550,257**

In November 2015, the Bank reclassified securities with the aggregate value of RUR 68,075,360 thousand from investment securities held to maturity cathegory to investment securities available for sale cathegory and lost the right to maintain a portfolio of securities held to maturity for the two years following the reporting year. Gain from revaluation of securities on the date of reclassification totaling RUR 2,995,305 thousand was recognized in the Group's equity.

Reclassification of securities from the portfolio of securities held to maturity was due to a change in intentions regarding these investments which market value has risen significantly during the period of the Group's ownership as compared to the date of acquisition. Therefore, the Group decided that it will generate more benefits from trading with these securities rather than from the interest income on them.

As at December 31, 2015 and December 31, 2014, the Russian state bonds had maturities from March 2018 to March 2030 and from January 2016 to July 2022, respectively.

As at December 31, 2015 and December 31, 2014, the corporate bonds had maturities from May 2016 to January 2030 and from February 2015 to September 2044, respectively.

As at December 31, 2015 and December 31, 2014, the bank bonds had maturities from September 2016 to August 2029 and from June 2017 to August 2029, respectively.

As at December 31, 2015 and December 31, 2014, the municipal bonds had maturities from June 2016 to July 2021 and from July 2015 to July 2021, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2015 and December 31, 2014, investments available for sale in the amount of RUR 81,649,419 thousand and RUR 14,550,257 thousand, respectively, were pledged under repurchase agreements with the Central Bank of the Russian Federation (Note 21).

All repurchase agreements that were outstanding as at December 31, 2015 should be settled by the parties before May 2016.

18. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Capital investments	Total
At initial cost				
December 31, 2013	**4,224,631**	**1,139,878**	**208,406**	**5,572,915**
Acquisition through business combinations	538,486	580,856	7,474	1,126,816
Additions	724,580	374,361	96,829	1,195,770
Transfers beetween categories	-	85,588	(85,588)	-
Transfer to investment property	-	-	(4,019)	(4,019)
Disposals	(280,018)	(248,223)	(2,751)	(530,992)
December 31, 2014	**5,207,679**	**1,932,460**	**220,351**	**7,360,490**
Acquisition through business combinations	1,968,145	381,783	9,490	2,359,418
Additions	808,802	500,720	45,221	1,354,743
Transfers beetween categories	-	11,517	(11,517)	-
Disposal of subsidiary	(445,034)	(104,358)	-	(549,392)
Disposals	(536,732)	(557,860)	(7,523)	(1,102,115)
December 31, 2015	**7,002,860**	**2,164,262**	**256,022**	**9,423,144**
Accumulated depreciation and impairment				
December 31, 2013	**254,254**	**782,672**	**-**	**1,036,926**
Charge for the year	75,967	166,133	-	242,100
Eliminated on disposals	(15,427)	(103,387)	-	(118,814)
December 31, 2014	**314,794**	**845,418**	**-**	**1,160,212**
Charge for the year	123,562	327,137	-	450,699
Eliminated on disposals	(21,745)	(372,372)	-	(394,117)
December 31, 2015	**416,611**	**800,183**	**-**	**1,216,794**
Net book value				
As at December 31, 2014	**4,892,885**	**1,087,042**	**220,351**	**6,200,278**
As at December 31, 2015	**6,586,249**	**1,364,079**	**256,022**	**8,206,350**

(in thousands of Russian rubles, unless otherwise indicated)

	Intangible assets
At initial/indexed cost	
December 31, 2013	**811,077**
Acquisition through business combinations	892,558
Additions	266,712
Disposals	(257,037)
December 31, 2014	**1,713,310**
Acquisition through business combinations	1,740,279
Additions	409,967
Transfers	-
Disposal of subsidiary	(712,895)
Disposals	(41,162)
December 31, 2015	**3,109,499**
Accumulated depreciation	
December 31, 2013	**462,240**
Charge for the year	172,160
Eliminated on disposals	(191,380)
December 31, 2014	**443,020**
Charge for the year	375,357
Eliminated on disposals	(25,728)
December 31, 2015	**792,649**
Net book value	
As at December 31, 2014	**1,270,290**
As at December 31, 2015	**2,316,850**

As at December 31, 2015 and December 31, 2014, property and equipment and intangible assets included fully depreciated assets totaling RUR 1,534,699 thousand and RUR 1,212,917 thousand, respectively.

Additions during the year

Intangible assets acquired in 2015 through business combination comprise: banking licenses of RUR 629,665 thousand, customer relationships arising from demand deposits and current accounts of RUR 539,175 thousand, customer relationships arising from loans issued of RUR 320,715 thousand. Customer relationships arising from demand deposits and current accounts are amortized at the rate of 17%, customer relationships arising from loans issued to individuals are amortized at the rate of 33%, customer relationships arising from loans issued to legal entities are amortized at the rate of 25%. Customer relationships arising from demand deposits and current accounts are amortized over the useful life of 6 years, customer relationships arising from loans issued to individuals are amortized over the useful life of 3 years, customer relationships arising from loans issued to legal entities are amortized over the useful life of 4 years. Banking licenses have indefinite useful life.

(in thousands of Russian rubles, unless otherwise indicated)

19. INVESTMENT PROPERTY

Investment property comprises:

as at December 31, 2013	**12,874,185**
Transfer from property and equipment	4,019
Disposal of subsidiary	(10,597,439)
Disposals	(1,956,399)
as at December 31, 2014	**324,366**
Acquisition through business combinations	92,148
Additions	96,599
Disposal of subsidiary	(29,329)
Disposals	(26,279)
as at December 31, 2015	**457,505**
Accumulated depreciation	
as at December 31, 2013	**29,298**
Charge for the year	6,350
Disposals	(399)
as at December 31, 2014	**35,249**
Charge for the year	7,690
Disposals	(130)
as at December 31, 2015	**42,809**
Net book value as at December 31, 2014	**289,117**
Net book value as at December 31, 2015	**414,696**

Property rental income included investment property rental income for the year ended December 31, 2015 and December 31, 2014 totaling RUR 120,691 thousand and RUR 225,234 thousand, respectively (Note 10).

The Group has no restrictions on the disposal of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for thier repair, maintenance and enhancement.

(in thousands of Russian rubles, unless otherwise indicated)

20. OTHER ASSETS

Other assets comprise:

	December 31, 2015	December 31, 2014
Other financial assets:		
Accrued income	638,425	527,485
Settlements on currency conversion operations	97	931,945
	638,522	**1,459,430**
Less allowance for impairment losses	(198,000)	(51,549)
Total other financial assets	**440,522**	**1,407,881**
Other non-financial assets:		
Prepayments	1,748,629	1,494,221
Inventories	994,068	861,722
Deferred expenses	409,346	460,500
Rental payments	214,643	2,744
Taxes recoverable, other than income tax	139,242	81,282
Other	221,698	200,005
	3,727,626	**3,100,474**
Less allowance for impairment losses	(112,921)	(65,891)
Total other non-financial assets	**3,614,705**	**3,034,583**
Total other assets	**4,055,227**	**4,442,464**

Movements in the allowances for impairment losses for the years ended December 31, 2015 and December 31, 2014 are disclosed in Note 6.

21. DUE TO THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	December 31, 2015	December 31, 2014
Term deposits	-	2,004,808
Loans under repurchase agreements	75,625,359	11,833,013
Total due to the Central bank of the Russian Federation	**75,625,359**	**13,837,821**

As at December 31, 2014, the Group had one term deposit from the Central Bank of the Russian Federation totaling RUR 2,004,808 thousand that was repaid in January 2015. The interest rate on this deposit was 9.75%. This term deposit was collateralized by guarantee of a large Russian bank.

As at December 31, 2015, the corporate bonds, municipal bonds, bank bonds and Russian state bonds disclosed in financial assets at fair value through profit or loss with the carrying amount of RUR 44,848 thousand (Note 14) and disclosed in investments available for sale with the carrying amount of RUR 81,649,419 thousand (Note 17) were pledged under repurchase agreements with the Central Bank of the Russian Federation. The loans under repurchase agreements included in due to the Central Bank of the Russian Federation totaled RUR 75,625,359 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

22. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	December 31, 2015	December 31, 2014
Recorded at amortised cost:		
Term deposits of banks and other financial institutions	40,899,195	23,360,211
Correspondent accounts of other banks	4,704,963	26,764,013
Loans under repurchase agreements	-	653,946
Total due to banks and other financial institutions	**45,604,158**	**50,778,170**

As at December 31, 2015 and December 31, 2014, amounts due to banks and other financial institutions totaling RUR 39,928,801 thousand (87.56% of the total of RUR 45,604,158 thousand) and RUR 44,558,268 thousand (87.75% of the total of RUR 50,778,170 thousand) were due to 6 banks and 1 bank, respectively, which represents a significant concentration.

As at December 31, 2014, the loan under a repurchase agreement in the amount of RUR 653,946 thousand was included in due to banks and other financial institutions. The units of CMIF rental “Finam-Kapitalnie Vlozheniya” in the amount of RUR 553,392 thousand were pledged under a repurchase agreement.

In 2014, the Group received RUR 13,830,000 thousand as deposits from the banks under financial rehabilitation with the interest rate of 6.51% p.a. and maturity periods ranging from 3 to 6 years. The Group recognized these deposits at fair value within due to banks and other financial institutions. The gain on initial recognition of these deposits amounted to RUR 3,311,913 thousand. As at December 31, 2014, the carrying amount of the deposits from the banks under financial rehabilitation amounted to RUR 10,615,320 thousand.

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2015	December 31, 2014
Recorded at amortised cost:		
Time deposits	439,050,389	236,997,459
Demand accounts	48,855,372	26,910,951
Total customer accounts	**487,905,761**	**263,908,410**

As at December 31, 2015 and December 31, 2014, customer accounts totaling RUR 313,405 thousand and RUR 3,528,552 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2015 and December 31, 2014, customer accounts totaling RUR 39,623,428 thousand (8%) and RUR 35,010,847 thousand (13%) represented accounts of 10 major customers.

As at December 31, 2015 and December 31, 2014, deposits of individuals in the amount of RUR 378,127,237 thousand and RUR 199,577,967 thousand, respectively, were included in time deposits. In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of an individual. In case a term deposit is repaid upon demand of an individual prior to maturity, interest on it is paid by the Bank based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(in thousands of Russian rubles, unless otherwise indicated)

	December 31, 2015	December 31, 2014
Analysis by sector:		
Individuals	396,725,579	209,386,190
Investments and other financial services	22,024,029	19,991,452
Construction	19,111,695	2,133,689
Services	15,823,079	7,314,714
Trading	11,638,343	5,446,429
Real estate	5,236,058	4,466,233
Hospitality	4,728,162	333,251
Government	3,064,116	263
Production	3,044,611	7,405,453
Transportation	1,991,363	1,286,831
Mining industry	1,473,059	10,524
Oil & Gas	876,906	152,628
Enegry	498,741	5,003,854
Agriculture	438,821	78,783
Chemical industry	266,952	59,004
Woodworking industry	226,921	28,036
Metallurgy	190,251	64,981
Food industry	171,831	10,464
Printing industry	107,969	62,855
Other	267,275	672,776
Total customer accounts	**487,905,761**	**263,908,410**

24. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date, month/year	Effective rate, %	December 31, 2015	December 31, 2014
Bonds	July 2016 - June 2021	14.1%-18.9%	109,176,006	19,619,928
Euro-Commercial papers	January 2016 - July 2016	7.5%	6,592,654	2,075,732
Discount bearing promissory notes	January 2016 - July 2033	3.5-13.7%	2,294,195	520,836
Interest bearing promissory notes	January 2016 - November 2017	4.5-16.3%	860,004	999,624
Settlement promissory notes	On demand	-	34,889	3,875
Deposit certificates	-	9.2%	-	260,265
Total debt securities issued			**118,957,748**	**23,480,260**

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2015, the bonds comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
RUB	19,000,000	BO-02	9/24/2013	9/24/2016	13.5%	19,285,116
RUB	18,000,000	BO-03	7/16/2013	7/16/2025	13.8%	19,134,760
RUB	24,000,000	BO-04	2/14/2014	2/7/2020	17.0%	25,545,805
RUB	11,000,000	BO-05	12/10/2014	12/2/2020	13.5%	11,081,654
RUB	5,000,000	BO-06	1/26/2015	1/18/2021	13.9%	5,381,779
RUB	5,000,000	BO-07	1/26/2015	1/18/2021	13.9%	5,381,779
RUB	3,000,000	BO-08	4/3/2015	3/26/2021	14.5%	3,109,485
RUB	3,000,000	BO-09	4/3/2015	3/26/2021	14.5%	3,109,485
RUB	3,000,000	BO-10	6/10/2015	6/2/2021	14.5%	3,022,442
RUB	3,000,000	BO-11	6/10/2015	6/2/2021	14.5%	3,022,442
RUB	3,000,000	BO-12	6/10/2015	6/2/2021	14.5%	3,022,442
RUB	3,000,000	BO-13	6/10/2015	6/2/2021	14.5%	3,022,442
RUB	5,000,000	BO-14	6/3/2015	5/26/2021	14.5%	5,056,375
Total carrying value of bonds						**109,176,006**

As at December 31, 2014, the bonds comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
RUB	9,000,000	BO-02	9/24/2013	9/24/2016	12.3%	8,153,882
RUB	4,000,000	BO-03	7/16/2013	7/16/2016	11.3%	4,218,047
RUB	5,000,000	BO-04	2/14/2014	2/7/2020	12.0%	5,232,456
RUB	2,000,000	BO-05	12/10/2014	12/2/2020	14.0%	2,015,543
Total carrying value of bonds						**19,619,928**

As at December 31, 2015, euro-commercial papers comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
USD	25,000	8	7/7/2015	1/13/2016	7.0%	1,817,626
USD	25,000	9	7/7/2015	7/5/2016	8.9%	1,744,986
USD	36,800	10	10/16/2015	4/15/2016	6.3%	2,634,237
EUR	5,100	11	12/29/2015	6/29/2016	5.5%	395,805
Total carrying value of Euro-Commercial Papers						**6,592,654**

As at December 31, 2014, euro-commercial papers comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
USD	47,000	6	3/5/2014	3/4/2015	7.5%	2,075,732
Total carrying value of Euro-Commercial Papers						**2,075,732**

In February and September 2015, the Group placed additional issues of series BO-04 stock-exchange bonds in the total amount of RUR 3,000,000 thousand and RUR 16,000,000 thousand, respectively.

In March, September and October 2015, the Group placed additional issues of series BO-03 stock-exchange bonds in the total amount of RUR 1,000,000 thousand, RUR 5,000,000 thousand and RUR 8,000,000 thousand, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

In March 2015, the Group paid USD 47 mln to repay series 06 euro-commercial papers at maturity.

In July and September 2015, the Group placed additional issues of series BO-02 stock-exchange bonds in the total amount of RUR 7,000,000 thousand and RUR 3,000,000 thousand, respectively.

In October 2015, the Group placed an additional issue of series BO-05 stock-exchange bonds in the total amount of RUR 9,000,000 thousand.

In 2015, series BO-05, BO-06, BO-07, BO-08, BO-09 and BO-14 stock-exchange bonds of B&N Bank were transferred from the Third Level to the First Level of the list of securities traded at CJSC MICEX Stock Exchange.

Stock-exchange bonds of B&N Bank of all series are included in the Lombard List of the Bank of Russia in accordance with the decision of the Board of Directors of the Bank of Russia.

In October 2015, CJSC MICEX Stock Exchange approved the Program for Stock-Exchange Bonds with the total nominal value of RUR 200 bln.

Promissory notes represent debt securities issued by the Group in the local market and used as an alternative to customer/bank deposits. As at December 31, 2015, promissory notes issued comprise discount-bearing, interest-bearing and settlement promissory notes.

25. DEPOSITS FROM THE STATE CORPORATION “DEPOSIT INSURANCE AGENCY”

Deposits from the SC “DIA” comprise:

	December 31, 2015	December 31, 2014
Funds raised as part of the measures on financial stabilization	24,298,269	22,872,208
Term deposits	3,700,000	2,500,000
Total deposits from the State Corporation "Deposit Insurance Agency"	**27,998,269**	**25,372,208**

In 2014, the Group received funds from the SC “DIA” in the amount of RUR 12,000,000 thousand at the interest rate ranging from 4.1% p.a. to 6.6% p.a. for the period from 1 to 4 years. The funds were provided as part of measures on financial stabilization of JSC B&N Bank Credit Cards. The deposits are collateralized by loans to customers.

In 2014, the Group received funds from the SC “DIA” in the amount of RUR 17,500,000 thousand at the interest rate of 6.01% p.a. for the period of 6 years. The funds were provided as part of measures on financial stabilization of the banks under financial rehabilitation (Note 3).

In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the Group discounted these deposits using the market rates.

The Group recognized these deposits at fair value totaling RUR 22,698,168 thousand. The gain on initial recognition of the deposits from the SC “DIA” amounted to RUR 6,801,832 thousand.

As at December 31, 2015 and December 31, 2014, the carrying amount of the deposits amounted to RUR 24,298,269 thousand and RUR 22,872,208 thousand, respectively, and was included in funds raised as part of the measures on financial stabilization.

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26. SUBORDINATED DEBT

	Currency	Maturity date	Interest rate, %	December 31, 2015	December 31, 2014
NAVTA OVERSEAS LIMITED (Cyprus)	USD	Undefined	7.8%	7,288,270	5,625,840
HANBERG FINANCE LIMITED (Cyprus)	USD	Undefined	6.4%	3,646,052	2,813,660
Erko OJSC	RUR	May 31, 2024	9.1%	439,845	-
TIERTO INVESTMENTS LTD	RUR	February 27, 2064	5.5%	121,714	-
ADERIM LIMITED	RUR	December 31, 2021	9.0%	60,000	-
MAGIC NUMBERS LLC	RUR	December 24, 2019	10.0%	54,258	-
ELERD MANAGEMENT LIMITED (Cyprus)	USD	March 12, 2020	10.0%	-	2,812,920
TTU NDM INC LLC	USD	December 29, 2015	6.4%	-	1,422,032
HANBERG FINANCE LIMITED (Cyprus)	RUR	October 31, 2023	9.0%	-	1,001,480
LUIRE LLC	USD	December 29, 2015	6.5%	-	228,361
TTU NDM INC LLC	RUR	December 29, 2015	1.0%	-	29,397
LUIRE LLC	RUR	December 29, 2015	1.0%	-	27,717
DAVR LLC	RUR	December 29, 2015	1.0%	-	26,877
Total subordinated debt				**11,610,139**	**13,988,284**

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

Funds previously attracted under agreements on subordinated deposits from the Group's shareholders (HANBERG FINANCE LIMITED, ELERD MANAGEMENT LIMITED, TTU NDM INK, LYUIR and LLC DAVR) for the total amount of RUR 6,048,456 thousand were repaid in December 2015 on the basis of agreements on debt forgiveness and were recognized as free of charge financing within additional capital.

Subordinated deposits attracted from OJSC ERCO, TIERTO INVESTMENTS LTD, Aderim Limited and LLC Magiya Tsifr for the total amount of RUR 675,817 thousand are recognized in the consolidated financial statements of the Group as result of business combinations.

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27. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2015	December 31, 2014
Other financial liabilities:		
Settlements on currency conversion operations	667,597	147,998
Funds in settlements	69,701	119,355
Deferred income on lending operations	5,546	38,894
Payables on investment property acquisition	1,711	23,215
Settlements on bond issue	-	95,380
Other	21,110	85,948
	765,665	510,790
Other non-financial liabilities:		
Salaries payable	629,690	467,484
Payables to Deposits Insurance Fund	294,664	200,916
Taxes payable, other than income tax	238,041	153,992
Provision for legal claims	204,774	
Provision for losses on commissions for loan insurance	183,829	219,539
Provision for guarantees and letters of credit	105,784	62,135
Other	26,908	22,011
	1,683,690	1,126,077
Total other liabilities	**2,449,355**	**1,636,867**

Movements in the provision for guaranties, letters of credit and litigations for the years ended December 31, 2015 and December 31, 2014 are disclosed in Note 6.

28. SHARE CAPITAL

The Bank's share capital comprises the following number of shares:

Ordinary shares (par value of RUR 200)	Quantity
December 31, 2013	**37,081,117**
Issue of shares	9,626,956
December 31, 2014	**46,708,073**
Issue of shares	14,440,434
December 31, 2015	**61,148,507**

On May 30, 2014, additional 9,626,956 ordinary shares with par value of RUR 200 each were authorized, issued and fully paid to the share capital of the Bank. These ordinary shares were purchased for RUR 415.50 each. As a result of this issuance, the share capital and share premium of the Group increased by RUR 4,000,000 thousand.

On April 7, 2015, additional 14,440,434 ordinary shares with par value of RUR 200 each were authorized, issued and fully paid to the share capital of the Bank. These ordinary shares were purchased for RUR 415.5 each. As a result of this issuance, the share capital and share premium of the Group increased by RUR 6,000,000 thousand.

As at December 31, 2015 and December 31, 2014, share capital authorized, issued and fully paid comprised 61,148,507 and 46,708,073 ordinary shares with par value of RUR 200 each, respectively. All ordinary shares are of the same class and bear one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

The Group’s reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its financial statements prepared according to Russian Accounting Standards. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations to cover the general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank’s statute that provides for the creation of a reserve for these purposes of not less than 15% of the Bank’s share capital in accordance with the Russian Accounting Standards.

The amount of dividends paid by the Bank during the year ended December 31, 2014 and relating to the year ended December 31, 2013 amounted to RUR 10,743 thousand.

The amount of dividends paid by the Bank during the year ended December 31, 2015 and relating to the year ended December 31, 2014 amounted to RUR 13,453 thousand.

The amount of dividends per 1 (one) ordinary registered share was equal to 0 rubles and 22 kopecks before tax on income received in the form of dividends.

29. COMMITMENTS AND CONTINGENCIES

Operating environment

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

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by certain countries in 2014. In spite of gradual decrease of the CBR key rate in 2015 the ruble interest rates remained high after the CBR raised its key rate in December 2014. 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. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances. During 2015:

- The CBR exchange rate increased from RUR 56.2584 per USD 1 to RUR 72.8827 per USD 1.
- The CBR key interest rate decreased from 17.0% p.a. to 11.0% p.a.
- RTS index decreased from 790.7 to 757.0 points.

These events may have significant impact on the Group’s future performance and financial position in a manner not currently determinable. The future economic situation and regulatory environment as well as their impact on the Group’s performance may differ from the current expectations of management.

(in thousands of Russian rubles, unless otherwise indicated)

The ability of the Group's borrowers to repay the amounts due to the Group may also be affected by such factors as the drop in real household disposable income and decreased profitability in the corporate sector. Besides, the negative changes in economic environment may also result in decreased value of the collateral held as security against loans and other liabilities. To the extent that information is available, the Group has revised estimates of expected future cash flows in its assessment of assets impairment.

Contingencies and credit related commitments

Provision for losses on contingent liabilities amounted to RUR 310,558 thousand and RUR 62,135 thousand as at December 31, 2015 and December 31, 2014, respectively (Notes 6, 26).

As at December 31, 2015 and December 31, 2014, the nominal or contract amounts were:

	December 31, 2015 Nominal amount	December 31, 2014 Nominal amount
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	48,280,031	20,569,053
Letters of credit and other settlement transactions classified as contingent obligations	423,626	802,200
Commitments on loans and unused credit lines	19,515,437	10,147,845
	68,219,094	31,519,098
Less allowance for impairment losses	(105,784)	(62,135)
Total contingent liabilities and credit commitments	**68,113,310**	**31,456,963**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2015 and December 31, 2014, such unused credit lines amounted to RUR 19,515,437 thousand and RUR 10,147,845 thousand, respectively.

As at December 31, 2015 and December 31, 2014, operating lease commitments were as follows:

	December 31, 2015	December 31, 2014
Operating lease commitments		
Up to 1 year	840,881	781,148
1 year to 5 years	1,515,192	1,454,238
Over 5 years	231,922	216,187
Total operating lease commitments	**2,587,995**	**2,451,573**

For the years ended December 31, 2015 and December 31, 2014, lease expenses incurred by the Group amounted to RUR 1,883,247 thousand and RUR 1,293,916 thousand, respectively (Note 11).

Legal proceedings

In the ordinary course of business, the Group is subject to legal actions and complaints. As of the date of authorization of these consolidated financial statements, the main litigation in which the Group is involved is the claim that cash write-offs from the correspondent account of PJSC CB KEDR opened in CJSC C Bank in the amount of RUR 204,774 thousand (Note 6) were invalid.

CB KEDR lost a lawsuit in the first instance court and filed a cassation appeal. The court decisions are still pending. The Group has made a 100% provision for this contingency in accordance with IAS 37.

Management believes that the ultimate liability, if any, arising from legal actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group.

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. In addition, the provisions of Russian tax law applicable to financial instruments (including transactions with derivative financial instruments and securities) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activities of the Bank may be challenged by the relevant regional and federal authorities. Also, the tax authorities may be taking a more assertive position in the interpretation and application of this legislation and in the review of tax assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover 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.

Federal Law No. 376-FZ dated 24 November 2014 (as amended), which became effective from January 1, 2015, amended the Russian tax legislation adding, in particular, the term "beneficiary owner". Overall, the adoption of the law should increase the administrative and, in some cases, tax burden on Russian taxpayers that pay income from sources in the Russian Federation to foreign entities. There is uncertainty regarding the application of the new rules enacted by Federal Law No. 376-FZ, their possible interpretation by the Russian tax authorities and the effect on the amount of the tax liabilities of the Bank.

The Russian transfer pricing legislation allows the Russian tax authorities to apply tax base adjustments and impose additional income tax and value added tax liabilities in respect of all controlled transactions if the transaction price differs from the market price unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions, and there has been proper reporting to the Russian tax authorities, supported by appropriate transfer pricing documentation. In 2015, the Bank determined its tax liabilities arising from controlled transactions using actual transaction prices. Within the period specified by the Tax Code of the Russian Federation, the Bank will submit to the Russian tax authorities duly completed notifications of controlled transactions and prepare transfer pricing documentation with regard to them.

Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation.

As at December 31, 2015, management believes that its interpretation of the relevant legislation is adequate and reasonable and that the Bank's tax, currency and customs positions will be supported by courts if the Bank takes legal action in respect of tax positions challenged by tax authorities in the course of tax audits. Moreover, management believes that the Bank has accrued and paid to the budget all applicable taxes.

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30. TRANSACTIONS WITH RELATED PARTIES

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

Funds previously attracted under agreements on subordinated deposits from related parties in the amount of RUR 6,048,456 thousand were repaid on December 30, 2015 on the basis of agreements on debt forgiveness (Note 26). The shares of JSC ROST BANK were sold in December 2015 to the Bank's major shareholder. The gain from disposal of the subsidiary amounted to RUR 29,199,733 thousand (Note 3).

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

		December 31, 2015		December 31, 2014	
	Notes	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Due from banks and other financial institutions	15	369,175,478	432,456,240	13,940,784	117,494,041
- entities under common control		369,175,478		-	
- other related parties		-		13,940,784	
Loans to customers	16	4,739,967	230,638,119	5,911,297	224,143,633
- key management personnel of the Group		8,211		11,237	
- entities under common control		4,731,756		5,900,060	
Allowance for impairment losses on loans to customers	16	(142,803)	(12,532,753)	(17,163)	(9,966,823)
- key management personnel of the Group		(375)		(510)	
- entities under common control		(142,428)		(16,653)	
Investments available for sale	17	70	19,844,177	70	24,955,899
- entities under common control		70		70	
Due to banks and other financial institutions	22	25,986,732	45,604,158	11,999,325	50,778,170
- entities under common control		22,416,476		-	
- other related parties		3,570,257		11,999,325	
Customer accounts	23	5,276,059	487,905,761	1,708,500	263,908,410
- key management personnel of the Group		1,053,178		312,518	
- entities under common control		4,219,414		1,395,982	
- other related parties		3,467		-	
Subordinated debt	26	11,610,139	11,610,139	13,988,284	13,988,284
- entities under common control		11,610,139		13,988,284	
Guarantees issued and similar commitments	29	189,989	48,280,031	33,257	20,569,053
- key management personnel of the Group		21,865		16,878	
- entities under common control		168,124		16,379	
Commitments on loans and unused credit lines	29	44,282	19,515,437	988	10,147,845
- key management personnel of the Group		13,060		750	
- entities under common control		31,222		238	

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The following amounts from transactions with related parties were included in the consolidated statement of profit or loss and other comprehensive income for the years ended December 31, 2015 and December 31, 2014:

		December 31, 2015		December 31, 2014	
	Notes	**Related party transactions**	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	5	7,653,242	74,636,948	705,771	29,226,405
- key management personnel of the Group		6,292		3,713	
- entities under common control		7,602,276		702,058	
- other related parties		44,674		-	
Interest expense	5	(1,976,337)	(56,835,282)	(989,661)	(17,050,078)
- key management personnel of the Group		(25,337)		(8,621)	
- entities under common control		(1,631,266)		(893,362)	
- other related parties		(319,734)		(87,678)	
(Provision)/recovery of provision for impairment losses on interest bearing assets	6	(9,819,934)	(53,656,141)	11,866	(9,979,369)
- key management personnel of the Group		135		(185)	
- entities under common control		(9,820,069)		12,051	
Gain on disposal of subsidiary		29,199,733	29,199,733	-	-
- major shareholder		29,199,733		-	
Operating expenses excluding staff costs and contributions to Social Insurance Fund	11	(110,506)	(10,897,586)	(103)	(6,766,956)
- key management personnel of the Group		(1,020)		-	
- entities under common control		(109,283)		(103)	
- other related parties		(203)		-	
Compensation to personnel of the Group	11	(293,818)	(9,208,392)	(242,717)	(5,915,220)
- short-term benefits to key management		(283,889)		(242,717)	
- compensation to key management personnel in the form of post-employment benefits		(9,929)		-	

As at December 31, 2015 and December 31, 2014, loans to customers included loans totaling RUR 98,200 thousand and RUR 4,920,517 thousand, respectively, issued to FC "Politeks". For the years ended December 31, 2015 and December 31, 2014, interest income on theses loans amounted to RUR 982,557 thousand and RUR 454,519 thousand, respectively. FC "Politeks", a provider of factoring services, is a related party of the Group. The loans were issued to FC "Politeks" to finance its factoring operations. The Group approves credit risk limits per each specific borrower and controls the credit risk of funded operations.

31. FAIR VALUE MEASUREMENT

Valuation techniques and inputs, used by the Group for such measurements of assets and liabilities recognised on recurring or non-recurring basis at fair value in the statement of financial position after initial recognition, are determined by the accounting policies approved by the management of the Bank.

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.

(in thousands of Russian rubles, unless otherwise indicated)

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

Fair value hierarchy

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

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level inputs that are significant to the fair value measurement are unobservable.

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

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.

December 31, 2015	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Financial assets at fair value through profit or loss	December 31, 2015	60,592	95,028	208	155,828
Financial assets at fair value through profit or loss pledged under repurchase agreements	December 31, 2015	44,848	-	-	44,848
Invesments available for sale	December 31, 2015	17,327,655	150,722	2,365,800	19,844,177
Invesments available for sale pledged under repurchase agreements	December 31, 2015	67,670,594	13,978,825	-	81,649,419
Other assets:			-	-	
- Settlements on currency conversion operations	December 31, 2015	-	97	-	97
Assets for which fair values are disclosed					-
Cash and balances with the Central bank of the Russian Federation	December 31, 2015	-	49,236,297	-	49,236,297
Due from banks and other financial institutions	December 31, 2015	-	432,456,240	-	432,456,240
Loans to customers	December 31, 2015	-	-	216,608,746	216,608,746
Investment property	December 31, 2015	-	-	414,696	414,696

(in thousands of Russian rubles, unless otherwise indicated)

December 31, 2015	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value					
Other financial liabilities:					
- Settlements on conversion operations	December 31, 2015	-	667,597	-	667,597
Liabilities for which fair values are disclosed					
Due to the Central bank of the Russian Federation	December 31, 2015	-	75,625,359	-	75,625,359
Due to banks and other financial institutions	December 31, 2015	-	45,604,158	-	45,604,158
Customer accounts	December 31, 2015	-	48,855,372	438,171,536	487,026,908
Debt securities issued	December 31, 2015	109,176,006	-	3,189,090	112,365,096
Subordinated debt	December 31, 2015	-	-	11,456,557	11,456,557
Deposits from the State Corporation "Deposit Insurance Agency"	December 31, 2015	-	-	20,926,183	20,926,183

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

December 31, 2014	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Financial assets at fair value through profit or loss	December 31, 2014	5,886,407	248,007	251	6,134,665
Investments available for sale	December 31, 2014	19,834,324	3,039,717	2,081,858	24,955,899
Investments available for sale, pledged under repurchase agreements	December 31, 2014	12,311,581	2,238,676	-	14,550,257
Other assets:					
- Settlements on currency conversion operations	December 31, 2014	-	931,945	-	931,945
Assets for which fair values are disclosed					-
Cash and balances with the Central bank of the Russian Federation	December 31, 2014	-	34,826,028	-	34,826,028
Due from banks and other financial institutions	December 31, 2014	-	117,494,041	-	117,494,041
Loans to customers	December 31, 2014	-	-	225,438,329	225,438,329
Investment property	December 31, 2014	-	-	289,117	289,117

(in thousands of Russian rubles, unless otherwise indicated)

December 31, 2014	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value					
Other financial liabilities:					
- Settlements on conversion operations	December 31, 2014	-	147,998	-	147,998
Liabilities for which fair values are disclosed		-	-		-
Due to the Central bank of the Russian Federation	December 31, 2014	-	13,837,821	-	13,837,821
Due to banks and other financial institutions	December 31, 2014	-	50,778,170	-	50,778,170
Customer accounts	December 31, 2014	-	26,910,951	245,212,797	272,123,748
Debt securities issued	December 31, 2014	19,514,780	-	4,460,118	23,974,898
Subordinated debt	December 31, 2014	-	-	15,968,213	15,968,213
Deposits from the State Corporation "Deposit Insurance Agency"	December 31, 2014	-	-	23,541,874	23,541,874

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	December 31, 2014	Unrealized gains/(loss) on investments available for sale	Business combinations	Purchases	Disposal of subsidiaries	Sales	December 31, 2015
Financial assets							
Investments available for sale:							
Units in investment funds	2,081,723	112,923	-	-	-	(29,580)	2,165,066
Participation in charter of limited liability companies	70	-	8,054	200,002	(7,700)	(20)	200,406
Units of SWIFT	-	54	1,645	-	(1,436)	-	263
Shares	65	-	106,919	5,285,648	(5,392,567)	-	65
Total level 3 financial assets	**2,081,858**	**112,977**	**116,618**	**5,485,650**	**(5,401,703)**	**(29,600)**	**2,365,800**

	December 31, 2013	Total gains/(losses) record in profit or loss	Purchases	Disposal of subsidiaries	December 31, 2014
Financial assets					
Investments available for sale:					
Units in investment funds	-	-	2,081,723	-	
LLC "Obshaya karta"	70	-		-	
OJSC "Clearing Centre MFB"	50	-		-	
OJSC "Sankt-Petesburg Stock Market"	15	-		-	
Total level 3 financial assets	**135**	**-**	**2,081,723**	**-**	**-**
Financial liabilities					
Other financial liabilities:					
- Obligations to the minority holders of units in the consolidated mutual investment fund	(1,882,925)	-	-	(1,882,925)	-
Total level 3 financial liabilities	**(1,882,925)**	**-**	**-**	**(1,882,925)**	**-**

Recurring fair value measurements

The following is a description of the determination of fair value for recurring fair value measurements which are recorded using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(in thousands of Russian rubles, unless otherwise indicated)

Trading securities and investment securities available for sale

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

During the year ended December 31, 2015, the Group transferred certain financial instruments from Level 1 to Level 2 of the fair value hierarchy. The carrying amount of the transferred assets totaled RUR 1,812,918 thousand. The transfer from Level 1 to Level 2 was performed due to the decrease in the activity and trading volumes in respect of certain marketable securities and the Group decided to consider such circumstances when presenting the fair value hierarchy.

During the year ended December 31, 2015, the Group transferred certain financial instruments from Level 2 to Level 1 of the fair value hierarchy. The carrying amount of the transferred assets totaled RUR 744,620 thousand. The transfer from Level 2 to Level 1 was performed due to the increase in the activity and trading volumes in respect of certain marketable securities and the Group decided to consider such circumstances when presenting the fair value hierarchy.

Impact of changes in significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy

As at December 31, 2015, assets measured using Level 3 models included financial assets available for sale, represented by equity investments in closed mutual investment funds of real estate in the amount of RUR 2,165,066 thousand.

These financial instruments were measured by net assets method under the market and income approaches using valuation models which main assumption is real estate prices. If the Group had used a range of real estate prices of +10%/-10% of underlying assumptions, the fair value of the investments in closed mutual investment funds of real estate as at December 31, 2015 would have ranged from RUR 2,009,906 thousand to RUR 2,306,092 thousand.

Difference between the fair value at initial recognition and the transaction price

The table below reflects movements in the amount of deferred gain or loss arising on initial recognition of financial instruments for which transaction price is different from fair value, which is determined using inputs that are not observable in the market. Such differences are recorded in profit or loss either when the underlying inputs become observable or when an instrument is derecognized.

	December 31, 2015	December 31, 2014
Balance at January 1	**2,223,002**	-
Deferral of gain or loss on new transactions	-	2,223,002
Recognised in profit or loss during the period:		
Due to inputs becoming observable	-	-
Upon derecognition of the instruments	(2 223 002)	-
Exchange differences	-	-
Balance at December 31	-	**2,223,002**

(in thousands of Russian rubles, unless otherwise indicated)

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

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

	December 31, 2015			December 31, 2014		
	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets						
Cash and balances with the Central bank of the Russian Federation	49,236,297	49,236,297	-	34,826,028	34,826,028	-
Due from banks and other financial institutions	432,456,240	432,456,240	-	117,494,041	117,494,041	-
Loans to customers	218,105,366	216,608,746	(1,496,620)	214,176,810	225,438,329	11,261,519
Investment property	414,696	414,696	-	289,117	289,117	-
Financial liabilities			-			-
Due to the Central bank of the Russian Federation	75,625,359	75,625,359	-	13,837,821	13,837,821	-
Due to banks and other financial institutions	45,604,158	45,604,158	-	50,778,170	50,778,170	-
Customer accounts	487,905,761	487,026,908	878,853	263,908,410	272,123,748	(8,215,338)
Debt securities issued	118,957,748	112,365,096	6,592,652	23,480,260	23,974,898	(494,638)
Subordinated debt	11,610,139	11,456,557	153,582	13,988,284	15,968,213	(1,979,929)
Deposits from the State Corporation "Deposit Insurance Agency"	24,881,994	20,926,183	3,955,811	25,372,208	23,541,874	1,830,334
Total unrecognised change in fair value			**10,084,278**			**2,401,948**

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

Assets for which fair value approximates carrying amount

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

Trading securities and investment securities available for sale

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

(in thousands of Russian rubles, unless otherwise indicated)

Financial assets and financial liabilities carried at amortized cost

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

32. TRANSFERRED FINANCIAL ASSETS AND LIABILITIES HELD OR PLEDGED AS COLLATERAL

Transferred financial assets that are not derecognized in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that all of the transferred financial assets or their part do not qualify for derecognition:

		Investments available for sale, pledged under repurchase agreements				Loans to customers	Total
	Transferred financial asset	Russian State bonds	Municipal bonds	Other debt instruments	Other equity instruments	Loans to legal entities	
		2015 year	2015 year	2015 year	2015 year	2015 year	
Carrying amount assets	Repurchase agreements	39,746,853	1,708,713	40,238,701	-	-	81,694,267
	Loans to customers, pledged as collateral against funds provided by the SC "DIA"	-	-	-	-	16,485,121	16,485,121
Total		**39,746,853**	**1,708,713**	**40,238,701**	**-**	**16,485,121**	**98,179,388**
Carrying amount associated liabilities	Repurchase agreements	37,880,181	1,653,348	36,091,830		-	75,625,359
	Deposits of the SC "DIA"	-	-	-	-	24,298,269	24,298,269
Total		**37,880,181**	**1,653,348**	**36,091,830**	**-**	**24,298,269**	**99,923,628**

		Investments available for sale, pledged under repurchase agreements			Loans to customers	Total
	Transferred financial asset	Municipal debt instruments	Other equity instruments	Other debt instruments	Loans to legal entities	
		2014 year	2014 year	2014 year	2014 year	
Carrying amount assets	Repurchase agreements	1,327,269	553,392	12,669,596	-	14,550,257
	Other	-	-	-	12,465,189	12,465,189
Total		**1,327,269**	**553,392**	**12,669,596**	**12,465,189**	**27,015,446**
Carrying amount associated liabilities	Repurchase agreements	1,208,528	653,946	10,624,485	-	12,486,959
	Other	-	-	-	10,559,505	10,559,505
Total		**1,208,528**	**653,946**	**10,624,485**	**10,559,505**	**23,046,464**

In the course of the financial rehabilitation of JSC B&N Bank Credit Cards and JSC ROST BANK, the Group received funds from SC "DIA", which as at December 31, 2015 and December 31, 2014 amounted to RUR 24,298,269 thousand and RUR 22,872,208 thousand, respectively (Note 25). As at December 31, 2015, the Group concluded agreements on pledge of receivables under the loan agreements in the amount of RUR 27,766,396 thousand (December 31, 2014: RUR 12,465,189 thousand) to secure fulfillment of its liabilities to SC "DIA". As at December 31, 2015, RUR 16,485,121 thousand of pledged receivables under the loan agreements (December 31, 2014: RUR 12,465,189 thousand) were from loans to customers portfolio of PJSC B&N Bank, and the rest were from loans to customers portfolio of JSC ROST BANK.

In January 2016, as result of sale of the shares of JSC ROST BANK to its major shareholder, the Group repaid deposits of RUR 11,840,000 thousand issued by SC "DIA" to JSC ROST BANK (Note 35).

The securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received. Such repurchase transactions are not subject to offsetting.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognized by the Group, which instead records a separate asset for any cash given.

33. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

Shareholders of the Group manage capital to ensure continuation of the Group's operations by maximizing the value of capital through optimization of debt and equity ratio and increase of the Group's investment attractiveness. The Group also manages capital to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital adequacy ratios.

The structure of the Group's equity is represented by shareholders' equity which includes share capital, share premium, free of charge financing and retained earnings, which are disclosed in the consolidated statement of changes in equity, and debt, which includes subordinated debt disclosed in Note 26.

The structure of equity is reviewed by the Group's Management Board at least once a quarter. During this review, the Management Board, in particular, analyzes the cost of capital and risks related to each capital cathegory. Based on recommendations of the Management Board and the Board of Directors, the shareholders adjust the capital structure by paying dividends, issuing additional shares, raising funds (subordinated debt or debt free financing) or repaying existing loans.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue shares. No changes were made in the objectives, policies and processes from the previous years.

The CBR sets capital requirements for the Bank and monitors compliance with these requirements.

(in thousands of Russian rubles, unless otherwise indicated)

The Group defines as capital those items that are defined by statutory regulation as capital for credit institutions. The Group calculates its capital in accordance with CBR Regulation No. 395-P *On the Methodology for Defining the Value of Credit Institutions' Own Funds (Capital) (Basel III*) dated December 28, 2012 (hereinafter, "CBR Regulation No. 395-P").

As at December 31, 2015, main capital adequacy ratio of the bank group (hereinafter, "N20.2 ratio") was 7.5% (threshold value is 6%), core capital adequacy ratio of the bank group (hereinafter, "N20.1 ratio") was 5.4% (threshold value is 5%), equity (capital) adequacy ratio of the bank group (hereinafter, "N20.0 ratio") was 10.3% (threshold value is 10%) (December 31, 2014: 6.4%, 6.4% and 12.0%, respectively).

The management believes that the Group maintains the capital adequacy ratio on the level which corresponds to the nature and scope of the Bank's operations.

If capital adequacy ratios approximate threshold values set by the CBR and the Group's internal policies, such information is communicated to the Management Board and the Board of Directors. As at December 31, 2015 and December 31, 2014, the Group's capital adequacy ratios were in compliance with the statutory requirements.

The Group also monitors its compliance with capital adequacy requirements calculated in accordance with the Basel Accord (commonly known as Basel II) as defined in the International Convergence of Capital Measurement and Capital Standards and Amendment to the Capital Accord to incorporate market risks (updated June 2004).

The following table shows the structure of the capital calculated in accordance with the requirements of the Basel Accord as at December 31, 2015 and December 31, 2014:

	December 31, 2015	**December 31, 2014**
Tier 1 capital	46,105,242	30,715,858
Tier 2 capital	20,410,282	13,988,284
Total capital	**66,515,524**	**44,704,142**
Bank book	480,554,500	385,988,467
Trade book	125,530,133	8,553,102
Operational risk	29,514,017	15,638,313
Total risk weighted assets per Basel II approach	**635,598,651**	**410,179,882**
Capital Ratios Tier 1 per Basel II approach	7.3%	7.5%
Capital Ratios Tier 2 per Basel II approach	10.5%	10.9%

In August 2015, the Bank received a subordinated loan of RUR 8,801,000 thousand in the form of Russian state bonds (OFZ) from State Corporation "Deposit Insurance Agency". According to the agreement, the Bank shall return the above securities to the lender at the end of the contractual term. The Bank pays interest on the loan in the amount of total coupon income on OFZ plus fixed interest. The agreement also includes certain restrictions in respect of the Bank's ability to sell or pledge the securities received. The transaction represents a securities borrowing. The Group does not recognize the securities received and subordinated liability to return them to the lender in its consolidated statement of financial position. Liability to return securities received from State Corporation "Deposit Insurance Agency" is subordinate to other standard liabilities of the Group and loan issuance terms qualify for criteria applied to include the loan in the Bank's regulatory capital in accordance with the banking laws of the Russian Federation. Therefore, the Bank includes the subordinated loan described above in its tier 2 capital for the purposes of the calculation of regulatory capital and capital calculated for capital management purposes in accordance with Basel requirements.

The risk weighted assets are measured using a hierarchy of risk weights classified according to the nature of each asset and counterparty and reflecting an estimate of credit, market and other risks associated with such asset, taking into account any eligible collateral or guarantees.

Quantitative measures used to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total capital (8%) and tier 1 capital (4%) to total risk-weighted assets.

As at December 31, 2015 and December 31, 2014, the Group was in compliance with all internal and external capital adequacy requirements.

34. RISK MANAGEMENT

The Group has a system of risk management that ensures identification, measurement, and control over all the risks accepted by the Group for the purposes of their reasonable mitigation, including:

- Availability of approved procedures ensuring effective identification, measurement, monitoring, and control over the risks accepted by the Group, and sustaining risks within the established limits as per the Group's internal regulations.
- Tools helping to establish compliance of the existing procedures with the size and nature of the Group's business, and to regularly review them in accordance with changes in the risks accepted by the Group and its position on the market.
- Control over the operation of the risk management system by the Board of Directors and management of the Group.
- Plans of recovery from emergencies that may undermine the Group's financial stability, prompt crisis or loss of paying capacity, exercise a material influence on its financial performance.
- Formalized procedures of assessing potential impact of the given changes in risk factors that correspond to extraordinary, but probable events, on the Group's financial position.

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations.

Excessive risk concentration

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

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

Credit risk

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

The Group is exposed to the credit risk. Credit risk is the risk that one party to the financial instrument will incur a loss because the other party failed to discharge its contractual obligations.

Risk management and monitoring are performed within limits set by the Credit Committees and Management Board of the Group. Before any action is taken by the Credit Committee, all recommendations on credit processes (approved borrower's limits or amendments of loan agreements, etc.) are considered and approved by the Risk Management Department. Risk management routine is performed by the Head of the Credit Department and Risk Management Department.

The Group structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrower and product (by industry sector, by region) are approved quarterly by the Management Board and the Plenary Credit Committee. The exposure in relation to each borrower, including banks and brokers, is further restricted by sub-limits which cover on and off-balance sheet risks and are established by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of substantial part of loans, the Group obtains a collateral and corporate and personal guarantees, but a significant portion of loans is given to individuals, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

Off-balance sheet credit commitments represent unused portions of credit lines, guarantees or letters of credit. Credit risk related to off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

With respect to the credit risk related to off-balance sheet financial instruments, the Group is potentially exposed to a loss equal to the total unused credit lines, guarantees or letters of credit. However, the likely amount of loss is less than the total unused credit lines, guarantees or letters of credit. In most cases, commitments to issue loans, guarantees or letters of credit depend on the clients' compliance with special credit standards. The Group applies the same credit policy to contingent liabilities as to balance sheet financial instruments, i.e. the one based on the procedures of approving the issue of loans, using limits to mitigate risk, and current monitoring. The Group monitors the term to maturity, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

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

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained for commercial lending are charges over real estate properties and land, for retail lending – mortgages over residential properties and vehicles.

Securities and guarantees are also obtained from counterparties for all types of lending.

The Group has a policy to dispose of the repossessed properties. The proceeds are used to reduce or fully repay the outstanding claim.

Collateral is considered for risk reduction of an acceptable lending proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against collateral, full details, including the type, value, and the frequency of review of the collateral should be provided in the Application for Credit Facility Form. Where appropriate, the credit officer must review the documents confirming the existence of the collateral offered and, wherever possible, inspect the actual collateral.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure, where applicable, that an adequate difference in amounts of collateral and credit risk is obtained and maintained throughout the term of the facility. The appropriate authority responsible for collateral assessment sets parameters for each individual credit facility.

Total proceeds from the sale of collateral may not exceed total collateralized loan debt. The property received by the Group as collateral against loans includes real estate and land, securities, equipment, vehicles, goods in turnover.

The Group applies fundamentally the same risk management policies for the off-balance sheet risks as for the balance sheet risks. In case of commitments to lend, customers and counterparties are subject to the same credit management policies as for loans to customers. Collateral may be sought depending on the characteristics of the counterparty and the nature of the transaction.

Credit quality per class of financial asset

Financial assets (except for loans to customers) are graded according to the current credit ratings of the counterparties assigned by the internationally acknowledged agencies such as Fitch, Standard & Poor’s and Moody’s. Financial assets which have ratings lower than BBB are classified as speculative grade. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB.

Loans to customers are graded according to the internal Group’s methodology which is based upon the rate of provision of the corporate customer loans which are neither past due nor impaired. The highest possible rating is AA for clients that have loans with less than 1% rate of provision, rating A is between 1% and 5% rate of provision, rating BBB is between 5% and 10% rate of provision, rating lower than BBB is between 10% and 21% rate of provision. All other loans to customers which are neither past due nor impaired are not rated.

As at December 31, 2015 and December 31, 2014, the balances with the Central Bank of the Russian Federation amounted to RUR 31,543,072 thousand and RUR 20,247,784 thousand, respectively. In late January 2015, S&P rating agency decreased the rating of Russia from investment BBB- to speculative BB+. In February 2015, Moody’s rating agency also decreased Russia’s rating to speculative level of Ba1. According to Fitch agency, Russia’ rating from mid-January 2015 is BBB-.

