

# ***COMMERZBANK (EURASIJA) SAO***

## International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2015

### TRANSLATOR'S NOTE:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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## ***Independent Auditor's Report***

To the shareholder and supervisory board of COMMERZBANK (EURASIJA) SAO:

We have audited the accompanying financial statements of COMMERZBANK (EURASIJA) SAO (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.



*Independent Auditor's Report (continued)*

**Examination report prepared in accordance with Article No. 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking Activity" as amended by Federal Law No. 403-FZ of 1 December 2014 "On Amendment of Certain Regulations of the Russian Federation")**

The Bank's management is responsible for the Bank's compliance with the regulatory ratios set by the Central Bank of Russia and for compliance of the Bank's internal control and risk management systems with the Central Bank of Russia's requirements for such systems.

Under Article 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking Activity" during the audit of the accompanying financial statements of the Bank for 2015 we reviewed the following:

- the Bank's compliance with the statutory ratios set by the Bank of Russia at 1 January 2016;
- compliance of the Bank's internal control and risk management systems with the Bank of Russia's requirements to such systems.

The above audit was limited to such procedures selected based on our judgement as inquiries, analysis and examination of documents, comparison of requirements, procedures and techniques adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of amounts and other information.

We have identified the following based on our audit:

- 1) as related to the Bank's compliance with the statutory ratios set by the Bank of Russia: at 1 January 2016, the Bank's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

We draw your attention to the fact that we have not performed any procedures related to the Bank's accounting data other than the procedures we believed necessary to express an opinion on whether the financial statements of the Bank present fairly, in all material respects, its financial position at 31 December 2015, the results of its operations and its cash flows for 2015 in accordance with International Financial Reporting Standards.

- 2) as related to the Bank's internal control and risk management systems compliance with the Central Bank of Russia's requirements for such systems:
  - a) in accordance with the Central Bank of Russia's requirements and recommendations, as at 1 January 2016 the Bank's units for managing significant risks were not subordinated or accountable to the units assuming corresponding risks;
  - b) the Bank's internal documents effective as at 1 January 2016 which set out the techniques to identify and manage significant credit, market (including interest rate), liquidity and operational risks, and the techniques to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Central Bank of Russia's requirements and recommendations;
  - c) as at 1 January 2016 the Bank had in place a reporting system for significant credit, market (including interest rate), liquidity and operational risks, and for the Bank's equity (capital);
  - d) the frequency and consistency of reports prepared by the Bank's risk management units and the Bank's internal audit function during 2015 as related to management of credit, market (including interest rate) risks, liquidity and operational risks complied with the Bank's internal documents; those reports included observations made by the Bank's risk management units and the Bank's internal audit function as related to the assessment of the effectiveness of the Bank's respective procedures as well as recommendations on their improvement;



***Independent Auditor's Report (continued)***

- e) as at 1 January 2016 the authority of the Supervisory Board of the Bank and its executive bodies includes control over the Bank's compliance with risk and equity (capital) adequacy limits set by the Bank's internal documents. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2015, the Supervisory Board of the Bank and its executive bodies regularly discussed the reports prepared by the Bank's risk management units and the Bank's internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to the Bank's internal control and risk management systems solely to review compliance of the Bank's internal control and risk management systems with the Central Bank of Russia's requirements for such systems.

28 April 2015  
Moscow, Russian Federation

E.N. Kriventsev, Director (qualification certificate No 01-000198),  
AO PricewaterhouseCoopers Audit

Audited entity: COMMERZBANK (EURASIJA), Closed Joint-Stock Company

Registration Certificate number No. 11590.17 dated 31 December 1998. Main state registration number: 1027739070259.

Certificate of entry with the Unified State Register of Legal Entities issued on 29 December 2012 under No. 77 No. 014387286. 119017, Moscow, Kadashevskaya emb., 14/2.

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" No 870. ORNZ 10201003683 in the register of auditors and audit organisations.

**Commerzbank (Eurasija) SAO**  
**Statement of Financial Position**

<i>In thousands of Russian Roubles</i>	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
Cash and Cash Equivalents	7	18 977 967	8 421 574
Mandatory cash balances with CBRF		261 897	310 308
Derivative financial instruments	24	5 929 398	3 455 307
Due from other banks	8	2 812 558	27 826 586
Loans and advances to customers	9	23 869 394	27 137 769
Securities available for sale	10	2 611 802	2 703 079
Prepaid income tax		169 009	377 863
Premises and equipment	11	87 570	95 636
Other financial assets		25 398	59 498
Other assets		70 363	97 762
<b>TOTAL ASSETS</b>		<b>54 815 356</b>	<b>70 485 382</b>
<b>LIABILITIES</b>			
Due to other banks	12	14 885 336	33 904 314
Customer accounts	13	24 902 533	23 741 801
Debt securities in issue		16 401	94
Derivative financial instruments	24	1 107 687	542 488
Provisions for liabilities and charges	14	52 632	26 506
Other financial liabilities		7 703	62 273
Deferred income tax liability	19	963 110	396 875
Other liabilities		169 797	98 558
<b>TOTAL LIABILITIES</b>		<b>42 105 199</b>	<b>58 772 909</b>
<b>EQUITY</b>			
Share capital	15	3 827 672	3 827 672
Revaluation reserve for available-for-sale securities		(32 410)	(235 340)
Retained earnings		8 190 546	7 395 792
Other reserves		724 349	724 349
<b>TOTAL EQUITY</b>		<b>12 710 157</b>	<b>11 712 473</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>54 815 356</b>	<b>70 485 382</b>

28 April 2016

\_\_\_\_\_  
G. Klekkner  
Chairman of the Management Board

\_\_\_\_\_  
A.A. Gorokhovskiy  
Financial Director

The notes set out on pages 5 to 58 form an integral part of these financial statements.

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**Commerzbank (Eurasija) SAO**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
Interest income	16	2 092 936	1 168 556
Interest expense	16	(997 664)	(450 297)
<b>Net interest income</b>		<b>1 095 272</b>	<b>718 259</b>
Provision for loan impairment	8, 9	(63 122)	73 470
<b>Net interest income after provision for loan impairment</b>		<b>1 032 150</b>	<b>791 729</b>
Fee and commission income	17	492 771	409 365
Fee and commission expense	17	(96 061)	(94 809)
Gains less losses from trading securities		-	(13 002)
Gains less losses from operations with derivative financial instruments		(439 420)	(5 639 319)
Gains less losses from trading in foreign currencies		(288 724)	19 448
Foreign exchange translation gains less losses		4 081 784	7 853 650
Gains less losses from disposal of securities available for sale		-	(57 887)
Other operating income		108 846	60 098
Administrative and other operating expenses	18	(1 311 403)	(991 683)
Other reserves	14	(2 864)	90 272
<b>Profit before taxation</b>		<b>3 577 079</b>	<b>2 427 862</b>
Income tax expense	19	(782 325)	(509 008)
<b>PROFIT FOR THE YEAR</b>		<b>2 794 754</b>	<b>1 918 854</b>
<b>Other comprehensive income / (loss) for the year</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale securities			
- Gains less losses from revaluation	10	252 435	(343 020)
- Gains less losses recycled to profit or loss upon disposal		-	57 887
Income tax recorded directly in other comprehensive income	19	(49 505)	56 044
<b>Total other comprehensive income/(loss) for the year</b>		<b>202 930</b>	<b>(229 089)</b>
<b>Total comprehensive income for the year</b>		<b>2 997 684</b>	<b>1 689 765</b>

The notes set out on pages 5 to 58 form an integral part of these financial statements.

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**Commerzbank (Eurasija) SAO**  
**Statement of Changes in Equity**

	Share capital	Revaluation reserve for available-for-sale securities	Retained earnings	Other reserves	Total equity
<i>In thousands of Russian Roubles</i>					
<b>Balance at 1 January 2014</b>	<b>3 827 672</b>	<b>(6 251)</b>	<b>8 248 938</b>	<b>724 349</b>	<b>12 794 708</b>
Profit	-	-	1 918 854	-	1 918 854
Other comprehensive loss	-	(229 089)	-	-	(229 089)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(229 089)</b>	<b>1 918 854</b>	<b>-</b>	<b>1 689 765</b>
Dividends declared (Note 20)	-	-	(2 772 000)	-	(2 772 000)
<b>Balance at 31 December 2014</b>	<b>3 827 672</b>	<b>(235 340)</b>	<b>7 395 792</b>	<b>724 349</b>	<b>11 712 473</b>
Profit	-	-	2 794 754	-	2 794 754
Other comprehensive income	-	202 930	-	-	202 930
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>202 930</b>	<b>2 794 754</b>	<b>-</b>	<b>2 997 684</b>
Dividends declared (Note 20)	-	-	(2 000 000)	-	(2 000 000)
<b>Balance at 31 December 2015</b>	<b>3 827 672</b>	<b>(32 410)</b>	<b>8 190 546</b>	<b>724 349</b>	<b>12 710 157</b>