(in thousands of Russian rubles, unless otherwise indicated)

The table below details credit ratings of debt financial assets that were neither past due nor impaired as at December 31, 2015:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2015 Total
Graded according to the current credit ratings of the counterparties assigned by the internationally acknowledged agencies:							
Investments available for sale less equity securities	-	-	59,855	1,512,761	5,965,715	7,328,613	14,866,944
Invesments available for sale pledged under repurchase agreements less equity securities	-	-	-	44,546,172	28,924,163	8,179,084	81,649,419
Financial assets at fair value through profit or loss less equity securities	-	-	95,028	-	60,592	-	155,620
Financial assets at fair value through profit or loss pledged under repurchase agreements less equity securities	-	-	-	44,848	-	-	44,848
Due from banks and other financial institutions	7,580	653,414	8,160,185	14,860,522	40,362,724	368,411,815	432,456,240
Graded according to the Group's internal methodology:							
Loans to customers	-	65,592,715	44,992,007	10,622,251	5,837,997	86,355,942	213,400,911
Other financial assets	-	-	-	-	-	440,522	440,522

As at December 31, 2014:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2014 Total
Graded according to the current credit ratings of the counterparties assigned by the internationally acknowledged agencies:							
Investments available for sale less equity securities	-	4,178,128	1,045,799	6,954,629	1,247,042	7,987,371	21,412,969
Invesments available for sale pledged under repurchase agreements less equity securities	-	-	-	853,235	13,143,630	-	13,996,865
Financial assets at fair value through profit or loss less equity securities	5,886,407	-	-	-	-	-	5,886,407
Due from banks and other financial institutions	-	-	13,470,488	872,819	4,034,892	99,115,842	117,494,041
Graded according to the Group's internal methodology:							
Loans to customers	-	76,375,903	23,351,210	6,786,976	45,043	102,562,590	209,121,722
Other financial assets	-	-	-	-	-	1,407,881	1,407,881

The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

(in thousands of Russian rubles, unless otherwise indicated)

Aging analysis of past due but not impaired financial assets is presented below.

As at December 31, 2015:

		Financial assets past due but not impaired				December 31, 2015	
	Neither past due nor impaired	**Up to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**Over 1 year**	**Financial assets that have been impaired**	**Total**
Investments available for sale, less equity securities	14,866,944	-	-	-	-	-	14,866,944
Investments available for sale, pledged under repurchase agreements, less equity securities	81,649,419	-	-	-	-	-	81,649,419
Financial assets at fair value through profit or loss less equity securities	155,620	-	-	-	-	-	155,620
Financial assets at fair value through profit or loss pledged under repurchase agreements, less equity securities	44,848	-	-	-	-	-	44,848
Due from banks and other financial institutions	432,456,240	-	-	-	-	-	432,456,240
Loans to customers	213,400,911	386,491	-	425	-	4,317,539	218,105,366
Other financial assets	440,522	-	-	-	-	-	440,522

As at December 31, 2014:

		Financial assets past due but not impaired				December 31, 2014	
	Neither past due nor impared	**Up to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**Over 1 year**	**Financial assets that have been impaired**	**Total**
Financial assets at fair value through profit or loss less equity securities	21,412,969	-	-	-	-	-	21,412,969
Investments available for sale, pledged under repurchase agreements, less equity securities	13,996,865	-	-	-	-	-	13,996,865
Financial assets at fair value through profit or loss less equity securities	5,886,407	-	-	-	-	-	5,886,407
Due from banks and other financial institutions	117,494,041	-	-	-	-	-	117,494,041
Loans to customers	209,121,722	465,543	-	-	-	4,589,545	214,176,810
Other financial assets	1,407,881	-	-	-	-	-	1,407,881

(in thousands of Russian rubles, unless otherwise indicated)

Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

The geographical concentration of assets and liabilities is set out below:

	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2015
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	49,175,746	-	60,551	49,236,297
Financial assets at fair value through profit or loss	60,592	-	95,236	155,828
Financial assets at fair value through profit or loss, pledged under REPO agreements	44,848	-	-	44,848
Due from banks and other financial institutions	401,152,918	308,535	30,994,787	432,456,240
Loans to customers	125,803,345	44,384,172	47,917,849	218,105,366
Investments available for sale	21,102,800	-	1,221,246	22,324,046
Investments available for sale, pledged under REPO agreements	61,484,846	-	17,684,704	79,169,550
Other financial assets	219,869	1,623	219,030	440,522
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**659,044,964**	**44,694,330**	**98,193,403**	**801,932,697**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to the Central bank of the Russian Federation	75,625,359	-	-	75,625,359
Due to banks and other financial institutions	44,145,851	2	1,458,305	45,604,158
Customer accounts	467,598,273	14,305,850	6,001,638	487,905,761
Debt securities issued	118,957,748	-	-	118,957,748
Deposits from the State Corporation "Deposit Insurance Agency"	27,998,269	-	-	27,998,269
Subordinated debt	554,103	11,056,036	-	11,610,139
Other financial liabilities	639,740	115,757	10,168	765,665
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**735,519,343**	**25,477,645**	**7,470,111**	**768,467,099**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**(76,474,379)**	**19,216,685**	**90,723,292**	

(in thousands of Russian rubles, unless otherwise indicated)

	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2014
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	34,826,028	-	-	34,826,028
Financial assets at fair value through profit or loss	250	-	6,134,415	6,134,665
Due from banks and other financial institutions	85,694,960	2,759,680	29,039,401	117,494,041
Loans to customers	141,330,703	11,843,946	61,002,161	214,176,810
Investments available for sale	16,813,195	-	8,142,704	24,955,899
Investments available for sale, pledged under repurchase agreements	14,550,257	-	-	14,550,257
Other financial assets	1,390,463	17,413	5	1,407,881
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**294,605,856**	**14,621,039**	**104,318,686**	**413,545,581**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to the Central bank of the Russian Federation	13,837,821	-	-	13,837,821
Due to banks and other financial institutions	48,540,157	137,913	2,100,100	50,778,170
Customer accounts	262,463,063	1,369,169	76,178	263,908,410
Debt securities issued	21,275,004	2,075,732	129,524	23,480,260
Deposits from the State Corporation "Deposit Insurance Agency"	25,372,208	-	-	25,372,208
Subordinated debt	1,734,384	12,253,900	-	13,988,284
Other financial liabilities	421,776	88,834	180	510,790
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**373,644,413**	**15,925,548**	**2,305,982**	**391,875,943**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**(79,038,557)**	**(1,304,509)**	**102,012,704**	

Liquidity risk

One of the main risks inherent to the Group's operations is liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other commitments associated with financial instruments as they actually fall due. The objective of the Group's liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To limit liquidity risk, the Group maintains diversified and stable funding base comprising core retail and corporate customer accounts as well as institutional balances. The Group also maintains portfolios of highly marketable and diverse assets that can be easily liquidated to respond quickly and smoothly to unforeseen liquidity requirements. The Group also has committed lines of credit that it can access to meet liquidity needs.

Management of the Group manages assets with liquidity in mind and monitors future cash flows and liquidity position on a daily basis. The Group's liquidity management process includes:

- Projection of expected cash flows and assessment of the level of liquid assets necessary in relation thereto.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
- Maintaining a diverse range of funding sources and monitoring depositor concentration in order to avoid undue reliance on large individual depositors.
- Managing the concentration and profile of debt maturities as well as maintaining debt financing plans.
- Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises.

An analysis of the liquidity risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

The following principles are applied in preparation of the liquidity risks analysis:

- Cash and balances with the Central Bank of the Russian Federation represent highly liquid assets and were classified as "Up to 1 month" except for the minimum reserve deposit with the Central Bank of the Russian Federation.
- Financial assets at fair value through profit or loss are considered to be liquid assets as these assets could be easily converted into cash within short period of time. Such assets were classified as "Up to 1 month".
- Investments available for sale, which are included in the Lombard List of the Bank of Russia, were classified as "Up to 1 month" as these assets could be sold within a short period of time.
- Loans to customers were included into the analysis based on the remaining contractual maturities except for those loans which are expected by management to be renewed. These loans were classified according to their expected maturities. Past due loans were classified as "Up to 1 month". As at December 31, 2015, such past due loans amounted to RUR 4,704,455 thousand (2014: RUR 5,055,088 thousand).
- Diversity of customer accounts by types and quantity, as well as expertise of the Group's management, indicates that such deposits are long term and sustainable funding source. As a result, such deposits were distributed in accordance with estimated cash outflows based on statistical data for the last three years and certain assumptions regarding effect of the possible economic distress on the behavior of customers.
- Due from banks and other financial institutions, other financial assets, due to banks and other financial institutions, debt securities issued, subordinated debt, and other financial liabilities were included into the analysis based on remaining contractual maturities.

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2015
FINANCIAL ASSETS							
Cash with the Central bank of the Russian Federation	27,368	-	-	-	-	-	27,368
Financial assets at fair value through profit or loss	-	25,689	-	34,903	-	-	60,592
Financial assets at fair value through profit or loss, pledged under REPO agreements	-	-	-	44,848	-	-	44,848
Due from banks and other financial institutions	48,317,837	24,811,493	83,282,026	150,952,344	94,644,337	-	402,008,037
Loans to customers	21,953,786	15,331,525	88,076,606	62,403,450	30,337,951	2,048	218,105,366
Investments available for sale	7,376,920	-	44,989	7,343,477	101,558	-	14,866,944
Investments available for sale, pledged under REPO agreements	28,232,028	39,201,919	14,215,472	-	-	-	81,649,419
Total interest bearing financial assets	**105,907,939**	**79,370,626**	**185,619,093**	**220,779,022**	**125,083,846**	**2,048**	**716,762,574**
Cash and balances with the Central bank of the Russian Federation	47,325,225	270,692	221,865	1,391,147	-	-	49,208,929
Due from banks and other financial institutions	30,448,203	-	-	-	-	-	30,448,203
Financial assets at fair value through profit or loss	95,236	-	-	-	-	-	95,236
Investments available for sale	137,781	-	-	597	-	4,838,855	4,977,233
Other financial assets	440,522	-	-	-	-	-	440,522
Total financial assets	**184,354,906**	**79,641,318**	**185,840,958**	**222,170,766**	**125,083,846**	**4,840,903**	**801,932,697**
FINANCIAL LIABILITIES							
Due to the Central bank of the Russian Federation	23,952,270	35,035,295	16,637,794	-	-	-	75,625,359
Due to banks and other financial	13,795,326	10,648,615	3,088,205	8,106,409	2,557,567	-	38,196,122
Customer accounts	94,268,093	50,188,421	38,102,768	256,919,009	-	-	439,478,291
Debt securities issued	2,887,560	690,669	44,392,069	36,722,237	34,147,048	-	118,839,583
Subordinated debt	1,917	-	-	54,258	11,553,964	-	11,610,139
Deposits from the State Corporation "Deposit Insurance Agency"	4,991,606	2,100,000	3,759,153	17,147,510	-	-	27,998,269
Total interest bearing financial liabilities	**139,896,772**	**98,663,000**	**105,979,989**	**318,949,423**	**48,258,579**	**-**	**711,747,763**
Due to banks and other financial institutions	7,408,036	-	-	-	-	-	7,408,036
Customer accounts	27,715,041	2,397,160	4,988,029	13,327,240	-	-	48,427,470
Debt securities issued	114,117	-	4,048	-	-	-	118,165
Other financial liabilities	807,177	1,141	4,017	1,852	1,478	-	815,665
Total financial liabilities	**175,941,143**	**101,061,301**	**110,976,083**	**332,278,515**	**48,260,057**	**-**	**768,517,099**

(in thousands of Russian rubles, unless otherwise indicated)

Liquidity gap between financial assets and financial liabilities	8,463,763	(21,419,983)	74,864,875	(110,107,749)	76,823,789
Cumulative liquidity gap between financial assets and financial liabilities	**8,463,763**	**(12,956,220)**	**61,908,655**	**(48,199,094)**	**28,624,695**
Interest related liquidity gap	(33,988,833)	(19,292,374)	79,639,104	(98,170,401)	76,825,267
Cumulative interest related liquidity gap	**(33,988,833)**	**(53,281,207)**	**26,357,897**	**(71,812,504)**	**5,012,763**
Cumulative interest related liquidity gap as a percentage of total financial assets	**-4.2%**	**-6.6%**	**3.3%**	**-9.0%**	**0.6%**

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014
FINANCIAL ASSETS						
Cash with the Central bank of the Russian Federation	5,000,000	-	-	-	-	5,000,000
Financial assets at fair value through profit or loss	5,886,657	-	-	-	-	5,886,657
Due from banks and other financial institutions	31,285,660	33,245,869	4,346,167	6,501,565	7,035,831	82,415,092
Investments available for sale	1,554	32,528	72,973	12,146,544	9,159,370	21,412,969
Investments available for sale, pledged under repurchase agreements	-	26,508	6,655,675	7,122,771	191,911	13,996,865
Loans to customers	7,467,011	31,432,009	100,328,595	58,679,874	16,269,321	214,176,810
Total interest bearing financial assets	**49,640,882**	**64,736,914**	**111,403,410**	**84,450,754**	**32,656,433**	**342,888,393**
Cash and balances with the Central bank of the Russian Federation	27,878,038	341,983	1,024,878	581,129	-	29,826,028
Due from banks and other financial institutions	35,078,949	-	-	-	-	35,078,949
Financial assets at fair value through profit or loss	248,008	-	-	-	-	248,008
Investments available for sale	-	-	3,542,930	-	-	3,542,930
Investments available for sale, pledged under repurchase agreements	-	-	-	553,392	-	553,392
Other financial assets	-	1,407,881	-	-	-	1,407,881
Total financial assets	**112,845,877**	**66,486,778**	**115,971,218**	**85,585,275**	**32,656,433**	**413,545,581**
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	13,837,821	-	-	-	-	13,837,821
Due to banks and other financial institutions	12,563,407	116,943	679,303	6,070,222	4,584,282	24,014,157
Customer accounts	26,341,729	40,334,450	121,872,631	48,436,937	41	236,985,788
Debt securities issued	591,889	2,107,105	1,014,576	12,438,328	7,324,487	23,476,385
Subordinated debt	-	-	-	-	13,988,284	13,988,284
Deposits from the State Corporation "Deposit Insurance Agency"	1,100,000	-	4,284,160	7,675,345	12,312,703	25,372,208
Total interest bearing financial liabilities	**54,434,846**	**42,558,498**	**127,850,670**	**74,620,832**	**38,209,797**	**337,674,643**
Due to banks and other financial institutions	26,764,013	-	-	-	-	26,764,013
Customer accounts	3,355,917	782,846	1,350,510	21,433,349	-	26,922,622
Debt securities issued	3,875	-	-	-	-	3,875
Other financial liabilities	510,790	-	-	-	-	510,790
Total financial liabilities	**85,069,441**	**43,341,344**	**129,201,180**	**96,054,181**	**38,209,797**	**391,875,943**

(in thousands of Russian rubles, unless otherwise indicated)

Liquidity gap between financial assets and financial liabilities	27,776,436	23,145,434	(13,229,962)	(10,468,906)	(5,553,364)
Cumulative liquidity gap between financial assets and financial liabilities	**27,776,436**	**50,921,870**	**37,691,908**	**27,223,002**	**21,669,638**
Interest related liquidity gap	(4,793,964)	22,178,416	(16,447,260)	9,829,922	(5,553,364)
Cumulative interest related liquidity gap	**(4,793,964)**	**17,384,452**	**937,192**	**10,767,114**	**5,213,750**
Cumulative interest related liquidity gap as a percentage of total financial assets	**-1.2%**	**4.2%**	**0.2%**	**2.6%**	**1.3%**

(in thousands of Russian rubles, unless otherwise indicated)

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	23,952,270	35,035,295	16,637,794	-	-	75,625,359
Due to banks and other financial institutions	14,419,261	12,035,011	4,672,166	23,597,527	2,585,718	57,309,683
Customer accounts	87,109,815	68,035,905	93,098,244	210,180,766	463	458,425,194
Debt securities issued	7,948,593	1,976,819	55,904,361	102,983,481	36,758,135	205,571,389
Deposits from the State Corporation "Deposit Insurance Agency"	1,856,095	2,142,621	3,870,075	22,811,398	-	30,680,189
Subordinated debt	6,479	12,959	58,315	365,272	17,308,712	17,751,737
Total interest bearing financial liabilities	**135,292,514**	**119,238,610**	**174,240,955**	**359,938,444**	**56,653,028**	**845,363,550**
Due to banks and other financial institutions	7,408,036	-	-	-	-	7,408,036
Customer accounts	27,715,041	2,397,160	4,988,029	13,327,240	-	48,427,470
Debt securities issued	114,117	-	4,048	-	-	118,165
Other financial liabilities	757,177	1,141	4,017	1,852	1,478	765,665
Total financial liabilities	**171,286,885**	**121,636,910**	**179,237,049**	**373,267,536**	**56,654,506**	**902,082,886**
Liabilities on financial guarantees and letters of credit	2,239,133	6,978,538	9,923,247	27,783,711	1,779,028	48,703,657
Liabilities on loans and unused credit lines	19,515,437	-	-	-	-	19,515,437
Total contingent liabilities and credit commitments	**21,754,570**	**6,978,538**	**9,923,247**	**27,783,711**	**1,779,028**	**68,219,094**

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	13,847,972	-	-	-	-	13,847,972
Due to banks and other financial institutions	10,848,097	265,372	4,306,780	17,382,343	9,462,625	42,265,217
Customer accounts	49,302,718	40,948,141	140,319,941	38,427,062	40	268,997,902
Debt securities issued	1,604,884	2,989,011	1,587,750	18,388,636	976,406	25,546,687
Deposits from the State Corporation "Deposit Insurance Agency"	1,108,607	-	4,434,234	8,542,230	18,565,573	32,650,644
Subordinated debt	83,855	159,594	743,872	3,868,136	15,504,812	20,360,269
Total interest bearing financial liabilities	**76,796,133**	**44,362,118**	**151,392,577**	**86,608,407**	**44,509,456**	**403,668,691**
Due to banks and other financial institutions	26,764,013	-	-	-	-	26,764,013
Customer accounts	26,922,622	-	-	-	-	26,922,622
Debt securities issued	3,875	-	-	-	-	3,875
Other financial liabilities	510,790	-	-	-	-	510,790
Total financial liabilities	**130,997,433**	**44,362,118**	**151,392,577**	**86,608,407**	**44,509,456**	**457,869,991**
Liabilities on financial guarantees and letters of credit	646,240	5,527,422	6,816,004	7,722,641	658,946	21,371,253
Liabilities on loans and unused credit lines	10,147,845	-	-	-	-	10,147,845
Total contingent liabilities and credit commitments	**10,794,085**	**5,527,422**	**6,816,004**	**7,722,641**	**658,946**	**31,519,098**

The maturity analysis does not reflect the historical stability of current accounts. Their withdrawal has historically taken place over a longer period than indicated in the tables above.

Customer accounts include term deposits of individuals in the amount of RUR 378,127,237 thousand (December 31, 2014: RUR 199,577,967 thousand). In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor (Note 23). Such deposits in the table above are presented according to their maturities.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest and foreign exchange rates. In 2015, the scope, assessment and management of those risks in the Group did not change. The Group is exposed to interest rate risk, as the member firms of the Group raise funds at both fixed and floating rates.

The Group manages this risk by maintaining the balance between loans at a fixed rate and loans at a floating rate.

Business Development Committee and Risk Management Department manage interest rate and respective market risks by managing the Group's interest rate position, which provides the Group with a positive interest margin. The Management Board, Business Development Committee, and Financial Department monitor the Group's current financial performance, estimate the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

(in thousands of Russian rubles, unless otherwise indicated)

Interest rate sensitivity

The Group manages this risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Financial Control Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

The sensitivity analyses below have been determined based on reasonably possible changes in the risk variable. For floating rate liabilities, the analysis is prepared assuming that the amount of the liability outstanding at the reporting date remained constant during the year.

	Increase in base points	Sensitivity of profit before tax year 2015	Sensitivity of capital
Currency			
Russian ruble			
Russian state bonds	375	(1,503,420)	(1,202,736)
US dollar			
LIBOR	50	(54,672)	(43,738)

	Decrease in base points	Sensitivity of profit before tax year 2015	Sensitivity of capital
Currency			
Russian ruble			
Russian state bonds	375	1,503,420	1,202,736
US dollar			
LIBOR	50	54,672	43,738

The majority of loans to corporate customers are issued under the conditions, which allow the Group to renegotiate interest rates in case of changes in market rates. The sensitivity of the profit as presented above does not take into account this option of the Group.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Financial Committee controls currency risk by determining an open currency position on the estimated basis of ruble fluctuation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rate fluctuations toward its national currency. Treasury performs daily monitoring of the Group's open currency position in order to match the statutory requirements of the Central Bank of Russian Federation.

(in thousands of Russian rubles, unless otherwise indicated)

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD USD 1 = 72,883 RUR	EUR EUR 1 = 79,697 RUR	Other currency	December 31, 2015 Total
ASSETS					
Cash and balances with the Central bank of the Russian Federation	44,291,068	2,829,733	2,037,445	78,051	49,236,297
Financial assets at fair value through profit or loss	60,800	95,028	-	-	155,828
Due from banks and other financial institutions	302,513,349	114,877,503	14,790,985	274,403	432,456,240
Loans to customers	80,340,717	86,125,378	51,635,379	3,892	218,105,366
Investments available for sale	12,339,387	3,515,622	3,989,168	-	19,844,177
Investments available for sale, pledged under REPO agreements	26,705,330	54,944,089	-	-	81,649,419
Other financial assets	128,185	300,174	12,163	-	440,522
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**466,378,836**	**262,687,527**	**72,465,140**	**356,346**	**801,887,849**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to the Central bank of the Russian Federation	22,464,361	53,160,998	-	-	75,625,359
Due to banks and other financial institutions	20,778,399	12,836,002	11,913,019	76,738	45,604,158
Customer accounts	351,131,954	105,863,268	30,751,062	159,477	487,905,761
Debt securities issued	118,322,641	635,107	-	-	118,957,748
Deposits from the State Corporation "Deposit Insurance Agency"	27,998,269	-	-	-	27,998,269
Subordinated debt	675,817	10,934,322	-	-	11,610,139
Other financial liabilities	629,422	120,974	15,269	-	765,665
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**542,000,863**	**183,550,671**	**42,679,350**	**236,215**	**768,467,099**
OPEN BALANCE SHEET POSITION	**(75,622,027)**	**79,136,856**	**29,785,790**	**120,131**	**33,420,750**

(in thousands of Russian rubles, unless otherwise indicated)

	RUR	USD USD 1 = 56.2584 RUR	EUR EUR 1 = 68.3427 RUR	Other currency	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the Central bank of the Russian Federation	31,026,140	2,087,028	1,673,425	39,435	34,826,028
Financial assets at fair value through profit or loss	251	6,134,414	-	-	6,134,665
Due from banks and other financial institutions	89,071,901	16,469,404	11,703,612	249,124	117,494,041
Loans to customers	127,017,819	86,223,725	935,251	15	214,176,810
Investments available for sale	16,914,754	2,188,944	5,852,201	-	24,955,899
Investments available for sale, pledged under repurchase agreements	14,550,257	-	-	-	14,550,257
Other financial assets	1,407,881	-	-	-	1,407,881
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**279,989,003**	**113,103,515**	**20,164,489**	**288,574**	**413,545,581**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to the Central bank of the Russian Federation	13,837,821	-	-	-	13,837,821
Due to banks and other financial institutions	46,174,838	2,870,625	1,543,307	189,400	50,778,170
Customer accounts	197,007,411	49,626,756	17,273,951	292	263,908,410
Debt securities issued	20,992,428	2,456,204	31,628	-	23,480,260
Deposits from the State Corporation "Deposit Insurance Agency"	25,372,208	-	-	-	25,372,208
Subordinated debt	1,085,470	12,902,814	-	-	13,988,284
Other financial liabilities	510,790	-	-	-	510,790
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**304,980,966**	**67,856,399**	**18,848,886**	**189,692**	**391,875,943**
OPEN BALANCE SHEET POSITION	**(24,991,963)**	**45,247,116**	**1,315,603**	**98,882**	**21,669,638**

Derivative financial instruments and spot contracts

The following table presents further analysis of currency risk by types of spot contracts as at December 31, 2015:

	RUR	USD USD 1 = 72,883 RUR	EUR EUR 1 = 79,697 RUR	Other currency	December 31, 2015 Total
Accounts payable on spot contracts	(11,634,911)	(88,846,684)	(20,323,089)	-	(120,804,684)
Accounts receivable on spot contracts	109,169,773	10,873,006	761,905	-	120,804,684
NET SPOT FINANCIAL INSTRUMENTS POSITION	**97,534,862**	**(77,973,678)**	**(19,561,184)**	**-**	
NET POSITION	**21,862,835**	**1,163,178**	**10,224,606**	**120,131**	

(in thousands of Russian rubles, unless otherwise indicated)

The following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at December 31, 2014:

	RUR	USD USD 1 = 56.2584 RUR	EUR EUR 1 = 68.3427 RUR	Other currency	December 31, 2014 Total
Accounts payable on spot contracts	(2,595,931)	(55,013,761)	(1,512,768)	-	(59,122,460)
Accounts receivable on spot contracts	56,526,529	2,028,003	567,928	-	59,122,460
NET SPOT FINANCIAL INSTRUMENTS POSITION	**53,930,598**	**(52,985,758)**	**(944,840)**	**-**	
NET POSITION	**28,938,635**	**(7,738,642)**	**370,763**	**98,882**	

Currency risk sensitivity

The following tables detail the Group's sensitivity to an increase and decrease in the USD against the RUR and the EUR against the RUR. The sensitivity analysis is used in reporting of foreign currency risk internally to key management personnel of the Group and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2015 and December 31, 2014:

	December 31, 2015		December 31, 2014	
	USD/RUR 40%	USD/RUR -13%	USD/RUR 28.74%	USD/RUR -28.74%
Impact on profit or loss before tax	465,271	(151,213)	(2,224,086)	2,224,086
Impact on equity	372,217	(120,970)	(1,779,269)	1,779,269

	December 31, 2015		December 31, 2014	
	EUR/RUR 43%	EUR/RUR -15%	EUR/RUR 20%	EUR/RUR -20%
Impact on profit or loss before tax	4,396,581	(1,533,691)	109,672	(109,672)
Impact on equity	3,517,265	(1,226,953)	87,738	(87,738)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time when any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In case of substantial negative fluctuations on securities markets management actions may include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas significantly influence on assets held at market value in the statement of financial position. In these circumstances, the different measurement basis for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to disclose the potential risk that only represent the Group's view of possible short-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

(in thousands of Russian rubles, unless otherwise indicated)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks as a result of its products being subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The table below presents an analysis of sensitivity to price risk based on the balance sheet position for investments in quoted equity securities at the reporting date.

The results of the analysis of the sensitivity of the Groups profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in prices of quoted equity securities are given in the table below:

	December 31, 2015		December 31, 2014	
	10% increase in equity securities price	10% decrease in equity securities price	10% increase in equity securities price	10% decrease in equity securities price
Impact on profit or loss before tax	9,524	(9,524)	24,826	(24,826)
Impact on equity	7,619	(7,619)	19,861	(19,861)

Operational risk

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

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

December 31, 2015		December 31, 2014	
Impact on net interest income	Impact on net equity	Impact on net interest income	Impact on net equity
(1,802,574)	(1,442,059)	(2,540,663)	(2,032,530)

35. SUBSEQUENT EVENTS

In January 2016, the Bank paid USD 25 mln (RUR 1,915,102 thousand) for the repayment of series 08 6-month Euro-commercial papers.

In April 2016, the Bank paid USD 36.8 mln (RUR 2,447,031 thousand) for the repayment of series 10 6-month Euro-commercial papers.

In January 2016, the Board of Directors of the Bank approved the purchase of 100% of shares of Joint-Stock Company B&N BANK MURMANSK. As at the date of approval of these financial statements, business combination was not completed.

In January 2016, MICEX stock exchange registered additional issues of the Bank's stock-exchange bonds of seven series (from BO-08 to BO-14). Each series may include six additional issues with a total amount of RUR 10 bln.

Following the sale of 100% of shares of JSC ROST BANK in January 2016, the Group made an early repayment of a portion of the deposit received from SC "DIA" in the course of the financial rehabilitation procedure in the amount of RUR 11,840,000 thousand. At the same time, the Group repaid the respective amounts of deposits issued by the Group to JSC ROST BANK and received from it as collateral for the funds placed.

In early 2016, the Bank continued purchasing interests from minority shareholders of such subsidiaries as CB KEDR, PJSC B&N Bank TVER, JSC URALPRIVATBANK, PJSC B&N Bank SURGUT and PJSC B&N Bank SMOLENSK.

In March 2016, the Bank placed 3-year Eurobonds for USD 150 mln with a coupon rate of 8.5% p.a.

In April 2016, the Bank's General Shareholders' Meeting decided to initiate reorganization of PJSC B&N Bank through merger with PJSC B&N Bank SMOLENSK, PJSC B&N Bank SURGUT, PJSC CB KEDR and PJSC B&N Bank TVER.

B&N BANK
(PUBLIC JOINT-STOCK COMPANY)

Consolidated financial statements

for the year ended December 31, 2014
with independent auditor's report

PUBLIC JOINT-STOCK COMPANY B&N BANK

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Independent auditors' report

To the Shareholders and Board of Directors of PJSC B&N Bank

We have audited the accompanying consolidated financial statements of PJSC B&N Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing 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 Public Joint-Stock Company B&N Bank and its subsidiaries as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

20 March 2015

Moscow, Russian Federation

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Russian rubles)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Interest income	5, 30	29,226,405	18,371,018
Interest expense	5, 30	(17,050,078)	(12,314,215)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		12,176,327	6,056,803
Provision for impairment losses on interest bearing assets	6, 30	(9,979,369)	(797,086)
NET INTEREST INCOME		2,196,958	5,259,717
Gain on initial recognition of financial instruments	15, 22, 25	5,461,104	-
Net gain on financial assets and liabilities at fair value through profit or loss	7	318,215	821,944
Net gain on foreign exchange operations	8	4,454,874	1,892,989
Fee and commission income	9	3,850,608	2,574,612
Fee and commission expense	9	(1,094,036)	(686,227)
Other provisions	6	(84,123)	25,034
Loss from sale of bad debts		(460,532)	-
Income from sale of loans	16	3,350,826	507,276
Income from sale of loans previously written-off	6	-	300,000
Other income	10	692,552	597,358
NET NON-INTEREST INCOME		16,489,488	6,032,986
OPERATING INCOME		18,686,446	11,292,703
OPERATING EXPENSES	11, 30	(12,682,176)	(10,499,735)
PROFIT BEFORE INCOME TAX EXPENSE		6,004,270	792,968
INCOME TAX EXPENSE	12	(1,369,640)	(39,356)
NET PROFIT FOR THE YEAR		**4,634,630**	**753,612**
Attributable to:			
Equity holders of the parent		4,873,924	737,396
Non-controlling interest		(239,294)	16,216
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
- Unrealised losses on investments available for sale		(891,284)	-
- Income tax recognised in other comprehensive income		178,257	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,921,603**	**753,612**
Attributable to:			
Equity holders of the parent		4,160,897	737,396
Non-controlling interest		(239,294)	16,216

On behalf of the Management Board:

President
Shishkhanov Mikail

March 20, 2015

Chief Accountant
Ovsepyan David

March 20, 2015

The accompanying notes 1-36 form an integral part of these consolidated financial statements.

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014
(Thousands of Russian rubles)

	Notes	December 31, 2014	December 31, 2013
ASSETS:			
Cash and balances with the Central bank of the Russian Federation	13	34,826,028	18,584,308
Precious metals		6,127	3,446
Financial assets at fair value through profit or loss:			
Financial assets held for trading	14	6,134,665	12,676,619
Due from banks and other financial institutions	15	117,494,041	28,066,172
Loans to customers	16, 30	214,176,810	136,264,139
Investments available for sale	17, 30	24,955,899	135
Investments available for sale, pledged under repurchase agreements	17, 30	14,550,257	-
Property and equipment	18	6,200,278	4,535,989
Intangible assets	18	1,270,290	348,837
Investment property	19	289,117	12,844,887
Current income tax assets		462,681	388,737
Other assets	20	4,442,464	3,683,146
TOTAL ASSETS		**424,808,657**	**217,396,415**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the Central bank of the Russian Federation	21	13,837,821	2,002,774
Due to banks and other financial institutions	22	50,778,170	1,809,092
Customer accounts	23, 30	263,908,410	172,035,143
Debt securities issued	24	23,480,260	12,952,887
Deposits from the State Corporation "Deposit Insurance Agency"	25	25,372,208	-
Subordinated debt	26, 30	13,988,284	7,547,441
Deferred tax liabilities	12	1,090,779	-
Other liabilities	27	1,636,867	2,835,386
Total liabilities		**394,092,799**	**199,182,723**
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	28	10,885,666	8,960,275
Additional capital		15,584,189	9,250,594
Investments available for sale fair value reserve		(713,027)	-
Accumulated profit		4,866,004	2,823
Total equity attributable to owners of the parent		**30,622,832**	**18,213,692**
Non-controlling interest		93,026	-
Total equity		**30,715,858**	**18,213,692**
TOTAL LIABILITIES AND EQUITY		**424,808,657**	**217,396,415**

On behalf of the Management Board:

President	**Chief Accountant**
Shishkhanov Mikail	**Ovsepyan David**
March 20, 2015	March 20, 2015

БИНБАНК

The accompanying notes 1-36 form an integral part of these consolidated financial statements.

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Russian rubles)

	Notes	Share capital	Additional capital	Investments available for sale fair value reserve	Accumulated profit/(deficit)	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
December 31, 2012		**7,209,052**	**5,750,594**	**-**	**(771,197)**	**12,188,449**	**279,844**	**12,468,293**
Net profit for the year		-	-	-	737,396	737,396	16,216	753,612
Total comprehensive income for the year		**-**	**-**	**-**	**737,396**	**737,396**	**16,216**	**753,612**
Increase in capital	28	1,500,000	1,500,000	-	-	3,000,000	-	3,000,000
Aquisition of non-controlling interest		251,223	-	-	44,837	296,060	(296,060)	-
Dividends paid on ordinary shares	28	-	-	-	(8,213)	(8,213)	-	(8,213)
Free of charge financing	28	-	2,000,000	-	-	2,000,000	-	2,000,000
December 31, 2013		**8,960,275**	**9,250,594**	**-**	**2,823**	**18,213,692**	**-**	**18,213,692**
Net profit for the year		-	-	-	4,873,924	4,873,924	(239,294)	4,634,630
Other comprehensive income for the year		-	-	(713,027)	-	(713,027)	-	(713,027)
Total comprehensive income for the year		**-**	**-**	**(713,027)**	**4,873,924**	**4,160,897**	**(239,294)**	**3,921,603**
Increase in capital	28	1,925,391	2,074,609	-	-	4,000,000	-	4,000,000
Dividends paid on ordinary shares	28	-	-	-	(10,743)	(10,743)	-	(10,743)
Business combination	3	-	-	-	-	-	332,320	332,320
Free of charge financing	28	-	4,258,986	-	-	4,258,986	-	4,258,986
December 31, 2014		**10,885,666**	**15,584,189**	**(713,027)**	**4,866,004**	**30,622,832**	**93,026**	**30,715,858**

On behalf of the Management Board:

President
Shishkhanov Mikail

March 20, 2015

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «БИНБАНК» • О.Г.Р.Н. 1027700159442 • МОСКВА •
БИНБАНК

Chief Accountant
Ovsepyan David

March 20, 2015

The accompanying notes 1-36 form an integral part of these consolidated financial statements.

B&N BANK (PUBLIC JOINT-STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations before income tax		6,004,270	792,968
Adjustments for:			
Provision for impairment losses on interest bearing assets	6	9,979,369	797,086
Provision/(recovery of) other provision	6	84,123	(25,034)
Gain on initial recognition of financial instruments	22	(5,461,104)	-
Loss on disposal of property and equipment, intangible assets		104,168	169,689
Net gain on translation differences	8	(5,053,975)	(1,382,741)
Net change in accrued discount on issued debt securities		(2,827)	34,361
Depreciation and amortisation expense on property and equipment, intangible assets and investment property	11	420,610	299,975
Change in interest accruals, net		462,350	923,401
Net change in fair value of financial assets and liabilities at fair value through profit or loss	7	92,915	88,694
Impairment loss on inventories	11	21,207	47,330
Cash inflow from operating activities before changes in operating assets and liabilities		**6,651,106**	**1,745,729**
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central bank of the Russian Federation		(1,251,142)	(167,617)
Precious metals		(2,681)	(3,446)
Financial assets at fair value through profit or loss		(9,647,439)	5,534,222
Due from banks and other financial institutions		(24,697,960)	13,564,993
Loans to customers		(66,189,178)	(50,598,428)
Other assets		1,039,577	479,057
Increase/(decrease) in operating liabilities:			
Due to the Central bank of the Russian Federation		11,833,013	(515,173)
Due to banks and other financial institutions		31,764,337	(3,821,971)
Customer accounts		73,758,138	32,272,722
Other liabilities		734,453	487,372
Cash inflow/(outflow) from operating activities before taxation		23,992,224	(1,022,540)
Income tax paid		(174,548)	(129,670)
Net cash inflow/(outflow) from operating activities		**23,817,676**	**(1,152,210)**

The accompanying notes 1-36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, intangible assets	18	(1,462,482)	(1,231,254)
Proceeds from sale of property and equipment, intangible assets		336,842	171,306
Purchase of investment property		-	(3,239,317)
Proceeds from sale of investment property		1,956,000	133,973
Proceeds from sale of units of mutual investment fund	3	7,648,065	2,000,000
Placement of funds in "ROST Bank Group"	15	(17,500,000)	-
Purchase of investments available for sale		(22,013,260)	-
Proceeds from sale of inventories		196,217	-
Net cash outflow from investing activities		**(30,838,618)**	**(2,165,292)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares and share premium	28	4,000,000	3,000,000
Free of charge financing	28	1,773,034	2,000,000
Deposits from the State Corporation "Deposit Insurance Agency"	25	32,000,000	-
Funds received from "ROST Bank Group"	22	13,830,000	-
Subordinated loans received		1,725,043	1,000,000
Debt securities issued		20,689,473	17,974,340
Debt securities redeemed		(10,269,408)	(10,153,303)
Dividends paid	28	(10,743)	(8,213)
Net cash inflow from financing activities		**63,737,399**	**13,812,824**
Effect of changes in foreign exchange rate on cash and cash equivalents		27,930,626	291,961
NET INCREASE IN CASH AND CASH EQUIVALENTS		84,647,083	10,787,283
CASH AND CASH EQUIVALENTS, beginning of the year	13	**39,128,093**	**28,340,810**
CASH AND CASH EQUIVALENTS, end of the year	13	**123,775,176**	**39,128,093**

Transactions to sell units in the Closed-end Invetment Fund rental "Finam-Kapitalnie Vlozheniya" were partially settled through units in Closed-end Real Estate Mutual Fund "Nevsky", Closed-end Real Estate Mutual Fund "Rostovsky" and Closed-end Invetment Fund "TFB-Rental Invetment Fund" in the amount of RUR 2,194,651 thousand (Note 3), which were recorded within investments available for sale.

Interest paid and received by the Group during the year ended December 31, 2014 amounted to RUR 15,366,494 thousand and RUR 28,002,344 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2013 amounted to RUR 11,968,031 thousand and RUR 18,982,596 thousand, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

1. ORGANIZATION

B&N Bank (Public Joint-Stock Company) (hereinafter, the "Bank") is a public joint-stock bank, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central bank of the Russian Federation and conducts its business under general license number 2562 and renders a complete package of banking services to corporate clients engaged in various industries as well as to individuals.

The documents for the state registration of Changes No. 14 to the Charter of JSC "B&N Bank" concerning the name of the Bank were sent to the Bank of Russia on December 30, 2014. On February 2, 2015, a record was made in the Unified State Register of Legal Entities concerning the state registration of Changes No. 14 to the Charter of the Bank with the new name:

- The new full name of the Bank in English is B&N Bank (Public Joint-Stock Company);
- The new short name of the Bank in English is B&N Bank.

Since December 29, 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal Laws and regulations and is governed by the State Corporation "Deposits Insurance Agency" (hereinafter, the SC "DIA"). Since January 1, 2015 insurance covers the Bank's liabilities to individual deposits and settlement accounts in the amount up to RUR 1,400 thousand for each individual in case of business failure or revocation of the banking license by the Central bank of the Russian Federation.

The registered office of the Bank is located at: 5a Grodnenskaya St., Moscow, 121471, the Russian Federation. The Head office of the Bank is located at: 3 Izvestkoviy Lane, Moscow, 109004, the Russian Federation.

As at December 31, 2014, the Bank has 7 branches operating in the Russian Federation, 176 sub-branches and 1 representative office.

As at December 31, 2013, the Bank has 11 branches operating in the Russian Federation, 180 sub-branches and 1 representative office.

The Bank is a parent bank of a banking group (the "Group") which consists of the following companies consolidated in the financial statements:

Name	Country of operation	Ownership/ Effective ownership, %	
		December 31, 2014	December 31, 2013
B&N Bank (Public Joint-Stock Company)	Russian Federation	Parent bank	Parent bank
LLC "Standard Development"	Russian Federation	100%	100%
B&N FINANCE LIMITED	Republic of Cyprus	100%	100%
CJSC "B&N Bank Credit Cards"	Russian Federation	79.18%	-
Closed-end Investment Fund rental "Finam-Kapitalnie Vlozheniya"	Russian Federation	-	84.94%

Limited Liability Company "Standard Development" (hereinafter, the LLC "Standard Development") is engaged in consulting on commercial and management activities within the Russian Federation. The financial statements of LLC "Standard Development" were consolidated into the Group's financial statements beginning from January 1, 2011.

B&N FINANCE LIMITED is 100% subsidiary of the Bank and is consolidated into the Group's financial statements. The company was created in 2012 according to the legislation of the Republic of Cyprus specifically for the purposes of acting as the issuer of Euro-commercial papers of the Bank and to place the raised funds on the deposit in the Bank. It does not conduct any economic activities within the Russian Federation.

Closed Joint-Stock Company "B&N Bank Credit Cards" (hereinafter, the "CJSC "B&N Bank Credit Cards") is engaged in banking activities within the Russian Federation. The financial statements of CJSC "B&N Bank Credit Cards" were consolidated into the Group's financial statements beginning from July 2, 2014.

Closed-end Investment Fund rental "Finam-Kapitalnie Vlozheniya" (hereinafter, the "CMIF rental "Finam-Kapitalnie Vlozheniya") is engaged in agricultural land investment activities in Krasnodar Region, Rostov Region, Saratov Region, Lipetsk Region and Penza Region in the Russian Federation. The land plots are leased. The Fund units are listed and included in quotation list "A1". The units of CMIF rental "Finam Kapitalnie Vlozheniya" were purchased during 2011. In 2014, the Group sold a controlling interest in CMIF rental "Finam Kapitalnie Vlozheniya".

Since November 2014, the Bank has been participating in efforts to prevent bankruptcy of the following banks: OJSC "ROST BANK", OJSC "SKA-Bank", OJSC "Tveruniversal Bank", OJSC "AKKOBANK", OJSC CB "KEDR" together referred to as the "ROST Bank Group". Based on the financial position of ROST Bank Group, the SC "DIA" together with the Bank of Russia prepared the Plan of the SC "DIA" participation in efforts to prevent bankruptcy of ROST Bank Group (the "Plan"). The Plan was adopted by decision of the SC "DIA" Management Board and approved by the Bank of Russia Committee on Banking Supervision in November 2014.

The measures taken under the Plan in 2014 were as follows:

- according to the Bank of Russia Order dated November 27, 2014, ROST Bank Group was taken into administration by the SC "DIA"; the powers of the credit institution's executive bodies were suspended;
- On December 17, 2014, the Bank purchased 99.90% interest in OJSC "ROST BANK", 94.11% interest in OJSC "Tveruniversal Bank", 78.75% interest in OJSC CB "KEDR"; in its turn, the share of OJSC "ROST BANK" in the share capital of OJSC "SKA-Bank" accounts for 99.41%, the share of OJSC "ROST BANK" in the share capital of OJSC "AKKOBANK" and OJSC CB "KEDR" accounts for 99.44% and 19.99%, respectively. Since as at December 31, 2014, ROST Bank Group was in temporary administration and the Bank was not able to manage its operations, these investments were recognised within investments available for sale (Note 17);
- Due to a significant amount of funds raised by ROST Bank Group from individual customers in the Russian Federation and consequently the great social importance of ensuring continuous service to the clients of ROST Bank Group, in December 2014 SC "DIA" provided loans to the Bank in the total amount of RUR 17,500,000 thousand maturing in 3-6 years with quarterly interest payment at the rate of 6.01% p.a. (Note 25). Borrowed funds were used by the Bank to maintain liquidity of ROST Bank Group (Note 15).

As at December 31, 2014 and December 31, 2013, the following shareholders owned the ordinary shares of the Group:

	December 31, 2014, %	December 31, 2013, %
First level shareholders:		
Limited Liability Company "TradeWest"	71.97%	90.66%
Limited Liability Company "HANBERG FINANCE LIMITED"	20.61%	-
Limited Liability Company "RIZANTO SECURITIES INC."	3.66%	-
Shishkhanov Mikail Osmanovich	2.14%	2.69%
Close Joint-Stock Company "Smart Finance Group"	0.64%	-
Peganova Natalia Vasilevna	0.55%	0.69%
Close Joint-Stock Company "Service-Reestr"	-	0.81%
Company Limited By Shares "MISSOLA INVESTMENTS LIMITED"	-	3.23%
Limited Liability Company "NVK-MC INVESTMENT LIMITED"	-	1.38%
Other	0.43%	0.54%
Total	**100%**	**100%**
Ultimate shareholders:		
Shishkhanov Mikail Osmanovich	77.77%	97.96%
Gutseriev Mikhail Safarbekovich	20.61%	-
Other	1.62%	2.04%
Total	**100%**	**100%**

2. SIGNIFICANT ACCOUNTING POLICIES

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Russian rubles ("RUR thousand"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at amortised cost or fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank and its consolidated companies maintain their accounting records and prepare consolidated financial statements in accordance with Russian accounting and banking legislation and related instructions ("RAL"), except for "B&N FINANCE LIMITED", which maintains the accounting records in accordance with the laws of the Republic of Cyprus. These consolidated financial statements are based on the Group's RAL books and Cyprus accounting records, as adjusted and reclassified in order to comply with IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 35.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Inflation accounting

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

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC during the year:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since the none of the entities of the Group qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, unrealized gains or losses resulting from intra-group transactions are eliminated in full on consolidation.

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value through profit or loss classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos").

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as deposit collateralized with assets within the Group's financial liabilities.

Gain/loss on the sale of the above instruments is recognised as interest income or expense in the consolidated statement of comprehensive income based on the difference between the sale price and the repurchase price, accrued to date using the effective interest method.

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided. Loan syndication fees are recognised in profit or loss when the syndication has been completed. All other commissions are recognised when services are provided.

Recognition of dividend income

Dividend income is recognised on the ex-dividend date (provided that it is probable that the economic benefits will flow and the amount of income can be measured reliably by the Bank).

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "operating leases" section of this note.

Financial instruments

Financial assets and liabilities are carried in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group recognises regular purchases and disposals of financial assets and liabilities by the date of settlement.

Upon initial recognition, financial instruments are measured at fair value adjusted, in case instruments are not recognised at fair value through profit or loss, for directly attributable fees and costs.

At initial recognition the fair value of a financial instrument is best evidenced by the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, financial assets held to maturity, available for sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss at the time upon initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The financial asset forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 31. The net gain or loss recognised in profit or loss incorporates any dividend earned on the financial asset and is included in the "net gain/(loss) on financial assets and liabilities at fair value through profit or loss" line item in the consolidated statement of comprehensive income.

Interest income on fair value through profit or loss is included in the "interest income" line item in the consolidated statement of comprehensive income.

Financial assets held to maturity

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

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

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) financial assets held to maturity or (c) financial assets at fair value through profit or loss.

Trading securities and investment securities available for sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions

In the normal course of business, the Group enters into repo and reverse repo agreements. Repos and reverse repos are utilised by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as deposit collateralized with assets within the Group's financial liabilities.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and other financial institutions and/or loans to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

The transfer of securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial reorganization;
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of comprehensive income is transferred from other comprehensive income to the profit or loss.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the financial assets can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans

Loans are written off against the allowance for impairment losses when deemed uncollectible. Loans are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an "other income" line item in the consolidated statement of comprehensive income in the period of recovery.

Derecognition of financial assets.

A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognised when:

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

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognised.

If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Financial liabilities

Financial liabilities are classified as either "financial liabilities at fair value through profit or loss" or "other financial liabilities".

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.
A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking;
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- The financial liability forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "Net gain/(loss) on financial assets and liabilities at fair value through profit or loss" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 31.

Other financial liabilities

Other financial liabilities, including deposits from the Central bank of the Russian Federation, deposits from banks and customers, debt securities issued, subordinated debt and other liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37");
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps and options on foreign currency.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and due from banks and other financial institutions with original maturities within 90 days (except for margin deposits for operations with plastic cards), which may be converted to cash within a short period of time and thus are considered liquid). For purposes of determining cash flows, the minimum reserve deposit required by the Central bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability.

Operating leases

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following annual depreciation rates were used by the Group during 2014:

Buildings and constructions	2%
Furniture and equipment, other	16.67%
Intangible assets	15%-33.3%

Freehold land of the Group is not depreciated.

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

The carrying amounts of property and equipment are reviewed at each reporting date by the Group to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognised in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

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

Impairment of non-financial assets other than goodwill

The Group constantly reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognised impairment loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

The depreciation rates of investment property are equivalent to the depreciation rates of property and equipment.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, except for income tax, which are applicable to the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle the liabilities are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Foreign currencies

The consolidated financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(in thousands of Russian rubles, unless otherwise indicated)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

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

	December 31, 2014	December 31, 2013
RUR / 1 US Dollar	56.2584	32.7292
RUR / 1 Euro	68.3427	44.9699

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values: (1) of the assets transferred by the Group, (2) liabilities incurred by the Group to the former owners of the acquiree and (3) the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities, or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5") are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate over the cost of acquisition, after reassessment, is recognised immediately in consolidated statement of comprehensive income.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2014 and December 31, 2013, the gross loans to customers amounted to RUR 214,176,810 thousand and RUR 136,264,139 thousand, respectively, and allowance for impairment losses amounted to RUR 9,966,823 thousand and RUR 4,288,024 thousand, respectively (Note 16).

Future changes in accounting policies

Application of new and revised International Financial Reporting Standards (IFRSs)

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before January 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

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

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

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

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

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. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after January 1, 2016. Earlier application is permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

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

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

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

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

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual improvements 2012-2014 Cycle

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

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

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

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 January 1, 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 January 1, 2016, with earlier application permitted.

(in thousands of Russian rubles, unless otherwise indicated)

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 January 1, 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 January 1, 2016, with earlier application permitted.

3. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

In 2014, the Group sold 67.85% of units of CMIF rental "Finam-Kapitalnie Vlozheniya" for the amount of RUR 9,842,716 thousand. Transactions to sell units in the mutual investment fund was partially settled through acquisition of units in Closed-end Real Estate Mutual Fund "Nevsky" and Closed-end Real Estate Mutual Fund "Rostovsky" in the amount of RUR 2,194,651 thousand, which were recorded within investments available for sale. As a result, the Group lost control over this closed-end mutual investment fund. The Group recognised gain on sale in the amount of RUR 28,342 thousand within other income in profit or loss.