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**Commerzbank (Eurasija) SAO**  
**Statement of Cash Flows**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Interest received		2 083 497	1 074 439
Interest paid		(989 045)	(426 527)
Fees and commissions received		528 707	365 426
Fees and commissions paid		(143 609)	(44 150)
Expenses paid on operations with trading securities		-	(13 002)
Expenses paid on operations with financial derivatives		(2 348 312)	(8 898 346)
(Expenses paid)/Income received from trading in foreign currencies		(289 424)	20 471
Other operating income received		148 622	57 256
Staff costs paid		(544 348)	(450 600)
Administrative and other operating expenses paid (less staff costs paid)		(682 901)	(486 348)
Income tax paid		(27 752)	(403 651)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(2 264 565)</b>	<b>(9 205 032)</b>
<i>Net (increase)/decrease in:</i>			
- mandatory cash balances with the CBRF		48 411	10 730
- trading securities		-	1 440 835
- due from other banks		26 478 122	(7 825 642)
- loans and advances to customers		7 484 728	643 511
- other assets		31 441	(19 506)
<i>Net increase/(decrease) in:</i>			
- due to other banks		(21 063 631)	16 781 405
- customer accounts		(320 681)	2 700 531
- debt securities in issue		16 245	(392)
- other liabilities		(8 424)	(15 458)
<b>Net cash from operating activities</b>		<b>10 401 646</b>	<b>4 510 982</b>
<b>Cash flows from investing activities</b>			
Acquisition of securities available for sale		(763 291)	(2 101 707)
Disposal of securities available for sale		1 090 932	1 629 264
Acquisition of premises and equipment		(23 362)	(12 146)
Proceeds from disposal of premises and equipment		1 181	-
<b>Net cash used in investing activities</b>		<b>305 460</b>	<b>(484 589)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	20	(2 000 000)	(2 772 000)
<b>Net cash used in financing activities</b>		<b>(2 000 000)</b>	<b>(2 772 000)</b>
Effect of exchange rate changes on cash and cash equivalents		1 849 287	496 845
<b>Net increase in cash and cash equivalents</b>		<b>10 556 393</b>	<b>1 751 238</b>
Cash and cash equivalents at the beginning of the year	7	8 421 574	6 670 336
<b>Cash and cash equivalents at the end of the year</b>		<b>18 977 967</b>	<b>8 421 574</b>

*The notes set out on pages 5 to 58 form an integral part of these financial statements.*

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## **1 Introduction**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Commerzbank (Eurasija) SAO (the "Bank").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a closed joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank is a wholly owned subsidiary of Commerzbank AG (Germany). Commerzbank AG and its subsidiaries are referred to in these financial statements as "Commerzbank Group".

**Principal activity.** The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has been operating in the Russian Federation since 1998. In 2010, as a result of restructuring the Bank received a full banking license issued by the Central Bank of the Russian Federation ("CBRF"). The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has one (2014: one) branch in the Russian Federation in the city of Saint Petersburg. The branch services the Bank's clients in this region and provides necessary services within the scope of the transactions conducted by the head office.

**Registered address and place of business.** The Bank's registered address is: Russian Federation, 119017, Moscow, Kadashevskaya nab. 14/2.

**Presentation currency.** These financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

**Securing obligations.** The Bank's obligations are secured by a letter of comfort from Commerzbank AG (see the 2015 Annual Report of Commerzbank Group, page 289): [https://www.commerzbank.de/media/en/aktionaere/haupt/2016\\_5/geschaeftsbericht\\_2015.pdf](https://www.commerzbank.de/media/en/aktionaere/haupt/2016_5/geschaeftsbericht_2015.pdf).

## **2 Operating Environment of the Bank**

**Russian Federation.** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 23). During 2015, the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

## **2 Operating Environment of the Bank (Continued)**

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

## **3 Summary of Significant Accounting Policies**

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

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

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity’s net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity’s documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity’s key management personnel; and (c) the market risks, including duration of the entity’s exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

### **3 Summary of Significant Accounting Policies (Continued)**

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 25.

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

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

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

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

### **3 Summary of Significant Accounting Policies (Continued)**

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank placements that can be converted into cash within a day. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank’s counterparties held with the Bank, such as loan interest income or principal collected by charging the customer’s current account or interest payments or disbursement of loans credited to the customer’s current account, which represents cash or cash equivalent from the customer’s perspective.

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

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. All other elements of the changes in the fair value and gains or losses on de-recognition are recorded in profit or loss for the year as gains less losses from operations with trading securities in the period in which they arise.

### **3 Summary of Significant Accounting Policies (Continued)**

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

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

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

### **3 Summary of Significant Accounting Policies (Continued)**

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

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

**Investment securities available for sale.** This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

### **3 Summary of Significant Accounting Policies (Continued)**

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

**Premises and equipment.** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Premises and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised, i.e. on the retirement or disposal. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year within other operating income or expenses.



### **3 Summary of Significant Accounting Policies (Continued)**

**Depreciation.** Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	<b>Useful lives in years</b>
Leasehold improvements	30
Telecommunication equipment	7-10
Office equipment	2-15
Furniture	5
Computers	2-5
Vehicles	5

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

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

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

**Customer accounts.** Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Debt securities in issue.** Debt securities in issue include promissory notes issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

### **3 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

### **3 Summary of Significant Accounting Policies (Continued)**

**Share capital.** Non-redeemable ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

### **3 Summary of Significant Accounting Policies (Continued)**

**Foreign currency translation.** The Bank's functional currency and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

**Staff costs and related contributions.** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

**Changes in presentation.** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

**Presentation of statement of financial position in order of liquidity.** The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, the Bank provides analysis of assets and liabilities by expected maturities in Note 21.

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

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

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

**Impairment losses on loans and advances and due from other banks.** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 5 805 thousand (2014: RR 2 649 thousand). For information on the provision for credit-related commitments also refer to Note 14.

**Fair value of financial instruments.** The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If fair value is determined by using valuation techniques (e.g. models), they are approved and regularly reviewed by qualified employees independent from the department where the technique was developed. Each model is subject to mandatory certification before it is available for use; also, the models are adjusted to ensure that the results reflect actual data and comparative market prices. To the extent practical, models use only publicly accessible data, however areas such as credit risk (own and counterparty), volatilities and correlations require management estimates. Changes in assumptions about these factors could affect the reported fair values. Refer to Note 25.

**Initial recognition of related party transactions.** In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

#### **5 Adoption of New or Revised Standards and Interpretations**

The following amended standards became effective for the Bank from 1 January 2015, but did not have any material impact on the Bank:

- Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

## **6 New Accounting Pronouncements**

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

**IFRS 9 “Financial Instruments: Classification and Measurement” (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:

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

The Bank is currently assessing the impact of the new standard on its financial statements.

## 6 New Accounting Pronouncements (Continued)

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

**“Accounting for Acquisitions of Interests in Joint Operations” - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).** This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank’s management does not expect these amendments to have a significant impact on the Bank’s financial statements.

**Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).** In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

**IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

**Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).** The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank’s management does not expect these amendments to have a significant impact on the Bank’s financial statements.

**Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).** 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. The Bank’s management does not expect these amendments to have a significant impact on the Bank’s financial statements.

6 New Accounting Pronouncements (Continued)

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

***Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).*** The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

***Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).*** The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.



## 6 New Accounting Pronouncements (Continued)

**Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).** The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

**IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

**Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

**Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

## 7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<i>Neither past due nor impaired</i>		
Cash on hand	61 382	60 193
Cash balances with the CBRF (other than mandatory reserve deposits)	12 368 018	5 664 974
Correspondent accounts and overnight placements with other banks		
- Internal financial rating 1.0 – 2.0	4 731 129	2 116 607
- Internal financial rating 2.1 – 4.0	23 469	31 513
- Internal financial rating 4.1 – 7.0	535	1 476
Balances on settlement accounts with trading systems	1 793 434	546 811
<b>Total cash and cash equivalents</b>	<b>18 977 967</b>	<b>8 421 574</b>

Detailed description of internal rating methodology is disclosed in Note 21. Cash and cash equivalents are not collateralised. Interest rate analysis of cash and cash equivalents is disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

## 8 Due from Other Banks

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Term placements with other banks	2 824 247	1 344 968
Term placements with CBRF	-	14 000 000
Term placements with Commerzbank AG	-	12 487 683
Impairment loss provision	(11 689)	(6 065)
<b>Total due from other banks</b>	<b>2 812 558</b>	<b>27 826 586</b>

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2015 is provided below. Detailed description of internal rating methodology is disclosed in Note 21.

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<i>Neither past due nor impaired</i>		
- Internal financial rating 1.0 – 2.0	-	13 191 103
- Internal financial rating 2.1 – 4.0	2 824 247	14 421 596
- Internal financial rating 4.1 – 7.0	-	219 952
Impairment loss provision	(11 689)	(6 065)
<b>Total due from other banks</b>	<b>2 812 558</b>	<b>27 826 586</b>

Amounts due from other banks are not collateralised.

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their overdue status.

## 8 Due from Other Banks (Continued)

Movements in the provision for impairment of due from other banks are as follows:

<i>In thousands of Russian Roubles</i>	2015	2014
<b>Provision for impairment at 1 January</b>	<b>6 065</b>	<b>97 158</b>
Provision for impairment during the year	5 630	(91 093)
Write-off against provision	(6)	-
<b>Provision for impairment at 31 December</b>	<b>11 689</b>	<b>6 065</b>

Refer to Note 25 for the estimated fair value of each class of amounts due from other banks. Interest rate and maturity analyses of due from other banks are disclosed in Note 21. Information on related party balances is disclosed in Note 27.