The assets and liabilities of the subsidiary as of the date of the disposal were as follows:

Assets:	
Due from banks and other financial institutions	1,122,400
Investment property	10,597,439
Other assets	34,144
Total assets	**11,753,983**
Liabilities:	
Obligations to the minority holders	1,882,925
Total liabilities	**1,882,925**
Net assets	**9,871,058**
Total consideration for the sale of units consist of:	
Cash received	7,648,065
Closed-end Invetment Fund "TFB-Rental Invetment Fund"	1,250,021
Closed-end Real Estate Mutual Fund "Nevsky"	822,250
Closed-end Real Estate Mutual Fund "Rostovsky"	122,380
Total consideration	**9,842,716**

(in thousands of Russian rubles, unless otherwise indicated)

Cash inflow from the disposal of the subsidiary was as follows:

Cash received (included in cash flows from investing activities)	7,648,065
Net cash inflow	**7,648,065**

Since March 2014, the Bank has been participating in efforts to prevent bankruptcy of CJSC "B&N Bank Credit Cards" (former CJSC MCB "Moscomprivatbank"). CJSC "B&N Bank Credit Cards" was previously a subsidiary of PJSC CB "PRIVATBANK" (a Ukrainian company). Based on the financial position of CJSC "B&N Bank Credit Cards", the SC "DIA" together with the Bank of Russia prepared the Plan of the SC "DIA" participation in efforts to prevent bankruptcy of CJSC "B&N Bank Credit Cards" (hereinafter, the "Plan"). The Plan was adopted by decision of the SC "DIA" Management Board and approved by the Bank of Russia Committee on Banking Supervision in March 2014.

The measures taken under the Plan in 2014 were as follows:

- According to the Bank of Russia Order dated March 7, 2014, CJSC "B&N Bank Credit Cards" was taken into temporary administration by the SC "DIA"; the powers of the credit institution's executive bodies were suspended.
- On April 25, 2014, the Bank purchased 79.18% interest in CJSC "B&N Bank Credit Cards". The transaction was concluded as a part of the Group's strategy on the development of retail business and regional operations.
- The process of re-branding was completed and CJSC MCB "Moscomprivatbank" was renamed as CJSC "B&N Bank Credit Cards".
- Due to a significant amount of funds raised by CJSC "B&N Bank Credit Cards" from individual customers in the Russian Federation and consequently the great social importance of ensuring continuous service to the clients of CJSC "B&N Bank Credit Cards", in April-June 2014 the SC "DIA" provided loans to the Bank in the total amount of RUR 12,000,000 thousand maturing in 1-4 years with quarterly interest payment at the rate of 4-6.5% p.a. (Note 25). Borrowed funds were provided to maintain liquidity of CJSC "B&N Bank Credit Cards" and implement a project for the development of independent IT-infrastructure at CJSC "B&N Bank Credit Cards".
- On July 2, 2014, according to the Bank of Russia Order, the powers of the temporary administration of CJSC "B&N Bank Credit Cards" were terminated and the annual general shareholders' meeting of CJSC "B&N Bank Credit Cards" elected new members of the Board of Directors and the Management Board. In this regard, on July 2, 2014 the Group obtained control over CJSC "B&N Bank Credit Cards".

In October 2014, following the decision of the Management Board, the project for integration of business processes of CJSC "B&N Bank Credit Cards" and the Bank was started for the purpose of subsequent reorganization of CJSC "B&N Bank Credit Cards" via merger with the Bank in 2016.

(in thousands of Russian rubles, unless otherwise indicated)

The fair value of identifiable assets and liabilities as of the date of acquisition was as follows:

	Fair value
Assets	
Cash and cash equivalents	6,763,798
Financial assets at fair value through profit or loss	376
Due from banks and other financial institutions	9,283,205
Loans to customers	18,466,621
Investments available for sale	149,392
Property and equipment, intangible assets	2,019,374
Current income tax assets	201,887
Deferred tax assets	57,414
Other financial assets	1,027,838
Other assets	151,879
Total assets	38,121,784
Liabilities	
Due to banks and other financial institutions	10,924,875
Customer accounts	22,586,210
Subordinated debt	1,068,049
Other financial liabilities	364,782
Other liabilities	359,596
Total liabilities	35,303,512
The fair value of the identifiable net assets of the subsidiary	2,818,272
Non-controlling interest	(332,320)
Fair value of the previously held equity interests	(2,485,952)
Consideration transferred on acquisition	-

The contractual amount of loans to customers before allowance for impairment totaled RUR 21,829,876 thousand. The best estimate as of the date of acquisition of contractual cash flows not expected to be received was RUR 3,363,255 thousand.

Acquisition cost of RUR 50 thousand was included in other operating expenses.

Since the date of acquisition, the contribution of CJSC "B&N Bank Credit Cards" to the Group's net interest income, non-interest income and the net profit of the Group before tax amounted to RUR 2,421,163 thousand, RUR 173,660 thousand and RUR (1,240,378) thousand, respectively. If the combination had occurred at the beginning of the year, the Group's profit would have been RUR 2,355,184 thousand, net interest income – RUR 14,540,388 thousand and non-interest income – RUR 16,511,003 thousand.

Subsidiaries with significant non-controlling interests

The information about subsidiaries with significant non-controlling interests is as follows:

	Non-controlling interest, %	Loss allocated to non-controlling interests during the year	Accumulated non-controlling interests at year-end	Dividends paid to non-controlling interests during the year
CJSC "B&N Bank Credit Cards"	20.82%	(239,294)	93,026	-

(in thousands of Russian rubles, unless otherwise indicated)

The following table illustrates summarized financial information on these subsidiaries. This information is based on amounts before elimination of intra-group transactions.

	December 31, 2014
Cash and cash equivalents	7,394,146
Precious metals	3,539
Financial assets at fair value through profit or loss	251
Due from banks and other financial institutions	20,425,667
Loans to customers	20,932,787
Investments available for sale	174,361
Property and equipment, intangible assets	1,122,261
Current income tax assets	203,203
Other assets	549,525
Total assets	**50,805,740**
Due to banks and other financial institutions	11,540,565
Customer accounts	36,098,911
Subordinated debt	1,734,385
Other liabilities	573,218
Total liabilities	**49,947,079**
Equity	**858,661**

	During the period from the date of acquisition by the Group
Interest income	4,071,811
Interest expense	(1,507,824)
Provision for impairment losses on interest bearing assets	(1,691,364)
Net non-interest income	170,264
Operating expenses	(2,143,318)
Loss for the year	**(1,100,431)**
Other comprehensive income	33,374
Total comprehensive income for the year	**(1,067,057)**
Net cash flows from operating activities	(5,072,677)
Net cash flows from investing activities	(118,609)
Net increase in cash and cash equivalents	**1,452,651**
Effect of foreign currency translation	6,643,937

4. SEGMENT REPORTING

The Group discloses information to enable users of its consolidated financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* ("IFRS 8") and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

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

Information reported to the chief operating decision maker responsible for resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services for individuals, maintenance of current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, premium service B&N Exclusive.
- Corporate banking – representing maintenance of current accounts, deposits, overdrafts, loans to legal entities and individual entrepreneurs with annual revenue equal to or exceeding RUR 900 mln and other credit facilities, operations with foreign currency and derivative instruments.
- Small and Medium Entities – representing maintenance of current accounts, deposits, overdrafts, loans to legal entities and individual entrepreneurs with annual revenue not exceeding RUR 900 mln and other credit facilities, operations with foreign currency and derivative instruments.
- Investment banking – representing financial instruments trading, bank lending transactions, capital market transactions, foreign exchange transactions, structured financing, expenditure on investment property, mergers and acquisitions consulting services.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are transferred between segments, resulting in reallocation of funding cost used in calculation of operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense arising from the operations between business segments. Segment assets and liabilities comprise assets and liabilities on the statement of financial position. Internal charges for items such as central administration and key management salary as well as transfer pricing adjustments have been reflected in the performance of the respective segment. This measure is reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(in thousands of Russian rubles, unless otherwise indicated)

Segment information is presented below:

	Corporate banking	Small and Medium Entities	Investment banking	Retail banking	Unallocated	As at and for the year ended December 31, 2014 Total
Interest income	16,787,380	1,143,233	2,885,745	8,410,047	-	29,226,405
Interest expense	(2,928,961)	(270,346)	(3,109,862)	(10,740,909)	-	(17,050,078)
Provision for impairment losses on interest bearing assets	(1,274,234)	(1,327,421)	-	(7,377,714)	-	(9,979,369)
Gain on initial recognition of financial instruments	-	-	5,461,104	-	-	5,461,104
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	318,215	-	-	318,215
Net gain on foreign exchange operations	197,276	64,686	3,270,600	922,312	-	4,454,874
Fee and commission income	202,271	689,169	191,276	2,767,892	-	3,850,608
Fee and commission expense	(185,540)	-	(459,675)	(448,821)	-	(1,094,036)
Other provisions	(49,562)	-	-	-	(34,561)	(84,123)
Income on sale of loans	3,350,826	-	-	-	-	3,350,826
Expense from sale of bad debts	(460,532)	-	-	-	-	(460,532)
Other income	663,789	6,648	8,678	7,208	6,229	692,552
External operating income/(expense), net	16,302,713	305,969	8,566,081	(6,459,985)	(28,332)	18,686,446
(Expense)/income from other segments	(12,722,890)	243,971	(2,102,617)	11,963,060	2,618,476	-
Total operating income	**3,579,823**	**549,940**	**6,463,464**	**5,503,075**	**2,590,144**	**18,686,446**
Operating expenses	(565,556)	(1,974,659)	(637,478)	(8,336,938)	(1,167,545)	(12,682,176)
Profit/(loss) before income tax	**3,014,267**	**(1,424,719)**	**5,825,986**	**(2,833,863)**	**1,422,599**	**6,004,270**
Income tax expense	-	-	-	-	(1,369,640)	(1,369,640)
NET PROFIT/(LOSS) FOR THE YEAR	**3,014,267**	**(1,424,719)**	**5,825,986**	**(2,833,863)**	**52,959**	**4,634,630**
Segment assets	173,950,890	4,718,551	191,937,547	46,340,053	7,861,616	424,808,657
Segment liabilities	44,978,064	12,087,875	126,223,504	209,471,378	1,331,978	394,092,799
Other segment items						
Depreciation charge on property and equipment, intangible assets and investment property	(131,645)	(10,505)	(154,610)	(123,850)	-	(420,610)
Capital expenditures	457,736	36,525	537,588	430,633	-	1,462,482

(in thousands of Russian rubles, unless otherwise indicated)

	Corporate banking	Small and Medium Entities	Investment banking	Retail banking	Unallocated	As at and for the year ended December 31, 2013 Total
Interest income	11,435,232	1,799,233	2,394,362	2,742,191	-	18,371,018
Interest expense	(2,827,777)	(335,817)	(1,923,274)	(7,227,347)	-	(12,314,215)
(Provision)/recovery of provision for impairment losses on interest bearing assets	641,877	(211,037)	-	(1,227,926)	-	(797,086)
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	821,944	-	-	821,944
Net gain on foreign exchange operations	-	-	1,892,989	-	-	1,892,989
Fee and commission income	904,179	135,416	6,171	1,528,846	-	2,574,612
Fee and commission expense	(188,953)	-	(216,174)	(281,100)	-	(686,227)
Recovery of other provisions	25,034	-	-	-	-	25,034
Income from sale of loans	507,276	-	-	-	-	507,276
Income from sale of loans previously written-off	300,000	-	-	-	-	300,000
Other income	584,921	3,545	-	8,892	-	597,358
External operating income/(expense), net	11,381,789	1,391,340	2,976,018	(4,456,444)	-	11,292,703
(Expense)/income from other segments	(7,530,747)	425,455	(667,796)	8,873,150	(1,100,062)	-
Total operating income	**3,851,042**	**1,816,795**	**2,308,222**	**4,416,706**	**(1,100,062)**	**11,292,703**
Operating expenses	(1,488,726)	(2,308,692)	(876,394)	(5,300,934)	(524,989)	(10,499,735)
Profit/(loss) before income tax	**2,362,316**	**(491,897)**	**1,431,828**	**(884,228)**	**(1,625,051)**	**792,968**
Income tax expense	-	-	-	-	(39,356)	(39,356)
NET PROFIT/(LOSS) FOR THE YEAR	**2,362,316**	**(491,897)**	**1,431,828**	**(884,228)**	**(1,664,407)**	**753,612**
Segment assets	114,620,710	10,861,338	65,747,508	19,633,655	6,533,204	217,396,415
Segment liabilities	56,204,948	12,001,036	24,312,194	106,042,361	622,184	199,182,723
Other segment items						
Depreciation charge on property and equipment, intangible assets and investment property	(125,620)	(17,758)	(60,508)	(96,089)	-	(299,975)
Capital expenditures	515,612	72,888	248,355	394,399	-	1,231,254

The Group operates principally on the territory of the Russian Federation, therefore, management believes that no geographic disclosure of segment operations should be presented.

(in thousands of Russian rubles, unless otherwise indicated)

5. NET INTEREST INCOME

Net interest income comprises:

	December 31, 2014	December 31, 2013
Interest income comprises:		
Interest income on financial assets recorded at amortised cost comprises:	27,522,806	17,201,700
Interest income on impaired financial assets	2,094,668	174,594
Interest income on unimpaired financial assets	25,428,138	17,027,106
Interest income on investments available for sale	92,905	-
Total interest income on financial assets recorded at amortised cost and on investments available for sale	**27,615,711**	**17,201,700**
Interest income on assets at fair value through profit or loss	1,610,694	1,169,318
Total interest income	**29,226,405**	**18,371,018**
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers	26,345,091	15,976,656
Interest on due from banks and other financial institutions	1,177,715	1,225,044
Total interest income on financial assets recorded at amortised cost	27,522,806	17,201,700
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortised cost comprises:		
Interest on customer accounts	(14,177,904)	(10,390,941)
Interest on debt securities issued	(1,488,067)	(818,385)
Interest on subordinated debt	(753,163)	(526,364)
Interest on deposits from banks and other financial institutions	(255,804)	(301,726)
Interest on deposits from the State Corporation "Deposit Insurance Agency"	(130,098)	-
Interest on deposits from the Central bank of the Russian Federation	(245,042)	(276,799)
Total interest expense	**(17,050,078)**	**(12,314,215)**
Net interest income before provision for impairment losses on interest bearing assets	**12,176,327**	**6,056,803**

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to legal entities	Loans to individuals	Total
December 31, 2012	**1,794,074**	**1,713,755**	**3,507,829**
(Recovery of provisions)/additional provisions recognised	(430,840)	1,227,926	797,086
Write-off of assets	(14,681)	(2,210)	(16,891)
December 31, 2013	**1,348,553**	**2,939,471**	**4,288,024**
Additional provisions recognised	2,601,655	7,377,714	9,979,369
Write-off of assets	(732,747)	(3,567,823)	(4,300,570)
December 31, 2014	**3,217,461**	**6,749,362**	**9,966,823**

(in thousands of Russian rubles, unless otherwise indicated)

In December 2013, loans to individuals with the total amount of RUR 1,365,601 thousand that had been written off the Bank's balance sheet before 2013 were sold for consideration of RUR 300,000 thousand.

The movements in other allowances were as follows:

	Other assets	Guarantees and letters of credit	Total
December 31, 2012	**30,389**	**80,169**	**110,558**
Additional provisions recognised/ (recovery of provisions)	17,073	(42,107)	(25,034)
Recovery of provisions on assets previously written-off	12,042	-	12,042
December 31, 2013	**59,504**	**38,062**	**97,566**
Additional provisions recognised	60,050	24,073	84,123
Write-off of assets	(2,114)	-	(2,114)
December 31, 2014	**117,440**	**62,135**	**179,575**

Allowance for impairment losses is deducted from the respective assets. Provision on impairment losses on guarantees and letters of credit is presented in other liabilities.

7. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	December 31, 2014	December 31, 2013
Dealing, net	411,130	910,638
Fair value adjustment, net	(92,915)	(88,694)
Total net gain on financial assets and liabilities at fair value through profit or loss	**318,215**	**821,944**

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Dealing, net	(605,345)	591,122
Translation differences, net	5,053,975	1,382,741
Currency derivative contracts, net	6,244	(80,874)
Total net gain on foreign exchange operations	**4,454,874**	**1,892,989**

(in thousands of Russian rubles, unless otherwise indicated)

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	December 31, 2014	December 31, 2013
Fee and commission income:		
Plastic cards operations	1,211,354	425,584
Commissions for acting as insurance agent	863,556	599,053
Settlements	705,051	588,928
Cash operations	452,757	421,827
Guarantees	249,685	191,930
Information services	79,475	59,468
Currency control	69,206	58,054
Salary payment services	55,695	37,874
Documents processing	26,169	13,870
Accounts openning	6,145	83,991
Other	131,515	94,033
Total fee and commission income	**3,850,608**	**2,574,612**
Fee and commission expense:		
Plastic cards services	565,499	273,464
Banking services	201,408	151,684
Settlements	124,881	7,312
Cash operations	93,870	46,376
Services of Settlements Clearing Center	48,853	81,012
Unrelated international financing	36,739	45,562
Agency services	15,006	8,569
Other	7,780	72,248
Total fee and commission expense	**1,094,036**	**686,227**

(in thousands of Russian rubles, unless otherwise indicated)

10. OTHER INCOME

Other income comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Income on recovery of provision after initial recognition at the moment of acquisition of control over subsidiaries	391,509	-
Property rental income (Note 19)	225,234	280,168
Gain on disposal of property and equipment, intangible assets and inventories	36,825	47,965
Net income on disposal of Closed-end Investment Fund rental "Finam-Kapitalnie Vlozheniya"	28,342	-
Income on cash excess	6,088	1,203
Penalties on guaranties and other operations	2,482	6,971
Income from repayment of loans written-off	-	13,532
Proceeds from disposal of non-controlling interest in Closed-end Investment Fund rental "Finam-Kapitalnie Vlozheniya"	-	112,208
Refund of overpaid funds	-	46,119
Reimbursement of lost profits due to advanced repayment of loan	-	32,345
Other income	2,072	56,847
Total other income	**692,552**	**597,358**

(in thousands of Russian rubles, unless otherwise indicated)

11. OPERATING EXPENSES

Operating expenses comprise:

	December 31, 2014	December 31, 2013
Staff costs	4,807,682	3,977,821
Operating leases (Note 29)	1,293,916	707,974
Contributions to social insurance fund	1,107,538	897,846
Taxes, other than income tax	686,587	451,180
Advertising expenses	650,559	655,144
Contributions to Deposits Insurance Fund	564,033	364,804
Property and equipment maintenance	560,626	208,662
Depreciation and amortisation expense on property and equipment, intangible assets and investment property	420,610	299,975
Professional services	415,449	1,161,256
Communication expense	375,354	374,897
Stationery and other office expenses	308,824	161,934
Software maintenance	265,619	181,751
Loss on disposal of property and equipment, intangible assets	140,993	217,654
Security expenses	119,853	69,757
Representation expenses	119,703	25,375
Transportation expenses	75,726	50,911
Business trip expenses	57,467	84,393
Management company fees	54,432	120,320
Charity and sponsorship expenses	51,819	10,131
Insurance expenses	29,701	48,198
Impairment loss on inventories	21,207	47,330
Debt collection services	8,110	469
Social needs expenses	10	2,617
Other operating expense	546,358	379,336
Total operating expenses	**12,682,176**	**10,499,735**

12. INCOME TAXES

The Group prepares calculation of income taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2014 and December 31, 2013 relate mostly to different methods of income and expense recognition as well as to accounting values of certain assets.

The tax rate used for the reconciliation of income tax expenses and accounting profit is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction and 10% payable by corporate entities in the Republic of Cyprus.

The operations with the Russian Federation government securities are taxable at the rate of 15% payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction.

(in thousands of Russian rubles, unless otherwise indicated)

Temporary differences as at December 31, 2014 and December 31, 2013 comprise:

	December 31, 2012	Origination and reversal of temporary differences		December 31, 2013	Origination and reversal of temporary differences		December 31, 2014
		In the statement of profit or loss	In other comprehensive income		In the statement of profit or loss	In other comprehensive income	
Tax effect of deductible temporary differences:							
Tax losses carried forward	5,153	7,593	-	12,746	66,311	-	79,057
Loans to customers	-	-	-	-	11,514	-	11,514
Debt securities issued	-	-	-	-	37,163	-	37,163
Due from banks and other financial institutions	14,759	(14,759)	-	-	-	-	-
Due to banks and other financial institutions	-	-	-	-	886,416	-	886,416
Property and equipment, intangible assets	29,705	(11,848)	-	17,857	-	-	17,857
Investment property	3,182	(2,275)	-	907	907	-	1,814
Investments available for sale	38,566	(38,566)	-	-	-	178,257	178,257
Financial assets at fair value through profit or loss	-	68,631	-	68,631	-	-	68,631
Other assets	133,111	160,804	-	293,915	387,383	-	681,298
Gross deferred tax asset	**224,476**	**169,580**	**-**	**394,056**	**1,389,694**	**178,257**	**1,962,007**
Unrecognised deferred tax asset	**(175,383)**	**159,060**	**-**	**(16,323)**	**(237,350)**	**-**	**(253,673)**
Deferred tax asset	**49,093**	**328,640**	**-**	**377,733**	**1,152,344**	**178,257**	**1,708,334**
Tax effect of taxable temporary differences:							
Investments available for sale	-	(1,695)	-	(1,695)	-	-	(1,695)
Loans to customers	(20,110)	(279,762)	-	(299,872)	-	-	(299,872)
Financial assets at fair value through profit or loss	(19,275)	19,275	-	-	(281,971)	-	(281,971)
Deposits from the State Corporation "Deposit Insurance Agency"	-	-	-	-	(1,330,841)	-	(1,330,841)
Property and equipment, intangible assets	-	-	-	-	(161,623)	-	(161,623)
Due to banks and other financial institutions	-	(19,277)	-	(19,277)	(646,945)	-	(666,222)
Customer accounts	(1,096)	(49,117)	-	(50,213)	-	-	(50,213)
Debt securities issued	(8,612)	2,256	-	(6,356)	-	-	(6,356)
Subordinated debt	-	(320)	-	(320)	-	-	(320)
Deferred tax liability	**(49,093)**	**(328,640)**	**-**	**(377,733)**	**(2,421,380)**	**-**	**(2,799,113)**
Net deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net deferred tax liability	**-**	**-**	**-**	**-**	**(1,269,036)**	**178,257**	**(1,090,779)**

(in thousands of Russian rubles, unless otherwise indicated)

Reconciliation of income tax expenses and profit/(loss) before income tax expense for the years ended December 31, 2014 and December 31, 2013 is presented as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Profit before income tax	6,004,270	792,968
Tax at the statutory tax rate (20%)	(1,200,854)	(158,594)
Effect of tax rate, different from 20% (at 15%)	33,701	13,391
Tax effect of permanent differences	34,863	(53,213)
Change in unrecognised deferred tax assets	(237,350)	159,060
Income tax expense	**(1,369,640)**	**(39,356)**
Current income tax expense	(100,604)	(39,356)
Deferred income tax charge	(1,269,036)	-
Total income tax expense	**(1,369,640)**	**(39,356)**

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central bank of the Russian Federation comprise:

	December 31, 2014	December 31, 2013
Balances with the Central bank of the Russian Federation	15,247,278	8,739,395
Cash	14,578,750	6,544,913
Deposit with the Central bank of the Russian Federation	5,000,000	3,300,000
Total cash and balances with the Central bank of the Russian Federation	**34,826,028**	**18,584,308**

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2014	December 31, 2013
Cash and balances with the Central bank of the Russian Federation	34,826,028	18,584,308
Correspondent accounts and time deposits with other banks with original maturity within 90 days	92,179,656	22,525,769
	127,005,684	41,110,077
Less minimum reserve deposits with the Central bank of the Russian Federation	(3,224,508)	(1,973,366)
Less guarantee deposit with the National Clearing Center	(6,000)	(8,618)
Total cash and cash equivalents	**123,775,176**	**39,128,093**

(in thousands of Russian rubles, unless otherwise indicated)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise financial assets held for trading.

	Interest rate to nominal	December 31, 2014	Interest rate to nominal	December 31, 2013
Financial assets at fair value through profit or loss:				
US Treasury bonds	0.25%	5,886,407	0.25-2%	7,504,286
Bonds of state and municipal authorities		-	7-13%	2,519,603
Bonds of banks		-	8.6-12.25%	1,441,141
Corporate bonds		-	8.25-10.75%	254,924
Russian Federal bonds		-	7-7.6%	834,146
		5,886,407		**12,554,100**
Corporate shares	-	248,258	-	122,519
		248,258		**122,519**
Total financial assets at fair value through profit or loss		**6,134,665**		**12,676,619**

As at December 31, 2014 and December 31, 2013, the US Treasury bonds had maturities from February 2015 to July 2015 and from September 2014 to April 2016, respectively.

As at December 31, 2014 and December 31, 2013, the corporate shares comprised VISA shares (class C).

Reclassifications

In mid-December 2014, the Group changed its intention to hold securities classified as financial assets at fair value through profit or loss for the purpose of selling in the near term. The decision was due to the uncertainty in the market and a number of negative factors that were considered "rare circumstances" and included, among other things, a significant increase in the key interest rate of Central bank of the Russian Federation and, as a consequence, a liquidity deficit. On December 16, 2014, the Group reclassified a portion of securities out of financial assets at fair value through profit or loss to investments available for sale. The information about the reclassified assets is presented in the table below:

	Investments available for sale
Carrying amount as at December 31, 2014	16,189,393
Fair value as at December 31, 2014	16,189,393
Fair value gain/(loss) that would have been recognised on the reclassified assets in profit or loss for the year if the reclassification had not been made	(63,856)
Fair value gain/(loss) that have been recognised on the reclassified assets in other comprehensive income	(63,856)
Fair value gain/(loss) that have been recognised on the reclassified assets in profit or loss up to date of reclassification	(825,372)

The effective interest rate on the reclassified financial assets determined as of the reclassification date ranges between 7.77% and 36.37% for RUR-denominated securities. Current value of estimated cash flows, which the Group expects to recover, equals the fair value of the reclassified financial assets as of the reclassification date.

(in thousands of Russian rubles, unless otherwise indicated)

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	December 31, 2014	December 31, 2013
Time deposits with banks other than the Central bank of the Russian Federation	65,908,558	21,217,544
Correspondent accounts with banks and other financial institutions	51,585,483	6,848,628
Total due from banks and other financial institutions	**117,494,041**	**28,066,172**

As at December 31, 2014 and December 31, 2013, the Group had placements with 6 and 5 banks amounting to RUR 88,459,200 thousand and RUR 17,700,965 thousand, respectively, the outstanding debt of which individually exceeded 10% of the Group's equity.

As at December 31, 2014 and December 31, 2013, amounts due from clearing institutions of RUR 16,512,534 thousand and RUR 1,091,674 thousand, respectively, used for the fulfillment of obligations accepted for clearing were included in correspondent accounts with banks and other financial institutions.

As at December 31, 2013, the promissory note issued by one corporate Russian bank was included in time deposits with banks other than the Central bank of the Russian Federation in the amount of RUR 507,120 thousand. This promissory note was pledged as collateral for the guarantee to one Russian bank.

As at December 31, 2014, the Group placed an equivalent of RUR 17,500,000 thousand in the ROST Bank Group with the annual interest rate of 6.01% and maturity period from 3 to 6 years. These funds were received from the SC "DIA" as part of measures on financial stabilization of the ROST Bank Group (Notes 1, 25). The Group recognised these loans at fair value totalling RUR 12,847,359 thousand. The amount of loss arising from the initial recognition of the loans issued to the ROST Bank Group amounted to RUR 4,652,641 thousand. As of December 31, 2014, the carrying amount of the loans was RUR 12,966,552 thousand and was recorded in line "Due from banks and other financial institutions" (Note 30).

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2014	December 31, 2013
Loans to customers	218,829,533	134,827,724
Loans under reverse repurchase agreements	5,314,100	5,724,439
	224,143,633	140,552,163
Less allowance for impairment losses	(9,966,823)	(4,288,024)
Total loans to customers	**214,176,810**	**136,264,139**

Movements in the allowances for impairment losses for the years ended December 31, 2014 and December 31, 2013 are disclosed in Note 6.

As of December 31, 2014, loans to customers comprise loans of RUR 12,465,189 thousand pledged as collateral against funds provided by the SC "DIA" as part of measures on financial stabilization of CJSC "B&N Bank Credit Cards" (Note 25).

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2014 and December 31, 2013, the Group disclosed as unsecured loans that were collateralized by the own unquoted shares of the borrowers totalling RUR 42,976,016 thousand and RUR 28,782,818 thousand, respectively.

	December 31, 2014	December 31, 2013
Loans collateralized by corporate guarantees	76,105,588	25,213,928
Loans collateralized by pledge of real estate and land	29,461,838	36,314,766
Loans collateralized by pledge of cars	7,984,216	3,638,224
Loans collateralized by pledge of equipment	7,579,836	5,026,270
Loans collateralized by pledge of securities	6,078,177	9,936,478
Loans collateralized by pledge of goods in turnover	3,294,550	5,029,522
Loans collateralized by pledge of claim rights	2,991,108	8,461,923
Loans collateralized by pledge of cash	719	315,772
Unsecured loans	90,647,601	46,615,280
	224,143,633	140,552,163
Less allowance for impairment losses	(9,966,823)	(4,288,024)
Total loans to customers	**214,176,810**	**136,264,139**

In 2014, loans to legal entities with the total amount of RUR 19,828,750 thousand were sold for the consideration of RUR 23,179,576 thousand to unrelated parties. As a result of the sale, the Group recorded income in the amount of RUR 3,350,826 thousand. The loans were fully secured by real property, no provision for these loans was accrued at the time of sale.

	December 31, 2014	December 31, 2013
Analysis by sector:		
Trading	85,447,025	27,256,475
Individuals	49,769,402	20,605,646
Investments and other financial services	24,013,080	23,293,041
Production	13,507,084	10,224,407
Oil & Gas	12,429,008	7,636,895
Real estate	11,054,632	14,836,128
Other services	8,659,681	8,921,055
Construction	6,534,491	4,291,391
Factoring	4,925,991	4,857,500
Energy	2,317,677	1,251,293
Chemical industry	2,000,253	1,712,646
Hospitality	1,206,487	1,036,921
Metallurgy	561,272	56,538
Mining industry	408,984	628,277
Transport and logistics	328,451	658,010
Printing industry	126,496	1,278,606
Food industry	124,301	197,606
Agriculture	74,025	4,340,107
Woodworking industry	7,740	19,110
Bridge loans	-	7,129,175
Other	647,553	321,336
	224,143,633	140,552,163
Less allowance for impairment losses	(9,966,823)	(4,288,024)
Total loans to customers	**214,176,810**	**136,264,139**

(in thousands of Russian rubles, unless otherwise indicated)

A bridge loan is a type of short-term loan, typically given for a period of up to one year until the borrower agrees the terms and obtains larger or longer-term financing from another bank. Money from the new financing is generally used to pay back the bridge loan, as well as for other needs. Bridge loans typically have a higher interest rate and commissions than conventional financing to compensate for the additional risk of the loan.

Loans to individuals comprise the following products:

	December 31, 2014	December 31, 2013
Consumer loans	47,047,090	17,377,809
Mortgage loans	1,242,701	1,317,487
Car loans	321,633	330,465
Other	1,157,978	1,579,885
	49,769,402	20,605,646
Less allowance for impairment losses	(6,749,362)	(2,939,471)
Total loans to individuals	**43,020,040**	**17,666,175**

As at December 31, 2014 and December 31, 2013, the Group granted loans to 16 and 22 customers or groups of related customers, totalling RUR 105,231,276 thousand and RUR 69,092,873 thousand, respectively, the outstanding debt of which individually exceeded 10% of the Group's equity.

As at December 31, 2014 and December 31, 2013, a significant amount of loans (66% and 81% of total portfolio, respectively) was granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

As at December 31, 2014 and December 31, 2013, loans to customers included loans totalling RUR 5,992,174 thousand and RUR 1,328,877 thousand, respectively, with terms renegotiated. Otherwise these loans would have been past due or impaired.

As at December 31, 2014, loans under reverse repurchase agreements amounting to RUR 5,314,100 thousand were included in loans to customers. Corporate bonds in the amount of RUR 3,146,628 thousand and bank bonds in the amount of RUR 2,167,472 thousand were received as collateral under the reverse repurchase agreements. All the agreements that were outstanding as at December 31, 2014 must be settled by the parties before April 2015.

As at December 31, 2013, loans under reverse repurchase agreements amounting to RUR 5,724,439 thousand were included in loans to customers. Corporate shares in the amount of RUR 2,739,805 thousand and corporate bonds in the amount of RUR 3,060,042 thousand were received as collateral under the reverse repurchase agreements. All the agreements that were outstanding at December 31, 2013 were settled by the parties before April 2014.

(in thousands of Russian rubles, unless otherwise indicated)

Loans to customers are divided into three major categories of impairment. Not past due and not impaired loans are those that carry only one of the following negative conditions: bad financial position of the borrower, loans with renegotiated terms or existence of negative external factors. Past due but not impaired loans are those that have bad debt servicing with no other signs of impairment. Not past due and not impaired loans and past due but not impaired loans are assessed for impairment on collective basis. Impaired loans are those that have more than one of the above-mentioned conditions. The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2014			December 31, 2013		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Not past due and not impaired	204,850,174	(1,185,825)	203,664,349	133,429,275	(858,731)	132,570,544
Past due but not impaired	12,395,802	(7,881,814)	4,513,988	5,806,607	(3,371,255)	2,435,352
Individually impaired loans	6,897,657	(899,184)	5,998,473	1,316,281	(58,038)	1,258,243
Total	**224,143,633**	**(9,966,823)**	**214,176,810**	**140,552,163**	**(4,288,024)**	**136,264,139**

In accordance with the requirements of the Central bank of the Russian Federation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the court.

17. INVESTMENTS AVAILABLE FOR SALE

	December 31, 2014		December 31, 2013	
	Ownership interest	Carrying value	Ownership interest	Carrying value
Equity instruments				
Closed-end Invetment Fund rental "Finam-Kapitalnie Vlozheniya"	12.17%	1,366,907	-	-
Closed-end Invetment Fund "TFB-Rental Invetment Fund"	4.42%	1,137,093	-	-
Closed-end Real Estate Mutual Fund "Nevsky"	19.00%	822,250	-	-
Closed-end Real Estate Mutual Fund "Rostovsky"	19.04%	122,380	-	-
LLC "Obshaya karta"	5.00%	70	5.00%	70
Corporate shares		94,230		65
Debt instruments				
Bank bonds	-	2,565,320	-	-
Municipal bonds	-	2,805,330	-	-
Russian State bonds	-	338,716	-	-
Corporate bonds	-	15,703,603	-	-
Investments available for sale		**24,955,899**		**135**
Equity instruments				
Closed-end Invetment Fund rental "Finam-Kapitalnie Vlozheniya"	4.92%	553,392	-	-
Debt instruments			-	-
Bank bonds	-	11,664,314	-	-
Municipal bonds	-	1,327,269	-	-
Corporate bonds	-	1,005,282	-	-
Investments available for sale, pledged under repurchase agreements		**14,550,257**		**-**

As at December 31, 2014 and December 31, 2013, the Russian State bonds had maturities from January 2016 to July 2022 and from March 2014 to August 2023, respectively.

As at December 31, 2014 and December 31, 2013, the corporate bonds had maturities from February 2015 to September 2044 and from February 2015 to January 2018, respectively.

As at December 31, 2014 and December 31, 2013, the bank bonds had maturities from June 2017 to August 2029 and from February 2014 to August 2017, respectively.

As at December 31, 2014 and December 31, 2013, the municipal bonds had maturities from July 2015 to July 2021 and from July 2015 to September 2020, respectively.

As at December 31, 2014, bank bonds, municipal and corporate bonds disclosed in financial assets available for sale in the amount of RUR 11,664,314 thousand, RUR 1,327,269 thousand and RUR 1,005,282 thousand were pledged under repurchase agreements with the Central bank of the Russian Federation. The loans under repurchase agreements included in due to the Central bank of the Russian Federation totalled RUR 11,833,013 thousand (Note 21).

As at December 31, 2014, the units of CMIF rental "Finam-Kapitalnie Vlozheniya" disclosed in financial assets available for sale in the amount of RUR 553,392 thousand were pledged under repurchase agreements with a major Russian bank. The loans under repurchase agreements included in due to banks and other financial institutions totalled RUR 653,946 thousand (Note 22).

All the repurchase agreements related to debt securities that were outstanding at December 31, 2014 were settled by the parties before February 2015.

Shares of the ROST Bank Group amounting to RUR 25 were included in corporate shares as investments available for sale.

As described in Note 1, since November 2014, the Bank has been participating in efforts to prevent bankruptcy of the ROST Bank Group. As such, the share purchase price paid by the Group differs from the fair value determined based on an independent appraiser's report. Due to the use of unobservable input, the difference between the fair value and the purchase price of RUR 2,223,002 thousand is not included in profit or loss but is rather recognised as deferred income within investments available for sale.

(in thousands of Russian rubles, unless otherwise indicated)

18. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Capital investments	Total
At initial/indexed cost				
December 31, 2012	**3,614,828**	**1,056,339**	**125,825**	**4,796,992**
Additions	813,912	140,731	84,103	1,038,746
Transfers beetween categories	-	1,522	(1,522)	-
Transfer to investment property	(355)	-	-	(355)
Disposals	(203,754)	(58,714)	-	(262,468)
December 31, 2013	**4,224,631**	**1,139,878**	**208,406**	**5,572,915**
Acquisition through business combinations	538,486	580,856	7,474	1,126,816
Additions	724,580	374,361	96,829	1,195,770
Transfers beetween categories	-	85,588	(85,588)	-
Transfer to investment property	-	-	(4,019)	(4,019)
Disposals	(280,018)	(248,223)	(2,751)	(530,992)
December 31, 2014	**5,207,679**	**1,932,460**	**220,351**	**7,360,490**
Accumulated depreciation and impairment				
December 31, 2012	**240,749**	**703,344**	**-**	**944,093**
Charge for the year	67,443	127,914	-	195,357
Eliminated on disposals	(53,938)	(48,586)	-	(102,524)
December 31, 2013	**254,254**	**782,672**	**-**	**1,036,926**
Charge for the year	75,967	166,133	-	242,100
Eliminated on disposals	(15,427)	(103,387)	-	(118,814)
December 31, 2014	**314,794**	**845,418**	**-**	**1,160,212**
Net book value				
As at December 31, 2013	**3,970,377**	**357,206**	**208,406**	**4,535,989**
As at December 31, 2014	**4,892,885**	**1,087,042**	**220,351**	**6,200,278**

(in thousands of Russian rubles, unless otherwise indicated)

	Intangible assets
At initial/indexed cost	
December 31, 2012	**672,905**
Additions	192,508
Disposals	(54,336)
December 31, 2013	**811,077**
Acquisition through business combinations	892,558
Additions	266,712
Disposals	(257,037)
December 31, 2014	**1,713,310**
Accumulated depreciation	
December 31, 2012	**365,891**
Charge for the year	96,349
December 31, 2013	**462,240**
Charge for the year	172,160
Eliminated on disposals	(191,380)
December 31, 2014	**443,020**
Net book value	
As at December 31, 2013	**348,837**
As at December 31, 2014	**1,270,290**

As at December 31, 2014 and December 31, 2013, property and equipment, intangible assets included fully depreciated assets totalling RUR 1,212,917 thousand and RUR 446,640 thousand, respectively.

Additions during the year

Intangible assets acquired in 2014 through business combination comprise: banking licenses of RUR 110,114 thousand, customer relationships arising from loans issued of RUR 626,813 thousand, customer relationships arising from current accounts of RUR 155,631 thousand. Banking licenses and customer relationships arising from loans issued and from current accounts of individuals are amortised at the rate of 13%, customer relationships arising from corporate current accounts are amortised at the rate of 20%. Banking licenses and customer relationships arising from loans issued and from current accounts of individuals are amortised over the useful life of 7.5 years, customer relationships arising from corporate current accounts are amortised over the useful life of 5 years.

(in thousands of Russian rubles, unless otherwise indicated)

19. INVESTMENT PROPERTY

Investment property comprises:

Cost	
as at December 31, 2012	**9,771,730**
Additions	3,239,317
Transfer from property and equipment	355
Disposals	(137,217)
as at December 31, 2013	**12,874,185**
Transfer from property and equipment	4,019
Disposal of subsidiary (Note 3)	(10,597,439)
Disposals	(1,956,399)
as at December 31, 2014	**324,366**
Accumulated depreciation	
as at December 31, 2012	**24,273**
Charge for the year	8,269
Disposals	(3,244)
as at December 31, 2013	**29,298**
Charge for the year	6,350
Disposals	(399)
as at December 31, 2014	**35,249**
Net book value as at December 31, 2013	**12,844,887**
Net book value as at December 31, 2014	**289,117**

Property rental income included investment property rental income for the year ended December 31, 2014 and December 31, 2013 totalling RUR 225,234 thousand and RUR 280,168 thousand, respectively (Note 10).

There was no impairment loss on the investment property in 2014 and 2013.

(in thousands of Russian rubles, unless otherwise indicated)

20. OTHER ASSETS

Other assets comprise:

	December 31, 2014	December 31, 2013
Other financial assets:		
Accrued income	527,485	341,609
Settlements on currency conversion operations	931,945	-
	1,459,430	**341,609**
Less allowance for impairment losses	(51,549)	-
Total other financial assets	**1,407,881**	**341,609**
Other non-financial assets:		
Prepayments	1,494,221	2,111,105
Inventories	861,722	914,183
Deferred expenses	460,500	227,730
Rental payments	2,744	30,295
Taxes recoverable, other than income tax	81,282	28,217
Other	200,005	89,511
	3,100,474	**3,401,041**
Less allowance for impairment losses	(65,891)	(59,504)
Total other non-financial assets	**3,034,583**	**3,341,537**
Total other assets	**4,442,464**	**3,683,146**

Movements in the allowances for impairment losses for the years ended December 31, 2014 and December 31, 2013 are disclosed in Note 6.

21. DUE TO THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	December 31, 2014	December 31, 2013
Term deposits	2,004,808	2,002,774
Loans under repurchase agreements	11,833,013	-
Total due to the Central bank of the Russian Federation	**13,837,821**	**2,002,774**

As at December 31, 2014, the Group had one term deposit from the Central bank of the Russian Federation totalling RUR 2,004,808 thousand that was repaid in January 2015. The interest rate on this deposit was 9.75%. This term deposit was collateralized by guarantee of a large Russian bank.

As at December 31, 2013, the Group had term deposits from the Central bank of the Russian Federation totalling RUR 2,002,774 thousand. One of these term deposits totalling RUR 1,002,034 thousand was repaid in January 2014. The second term deposit matured in March 2014. The interest rate on these term deposits was 6.75%. These term deposits were collateralized by guarantee of a large Russian bank.

(in thousands of Russian rubles, unless otherwise indicated)

22. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	December 31, 2014	December 31, 2013
Recorded at amoritised cost:		
Term deposits of banks and other financial institutions	23,360,211	1,087,477
Correspondent accounts of other banks	26,764,013	122,206
Loans under repurchase agreements	653,946	599,409
Total due to banks and other financial institutions	**50,778,170**	**1,809,092**

As at December 31, 2014 and December 31, 2013, amounts due to banks and other financial institutions totalling RUR 44,558,268 thousand (87.75% of the total of RUR 50,778,170 thousand) and RUR 1,098,995 thousand (60.75% of the total of RUR 1,809,092 thousand) were due to 1 bank and 3 banks, respectively, which represents a significant concentration.

As at December 31, 2014 and December 31, 2013, the loan under a repurchase agreement in the amount of RUR 653,946 thousand and RUR 599,409 thousand, respectively, was included in due to banks and other financial institutions. The units of CMIF rental "Finam-Kapitalnie Vlozheniya" in the amount of RUR 553,392 thousand and RUR 551,474 thousand were pledged under a repurchase agreement.

In 2014, the Group received an equivalent of RUR 13,830,000 thousand as the deposits from ROST Bank Group with the annual interest rate of 6.01% and maturity period ranging from 3 to 6 years. The Group recognised these deposits at fair value. The gain on initial recognition of these deposits amounted to RUR 3,311,913 thousand. As at December 31, 2014 the carrying amount of these deposits amounted to RUR 10,615,320 thousand and was recorded in line "Due to banks and other financial institutions".

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2014	December 31, 2013
Recorded at amortised cost:		
Time deposits	236,997,459	121,457,092
Demand accounts	26,910,951	50,578,051
Total customer accounts	**263,908,410**	**172,035,143**

As at December 31, 2014 and December 31, 2013, customer accounts totalling RUR 3,528,552 thousand and RUR 166,101 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2014 and December 31, 2013, customer accounts totalling RUR 35,010,847 thousand (13%) and RUR 38,569,463 thousand (22%) represented accounts of 10 major customers.

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2014 and December 31, 2013, deposits of individuals in the amount of RUR 199,577,967 thousand and RUR 99,355,497 thousand, respectively, were included in time deposits. In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of an individual. In case a term deposit is repaid upon demand of an individual prior to maturity, interest on it is paid by the Bank based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

	December 31, 2014	December 31, 2013
Analysis by sector:		
Individuals	209,386,190	106,042,361
Insurance and other financial services	19,991,452	40,927,510
Construction	7,405,453	3,105,450
Services	7,314,714	4,493,643
Trading	5,446,429	6,659,796
Energy	5,003,854	3,984,083
Real estate	4,466,233	1,150,268
Production	2,133,689	2,280,837
Transportation	1,286,831	984,095
Hospitality	333,251	581,356
Oil & Gas	152,628	177,062
Agriculture	78,783	115,079
Metallurgy	64,981	41,985
Printing industry	62,855	176,427
Chemical industry	59,004	185,927
Woodworking industry	28,036	7,610
Mining industry	10,524	82,055
Food industry	10,464	33,402
Government	263	4,016
Other	672,776	1,002,181
Total customer accounts	**263,908,410**	**172,035,143**

24. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date, month/year	Annual rate, %	December 31, 2014	December 31, 2013
Bonds denominated in RUR	July 2016 - December 2020	11.25%-14%	19,619,928	7,863,390
Euro-Commercial Papers	March 2015	7.5%	2,075,732	3,001,547
Discount bearing promissory notes	November 2014 - July 2033	3.03-32.46%	520,836	1,333,233
Deposit certificates	January 2015	9.2%	260,265	252,848
Interest bearing promissory notes	January 2015 - October 2020	3.65-18.65%	999,624	481,204
Settlement promissory notes	April 2004 - March 2014	-	3,875	20,665
Total debt securities issued			**23,480,260**	**12,952,887**

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2014, the bonds comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
RUB	9,000,000	БО-02	24.09.2013	24.09.2016	12.25%	8,153,882
RUB	4,000,000	БО-03	16.07.2013	16.07.2016	11.25%	4,218,047
RUB	5,000,000	БО-04	15.08.2014	07.02.2020	12.00%	5,232,456
RUB	2,000,000	БО-05	10.12.2014	02.12.2020	14.00%	2,015,543
Total carrying value of bonds						**19,619,928**

As at December 31, 2013, the bonds comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
RUB	3,000,000	БО-01	20.12.2011	20.12.2014	10.95%	2,673,436
RUB	3,000,000	БО-02	24.09.2013	24.09.2016	10.85%	3,086,535
RUB	2,000,000	БО-03	16.07.2013	16.07.2016	11.25%	2,103,419
Total carrying value of bonds						**7,863,390**

As at December 31, 2014, euro-commercial papers comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
USD	47,000	ECP-6	05.03.2014	04.03.2015	7.50%	2,075,732
Total carrying value of Euro-Commercial Papers						**2,075,732**

As at December 31, 2013, euro-commercial papers comprised:

	Nominal value	Tranche	Date of issue	Date of maturity	Interest rate, %	Carrying value
USD	60,000	ECP-3	14.02.2013	12.02.2014	7.50%	1,945,730
USD	11,800	ECP-4	28.06.2013	26.06.2014	6.75%	374,031
USD	22,000	ECP-5	01.11.2013	31.10.2014	6.70%	681,786
Total carrying value of Euro-Commercial Papers						**3,001,547**

Promissory notes represent notes issued by the Group in the local market, which act as an alternative to customer/bank deposits. As at December 31, 2014, promissory notes issued comprise discount bearing promissory notes, interest bearing and settlement promissory notes.

Saving certificates issued by the Group in the local market act as an alternative to deposits of individuals.

(in thousands of Russian rubles, unless otherwise indicated)

25. DEPOSITS FROM THE STATE CORPORATION "DEPOSIT INSURANCE AGENCY"

Deposits from the SC "DIA" comprise:

	December 31, 2014	December 31, 2013
Funds raised as part of the measures on financial stabilization	22,872,208	-
Term deposits	2,500,000	-
Total deposits from the State Corporation "Deposit Insurance Agency"	**25,372,208**	**-**

In 2014, the Group received funds from the SC "DIA" in the amount of RUR 12,000,000 thousand at the annual interest rate ranging from 4% to 6.5% for the period from 1 to 4 years. The funds were provided as part of measures on financial stabilization of CJSC "B&N Bank Credit Cards" (Note 3). The deposits are collateralized by loans to customers (Note 16).

In 2014, the Group received funds from the SC "DIA" in the amount of RUR 17,500,000 thousand at the annual interest rate of 6.01% for the period of 6 years. The funds were provided as part of measures on financial stabilization of the ROST Bank Group (Notes 1, 15).

In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the Group discounted these deposits using the appropriate market rates.

The Group recognised these deposits at fair value totalling RUR 22,698,168 thousand. The gain on initial recognition of the deposits from the SC "DIA" amounted to RUR 6,801,832 thousand.

As at December 31, 2014, the carrying amount of the deposits amounted to RUR 22,872,208 thousand and was recorded within the line "Deposits from the State Corporation "Deposit Insurance Agency".

26. SUBORDINATED DEBT

	Currency	Maturity date	Interest rate, %	December 31, 2014	December 31, 2013
NAVTA OVERSEAS LIMITED (Cyprus)	USD	June 27, 2021	7.75%	5,625,840	3,272,920
HANBERG FINANCE LIMITED (Cyprus)	USD	February 22, 2022	6.4%	2,813,660	1,637,321
ELERD MANAGEMENT LIMITED (Cyprus)	USD	March 12, 2020	10%	2,812,920	1,636,460
TTU NDM INC LLC	USD	December 16, 2020	6.4%	1,422,032	-
HANBERG FINANCE LIMITED (Cyprus)	RUR	October 31, 2023	9.0%	1,001,480	1,000,740
LUIRE LLC	USD	June 4, 2021	6.5%	228,361	-
TTU NDM INC LLC	RUR	April 14, 2020	1.0%	29,397	-
HANBERG FINANCE LIMITED (Cyprus)	RUR	April 14, 2020	1.0%	27,717	-
DAVR LLC	RUR	April 14, 2020	1.0%	26,877	-
Total subordinated debt				**13,988,284**	**7,547,441**

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

(in thousands of Russian rubles, unless otherwise indicated)

27. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2014	December 31, 2013
Other financial liabilities:		
Settlements on currency conversion operations	147,998	36,298
Funds in settlements	119,355	-
The cost of placing the bond issue	95,380	-
Deferred income on lending operations	38,894	25,027
Payables on investment property acquisition	23,215	292,215
Obligations to the minority holders of units in the consolidated mutual investment fund	-	1,882,925
Other	85,948	-
	510,790	2,236,465
Other non-financial liabilities:		
Salaries payable	467,484	188,958
Provision for loan insurance commissions	219,539	-
Payables to Deposits Insurance Fund	200,916	152,998
Taxes payable, other than income tax	153,992	144,145
Provision for guarantees and letters of credit (Note 6)	62,135	38,062
Other	22,011	74,758
	1,126,077	598,921
Total other liabilities	**1,636,867**	**2,835,386**

Movements in the provision for guaranties and letters of credit for the year ended December 31, 2014 and December 31, 2013 are disclosed in Note 6.