## 9 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	2015	2014
Neither past due nor impaired loans	23 880 586	27 115 108
Loans overdue for less than 30 days but not impaired	33	-
Individually impaired loans	93 182	69 576
Provision for loan impairment	(104 407)	(46 915)
<b>Total loans and advances to customers</b>	<b>23 869 394</b>	<b>27 137 769</b>

Movements in the provision for loan impairment during 2015 are as follows:

<i>In thousands of Russian Roubles</i>	2015	2014
<b>Provision for loan impairment at 1 January</b>	<b>46 915</b>	<b>29 292</b>
Provision for impairment during the year	57 492	17 623
<b>Provision for loan impairment at 31 December</b>	<b>104 407</b>	<b>46 915</b>

Economic sector risk concentration within the customer loan portfolio is as follows:

<i>In thousands of Russian Roubles</i>	2015		2014	
	Amount	%	Amount	%
Manufacturing	15 107 378	63	13 857 282	51
Mining	3 293 878	14	2 674 628	10
Leasing	2 624 386	11	2 283 512	8
Food industry	1 509 596	6	905 200	3
Trade	817 205	3	1 051 731	4
Metallurgy and metals trade	222 615	1	5 975 836	22
Other	398 743	2	436 495	2
<b>Total loans and advances to customers (before impairment)</b>	<b>23 973 801</b>	<b>100</b>	<b>27 184 684</b>	<b>100</b>

## 9 Loans and Advances to Customers (Continued)

At 31 December 2015, the Bank had 11 borrowers (2014: 14 borrowers) with aggregated loan amounts above RR 600 000 thousand each. The total aggregate amount of these loans was RR 19 489 462 thousand (2014: RR 24 026 843 thousand), or 81% of the gross loan portfolio (2014: 88%).

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

Analysis of credit quality by financial ratings as at 31 December 2015 is presented in the table below. Detailed description of internal rating methodology is disclosed in Note 21.

<i>In thousands of Russian Roubles</i>	<b>Loans and advances to customers before provision for loan impairment</b>	<b>Provision for loan impairment</b>	<b>Total loans and advances to customers</b>
<i>Neither past due nor impaired</i>			
- Internal financial rating 1.0 – 2.0	1 374 766	(1 082)	1 373 684
- Internal financial rating 2.1 – 4.0	22 426 032	(48 507)	22 377 525
- Internal financial rating 4.1 – 7.0	79 788	(8)	79 780
<b>Total neither past due nor impaired</b>	<b>23 880 586</b>	<b>(49 597)</b>	<b>23 830 989</b>
<i>- less than 30 days past due, but not impaired</i>			
- Internal financial rating 2.1 – 4.0	33	-	33
<b>Total past due but not impaired</b>	<b>33</b>	<b>-</b>	<b>33</b>
<i>Individually impaired</i>			
- Internal financial rating 4,1 – 7,0	93 182	(54 810)	38 372
<b>Total individually impaired</b>	<b>93 182</b>	<b>(54 810)</b>	<b>38 372</b>
<b>Total</b>	<b>23 973 801</b>	<b>(104 407)</b>	<b>23 869 394</b>

**9 Loans and Advances to Customers (Continued)**

Analysis of credit quality by financial ratings as at 31 December 2014 is presented in the table below.

<i>In thousands of Russian Roubles</i>	<b>Loans and advances to customers before provision for loan impairment</b>	<b>Provision for loan impairment</b>	<b>Total loans and advances to customers</b>
<i>Neither past due nor impaired</i>			
- Internal financial rating 1.0 – 2.0	145 680	(205)	145 475
- Internal financial rating 2.1 – 4.0	26 969 421	(34 820)	26 934 601
- Internal financial rating 4.1 – 7.0	7	-	7
<b>Total neither past due nor impaired</b>	<b>27 115 108</b>	<b>(35 025)</b>	<b>27 080 083</b>
<i>Individually impaired</i>			
- Internal financial rating 4.1 – 7.0	69 576	(11 890)	57 686
<b>Total individually impaired</b>	<b>69 576</b>	<b>(11 890)</b>	<b>57 686</b>
<b>Total</b>	<b>27 184 684</b>	<b>(46 915)</b>	<b>27 137 769</b>

Information about collateral at 31 December 2015 and 2014 is as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Unsecured loans	2 478 609	11 257 397
Loans collateralised by guarantees (from other banks and organizations)	17 680 990	12 973 374
Loans collateralised by:		
- cash deposits	3 516 493	2 700 592
- other assets	193 302	206 406
<b>Total loans and advances to customers</b>	<b>23 869 394</b>	<b>27 137 769</b>

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

At 31 December 2015 the Bank has individually impaired loans collateralised by equipment in the amount of RR 114 000 thousand and by real estate in the amount of RR 52 361 thousand (2014: individually impaired loans are collateralised by equipment in the amount of RR 97 384 thousand and by real estate in the amount of RR 48 257 thousand).

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2015:

**9 Loans and Advances to Customers (Continued)**

<i>In thousands of Russian Roubles</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>
Loans and advances to customers	6 595 336	10 950 151	17 274 058	9 656 753

The effect of collateral at 31 December 2014:

<i>In thousands of Russian Roubles</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>	<b>Carrying value of the assets</b>	<b>Fair value of collateral</b>
Loans and advances to customers	5 742 816	6 983 256	21 394 953	9 995 599

Refer to Note 25 for the fair value measurement of loans and advances to customers. Interest rate and maturity analyses of loans and advances to customers are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

**10 Securities Available for Sale**

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<i>Neither past due nor impaired</i>		
Russian government bonds - internal financial rating 2.1 – 4.0	2 611 802	2 703 079
<b>Total securities available for sale</b>	<b>2 611 802</b>	<b>2 703 079</b>

Russian government bonds are denominated in Russian Roubles and are not collateralised. The movements in securities available for sale are as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Carrying amount at 1 January</b>	<b>2 703 079</b>	<b>2 505 519</b>
Mark to market	252 435	(343 020)
Interest income accrued	195 444	195 260
Interest received	(211 515)	(185 010)
Purchases	763 291	2 101 707
Disposal and redemption	(1 090 932)	(1 571 377)
<b>Carrying amount at 31 December</b>	<b>2 611 802</b>	<b>2 703 079</b>

Interest rate analysis of investment securities available for sale is disclosed in Note 21.

**11 Premises and equipment**

	Note	Leasehold improvements	Office and computer equipment and other	Total
<i>In thousands of Russian Roubles</i>				
Cost at 1 January 2014		50 930	259 501	310 431
Accumulated depreciation		(10 191)	(191 919)	(202 110)
<b>Carrying amount at 1 January 2014</b>		<b>40 739</b>	<b>67 582</b>	<b>108 321</b>
Additions		-	12 146	12 146
Disposals (at cost)		-	(34 470)	(34 470)
Disposals (accumulated depreciation)		-	34 054	34 054
Depreciation charge	18	(1 693)	(22 722)	(24 415)
<b>Carrying amount at 31 December 2014</b>		<b>39 046</b>	<b>56 590</b>	<b>95 636</b>
Cost at 31 December 2014		50 930	237 177	288 107
Accumulated depreciation		(11 884)	(180 587)	(192 471)
<b>Carrying amount at 1 January 2015</b>		<b>39 046</b>	<b>56 590</b>	<b>95 636</b>
Additions		-	23 362	23 362
Disposals (at cost)		-	(11 974)	(11 974)
Disposals (accumulated depreciation)		-	11 962	11 962
Depreciation charge	18	(1 693)	(29 723)	(31 416)
<b>Carrying amount at 31 December 2015</b>		<b>37 353</b>	<b>50 217</b>	<b>87 570</b>
Cost at 31 December 2015		50 930	248 565	299 495
Accumulated depreciation		(13 577)	(198 348)	(211 925)

**12 Due to Other Banks**

<i>In thousands of Russian Roubles</i>	2015	2014
Correspondent accounts and overnight placements		
- Commerzbank Group banks	4 102 063	1 895 762
Term deposits		
- Commerzbank Group banks	10 783 273	30 545 760
- other banks	-	1 462 792
<b>Total due to other banks</b>	<b>14 885 336</b>	<b>33 904 314</b>

Refer to Note 25 for the disclosure of the fair value of due to other banks. The interest rate and maturity analyses of due from other banks are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

**13 Customer Accounts**

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Legal entities</b>		
- Current/settlement accounts	15 760 615	10 901 102
- Term deposits	9 137 676	12 832 178
<b>Individuals</b>		
- Current/demand accounts	3 945	8 521
- Term deposits	297	-
<b>Total customer accounts</b>	<b>24 902 533</b>	<b>23 741 801</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade	10 662 359	43	12 352 755	52
Manufacturing	9 586 275	38	8 168 132	34
Construction	1 772 633	7	473 584	2
Financial services	1 632 096	7	1 647 948	7
Transport	396 169	2	366 057	2
Individuals	4 242	-	8 521	-
Other	848 759	3	724 804	3
<b>Total customer accounts</b>	<b>24 902 533</b>	<b>100</b>	<b>23 741 801</b>	<b>100</b>

At 31 December 2015, the Bank had 43 customers (2014: 35 customers) with balances above RR 100 000 thousand. The aggregate balance of these customers was RR 20 184 849 thousand (2014: RR 19 508 297 thousand) or 81% (2014: 82%) of total customer accounts.

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. The interest rate and maturity analyses of customer accounts are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.



**14 Provisions for Liabilities and Charges**

	Provision for tax risks (Note 23)	Provision for credit related commitments (Note 23)	Provision for restructuring expenses	Total
<i>In thousands of Russian Roubles</i>				
<b>Carrying amount at 1 January 2014</b>		<b>110 146</b>	<b>8 371</b>	<b>118 517</b>
Changes charged to profit or loss within other provisions	-	(85 182)	(5 090)	(90 272)
Utilisation of provision	-	-	(1 739)	(1 739)
<b>Carrying amount at 1 January 2015</b>	-	<b>24 964</b>	<b>1 542</b>	<b>26 506</b>
Changes charged to profit or loss within other provisions	3 331	(4 653)	(1 542)	(2 864)
Changes charged to income tax expense	28 990	-		28 990
Utilisation of provision	-	-	-	-
<b>Carrying amount at 31 December 2015</b>	<b>32 321</b>	<b>20 311</b>	<b>-</b>	<b>52 632</b>

**15 Share Capital**

	Number of outstanding shares	Share capital	Share premium	Total
<i>In thousands of Russian Roubles except for number of shares</i>				
<b>At 1 January 2014, 31 December 2014 and 31 December 2015</b>	<b>43 112</b>	<b>2 535 833</b>	<b>1 291 839</b>	<b>3 827 67</b>

The above amounts are adjusted for the hyperinflation during the period before 1 January 2003.