28. SHARE CAPITAL

The Bank's share capital comprises the following number of shares:

Ordinary shares (par value of RUR 200)	Number
December 31, 2012	**28,325,000**
Issue of shares	8,756,117
December 31, 2013	**37,081,117**
Issue of shares	9,626,956
December 31, 2014	**46,708,073**

On June 28, 2013, additional 7,500,000 ordinary shares with par value of RUR 200 each were authorized, issued and fully paid to the share capital of the Bank. These ordinary shares were purchased for RUR 400 each. As a result of this issuance, the share capital and share premium of the Group increased by RUR 3,000,000 thousand.

On December 28, 2013, the Bank was reorganized through merger with CJSC "Bashinvestbank". As a result of the merger, CJSC "Bashinvestbank" will continue its operations as a branch of the Bank. The Bank issued additional 1,256,117 ordinary shares with par value of RUR 200 each through the conversion of the ordinary shares of the merged CJSC "Bashinvestbank". As a result of this issue, the share capital of the Group increased by RUR 251,223 thousand.

On May 30, 2014, additional 9,626,956 ordinary shares with par value of RUR 200 each were authorized, issued and fully paid to the share capital of the Bank. These ordinary shares were purchased for RUR 415.50 each. As a result of this issuance, the share capital and share premium of the Group increased by RUR 4,000,000 thousand.

As at December 31, 2014 and December 31, 2013, share capital authorized, issued and fully paid comprised 46,708,073 and 37,081,117 ordinary shares with par value of RUR 200 each, respectively. All ordinary shares are of the same class and bear one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its financial statements prepared according to Russian Accounting Standards. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations to cover the general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital in accordance with the Russian Accounting Standards.

The amount of dividends paid by the Bank for the year ended December 31, 2014 and relating to the year ended December 31, 2013 amounted to RUR 10,743 thousand.

Excess of the fair value of investments into CJSC MCB "Moscomprivatbank" over the amount of monetary consideration paid at the date of their acquisition by the Group (April 25, 2014) from an entity under common control totalling RUR 2,485,952 thousand is recorded in the statement of changes in equity in line "Free of charge financing".

During 2014, the Bank received free of charge financing in the amount of RUR 1,773,034 thousand from the shareholder LLC "TradeWest". The purpose of this financing is the prompt attraction of funds for future development of the Group's business.

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations, with these commitments being regulated by the Central bank of the Russian Federation as credit risk exposures.

Provision for losses on contingent liabilities amounted to RUR 62,135 thousand and RUR 38,062 thousand as at December 31, 2014 and December 31, 2013, respectively (Notes 6, 27).

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2014 and December 31, 2013, the nominal or contract amounts were:

	December 31, 2014 Nominal amount	December 31, 2013 Nominal amount
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	20,569,053	12,538,470
Letters of credit and other transactions related to contingent obligations	802,200	2,750,218
Commitments on loans and unused credit lines	10,147,845	10,253,362
	31,519,098	25,542,050
Less allowance for impairment losses	(62,135)	(38,062)
Total contingent liabilities and credit commitments	**31,456,963**	**25,503,988**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2014 and December 31, 2013, such unused credit lines amounted to RUR 10,147,845 thousand and RUR 10,253,362 thousand, respectively.

As at December 31, 2014 and December 31, 2013, operating lease commitments were as follows:

	December 31, 2014	December 31, 2013
Operating lease commitments		
Up to 1 year	781,148	445,909
1 year to 5 years	1,454,238	978,537
Over 5 years	216,187	161,354
Total operating lease commitments	**2,451,573**	**1,585,800**

For the periods ended December 31, 2014 and December 31, 2013, lease expenses incurred by the Group amounted to RUR 1,293,916 thousand and RUR 707,974 thousand, respectively (Note 11).

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred in relation to such claims and accordingly no provision has been made in these consolidated financial statements.

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

As at December 31, 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the ruble interest rates increased significantly after the Bank of Russia raised its key rate to 17%. 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. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

30. TRANSACTIONS WITH RELATED PARTIES

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

In 2014, the Group had no transactions with related parties, prices and terms of which might differ from prices and terms of the transactions between unrelated parties.

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Balances with the ROST Bank Group are recognised within other related parties.

(in thousands of Russian rubles, unless otherwise indicated)

As at December 31, 2014 and December 31, 2013, loans to customers included loans totalling RUR 4,920,517 thousand and RUR 4,763,345 thousand, respectively, issued to FC "Politeks". In 2014 and 2013, interest income from these loans amounted RUR 494,519 thousand and RUR 532,025 thousand, respectively. FC "Politeks", a provider of factoring services, is a related party of the Group. The loans were issued to FC "Politeks" to finance its factoring operations. The Group approves credit risk limits per each specific borrower and controls the accepted credit risk of funded operations. The Group intends to acquire control over FC "Politeks" in 2015.

		December 31, 2014		December 31, 2013	
	Notes	**Related party balances**	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Due from banks and other financial institutions	15	13,940,784	117,494,041	-	28,066,172
- other related parties		13,940,784		-	
Loans to customers	16	5,911,297	224,143,633	6,824,257	140,552,163
- key management personnel of the Group		11,237		7,470	
- entities under common control		5,900,060		6,816,787	
Allowance for impairment losses on loans to customers	16	(17,163)	(9,966,823)	(29,029)	(4,288,024)
- key management personnel of the Group		(510)		(325)	
- entities under common control		(16,653)		(28,704)	
Investments available for sale	17	70	24,955,899	70	135
- entities under common control		70		70	
Due to banks and other financial institutions	22	11,999,325	50,778,170	-	1,809,092
- other related parties		11,999,325		-	
Customer accounts	23	1,708,500	263,908,410	801,797	172,035,143
- key management personnel of the Group		312,518		202,914	
- entities under common control		1,395,982		598,883	
Subordinated debt	26	13,988,284	13,988,284	7,547,441	7,547,441
- entities under common control		13,988,284		7,547,441	
Guarantees issued and similar commitments	29	33,257	20,569,053	35,617	12,538,470
- key management personnel of the Group		16,878		9,819	
- entities under common control		16,379		25,798	
Commitments on loans and unused credit lines	29	988	10,147,845	350,381	10,253,362
- key management personnel of the Group		750		5,000	
- entities under common control		238		345,381	

As at December 31, 2014, the Group recognised RUR 12,966,552 thousand placed with the ROST Bank Group within "Due from banks and other financial institutions" as amounts due from other related parties (Note 15). These funds were received from SC "DIA" as part of measures on financial stabilization of the ROST Bank Group.

(in thousands of Russian rubles, unless otherwise indicated)

The following amounts which were recognised as transactions with related parties were included in the consolidated statement of comprehensive income for the year ended December 31, 2014 and December 31, 2013:

		December 31, 2014		December 31, 2013	
	Notes	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	5	705,771	29,226,405	780,435	18,371,018
- key management personnel of the Group		3,713		6,515	
- entities under common control		702,058		773,920	
Interest expense	5	(989,661)	(17,050,078)	(540,810)	(12,314,215)
- key management personnel of the Group		(8,621)		(11,721)	
- entities under common control		(893,362)		(529,089)	
- other related parties		(87,678)		-	
Recovery of provision/(provision) for impairment losses on interest bearing assets	6	11,866	(9,979,369)	(18,427)	(797,086)
- key management personnel of the Group		(185)		347	
- entities under common control		12,051		(18,774)	
Operating expenses excluding staff costs and contributions to social insurance fund	11	(103)	(6,766,956)	(5,457)	(5,624,068)
- entities under common control		(103)		(5,457)	
Key management personnel compensation including contributions to social insurance fund	11	(242,717)	(5,915,220)	(326,715)	(4,875,667)
- short-term employee benefits		(242,717)		(326,715)	

31. FAIR VALUE MEASUREMENT

Fair value measurement procedures

Valuation techniques and inputs, used by the Group for such measurements of assets and liabilities recognised on recurring or non-recurring basis at fair value in the statement of financial position after initial recognition, are determined by the accounting policies approved by the Management of the Bank.

External appraisers are engaged for valuation of significant assets. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Appraisers independently decide on measurement techniques and inputs to be applied in each case. Financial statements disclose reasons for selecting certain valuation methods. Valuation is performed at least once a year. Periodically, the Group's management provides valuation results to the Group's independent auditors and discusses key assumptions used in the valuation.

(in thousands of Russian rubles, unless otherwise indicated)

Fair value hierarchy

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

December 31, 2014	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Precious metals	December 31, 2014	-	-	6,127	6,127
Financial assets at fair value through profit or loss	December 31, 2014	5,886,407	248,007	251	6,134,665
Investments available for sale	December 31, 2014	19,834,324	3,039,717	2,081,858	24,955,899
Investments available for sale, pledged under repurchase agreements	December 31, 2014	12,311,581	2,238,676	-	14,550,257
Other assets:					
- Settlements on currency conversion operations	December 31, 2014	-	931,945	-	931,945
Assets for which fair values are disclosed					
Cash and balances with the Central bank of the Russian Federation	December 31, 2014	-	-	34,826,028	34,826,028
Due from banks and other financial institutions	December 31, 2014	-	-	117,494,041	117,494,041
Loans to customers	December 31, 2014	-	-	225,438,329	225,438,329
Investment property	December 31, 2014	-	-	289,117	289,117

December 31, 2014	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value					
Other financial liabilities:					
- Settlements on conversion operations	December 31, 2014	-	147,998	-	147,998
Liabilities for which fair values are disclosed					
Due to the Central bank of the Russian Federation	December 31, 2014	-	-	13,837,821	13,837,821
Due to banks and other financial institutions	December 31, 2014	-	-	50,778,170	50,778,170
Customer accounts	December 31, 2014	-	-	272,123,748	272,123,748
Debt securities issued	December 31, 2014	19,514,780	-	4,460,118	23,974,898
Subordinated debt	December 31, 2014	-	-	15,968,213	15,968,213
Deposits from the State Corporation "Deposit Insurance Agency"	December 31, 2014	-	-	23,541,874	23,541,874

(in thousands of Russian rubles, unless otherwise indicated)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31, 2013:

December 31, 2013	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Precious metals	December 31, 2013	-	-	3,446	3,446
Financial assets at fair value through profit or loss	December 31, 2013	12,469,877	206,742	-	12,676,619
Investments available for sale	December 31, 2013	-	-	135	135
Assets for which fair values are disclosed					-
Cash and balances with the Central bank of the Russian Federation	December 31, 2013	-	-	18,584,308	18,584,308
Due from banks and other financial institutions	December 31, 2013	-	-	28,066,172	28,066,172
Loans to customers	December 31, 2013	-	-	141,346,729	141,346,729
Investment property	December 31, 2013	-	-	13,010,934	13,010,934

December 31, 2013	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value					
Other financial liabilities:					
- Non-controlling interest in the consolidated mutual investment fund	December 31, 2013	-	-	1,882,925	1,882,925
- Settlements on conversion operations	December 31, 2013	36,298	-	-	36,298
Liabilities for which fair values are disclosed					-
Due to the Central bank of the Russian Federation	December 31, 2013	-	-	2,002,774	2,002,774
Due to banks and other financial institutions	December 31, 2013	-	-	1,809,092	1,809,092
Customer accounts	December 31, 2013	-	-	182,826,523	182,826,523
Debt securities issued	December 31, 2013	7,865,538	-	5,140,153	13,005,691
Subordinated debt	December 31, 2013	-	-	8,319,158	8,319,158

(in thousands of Russian rubles, unless otherwise indicated)

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the 2014 opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	December 31, 2013	Total gains/ (losses) recorded in profit or loss	Purchases	Disposal of subsidiaries	December 31, 2014
Financial assets					
Investments available for sale:					
Closed-end Invetment Fund "TFB-Rental Invetment Fund"	-	-	1,137,093	-	1,137,093
Closed-end Real Estate Mutual Fund "Nevsky"	-	-	822,250	-	822,250
Closed-end Real Estate Mutual Fund "Rostovsky"	-	-	122,380	-	122,380
LLC "Obshaya karta"	70	-	-	-	70
OJSC "Clearing Centre MFB"	50	-	-	-	50
OJSC "Sankt-Peterburg Stock Market"	15	-	-	-	15
Total level 3 financial assets	**135**	**-**	**2,081,723**	**-**	**2,081,858**
Financial liabilities					
Other financial liabilities:					
-Obligations to the minority holders of units in the consolidated mutual investment fund	(1,882,925)	-	-	1,882,925	-
Total level 3 financial liabilities	**(1,882,925)**	**-**	**-**	**1,882,925**	**-**

The following tables show a reconciliation of the 2013 opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	December 31, 2012	Total gains/ (losses) recorded in profit or loss	Purchases	Sales	December 31, 2013
Financial assets					
Investments available for sale:					
LLC "Obshaya karta"	70	-	-	-	70
OJSC "Clearing Centre MFB"	50	-	-	-	50
OJSC "Sankt-Peterburg Stock Market"	15	-	-	-	15
Total level 3 financial assets	**135**	**-**	**-**	**-**	**135**
Financial liabilities					
Other financial liabilities:					
-Obligations to the minority holders of units in the consolidated mutual investment fund	-	-	-	1,882,925	1,882,925
Total level 3 financial liabilities	**-**	**-**	**-**	**1,882,925**	**1,882,925**

Recurring fair value measurements

The following is a description of the determination of fair value for recurring fair value measurements which are recorded using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(in thousands of Russian rubles, unless otherwise indicated)

Trading securities and investment securities available for sale

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

During the year ended December 31, 2014, the Group transferred certain financial instruments from Level 1 to Level 2 of the fair value hierarchy. The carrying amount of the total assets transferred was RUR 960,040 thousand. The transfer from Level 1 to Level 2 was performed due to the decrease in the activity and trading volumes in respect of certain marketable securities and the Group decided to consider such circumstances when presenting the fair value hierarchy.

During the year ended December 31, 2014, the Group transferred certain financial instruments from Level 2 to Level 1 of the fair value hierarchy. The carrying amount of the transferred assets totalled RUR 62,849 thousand. The transfer from Level 2 to Level 1 was performed due to the increase in the activity and trading volumes in respect of certain marketable securities and the Group decided to consider such circumstances when presenting the fair value hierarchy.

Impact of significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy

As at December 31, 2014, financial assets available for sale measured using Level 3 models represented equity inverstments in closed mutual investment funds of real estate in the amount of RUR 2,081,723 thousand. These financial instruments were measured by net assets method under the market and income approaches using valuation models whose main assumption is real estate prices. If the Group had used a range of real estate prices of +10% / -10% of underlying assumptions, the fair value of the said financial instruments as at December 31, 2014 would have ranged from RUR 2,282,752 thousand to RUR 1,910,974 thousand.

Difference between the fair value at initial recognition and the transaction price

The table below reflects movements in the amount of deferred gain or loss arising on initial recognition of financial instruments for which transaction price is different from fair value, which is determined using inputs that are not observable in the market. Such differences are recorded in profit or loss either when the underlying inputs become observable or when an instrument is derecognised.

	2014 year
Balance at January 1	**–**
Deferral of gain or loss on new transactions	2,223,002
Recognised in profit or loss during the period	–
Due to inputs becoming observable	–
Upon derecognition of the instruments	–
Exchange differences	–
Balance at December 31	**2,223,002**

(in thousands of Russian rubles, unless otherwise indicated)

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

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

	December 31, 2014			December 31, 2013		
	Carrying value	**Fair value**	**Unrecognised gain/(loss)**	**Carrying value**	**Fair value**	**Unrecognised gain/(loss)**
Financial assets						
Cash and balances with the Central bank of the Russian Federation	34,826,028	34,826,028	-	18,584,308	18,584,308	-
Due from banks and other financial institutions	117,494,041	117,494,041	-	28,066,172	28,066,172	-
Loans to customers	214,176,810	225,438,329	11,261,519	136,264,139	141,346,729	5,082,590
Investment property	289,117	289,117	-	12,844,887	13,010,934	166,047
Financial liabilities			-			-
Due to the Central bank of the Russian Federation	13,837,821	13,837,821	-	2,002,774	2,002,774	-
Due to banks and other financial institutions	50,778,170	50,778,170	-	1,809,092	1,809,092	-
Customer accounts	263,908,410	272,123,748	(8,215,338)	172,035,143	182,826,523	(10,791,380)
Debt securities issued	23,480,260	23,974,898	(494,638)	12,952,887	13,696,965	(744,078)
Subordinated debt	13,988,284	15,968,213	(1,979,929)	7,547,441	8,319,158	(771,717)
Deposits from the State Corporation "Deposit Insurance Agency"	25,372,208	23,541,874	1,830,334	-	-	-
Total unrecognised change in fair value			**2,401,948**			**(7,058,538)**

32. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

Transferred financial assets that are not derecognised in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

		Investments available for sale, pledged under repurchase agreements			Loans to customers	
	Transferred financial asset	**Municipal debt instruments**	**Other equity instruments**	**Other debt instruments**	**Loans to legal entities**	**Total**
		2014 year	**2014 year**	**2014 year**	**2014 year**	
Carrying amount assets	Repurchase agreements	1,327,269	553,392	12,669,596	-	14,550,257
	Other	-	-	-	12,465,189	12,465,189
Total		**1,327,269**	**553,392**	**12,669,596**	**12,465,189**	**27,015,446**
Carrying amount associated liabilities	Repurchase agreements	1,208,528	653,946	10,624,485	-	12,486,959
	Other	-	-	-	10,559,505	10,559,505
Total		**1,208,528**	**653,946**	**10,624,485**	**10,559,505**	**23,046,464**

(in thousands of Russian rubles, unless otherwise indicated)

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognised a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, which instead records a separate asset for any cash given.

In 2014 and 2013, the Group exchanged fixed interest rate loans fully collateralized by real estate property for bonds collateralized by such loans. Since the credit risk related to these financial instruments had not been transferred, the Group did not derecognise these loans in its statement of financial position. During 2014, a portion of the loans totalling RUR 19,828,750 thousand was sold (Note 16). As at December 31, 2014, the carrying amount and fair value of the transferred loans described above were RUR 6,993,650 thousand and RUR 7,267,134 thousand, respectively (December 31, 2013: RUR 583,298 thousand and RUR 583,298 thousand, respectively).

33. REGULATORY COMPLIANCE

The table below shows the capital structure of the Group and the method of calculation of the capital adequacy ratio in accordance with the principles employed by the Basel Accord 1988 and also, principles outlined in the second of the Basel Accords, published in 2004 as at December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
Tier 1 capital	30,715,858	18,213,692
Tier 2 capital	13,988,284	7,547,441
Total capital	**44,704,142**	**25,761,133**
Total risk weighted assets per Basel II approach	**410,179,882**	**213,649,295**
Capital Ratios Tier 1 per Basel II approach	7.5%	8.5%
Capital Ratios Tier 2 per Basel II approach	10.9%	12.1%

Quantitative measures used to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total capital (8%) and tier 1 capital (4%) to total risk-weighted assets.

For calculating tier 1 and tier 2 capital ratios in accordance with the principles outlined in Basel II, the Group used the following approach. The tier 1 capital ratio is the ratio of a bank's equity capital to its total risk-weighted assets calculated according to standardized approach. According to the approach adopted by the Group, tier 2 capital ratio includes subordinated term loans and is limited to 50% of tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of these loans is subordinate to the repayments of the Group's liabilities to all other creditors. An operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and is calculated using Basic Indicator Approach based on annual revenue of the Group.

34. CAPITAL MANAGEMENT

Shareholders of the Group manage equity to ensure continuation of the Group's operations by maximizing the cost of capital through optimization of debt and equity ratio and increase of the Group's investment attractiveness. The Group also manages capital to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios.

The adequacy of the Group's capital is monitored using, among other measures, the ratios outlined in Basel II, the second of the Basel Accords, published in 2004 and the ratios established by the Central bank of the Russian Federation in supervising the Group. However, for the management accounting purposes the Group applies Basel II methods in the interpretation of the Central bank of the Russian Federation and conducts the two year operational risk statistics.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The structure of the Group's equity is represented by shareholders' equity which includes share capital, share premium, free of charge financing and retained earnings, which is disclosed in the consolidated statement of changes in equity, and debt, which includes subordinated debt disclosed in Note 26.

The structure of equity is reviewed by the Group's Management Board at least once a quarter. During this review, the Management Board, in particular, analyses the cost of capital and risks related to each capital class. Based on recommendations of the Management Board and the Board of Directors, the shareholders adjust the capital structure by paying dividends, issuing additional shares, raising funds (subordinated debt) or repaying existing loans.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue shares. No changes were made in the objectives, policies and processes from the previous years.

35. RISK MANAGEMENT

The Group has a system of risk management that ensures identification, measurement, and control over all the risks accepted by the Group for the purposes of their reasonable mitigation, including:

- Availability of approved procedures ensuring effective identification, measurement, monitoring, and control over the risks accepted by the Group, and sustaining risks within the established limits as per the Group's internal regulations;
- Tools helping to establish compliance of the existing procedures with the size and nature of the Group's business, and to regularly review them in accordance with changes in the risks accepted by the Group and its position on the market;
- Control over the operation of the risk management system by the Board of Directors and management of the Group;
- Plans of recovery from emergencies that may undermine the Group's financial stability, prompt crisis or loss of paying capacity, exercise a material influence on its financial performance;
- Formalized procedures of assessing potential impact of the given changes in risk factors that correspond to extraordinary, but probable events, on the Group's financial position.

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations.

Excessive risk concentration

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

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

Credit risk

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

The Group is exposed to the credit risk. Credit risk is the risk that one party to the financial instrument will incur a loss because the other party failed to discharge its contractual obligations.

Risk management and monitoring are performed within limits set by the Credit Committees and Management Board of the Group. Before any action is taken by the Credit Committee, all recommendations on credit processes (approved borrower's limits or amendments of loan agreements, etc.) are considered and approved by the Risk Management Department. Risk management routine is performed by the Head of the Credit Department and Risk Management Department.

The Group structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrower and product (by industry sector, by region) are approved quarterly by the Management Board and the Plenary Credit Committee. The exposure in relation to each borrower, including banks and brokers, is further restricted by sub-limits which cover on and off-balance sheet risks and are established by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of substantial part of loans, the Group obtains a collateral and corporate and personal guarantees, but a significant portion of loans is given to individuals, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

Off-balance sheet credit commitments represent unused portions of credit lines, guarantees or letters of credit. Credit risk related to off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

With respect to the credit risk related to off-balance sheet financial instruments, the Group is potentially exposed to a loss equal to the total unused credit lines, guarantees or letters of credit. However, the likely amount of loss is less than the total unused credit lines, guarantees or letters of credit. In most cases, commitments to issue loans, guarantees or letters of credit depend on the clients' compliance with special credit standards. The Group applies the same credit policy to contingent liabilities as to balance sheet financial instruments, i.e. the one based on the procedures of approving the issue of loans, using limits to mitigate risk, and current monitoring. The Group monitors the term to maturity, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

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

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained for commercial lending are charges over real estate properties and land, for retail lending – mortgages over residential properties and vehicles.

Securities and guarantees are also obtained from counterparties for all types of lending.

The Group has a policy to dispose of the repossessed properties. The proceeds are used to reduce or fully repay the outstanding claim.

Collateral is considered for risk reduction of an acceptable lending proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against collateral, full details, including the type, value, and the frequency of review of the collateral should be provided in the Application for Credit Facility Form. Where appropriate, the credit officer must review the documents confirming the existence of the collateral offered and, wherever possible, inspect the actual collateral.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure, where applicable, that an adequate difference in amounts of collateral and credit risk is obtained and maintained throughout the term of the facility. The appropriate authority responsible for collateral assessment sets parameters for each individual credit facility.

Total proceeds from the sale of collateral may not exceed total collateralized loan debt. The property received by the Group as collateral against loans includes real estate and land, securities, equipment, vehicles, goods in turnover.

The Group applies fundamentally the same risk management policies for the off-balance sheet risks as for the balance sheet risks. In case of commitments to lend, customers and counterparties are subject to the same credit management policies as for loans to customers. Collateral may be sought depending on the characteristics of the counterparty and the nature of the transaction.

(in thousands of Russian rubles, unless otherwise indicated)

Credit quality per class of financial assets

Financial assets (except for loans to customers) are graded according to the current credit ratings of the counterparties assigned by the internationally acknowledged agencies such as Fitch, Standard & Poor's and Moody's. Financial assets which have ratings lower than BBB are classified as speculative grade. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB.

Loans to customers are graded according to the internal Group's methodology which is based upon the rate of provision of the corporate customer loans which are neither past due nor impaired. The highest possible rating is AA for clients that have loans with less than 1% rate of provision, rating A is between 1% and 5% rate of provision, rating BBB is between 5% and 10% rate of provision, rating lower than BBB is between 10% and 21% rate of provision. All other loans to customers which are neither past due nor impaired are not rated.

As of December 31, 2014 and December 31, 2013, the balances with the Central bank of the Russian Federation amounted to RUR 20,247,784 thousand and RUR 12,039,395 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2014 corresponded to investment level BBB.

The following table details credit ratings of debt financial assets that were neither past due nor impaired as at December 31, 2014:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2014 Total
Investments available for sale less equity securities	-	4,178,128	1,045,799	6,954,629	1,247,042	7,987,371	21,412,969
Investments available for sale, pledged under repurchase agreements, less equity securities	-	-	-	853,235	13,143,630	-	13,996,865
Financial assets at fair value through profit or loss less equity securities	5,886,407	-	-	-	-	-	5,886,407
Due from banks and other financial institutions	-	-	13,470,488	872,819	4,034,892	99,115,842	117,494,041
Loans to customers	-	76,375,903	23,351,210	6,786,976	45,043	97,105,217	203,664,349
Other financial assets	-	-	-	-	-	1,407,881	1,407,881

As at December 31, 2013:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2013 Total
Financial assets at fair value through profit or loss less equity securities	7,504,286	-	-	2,502,689	2,547,125	-	12,554,100
Due from banks and other financial institutions	-	-	5,565,711	599,893	399	21,900,169	28,066,172
Loans to customers	-	79,803,431	13,268,454	1,154,229	992,807	37,351,623	132,570,544
Other financial assets	-	-	-	-	-	341,609	341,609

As at December 31, 2014 and December 31, 2013, the balances of due from banks and other financial institutions which fall into category "not rated" in amounts of RUR 16,805,815 thousand (17% of "not rated" category) and RUR 15,733,216 thousand (72% of "not rated" category) are represented by amounts due from European banks.