Share capital of the Bank is represented by ordinary shares. At 31 December 2015 and 2014, all of the Bank's outstanding ordinary shares were fully paid in. All ordinary shares have a nominal value of RR 50 thousand per share (2014: RR 50 thousand per share) and rank equally. Each share carries one vote.

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

All of the ordinary shares issued are owned by Commerzbank AG.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules.

**16 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Interest income</b>		
Loans and advances to customers	1 266 445	715 362
Due from other banks	631 047	229 362
Securities available for sale	195 444	195 260
Trading securities	-	28 572
<b>Total interest income</b>	<b>2 092 936</b>	<b>1 168 556</b>
<b>Interest expense</b>		
Term deposits of legal entities	843 140	362 456
Term deposits of banks	154 524	87 841
<b>Total interest expense</b>	<b>997 664</b>	<b>450 297</b>
<b>Net interest income</b>	<b>1 095 272</b>	<b>718 259</b>

**17 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Fee and commission income</b>		
Settlement transactions	141 569	104 769
Acting as currency control agent	130 852	106 633
Guarantees issued	103 539	76 282
Letters of credit	98 269	106 580
Cash transactions	1 484	2 378
Other	17 058	12 723
<b>Total fee and commission income</b>	<b>492 771</b>	<b>409 365</b>
<b>Fee and commission expense</b>		
Guarantees received	45 168	24 577
Settlement transactions	20 974	11 346
Letters of credit	16 110	51 257
Transactions with securities and foreign currencies	12 851	6 769
Other	958	860
<b>Total fee and commission expense</b>	<b>96 061</b>	<b>94 809</b>
<b>Net fee and commission income</b>	<b>396 710</b>	<b>314 556</b>

**18 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
Staff costs		585 988	463 338
Operating lease expense for premises and equipment		259 278	163 206
Expenses on services provided by Commerzbank AG Telecommunications	27	226 025	153 976
Other costs of premises and equipment		60 477	40 893
Depreciation of premises and equipment	11	53 845	45 203
Professional services		31 416	24 415
Taxes other than on income		21 403	32 480
Business trip expenses		16 922	11 400
Entertainment expenses		12 031	14 485
Information services		2 997	3 161
Other		2 517	1 250
		38 504	37 876
<b>Total administrative and other operating expenses</b>		<b>1 311 403</b>	<b>991 683</b>

Included in staff costs are statutory social insurance contributions of RR 82 435 thousand (2014: RR 56 950 thousand).

**19 Income Taxes**

Income tax expense recorded in profit or loss for the year comprises the following:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Current tax	265 595	28 564
Deferred tax	516 730	480 444
<b>Income tax expense for the year</b>	<b>782 325</b>	<b>509 008</b>

The income tax rate applicable to the majority of the Bank's 2015 income is 20% (2014: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
<b>Profit before tax</b>	<b>3 577 079</b>	<b>2 427 862</b>
Theoretical tax charge at statutory rate (2015 – 2014: 20%)	715 416	485 572
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible administrative and other operating expenses	47 283	25 607
- income tax assessment for previous periods based on the tax audit results	28 990	-
- Impact of change in assessment of differences not recognised earlier	-	7 350
- Income on government securities taxed at different rates	(9 364)	(9 521)
<b>Income tax expense for the year</b>	<b>782 325</b>	<b>509 008</b>

**19 Income Taxes (continued)**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2014: 20%).

<i>In thousands of Russian Roubles</i>	1 January 2015	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2015
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Tax loss carried forward	126 148	(126 148)	-	-
Provision for impairment of due from other banks	336	2 002	-	2 338
Loans and advances to customers	9 550	(8 106)	-	1 444
Provision for loan impairment	(14 962)	4 837	-	(10 125)
Accrued administrative and other operating expenses	26 635	(1 867)	-	24 768
Revaluation of derivative financial instruments at fair value	(582 563)	(381 780)	-	(964 343)
Securities available for sale	57 607	(5 502)	(49 505)	2 600
Premises and equipment	(15 210)	(254)	-	(15 464)
Accrued fee and commission income	(9 717)	661	-	(9 056)
Provisions for liabilities and charges	5 301	(573)	-	4 728
<b>Net deferred tax liability</b>	<b>(396 875)</b>	<b>(516 730)</b>	<b>(49 505)</b>	<b>(963 110)</b>
<b>Recognised deferred tax liability</b>	<b>(396 875)</b>	<b>(516 730)</b>	<b>(49 505)</b>	<b>(963 110)</b>

**19 Income Taxes (continued)**

	1 January 2014	Credited/ (charged) to profit or loss	Credited directly to equity	31 December 2014
<i>In thousands of Russian Roubles</i>				
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Tax loss carried forward	-	126 148	-	126 148
Provision for impairment of due from other banks	11 861	(11 525)	-	336
Loans and advances to customers	9 855	(305)	-	9 550
Provision for loan impairment	(771)	(14 191)	-	(14 962)
Accrued administrative and other operating expenses	13 873	12 762	-	26 635
Revaluation of derivative financial instruments at fair value	(19 435)	(563 128)	-	(582 563)
Securities available for sale	1 563	-	56 044	57 607
Premises and equipment	(9 363)	(5 847)	-	(15 210)
Accrued fee and commission income	(3 761)	(5 956)	-	(9 717)
Provisions for liabilities and charges	23 703	(18 402)	-	5 301
<b>Net deferred tax asset / (liability)</b>	<b>27 525</b>	<b>(480 444)</b>	<b>56 044</b>	<b>(396 875)</b>
<b>Recognised deferred tax asset / (liability)</b>	<b>27 525</b>	<b>(480 444)</b>	<b>56 044</b>	<b>(396 875)</b>

**20 Dividends**

	2015	2014
<i>In thousands of Russian Roubles</i>		
<b>Dividends payable at 1 January</b>	-	-
Dividends declared during the year	2 000 000	2 772 000
Dividends paid during the year	(2 000 000)	(2 772 000)
<b>Dividends payable at 31 December</b>	-	-
<b>Dividends per share declared during the year</b>	<b>46</b>	<b>64</b>

All dividends are declared and paid in Russian Roubles.

**21 Financial Risk Management**

**Risk management objectives, policies and procedures.** The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

## **21 Financial Risk Management (Continued)**

According to Basel II requirements, which are binding for all European credit institutions, Commerzbank Group, of which the Bank is a subsidiary, adopts and implements a business and a corresponding risk strategy, which addresses all major economic risks. Basel II accord allows to choose between a series of simple (“foundation”) and more sophisticated (“advanced”) approaches to risk measurement, specifically rewarding the banks for measuring risks more stringently and more precisely in the form of lower capital charge. Commerzbank Group adopted the advanced approach to risk measurement.

The quantification of economic risks on Commerzbank Group level is the aim of economic capital model. Its foundation is the delineation of different risk types, risk quantification schemes for the various risk types and integration of all risks into a group-wide risk capital number. The aggregation of risks to Commerzbank Group level is closely connected to the allocation of total risk back to risk types and business units, respectively. Economic capital allocation is an essential part of economic capital model.

Economic capital is a risk measure with a single risk horizon (12 months) and confidence level (99.95%), generally applicable to all risk types. Economic capital model takes into consideration market, operational, credit and business risks. For market risk management (measurement, limit setting and control) the Bank is using Value at Risk (VaR) model with a lower confidence level (97.50%) which produces numbers less sensitive to representative of input data and therefore more suitable for practical risk management rather than just assessing economic capital adequacy.

The risk control/management framework and all internal policies, guidelines and methodologies are set up on Commerzbank Group level and they are binding for all entities of the Commerzbank Group, including the Bank. Responsibility for implementing risk policy guidelines laid down by the Board of Managing Directors throughout Commerzbank Group lies with the Chief Risk Officer, who regularly reports to the Risk Committee of the Supervisory Board and to the Board of Managing Directors on the Group’s overall risk situation.

Five separate departments are in charge of risk control and risk management: Group Credit Risk Management Core (GRM-CRC), Group Credit Risk Management Non Core (GRM-CRN), Group Market Risk Management (GRM-MR), Group Risk Controlling and Capital Management (GRM-CC), Group Intensive Care (GRM-IC). In parallel, the Bank has operational risk management committees at the Group level: Credit Risk Committee of the Supervisory Board whose permanent members represent individual risk management committees, Credit Risk Committee, Market Risk Committee, Operational Risk Committee, Strategic Risk Committee, and Segment Market Risk Committee. Chief Risk Officer acts as a Chairman of all five committees and holds the veto power. Moreover, there is the Committee for Asset and Liability Management responsible for the portfolio of the Commerzbank Group’s assets as a whole, calculation of economic capital and risk-weighted capital.

The Bank distinguishes between quantifiable and unquantifiable risks. Quantifiable risks are part of Commerzbank Group overall risk strategy and economic capital approach. Quantifiable risks include: credit risk, market risk, interest rate risk, operational risk, liquidity risk and business risk. Unquantifiable risks are subject to qualitative monitoring and include: strategic risk, legal risk, regulatory risk (compliance risk), human resources risk, reputational risk, Information Technology risk, process and organisational risk.