(in thousands of Russian rubles, unless otherwise indicated)

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Aging of debt financial assets past due but not impaired is presented below (period of delay is counted from the date of payment delay).

As at December 31, 2014:

		Financial assets past due but not impaired				December 31, 2014	
	Neither past due nor impaired	Up to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss less equity securities	21,412,969	-	-	-	-	-	21,412,969
Investments available for sale, pledged under repurchase agreements, less equity securities	13,996,865	-	-	-	-	-	13,996,865
Financial assets at fair value through profit or loss less equity securities	5,886,407	-	-	-	-	-	5,886,407
Due from banks and other financial institutions	117,494,041	-	-	-	-	-	117,494,041
Loans to customers	203,664,349	2,992,746	606,712	737,409	177,121	5,998,473	214,176,810
Other financial assets	1,407,881	-	-	-	-	-	1,407,881

As at December 31, 2013:

		Financial assets past due but not impaired				December 31, 2013	
	Neither past due nor impaired	Up to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss less equity securities	12,554,100	-	-	-	-	-	12,554,100
Due from banks and other financial institutions	28,066,172	-	-	-	-	-	28,066,172
Loans to customers	132,570,544	1,183,527	337,930	350,686	563,209	1,258,243	136,264,139
Other financial assets	341,609	-	-	-	-	-	341,609

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

(in thousands of Russian rubles, unless otherwise indicated)

The geographical concentration of assets and liabilities is set out below:

	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2014
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	34,826,028	-	-	34,826,028
Financial assets at fair value through profit or loss	250	-	6,134,415	6,134,665
Due from banks and other financial institutions	85,694,960	2,759,680	29,039,401	117,494,041
Loans to customers	141,330,703	11,843,946	61,002,161	214,176,810
Investments available for sale	16,813,195	-	8,142,704	24,955,899
Investments available for sale, pledged under repurchase agreements	14,550,257	-	-	14,550,257
Other financial assets	1,390,463	17,413	5	1,407,881
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**294,605,856**	**14,621,039**	**104,318,686**	**413,545,581**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to the Central bank of the Russian Federation	13,837,821	-	-	13,837,821
Due to banks and other financial institutions	48,540,157	137,913	2,100,100	50,778,170
Customer accounts	262,463,063	1,369,169	76,178	263,908,410
Debt securities issued	21,275,004	2,075,732	129,524	23,480,260
Deposits from the State Corporation "Deposit Insurance Agency"	25,372,208	-	-	25,372,208
Subordinated debt	1,734,384	12,253,900	-	13,988,284
Other financial liabilities	421,776	88,834	180	510,790
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**373,644,413**	**15,925,548**	**2,305,982**	**391,875,943**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**(79,038,557)**	**(1,304,509)**	**102,012,704**	

(in thousands of Russian rubles, unless otherwise indicated)

	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central bank of the Russian Federation	18,584,308	-	-	18,584,308
Financial assets at fair value through profit or loss	5,049,814	-	7,626,805	12,676,619
Due from banks and other financial institutions	10,337,131	1,342,112	16,386,929	28,066,172
Loans to customers	109,947,098	7,860,450	18,456,591	136,264,139
Investments available for sale	135	-	-	135
Other financial assets	341,609	-	-	341,609
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**144,260,095**	**9,202,562**	**42,470,325**	**195,932,982**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to the Central bank of the Russian Federation	2,002,774	-	-	2,002,774
Due to banks and other financial institutions	1,221,457	297,034	290,601	1,809,092
Customer accounts	170,983,267	705,791	346,085	172,035,143
Debt securities issued	9,951,340	3,001,547	-	12,952,887
Subordinated debt	-	7,547,441	-	7,547,441
Other financial liabilities	2,236,465	-	-	2,236,465
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**186,395,303**	**11,551,813**	**636,686**	**198,583,802**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**(42,135,208)**	**(2,349,251)**	**41,833,639**	

Liquidity risk

One of the main risks inherent to the Group's operations is liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The objective of the Group's liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To limit liquidity risk, the Group maintains diversified and stable funding base comprising core retail and corporate customer accounts as well as institutional balances. The Group also maintains portfolios of highly marketable and diverse assets that can be easily liquidated to respond quickly and smoothly to unforeseen liquidity requirements. The Group also has committed lines of credit that it can access to meet liquidity needs.

Management of the Group manages assets with liquidity in mind and monitors future cash flows and liquidity position on a daily basis. The Group's liquidity management process includes:

- Projection of expected cash flows and assessment of the level of liquid assets necessary in relation thereto;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Maintaining a diverse range of funding sources and monitoring depositor concentration in order to avoid undue reliance on large individual depositors;
- Managing the concentration and profile of debt maturities as well as maintaining debt financing plans;
- Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises.

An analysis of the liquidity risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

The following principles are applied in preparation of the liquidity risks analysis:

- Cash and balances with the Central bank of the Russian Federation represent highly liquid assets and were classified as "Up to 1 month" except for the minimum reserve deposit with the Central bank of the Russian Federation.
- Financial assets at fair value through profit or loss are considered to be liquid assets as these assets could be easily converted into cash within short period of time. Such assets were classified as "Up to 1 month".
- Investments available for sale which are less liquid were classified as "3 months to 1 year" according to the management principles applied to this portfolio.
- Loans to customers were included into the analysis based on the remaining contractual maturities except for those loans which are expected by management to be renewed. These loans were classified according to their expected maturities. Past due loans were classified as "Up to 1 month".
- Diversity of customer accounts by types and quantity, as well as expertise of the Group's management, indicates that such deposits are long term and sustainable funding source. As a result, such deposits were distributed in accordance with estimated cash outflows based on statistical data for the last three years and certain assumptions regarding effect of the possible economic distress on the behaviour of customers.
- Due from banks and other financial institutions, other financial assets, due to banks and other financial institutions, debt securities issued, subordinated debt, and other financial liabilities were included into the analysis based on remaining contractual maturities.

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014
FINANCIAL ASSETS						
Cash with the Central bank of the Russian Federation	5,000,000	-	-	-	-	5,000,000
Financial assets at fair value through profit or loss	5,886,657	-	-	-	-	5,886,657
Due from banks and other financial institutions	31,285,660	33,245,869	4,346,167	6,501,565	7,035,831	82,415,092
Investments available for sale	1,554	32,528	72,973	12,146,544	9,159,370	21,412,969
Investments available for sale, pledged under repurchase agreements	-	26,508	6,655,675	7,122,771	191,911	13,996,865
Loans to customers	7,467,011	31,432,009	100,328,595	58,679,874	16,269,321	214,176,810
Total interest bearing financial assets	**49,640,882**	**64,736,914**	**111,403,410**	**84,450,754**	**32,656,433**	**342,888,393**
Cash and balances with the Central bank of the Russian Federation	27,878,038	341,983	1,024,878	581,129	-	29,826,028
Due from banks and other financial institutions	35,078,949	-	-	-	-	35,078,949
Financial assets at fair value through profit or loss	248,008	-	-	-	-	248,008
Investments available for sale	-	-	3,542,930	-	-	3,542,930
Investments available for sale, pledged under repurchase agreements	-	-	-	553,392	-	553,392
Other financial assets	-	1,407,881	-	-	-	1,407,881
Total financial assets	**112,845,877**	**66,486,778**	**115,971,218**	**85,585,275**	**32,656,433**	**413,545,581**
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	13,837,821	-	-	-	-	13,837,821
Due to banks and other financial institutions	12,563,407	116,943	679,303	6,070,222	4,584,282	24,014,157
Customer accounts	26,341,729	40,334,450	121,872,631	48,436,937	41	236,985,788
Debt securities issued	591,889	2,107,105	1,014,576	12,438,328	7,324,487	23,476,385
Subordinated debt	-	-	-	-	13,988,284	13,988,284
Deposits from the State Corporation "Deposit Insurance Agency"	1,100,000	-	4,284,160	7,675,345	12,312,703	25,372,208
Total interest bearing financial liabilities	**54,434,846**	**42,558,498**	**127,850,670**	**74,620,832**	**38,209,797**	**337,674,643**
Due to banks and other financial institutions	26,764,013	-	-	-	-	26,764,013
Customer accounts	3,355,917	782,846	1,350,510	21,433,349	-	26,922,622
Debt securities issued	3,875	-	-	-	-	3,875
Other financial liabilities	510,790	-	-	-	-	510,790
Total financial liabilities	**85,069,441**	**43,341,344**	**129,201,180**	**96,054,181**	**38,209,797**	**391,875,943**

(in thousands of Russian rubles, unless otherwise indicated)

Liquidity gap between financial assets and financial liabilities	27,776,436	23,145,434	(13,229,962)	(10,468,906)	(5,553,364)
Cumulative liquidity gap between financial assets and financial liabilities	**27,776,436**	**50,921,870**	**37,691,908**	**27,223,002**	**21,669,638**
Interest related liquidity gap	(4,793,964)	22,178,416	(16,447,260)	9,829,922	(5,553,364)
Cumulative interest related liquidity gap	**(4,793,964)**	**17,384,452**	**937,192**	**10,767,114**	**5,213,750**
Cumulative interest related liquidity gap as a percentage of total financial assets	**-1%**	**4%**	**0%**	**3%**	**1%**

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2013 Total
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss	12,554,100	-	-	-	-	12,554,100
Due from banks and other financial institutions	5,022,952	14,038,757	2,155,635	-	-	21,217,344
Investments available for sale	-	-	-	-	-	-
Loans to customers	4,319,763	15,721,121	51,126,084	60,270,843	4,826,328	136,264,139
Total interest bearing financial assets	**21,896,815**	**29,759,878**	**53,281,719**	**60,270,843**	**4,826,328**	**170,035,583**
Cash and balances with the Central bank of the Russian Federation	17,092,745	264,414	499,606	727,543	-	18,584,308
Due from banks and other financial institutions	6,848,828	-	-	-	-	6,848,828
Financial assets at fair value through profit or loss	122,519	-	-	-	-	122,519
Investments available for sale	-	-	135	-	-	135
Other financial assets	-	341,609	-	-	-	341,609
Total financial assets	**45,960,907**	**30,365,901**	**53,781,460**	**60,998,386**	**4,826,328**	**195,932,982**
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	1,002,034	1,000,740	-	-	-	2,002,774
Due to banks and other financial institutions	200,978	350,211	816,872	318,825	-	1,686,886
Customer accounts	14,254,756	19,825,540	38,668,574	48,708,198	24	121,457,092
Debt securities issued	381,737	2,260,529	4,692,143	5,583,732	14,081	12,932,222
Subordinated debt	-	-	-	-	7,547,441	7,547,441
Total interest bearing financial liabilities	**15,839,505**	**23,437,020**	**44,177,589**	**54,610,755**	**7,561,546**	**145,626,415**
Due to banks and other financial institutions	122,206	-	-	-	-	122,206
Customer accounts	27,748,093	3,225,663	4,886,365	14,717,930	-	50,578,051
Debt securities issued	20,665	-	-	-	-	20,665
Other financial liabilities	2,236,465	-	-	-	-	2,236,465
Total financial liabilities	**45,966,934**	**26,662,683**	**49,063,954**	**69,328,685**	**7,561,546**	**198,583,802**

(in thousands of Russian rubles, unless otherwise indicated)

Liquidity gap between financial assets and financial liabilities	(6,027)	3,703,218	4,717,506	(8,330,299)	(2,735,218)
Cumulative liquidity gap between financial assets and financial liabilities	**(6,027)**	**3,697,191**	**8,414,697**	**84,398**	**(2,650,820)**
Interest related liquidity gap	6,057,310	6,322,858	9,104,130	5,660,088	(2,735,218)
Cumulative interest related liquidity gap	**6,057,310**	**12,380,168**	**21,484,298**	**27,144,386**	**24,409,168**
Cumulative interest related liquidity gap as a percentage of total financial assets	**3%**	**6%**	**11%**	**14%**	**12%**

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	13,847,972	-	-	-	-	13,847,972
Due to banks and other financial institutions	10,848,097	265,372	4,306,780	17,382,343	9,462,625	42,265,217
Customer accounts	49,302,718	40,948,141	140,319,941	38,427,062	40	268,997,902
Debt securities issued	1,604,884	2,989,011	1,587,750	18,388,636	976,406	25,546,687
Deposits from the State Corporation "Deposit Insurance Agency"	1,108,607	-	4,434,234	8,542,230	18,565,573	32,650,644
Subordinated debt	83,855	159,594	743,872	3,868,136	15,504,812	20,360,269
Total interest bearing financial liabilities	**76,796,133**	**44,362,118**	**151,392,577**	**86,608,407**	**44,509,456**	**403,668,691**
Due to banks and other financial institutions	26,764,013	-	-	-	-	26,764,013
Customer accounts	26,922,622	-	-	-	-	26,922,622
Debt securities issued	3,875	-	-	-	-	3,875
Other financial liabilities	510,790	-	-	-	-	510,790
Total financial liabilities	**130,997,433**	**44,362,118**	**151,392,577**	**86,608,407**	**44,509,456**	**457,869,991**
Liabilities on financial guarantees and letters of credit	646,240	5,527,422	6,816,004	7,722,641	658,946	21,371,253
Liabilities on loans and unused credit lines	10,147,845	-	-	-	-	10,147,845
Total contingent liabilities and credit commitments	**10,794,085**	**5,527,422**	**6,816,004**	**7,722,641**	**658,946**	**31,519,098**

(in thousands of Russian rubles, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2013 Total
FINANCIAL LIABILITIES						
Due to the Central bank of the Russian Federation	1,002,404	1,015,904	-	-	-	2,018,308
Due to banks and other financial institutions	201,307	352,544	821,373	382,405	-	1,757,629
Customer accounts	19,327,103	22,256,827	37,742,395	52,131,446	23	131,457,794
Debt securities issued	544,257	2,351,698	5,383,513	6,688,002	14,081	14,981,551
Subordinated debt	51,981	98,931	461,119	2,397,819	9,188,999	12,198,849
Total interest bearing financial liabilities	**21,127,052**	**26,075,904**	**44,408,400**	**61,599,672**	**9,203,103**	**162,414,131**
Due to banks and other financial institutions	122,206	-	-	-	-	122,206
Customer accounts	50,578,051	-	-	-	-	50,578,051
Debt securities issued	20,665	-	-	-	-	20,665
Other financial liabilities	2,236,465	-	-	-	-	2,236,465
Total financial liabilities	**74,084,439**	**26,075,904**	**44,408,400**	**61,599,672**	**9,203,103**	**215,371,518**
Liabilities on financial guarantees and letters of credit	470,705	3,507,302	7,031,884	4,245,086	33,711	15,288,688
Liabilities on loans and unused credit lines	10,253,362	-	-	-	-	10,253,362
Total contingent liabilities and credit commitments	**10,724,067**	**3,507,302**	**7,031,884**	**4,245,086**	**33,711**	**25,542,050**

The maturity analysis does not reflect the historical stability of current accounts. Their withdrawal has historically taken place over a longer period than indicated in the tables above.

Term deposits of individuals are included in customer accounts. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor (Note 23).

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest and foreign exchange rates. In 2014, the scope, assessment and management of those risks in the Group did not change. The Group is exposed to interest rate risk, as the member firms of the Group raise funds at both fixed and floating rates.

The Group manages this risk by maintaining the balance between loans at a fixed rate and loans at a floating rate.

Business Development Committee and Risk Management Department manage interest rate and respective market risks by managing the Group's interest rate position, which provides the Group with a positive interest margin. The Management Board, Business Development Committee, and Financial Department monitor the Group's current financial performance, estimate the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

Interest rate sensitivity

The Group manages this risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Financial Control Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and their influence on the Group's profitability.

(in thousands of Russian rubles, unless otherwise indicated)

The sensitivity analyses below have been determined based on "reasonably possible changes in the risk variable". For floating rate liabilities, the analysis is prepared assuming that the amount of the liability outstanding at the reporting date remained constant during the year.

	Increase in base points	**Sensitivity of profit before tax 2014 year**	**Sensitivity of capital**
Currency			
Russian ruble			
Russian state bonds	399	(13,515)	(10,812)
US dollar			
LIBOR	3	(4,011)	(3,209)
US Treasury	76	(44,457)	(35,566)

	Decrease in base points	**Sensitivity of profit before tax 2014 year**	**Sensitivity of capital**
Currency			
Russian ruble			
Russian state bonds	399	13,515	10,812
US dollar			
LIBOR	3	4,011	3,209
US Treasury	76	44,457	35,566

	Increase in base points	**Sensitivity of profit before tax 2013 year**	**Sensitivity of capital**
Currency			
Russian ruble			
Russian state bonds	182	(91,729)	(73,383)
US dollar			
LIBOR	3	(2,346)	(1,877)
US Treasury	76	(56,676)	(45,341)

	Decrease in base points	**Sensitivity of profit before tax 2013 year**	**Sensitivity of capital**
Currency			
Russian ruble			
Russian state bonds	182	91,729	73,383
US dollar			
LIBOR	3	2,346	1,877
US Treasury	76	56,676	45,341

The majority of loans to corporate customers are issued under the conditions, which allow the Group to renegotiate interest rates in case of changes in market rates. The sensitivity of the profit as presented above does not take into account this option of the Group.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

(in thousands of Russian rubles, unless otherwise indicated)

Financial Committee controls currency risk by determining an open currency position on the estimated basis of ruble fluctuation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rate fluctuations toward its national currency. Treasury performs daily monitoring of the Group's open currency position in order to match the statutory requirements of the Central bank of Russian Federation.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD USD 1 = 56.2584 RUR	EUR EUR 1 = 68.3427 RUR	Other currency	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the Central bank of the Russian Federation	31,026,140	2,087,028	1,673,425	39,435	34,826,028
Financial assets at fair value through profit or loss	251	6,134,414	-	-	6,134,665
Due from banks and other financial institutions	89,071,901	16,469,404	11,703,612	249,124	117,494,041
Loans to customers	127,017,819	86,223,725	935,251	15	214,176,810
Investments available for sale	16,914,754	2,188,944	5,852,201	-	24,955,899
Investments available for sale, pledged under repurchase agreements	14,550,257	-	-	-	14,550,257
Other financial assets	1,407,881	-	-	-	1,407,881
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**279,989,003**	**113,103,515**	**20,164,489**	**288,574**	**413,545,581**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to the Central bank of the Russian Federation	13,837,821	-	-	-	13,837,821
Due to banks and other financial institutions	46,174,838	2,870,625	1,543,307	189,400	50,778,170
Customer accounts	197,007,411	49,626,756	17,273,951	292	263,908,410
Debt securities issued	20,992,428	2,456,204	31,628	-	23,480,260
Deposits from the State Corporation "Deposit Insurance Agency"	25,372,208	-	-	-	25,372,208
Subordinated debt	1,085,470	12,902,814	-	-	13,988,284
Other financial liabilities	510,790	-	-	-	510,790
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**304,980,966**	**67,856,399**	**18,848,886**	**189,692**	**391,875,943**
OPEN BALANCE SHEET POSITION	**(24,991,963)**	**45,247,116**	**1,315,603**	**98,882**	**21,669,638**

(in thousands of Russian rubles, unless otherwise indicated)

	RUR	USD USD 1 = 32.7292 RUR	EUR EUR 1 = 44.9699 RUR	Other currency	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the Central bank of the Russian Federation	17,157,054	622,595	779,464	25,195	18,584,308
Financial assets at fair value through profit or loss	5,049,814	7,626,805	-	-	12,676,619
Due from banks and other financial institutions	11,043,374	10,062,792	6,921,477	38,529	28,066,172
Loans to customers	88,010,589	47,440,108	813,442	-	136,264,139
Investments available for sale	135	-	-	-	135
Other financial assets	341,609	-	-	-	341,609
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**121,602,575**	**65,752,300**	**8,514,383**	**63,724**	**195,932,982**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to the Central bank of the Russian Federation	2,002,774	-	-	-	2,002,774
Due to banks and other financial institutions	1,161,961	390,201	256,928	2	1,809,092
Customer accounts	133,684,913	29,046,794	9,287,037	16,399	172,035,143
Debt securities issued	9,304,082	3,586,947	61,858	-	12,952,887
Subordinated debt	1,000,740	6,546,701	-	-	7,547,441
Other financial liabilities	2,236,465	-	-	-	2,236,465
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**149,390,935**	**39,570,643**	**9,605,823**	**16,401**	**198,583,802**
OPEN BALANCE SHEET POSITION	**(27,788,360)**	**26,181,657**	**(1,091,440)**	**47,323**	**(2,650,820)**

Derivative financial instruments and spot contracts

The following table presents further analysis of currency risk by types of spot contracts as at December 31, 2014:

	RUR	USD USD 1 = 56.2584 RUR	EUR EUR 1 = 68.3427 RUR	Other currency	December 31, 2014 Total
Accounts payable on spot contracts	(2,595,931)	(55,013,761)	(1,512,768)	-	(59,122,460)
Accounts receivable on spot contracts	56,526,529	2,028,003	567,928	-	59,122,460
NET SPOT FINANCIAL INSTRUMENTS POSITION	**53,930,598**	**(52,985,758)**	**(944,840)**	**-**	
NET POSITION	**28,938,635**	**(7,738,642)**	**370,763**	**98,882**	

(in thousands of Russian rubles, unless otherwise indicated)

The following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at December 31, 2013:

	RUR	USD USD 1 = 32.7292 RUR	EUR EUR 1 = 44.9699 RUR	Other currency	December 31, 2013 Total
Accounts payable on spot contracts	(5,891,516)	(26,082,345)	-	-	(31,973,861)
Accounts receivable on spot contracts	30,534,824	-	1,439,037	-	31,973,861
NET SPOT FINANCIAL INSTRUMENTS POSITION	**24,643,308**	**(26,082,345)**	**1,439,037**	**-**	
NET POSITION	**(3,145,052)**	**99,312**	**347,597**	**47,323**	

Currency risk sensitivity

The following tables detail the Group's sensitivity to an increase and decrease in the USD against the RUR and the EUR against the RUR. The sensitivity analysis is used in reporting of foreign currency risk internally to key management personnel of the Group and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2014 and December 31, 2013:

	December 31, 2014		December 31, 2013	
	USD/RUR 28.74%	USD/RUR (28.74%)	USD/RUR 20%	USD/RUR -20%
Impact on profit or loss before tax	(2,224,086)	2,224,086	19,862	(19,862)
Impact on equity	(1,779,269)	1,779,269	15,890	(15,890)
	December 31, 2014		**December 31, 2013**	
	EUR/RUR 29.58%	**EUR/RUR (29.58%)**	**EUR/RUR 20%**	**EUR/RUR -20%**
Impact on profit or loss before tax	109,672	(109,672)	69,519	(69,519)
Impact on equity	87,738	(87,738)	55,615	(55,615)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time when any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In case of substantial negative fluctuations on securities markets management actions may include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas significantly influence on assets held at market value in the statement of financial position. In these circumstances, the different measurement basis for liabilities and assets may lead to volatility in shareholder equity.

(in thousands of Russian rubles, unless otherwise indicated)

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to disclose the potential risk that only represent the Group's view of possible short-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks as a result of its products being subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Groups profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices are given in the table below:

	December 31, 2014		December 31, 2013	
	10% increase in equity securities price	10% decrease in equity securities price	10% increase in equity securities price	10% decrease in equity securities price
Impact on profit or loss before tax	24,826	(24,826)	12,252	(12,252)
Impact on equity	19,861	(19,861)	9,802	(9,802)

Operational risk

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

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

(in thousands of Russian rubles, unless otherwise indicated)

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

December 31, 2014		December 31, 2013	
Impact on net interest income	Impact on equity	Impact on net interest income	Impact on equity
(2,540,663)	(2,032,530)	(1,625,400)	(1,300,320)

36. SUBSEQUENT EVENTS

In January 2015, the Bank successfully placed stock-exchange bonds series BO-06 with a total nominal value of RUR 2 bln maturing in January 2021 and stock-exchange bonds series BO-07 with a total nominal value of RUR 2 bln maturing in January 2021. The arrangers for the issue of series BO-06 and BO-07 were PJSC "Bank Otkritie Financial Corporation" and LLC "BC Region".

In February 2015, the Bank successfully placed three additional issues of stock-exchange bonds series BO-04 with a total nominal value of RUR 3 bln maturing in February 2020. The arrangers for the issue were PJSC "Bank Otkritie Financial Corporation" and LLC "BC Region".

In March 2015, the Bank successfully placed an additional issue of stock-exchange bonds series BO-03 with a total nominal value of RUR 1 bln maturing in July 2016. The arrangers for the issue were PJSC "Bank Otkritie Financial Corporation" and LLC "BC Region".

In March 2015, the Bank purchased 99.84% shares in CJSC "UralPrivatBank" for RUR 10. CJSC "UralPrivatBank" was acquired from entities affiliated with former owners of the ROST Bank Group (the Bank carries out the financial stabilization measures in resepect of banks of the ROST Bank Group). The transaction is concluded as a part of the Group's strategy to develop its retail business and regional operations. As at the date of approval of the consolidated financial statements, the fair value measurement of identifiable assets and liabilities of CJSC "UralPrivatBank" was not completed. Therefore, the Group does not disclose such information in the consolidated financial statements.

In March 2015, the Group sold to a third party its 100% interest in LLC "Standard Development" thereby terminating its participation in it.

In February 2015, the Bank entered into a transaction to acquire a 19.9% interest in the share capital of LLC "BIN Engineering" for RUR 1,990.

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