## **21 Financial Risk Management (Continued)**

**Credit risk** is the risk of financial losses due to defaults of borrowers or counterparties of the Bank or deterioration of their credit rating. Credit risk also covers country risk, counterparty risk and settlement risk arising from trading activities.

Credit risk is managed in the context of the Bank's credit risk strategy. In order to ensure compliance with credit risk strategy and to restrict concentration of risk, the parameters of strategically acceptable credit product structure (including country parameters) are established, as well as target risk limits for the sections of credit portfolio and concentration risks on Group level. For the components of loan portfolio that do not comply with the above parameters decision needs to be taken at a higher level.

The responsibility for credit risk management at Group level lies with GRM-CRC Department. Local credit offices are responsible for the management of the respective loan portfolios, paying close attention to the Group Credit Guidelines and operating within their lending authority. The General Lending authority is represented by the Commerzbank Group bodies starting from regional board level up to the Board of Managing Directors depending on lending amounts and borrower's internal ratings. The individual lending authority delegated to the Bank based on Group Credit Guidelines is limited by EUR 50 million for borrowers rated 1.0–2.8, (2014: EUR 50 million for borrowers rated 1.0–2.8) and by EUR 20 million for borrowers rated at 2.8–3.8 (2014: EUR 20 million for borrowers rated 2.8–3.8) and by decreasing scale factor to lower rated borrowers.

The Bank applies the following methods of credit risk measurement and management: expert credit risk level assessment, internal rating system; the forecast of exposure at default (EAD) and loss given default (LGD); calculation of unexpected loss (UL) (application of economic capital with confidence level of 99.95% during the period of 1 year).

The internal rating system is one of the most important elements of credit risk policy. The rating procedure includes both quantitative and qualitative assessment of the counterparties. The final rating is assigned as a result of these procedures. The rating procedure is based on the assessment of the following indicators: the analysis of financial statements for current and prior periods (including the accounting policies), the analysis of industry and the competitive position of the counterparty in this industry, the assessment of the quality of management and business reputation, the review of credit history, the assessment of turnovers on the bank accounts, the analysis of risk indicators and mitigating risk factors, such as direct debit right, etc. Quasi-rating is attributed at each stage of the analysis, and the final internal rating is drawn from aggregation of quasi-ratings, the calculation of default probability, loss given default and exposure at default.

Internal financial rating measures probability of default while credit rating is a measure of loss given default.

Rating procedure varies depending on the customer type: the rating procedure for corporate banking segment pays specific attention to probability of default indicator and detailed analysis of financial statements; the rating procedure for project and structured finance segment focuses on expected loss and scenario simulation. The responsibility for rating assignment lies with GRM-CRC and the Credit Department of the Bank.

## 21 Financial Risk Management (Continued)

The correlation between internal financial ratings and comparable Standard&Poor's ratings, if any, is presented below:

Internal financial rating	1.0-1.2	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8
S&P equivalent	AAA	AA+	AA,AA-	A+,A	A-	BBB+	BBB	BBB	BBB-
Internal financial rating	3.0	3.2-3.4	3.6	3.8-4.0	4.2-4.6	4.8-5.0	5.2-5.4	5.6-5.8	>6
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC,CC-	C,D

Direct reconciliation between the ratings is not possible, in particular, due to the fact that external ratings typically try to predict the expected behaviour of companies over the full period of the economic cycle, while Commerzbank Group uses point-in-time rating model, where the rating reflects current creditworthiness in terms of default probability for the next year.

Exposure at default (EAD) and loss given default (LGD) provide the necessary information on the amount of possible loss. EAD is an estimate for the outstanding debt at the day of default and takes into account undrawn credit lines and contingent liabilities. LGD reflects the amount of loss at default in percentage. Collateral and other potential sources of repayment are taken into account for calculation of this indicator.

Default probability and expected loss cover the expected credit defaults. Unexpected losses are assessed by means of Credit VaR (CVaR). CVaR represents the credit loss that will not be exceeded in excess of the expected credit loss with a probability 0.05%. Potential losses are forecasted with a one-year time horizon. CVaR is a pure default model, which means that potential effects on revenues resulting from changes in rating are not directly part of the model. This downside potential is modelled via maturity adjustments. Credit risk arises from any transaction with an external counterparty where positive cash flows are outstanding. The cornerstones of credit risk are the probability of default and loss at default, the latter being an estimation of the actual amount lost in case of default. Loss at default is calculated as estimated exposure at default (including assumptions on drawing of open credit lines) minus collateral and existing loan loss provisions, multiplied by (1-recovery rate). The model takes into account concentration risks and diversification effects. Large exposures and transactions in industry sectors with high exposure concentration are penalized by higher charges. CVaR is calculated on a monthly basis.

Credit portfolio is divided into significant and non-significant exposures. There are four different categories of loan loss provision (LLP): specific loan loss provision, portfolio loan loss provision impaired and non-impaired and general loan loss provision. Portfolio loan loss provision is created for non-significant loans, general and specific provisions are created for significant exposures.

Specific LLP is determined by the unsecured part of the exposure and the assessment of the individual borrower's ability to pay, thus specific LLP takes into account expected cash flows from collaterals and repayments. Expected cash flows are discounted to present value, and the difference between present value and book value represents the amount of specific LLP.



## **21 Financial Risk Management (Continued)**

General LLP and portfolio LLP non-impaired are formed for latent risks in the performing loan book. They cover acute credit risks that exist but are not transparent. The only difference between these two provision types is the significance of the credit exposure that they cover. The calculation of these provisions is based on Basel II requirements and identification of expected loss (EL) and loss identification period factor (LIP-factor). The “expected loss model” differs from the “incurred loss model” provided for by IAS 39 and is more conservative.

Portfolio LLP impaired is calculated in a similar way. As the exposure is classified as default, probability of default equals 1 and LIP-factor is not used as the default has already been detected.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank applies the same credit policies to contingencies as it does for on-balance sheet financial instruments based on established credit approvals, risk control limits and monitoring procedures. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26.

**Market risk** is the probability of financial losses as a result of changes in the current (fair) value of financial instruments and in foreign exchange rates and/or official prices for precious metals. Changes in value can be recorded both in the Bank's income/expense and capital (for assets held for sale).

The Board of Managing Directors for Commerzbank Group has delegated most market risk management functions at Group level to the Group Market Risk Committee (GMRC). In parallel, the Segment Market Risk Committee (SMRC) was created, which is responsible for risk management at segment level. SMRC reports to GMRC on all issues within its competence.

Market risk is mainly associated with transactions performed by the following two departments (segments): the Department for Financial Market Operations and the Treasury Department. The Department for Financial Market Operations is in charge of all investment banking products for corporate clients. The Department's operations are based on clients' needs and aimed at maximising profits with the acceptable risk level across the entire product line. The Treasury is in charge of managing interest rate and liquidity positions. The Department for Financial Market Operations is in charge of managing open currency position. Market risk can also arise from other departments' activities, for example, the Corporate Business Department.

## **21 Financial Risk Management (Continued)**

Market risk is monitored by special GRM-MR divisions on a daily basis. Market risk is managed by means of a sophisticated system of limits combined with reliable and optimized methods for measuring and monitoring risk. The methodological competence lies within GRM-MR. The Bank uses economic capital and business expectations in establishing its market risk limits, creating a risk/return-based steering of market risk. This approach is used both on Group level and locally. Market risk is monitored at the level of the Group companies and at local level. To monitor and manage market risk, the Bank uses certain qualitative and quantitative indicators. Qualitative indicators are set by the Market Risk Committee at Group level. Quantitative indicators, including sensitivity, Value at Risk, stress testing under various scenarios, capital adequacy ratios and other are calculated on a daily basis. Independent GRM-MR divisions: the Department for Financial Market Operations and the Treasury Department monitor compliance with risk limits on a daily basis for each segment and by portfolio. Reports on market risks are submitted to the members of the Management Board and to Department Heads.

Market risk components include: general market risk (risk arising from changes in overall level of interest rates, foreign exchange rates, indices and corresponding volatilities), specific market risk (includes all further market risks: risks coming from changes in specific instruments and the risks arising from extraordinary market movements of specific financial entities). Market risk is assessed using Value at Risk (VaR) modelling. VaR approach covers market risk under normal market conditions (1 year historical simulation).

VaR is a statistical approach to estimate a loss that may occur over a given period of time with a given probability. The Bank applies 1-day holding period and a 97.5% confidence level to VaR calculation. The monitoring of market risk covers both general and specific market risks. General market risk is calculated by means of historical simulation. The latest 254 days are taken into account to estimate profit/loss probability distribution of any given portfolio. Specific market risk is assessed by means of credit spread variance, where credit spread is the difference in the yield of financial instruments due to a different credit quality. At the level of Commerzbank Group capital requirements are calculated using an internal model. Reliability of this model is regularly checked by back-testing. The responsibility for changing the parameters of the model is assigned to GRM-MR under agreement with front office.

VaR model is based on historical data, thus its forecasting capability is limited. In order to assess and continuously improve the forecasting quality of VaR model, the accuracy of the model is validated on a daily basis. The validation is based on the actual profit/loss for the portfolio under the same assumptions over the same holding period. Comparing each VaR figure to the respective back-testing profit/loss for a certain period gives a meaningful picture of how well the model performed in forecasting risk. If the model captures all risks and estimates VaR correctly, the number of observations with back-testing exceeding VaR must correspond to its confidence level. Some more sophisticated back-testing methods are also used by GRM-MR, including those for reviewing the reliability of results obtained on the basis of VaR. Additionally, the internal model enables calculation of stressed VaR; these ratios are not used for calculation of regulatory capital but are used only for the purposes of operating risk level monitoring.

**21 Financial Risk Management (Continued)**

The Bank's trading book includes positions in financial instruments held for sale in the short-term or if there is an intention to sell them in the short-term (trading securities and derivatives). The banking book includes all other financial assets and liabilities. Market risk valuation (VaR) for combined positions of trading and banking books is lower than the sum of VaR of books taken individually due to general portfolio aggregation effect whereby portfolios with not fully correlated sensitivities to market would partially hedge each other if considered together.

Market risk exposure of the Bank as at 31 December 2015 as measured by VaR is presented in the table below.

<i>In thousands of Russian Roubles</i>		<b>Treasury Department</b>		
<b>Portfolio</b>	<b>Interest rate</b>	<b>Credit spread</b>	<b>Foreign currency</b>	<b>Total</b>
Trading book	19 287	-	45 507	49 492
Banking book	20 402	15 939	38 653	27 177

<i>In thousands of Russian Roubles</i>		<b>Department for Financial Market Operations</b>		
<b>Portfolio</b>	<b>Interest rate</b>	<b>Credit spread</b>	<b>Foreign currency</b>	<b>Total</b>
Trading book	558	-	46 782	46 703

Market risk exposure of the Bank as at 31 December 2014 as measured by VaR is presented in the table below.

<i>In thousands of Russian Roubles</i>		<b>Treasury Department</b>		
<b>Portfolio</b>	<b>Interest rate</b>	<b>Credit spread</b>	<b>Foreign currency</b>	<b>Total</b>
Trading book	55 973	-	43 671	75 109
Banking book	55 153	9 773	25 902	50 847

<i>In thousands of Russian Roubles</i>		<b>Department for Financial Market Operations</b>		
<b>Portfolio</b>	<b>Interest rate</b>	<b>Credit spread</b>	<b>Foreign currency</b>	<b>Total</b>
Trading book	1 299	-	1 230	1 845

**Currency risk.** The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarises the Bank's exposure to currency risk in respect of financial assets, liabilities and off-balance sheet position calculated based on the values of open currency positions determined by the method specified in the Instruction of the CBRF instructions (report form 0409634) as at 31 December 2015:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Euros	(100 219)	515 104
US Dollars	(100 390)	209 293
Other foreign currencies in aggregate	160 873	38 698

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and may lead to loan losses.

## 21 Financial Risk Management (Continued)

In addition to the above monitoring of the VaR, the Bank's Management Board sets limits on the level of exposure by currency and in total for both limits by the end of each day, and within one day. Compliance with these limits is monitored on a daily basis.

Sensitivity of the Bank's net assets (before tax) to an increase in the foreign currency exchange rates to Russian Rouble by 30% (2014: 30%) is presented in the table below. The sensitivity is calculated based on the values of open currency positions determined by the method specified in the CBRF instructions (report form 0409634).

<i>In thousands of Russian Roubles</i>	2015	2014
Euros	(30 066)	154 530
US Dollars	(30 117)	62 790
Other currencies in aggregate	48 262	11 610

**Interest rate risk.** Interest rate risk is the risk of adverse effects of changes in market interest rates on the capital or current income. The mismatch between interest periods for claims and liabilities in statement of financial position transactions represent the most important source of this risk.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2015. Included in the table are the Bank's main interest-bearing financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivatives (cross currency interest rate and interest rate swaps) are presented at nominal amounts, according to contract terms.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Financial assets</b>					
Due from other banks	1 631 836	480 551	-	700 171	2 812 558
Loans and advances to customers	8 982 401	10 543 682	2 661 191	1 682 120	23 869 394
Securities available for sale	212 910	816 788	70 252	1 511 852	2 611 802
<b>Total principal interest-bearing financial assets</b>	<b>10 827 147</b>	<b>11 841 021</b>	<b>2 731 443</b>	<b>3 894 143</b>	<b>29 293 754</b>
<b>Financial liabilities</b>					
Due to other banks	8 140 393	1 260 945	1 815 770	3 668 228	14 885 336
Customer accounts	22 743 292	1 909 770	249 471	-	24 902 533
Debt securities in issue	-	11 472	4 929	-	16 401
<b>Total principal interest bearing financial liabilities</b>	<b>30 883 685</b>	<b>3 182 187</b>	<b>2 070 170</b>	<b>3 668 228</b>	<b>39 804 270</b>
<b>Interest rate and cross currency interest rate swaps</b>	<b>-</b>	<b>10 957 617</b>	<b>(481 000)</b>	<b>(6 278 483)</b>	<b>4 198 134</b>
<b>Net interest sensitivity gap at</b>	<b>(20 056 538)</b>	<b>19 616 451</b>	<b>180 273</b>	<b>(6 052 568)</b>	<b>(6 312 382)</b>

31 December 2015

## 21 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2014.

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>Financial assets</b>					
Due from other banks	26 244 711	46 142	425 951	1 109 782	27 826 586
Loans and advances to customers	17 987 817	4 554 294	237 729	4 357 929	27 137 769
Securities available for sale	-	179 505	807 588	1 715 986	2 703 079
<b>Total principal interest-bearing financial assets</b>	<b>44 232 528</b>	<b>4 779 941</b>	<b>1 471 268</b>	<b>7 183 697</b>	<b>57 667 434</b>
<b>Financial liabilities</b>					
Due to other banks	20 269 649	10 960 037	-	2 674 628	33 904 314
Customer accounts	22 387 351	1 348 641	5 809	-	23 741 801
Debt securities in issue	-	94	-	-	94
<b>Total principal interest-bearing financial liabilities</b>	<b>42 657 000</b>	<b>12 308 772</b>	<b>5 809</b>	<b>2 674 628</b>	<b>57 646 209</b>
<b>Interest rate and cross currency interest rate swaps</b>	<b>-</b>	<b>7 472 008</b>	<b>-</b>	<b>(5 009 400)</b>	<b>2 462 608</b>
<b>Net interest sensitivity gap at 31 December 2014</b>	<b>1 575 528</b>	<b>(56 823)</b>	<b>1 465 459</b>	<b>(500 331)</b>	<b>2 483 833</b>

All of the Bank's interest-bearing financial assets and liabilities reprice within 5 years (2014: all reprice within 5 years).

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. Such assets and liabilities are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Bank monitors on a daily basis the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

**21 Financial Risk Management (Continued)**

In % p.a.	2015			2014		
	RR	US Dollars	Euros	RR	US Dollars	Euros
<b>Financial assets</b>						
Cash and Cash Equivalents	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory cash balances with CBRF	0.0	-	-	0.0	-	-
Due from other banks	3.2	0.0	1.2	15.8	0.2	1.8
Loans and advances to customers	13.1	2.0	1.4	11.1	2.3	1.8
Securities available for sale	8.0	-	-	6.8	-	-
Interest-bearing derivative financial instruments	11.3	0.5	-	12.1	0.2	-
Other financial assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial liabilities</b>						
Due to banks within Commerzbank Group	0.1	0.9	0.0	11.8	0.4	0.1
Due to other banks	-	-	-	23.0	-	-
Customer accounts						
- current and settlement accounts	0.0	0.0	0.0	0.0	0.0	0.0
- term deposits	8.7	0.2	0.0	13.0	0.1	0.0
Debt securities in issue	12.4	-	0.0	-	-	0.1
Interest-bearing derivative financial liabilities	8.3	-	-	8.1	-	-
Other financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Interest rate risk is measured on the basis of net present value approach, applying historical simulation method. The impact of interest rate shock is simulated every month. The decline due to a parallel shift by 50 and 100 basis points in yield curve is reported to Market Risk Committee.

Sensitivity of the Bank’s net assets to interest rate increase is reported to, and reviewed by, the management of the Bank daily. Sensitivity to interest rate increase by 600 basis points (6%) in Russian Roubles, by 100 basis points (1%) in Euros and US Dollars is presented in the table below. Sensitivity of the Bank’s net assets (before tax) to a decrease in interest rates will be approximately the same, but with opposite sign:

<i>In thousands of Russian Roubles</i>	2015	2014
RR	(437 937)	208 596
US Dollars	(25 981)	5 925
Euros	(9 366)	1 182

**21 Financial Risk Management (Continued)**

**Geographical risk concentrations.** The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2015 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Other countries</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	14 246 838	4 731 129	-	18 977 967
Mandatory cash balances with CBRF	261 897	-	-	261 897
Derivative financial assets	476 923	5 452 475	-	5 929 398
Due from other banks	2 333 400	-	479 158	2 812 558
Loans and advances to customers	23 869 394	-	-	23 869 394
Securities available for sale	2 611 802	-	-	2 611 802
Other financial assets	21 577	1 120	2 701	25 398
<b>Total financial assets</b>	<b>43 821 831</b>	<b>10 184 724</b>	<b>481 859</b>	<b>54 488 414</b>
<b>Financial liabilities</b>				
Due to other banks	-	14 885 336	-	14 885 336
Customer accounts	22 714 744	2 182 575	5 214	24 902 533
Debt securities in issue	16 401	-	-	16 401
Derivative financial liabilities	409 612	698 075	-	1 107 687
Other financial liabilities	3 172	3 853	678	7 703
<b>Total financial liabilities</b>	<b>23 143 929</b>	<b>17 769 839</b>	<b>5 892</b>	<b>40 919 660</b>
<b>Net position</b>	<b>20 677 902</b>	<b>(7 585 115)</b>	<b>475 967</b>	<b>13 568 754</b>

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

**21 Financial Risk Management (Continued)**

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2014 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Other countries</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	6 304 967	2 116 607	-	8 421 574
Mandatory cash balances with CBRF	310 308	-	-	310 308
Derivative financial assets	124 808	3 330 499	-	3 455 307
Due from other banks	14 712 587	12 487 683	626 316	27 826 586
Loans and advances to customers	27 137 769	-	-	27 137 769
Securities available for sale	2 703 079	-	-	2 703 079
Other financial assets	56 922	1 952	624	59 498
<b>Total financial assets</b>	<b>51 350 440</b>	<b>17 936 741</b>	<b>626 940</b>	<b>69 914 121</b>
<b>Financial liabilities</b>				
Due to other banks	1 462 792	32 441 522	-	33 904 314
Customer accounts	22 634 001	1 099 794	8 006	23 741 801
Debt securities in issue	94	-	-	94
Derivative financial liabilities	270 361	272 127	-	542 488
Other financial liabilities	10 560	51 644	69	62 273
<b>Total financial liabilities</b>	<b>24 377 808</b>	<b>33 865 087</b>	<b>8 075</b>	<b>58 250 970</b>
<b>Net position</b>	<b>26 972 632</b>	<b>(15 928 346)</b>	<b>618 865</b>	<b>11 663 151</b>

**Liquidity risk** characterises such aspect of the Bank's solvency as the risk of it failing to meet liabilities when due. Liquidity risk includes the risk of failure to meet an obligation in the required currency and at current market rates. Liquidity risk reflects the availability of finance (in the capital and monetary market) and the liquidity of assets. This implies a measurement and controlling process that allows a view on the full maturity spectrum of the underlying products. Ensuring that the Bank is solvent at all times is the responsibility of Treasury Department. Measurement and monitoring of cash liquidity risk at the Group level is the task of GRM-MR.

Solvency at the Group level is measured based on internal liquidity model based on gap analysis of liquidity profile mismatch (LAB – Liquiditätstablaufbilanz). The Bank assesses liquidity risk based on daily gap analysis by evaluating expected cash flows from all the Bank's transactions during unlimited time interval. LAB analysis is formed on a daily basis taking into account seven cash flow types allocated by time intervals, including expected cash flows from contractual obligations (balance sheet and off-balance sheet), modelling cash flows from instruments with uncertain timing and cash flows modelled with account for customer behaviour and financial instrument type.



## **21 Financial Risk Management (Continued)**

Calculated liquidity cash flows (LAB) indicate to what extent the Bank is able to cover liquidity shortfalls by making use of its liquidity reserves. These liquidity reserves consist of all liquid assets like bonds or loans eligible for collateral in transactions with the CBRF. Only unencumbered assets (i.e. those not subject to repo or lending transaction) are considered. All above assets are grouped into different asset classes depending on the instrument's market liquidity. Based on these classifications a projection of the amount of cash that can be generated by sale/repo of these assets is done. Balance sheet liquidity flows are calculated daily under normal and stress scenarios and contain all relevant sale/repo receipts by currency that can be realised based on the Bank's current assets.

LAB Concept assumes stable funding, which defines the proportion of the loan portfolio and other financial instruments with maturities over one year to long-term finance, including the Bank's long-term customer deposits. This concept serves as the basis for resolving on attraction of long-term finance and the terms of attracting funds.

The Bank identifies assets as a cover for identified possible future liquidity gaps. Such gaps are closed by borrowing against liquid assets or disposal of such assets. Liquidity ratios are calculated under current market conditions and under various stress scenarios influenced by either market or behavioural factors.

Liquidity risk is additionally controlled by means of a differentiated system of limits based on the LAB analysis. Liquidity limits are set for each individual currency and for aggregated forward cash position based on the going concern assumption. Independent GRM-MR divisions and the General Banking Risk Control Team monitor compliance with the limits on a daily basis for each segment: by the Department for Financial Market Operations and the Treasury Department, and for the Bank as a whole. All limit overruns are reported to the Group's Treasury (GM-T) and the Market Risk Committee.

To comply with statutory requirements, the Bank calculates liquidity ratios on a daily basis. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. At 31 December 2015, this ratio totals 87.3% (at 31 December 2014: 118.7%), while the required ratio should not be less than 15%;
- Current liquidity ratio (N3) is the proportion of liquid assets to liabilities maturing within 30 days. At 31 December 2015, this ratio totals 72.2% (at 31 December 2014: 99.7%), while the required ratio should not be less than 50%;
- Long-term liquidity ratio (N4) is the proportion of long-term assets (with maturity of over one year) to long-term liabilities and equity. At 31 December 2015, this ratio totals 32.4% (at 31 December 2014: 64.7%), while the required ratio should not be more than 120%;

**21 Financial Risk Management (Continued)**

The table below shows financial liabilities at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the CBRF spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities at 31 December 2015 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Total</b>
<b>Financial liabilities</b>					
Due to other banks	8 144 593	605 225	2 515 304	3 791 170	15 056 292
Customer accounts	22 760 355	1 912 436	272 833	-	24 945 624
Debt securities in issue	-	671	17 829	-	18 500
Gross settled derivatives:					
- cash inflows	(17 218 805)	(746 051)	(1 049 714)	(11 481 716)	(30 496 287)
- cash outflows	16 526 256	830 638	1 114 096	7 203 585	25 674 575
Gross loan commitments	9 728 680	-	-	-	9 728 680
Financial guarantees issued	24 695 703	-	-	-	24 695 703
Irrevocable import letters of credit	9 894 548	-	-	-	9 894 548
<b>Total potential future payments for financial obligations</b>	<b>74 531 330</b>	<b>2 602 919</b>	<b>2 870 348</b>	<b>(486 961)</b>	<b>79 517 636</b>

The maturity analysis of undiscounted financial liabilities at 31 December 2014 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Total</b>
<b>Financial liabilities</b>					
Due to other banks	20 314 660	259 724	10 753 414	2 674 628	34 002 426
Customer accounts	22 432 557	1 153 804	209 032	-	23 795 393
Debt securities in issue	-	-	94	-	94
Gross settled derivatives:					
- cash inflows	(10 074 297)	(911 245)	(219 435)	(7 607 922)	(18 812 899)
- cash outflows	10 123 152	948 038	182 185	4 646 705	15 900 080
Gross loan commitments	10 280 435	-	-	-	10 280 435
Financial guarantees issued	17 112 738	-	-	-	17 112 738
Irrevocable import letters of credit	9 056 901	-	-	-	9 056 901
<b>Total potential future payments for financial obligations</b>	<b>79 246 146</b>	<b>1 450 321</b>	<b>10 925 290</b>	<b>(286 589)</b>	<b>91 335 168</b>

**21 Financial Risk Management (Continued)**

Customer accounts are classified in the above analysis based on contractual maturities.

The Bank does not use the above maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities that are summarised in the following tables:

	<b>31 December 2015</b>				<b>Total</b>
	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	
<i>In thousands of Russian Roubles</i>					
<b>Financial assets</b>					
Cash and cash equivalents	18 977 967	-	-	-	18 977 967
Mandatory cash balances with CBRF	239 031	20 192	2 674	-	261 897
Derivative financial assets	1 500 337	695	7 393	4 420 973	5 929 398
Due from other banks	1 631 836	480 551	-	700 171	2 812 558
Loans and advances to customers	2 897 468	10 507 592	5 924 501	4 539 833	23 869 394
Securities available for sale	212 910	816 788	70 252	1 511 852	2 611 802
Other financial assets	8 537	7 940	7 602	1 319	25 398
<b>Total financial assets</b>	<b>25 468 086</b>	<b>11 833 758</b>	<b>6 012 422</b>	<b>11 174 148</b>	<b>54 488 414</b>
<b>Financial liabilities</b>					
Due to other banks	8 140 393	1 260 945	1 815 770	3 668 228	14 885 336
Customer accounts	22 743 292	1 909 770	249 471	-	24 902 533
Debt securities in issue	-	11 472	4 929	-	16 401
Derivative financial liabilities	807 786	155 384	1 673	142 844	1 107 687
Other financial liabilities	2 446	3 045	1 283	929	7 703
<b>Total financial liabilities</b>	<b>31 693 917</b>	<b>3 340 616</b>	<b>2 073 126</b>	<b>3 812 001</b>	<b>40 919 660</b>
<b>Net liquidity gap at 31 December 2014</b>	<b>(6 225 831)</b>	<b>8 493 142</b>	<b>3 939 296</b>	<b>7 362 147</b>	<b>13 568 754</b>
<b>Cumulative liquidity gap as at 31 December 2014</b>	<b>(6 225 831)</b>	<b>2 267 311</b>	<b>6 206 607</b>	<b>13 568 754</b>	<b>-</b>

**21 Financial Risk Management (Continued)**

All of the Bank's financial assets and liabilities mature within 6 years.

	31 December 2014				Total
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	
<i>In thousands of Russian Roubles</i>					
<b>Financial assets</b>					
Cash and cash equivalents	8 421 574	-	-	-	8 421 574
Mandatory cash balances with CBRF	229 623	51 115	31	29 539	310 308
Derivative financial assets	422 534	71 556	-	2 961 217	3 455 307
Due from other banks	26 244 711	46 142	425 951	1 109 782	27 826 586
Loans and advances to customers	5 719 657	5 427 811	5 175 060	10 815 241	27 137 769
Securities available for sale	-	179 505	807 588	1 715 986	2 703 079
Other financial assets	47 127	4 748	4 886	2 737	59 498
<b>Total financial assets</b>	<b>41 085 226</b>	<b>5 780 877</b>	<b>6 413 516</b>	<b>16 634 502</b>	<b>69 914 121</b>
<b>Financial liabilities</b>					
Due to other banks	20 269 649	8 147 117	-	5 487 548	33 904 314
Customer accounts	22 387 351	1 348 641	5 809	-	23 741 801
Debt securities in issue	-	94	-	-	94
Derivative financial liabilities	471 389	71 099	-	-	542 488
Other financial liabilities	59 779	1 516	202	776	62 273
<b>Total financial liabilities</b>	<b>43 188 168</b>	<b>9 568 467</b>	<b>6 011</b>	<b>5 488 324</b>	<b>58 250 970</b>
<b>Net liquidity gap at 31 December 2014</b>	<b>(2 102 942)</b>	<b>(3 787 590)</b>	<b>6 407 505</b>	<b>11 146 178</b>	<b>11 663 151</b>
<b>Cumulative liquidity gap at 31 December 2014</b>	<b>(2 102 942)</b>	<b>(5 890 532)</b>	<b>516 973</b>	<b>11 663 151</b>	<b>-</b>

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of customers, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Customer accounts are classified in the above analysis based on contractual maturities. In accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity, if they forfeit their right to accrued interest. However, deposits of individuals represent an insignificant percentage of the Bank's liabilities. The portfolio of securities is classified based on their contractual maturities. However, these securities are quoted and freely tradable, and management believes they represent liquid assets of the Bank.

## **21 Financial Risk Management (Continued)**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

**Operational risk** is the probability of losses through inadequate or defective internal systems and processes used by the Bank, IT-systems failures or external events affecting the Bank's operations. GRM-CC determines the operational risk strategy and principles. The Bank's Management Board is responsible for implementation of these policies and guidelines, for introduction and application of the methodologies and tools developed by GRM-CC, for performance of detailed risk estimation, proactive operational risk management and initiation of risk mitigating steps.

Operational risk is measured using both the bottom-up and top-down approach. The internally recorded loss data are enhanced by industry data that is also used in the scenario analysis. The qualitative self-assessment is repeatedly carried out in all parts of the Bank's processes using structured questionnaires. The assessment is supplemented by the use of key risk indicators, which allows monitoring sensitive processes as part of daily operational risk management.

Operational risk is assessed through mathematical-statistical risk modelling. Through the analysis of internal and external loss data in considering qualitative ratings, the model calculates both the economic and regulatory capital in terms of VaR.

In order to ensure that banking activities are maintained and to minimise losses arising from serious interruptions of its operations, the Bank has a business continuity plan and a contingency policy, which are approved by the Bank's management and agreed with the Operational Risk Committee of the Commerzbank Group.

Subcategories of operational risk include internal and external fraud risk, information technology risk, legal risk, organisational risk, business process risk, and catastrophe and emergency risks.

## **22 Management of Capital**

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank's ability to continue as a going concern. Internal procedures for assessing capital adequacy constitute the process implemented by the Bank to assess adequacy of available capital, i.e. internal capital to cover assumed and potential risks. These procedures also include capital planning procedures based on the Bank's established development strategy, business development goals and the results of comprehensive current assessment of the above risks. The procedure for risk assessment and management for ensuring equity (capital) adequacy is approved by the Supervisory Board. In determining the aggregate Bank's equity (capital) required to cover assumed and potential risks the Bank uses regulatory capital. The Bank calculates regulatory capital according to the methodology established by Regulation of the Bank of Russia No. 395-P of 28 December 2012 "On the Methodology to Estimate Equity (Capital) of Credit Institutions ("Basel III)". Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant.

## **22 Management of Capital (Continued)**

As at 31 December 2015, the Bank's regulatory capital on the basis of the Bank's statutory reports was RR 12 241 273 thousand (2014: RR 11 517 708 thousand).

The Bank is integrated into the risk management system of Commerzbank Group, which ensures additional permanent control over risk management from the part of the Bank's Sole Shareholder, and allows the Bank to use the Group's models and risk management systems for efficient risk management.

In addition to the standardised approach, which is based upon the effective regulations of the Bank of Russia on the procedure for risk calculation in assessing capital adequacy, the Bank also uses advanced methods and internal models developed by Commerzbank AG for risk assessment. These models and methodologies have been officially approved by authorised supervisory bodies of the parent bank and approved to be used in determining capital adequacy of Commerzbank Group.

The Bank complied with all externally imposed capital requirements throughout 2015 and 2014.

## **23 Contingencies and Commitments**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

**Tax contingencies.** Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances, reviews may cover longer periods.

At 31 December 2015, the Bank accrued additional income tax liabilities for prior years in the amount of RR 28 990 thousand and recorded a provision for tax risks in the amount of RR 3 331 thousand (Note 14) based on the results of the tax audit for 2010-2012 that took place in 2015. The tax authority will make the final decision based on the tax audit results following the consideration of the objections made by the Bank in accordance with the procedure provided for by the tax legislation. The objections are aimed at defending the Bank's position and reducing the assessed tax amount.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

### **23 Contingencies and Commitments (Continued)**

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

In addition, there is a possible risk of additional income tax charge related to uncertainty and lack of practice of implementing new legislation on determining the price of unquoted derivative instruments for tax base calculation.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Management estimates that the Bank has no potential obligations from exposure to other than remote tax risks. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

**Operating lease commitments.** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Due within 1 year	232 793	177 175
Due between 1 and 5 years	229 647	359 401
<b>Total operating lease commitments</b>	<b>462 440</b>	<b>536 576</b>

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank to make payments to a third party on behalf of a customer up to a specified amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

**23 Contingencies and Commitments (Continued)**

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank 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 Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
Financial guarantees issued		24 695 703	17 112 738
Irrevocable import letters of credit		9 894 548	9 056 901
Undrawn credit lines		5 813 170	6 872 794
Unused limits on overdraft loans		3 915 510	3 407 641
Export letters of credit		37 655	204 487
Provision for credit related commitments	14	(20 311)	(24 964)
<b>Total credit related commitments, net of provision</b>		<b>44 336 275</b>	<b>36 629 597</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 20 311 thousand at 31 December 2015 (2014: RR 24 964 thousand).

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b>	<b>2014</b>
Russian Roubles	15 097 644	13 993 346
Euros	17 052 795	11 727 904
US Dollars	12 185 836	10 908 347
<b>Total</b>	<b>44 336 275</b>	<b>36 629 597</b>



**24 Derivative financial instruments**

The fair values of derivative instruments at the end of the reporting period by currency are disclosed in the table below. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

<i>In thousands of Russian Roubles</i>	2015		2014	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<b>Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of</b>				
- USD receivable on settlement (+)	6 795 866	259 438	318 266	592 883
- USD payable on settlement (-)	-	(1 736 748)	(4 742 935)	(3 055 525)
- Euros receivable on settlement (+)	4 342 672	313 709	716 958	-
- Euros payable on settlement (-)	(4 713)	(6 470 531)	(96 926)	(1 713 467)
- RR receivable on settlement (+)	4 834	6 670 583	5 222 049	4 354 821
- RR payable on settlement (-)	(9 616 629)	-	(923 322)	(721 200)
- Other currencies receivable on settlement (+)	-	105 391	-	-
- Other currencies payable on settlement (-)	(22 275)	(105 409)	-	-
<b>Total foreign exchange forwards and swaps</b>	<b>1 499 755</b>	<b>(963 567)</b>	<b>494 090</b>	<b>(542 488)</b>
<b>Interest rate and cross currency interest rate swaps: fair values, at the end of the reporting period, of</b>				
- USD receivable on settlement (+)	8 701 040	1 453 353	6 751 008	-
- RR receivable on settlement (+)	1 189 715	658 409	856 914	-
- RR payable on settlement (-)	(5 462 388)	(2 254 606)	(4 646 705)	-
<b>Total interest rate and cross currency interest rate swaps</b>	<b>4 428 367</b>	<b>(142 844)</b>	<b>2 961 217</b>	<b>-</b>
<b>Options</b>	<b>1 276</b>	<b>(1 276)</b>	<b>-</b>	<b>-</b>
<b>Net fair value of derivatives</b>	<b>5 929 398</b>	<b>(1 107 687)</b>	<b>3 455 307</b>	<b>(542 488)</b>

## 24 Derivative Financial Instruments (Continued)

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2015, the Bank also had liabilities under spot transactions with foreign currencies of RR 631 679 thousand (2014: RR 1 258 060 thousand). The net fair value of spot transactions is insignificant.

## 25 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### (a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

<i>In thousands of Russian Roubles</i>	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS AT FAIR VALUE</b>								
<b>FINANCIAL ASSETS</b>								
<b>Investment securities available for sale</b>								
- Russian government bonds	2 611 802	-	-	2 611 802	2 703 079	-	-	2 703 079
<b>Derivative financial instruments</b>	-	5 929 398	-	5 929 398	-	3 455 307	-	3 455 307
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>2 611 802</b>	<b>5 929 398</b>	<b>-</b>	<b>8 541 200</b>	<b>2 703 079</b>	<b>3 455 307</b>	<b>-</b>	<b>6 158 386</b>

**25 Fair Value Disclosures (Continued)**

<i>In thousands of Russian Roubles</i>	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>LIABILITIES AT FAIR VALUE</b>								
<b>FINANCIAL LIABILITIES</b>								
Derivative financial instruments	-	1 107 687	-	1 107 687	-	542 488	-	542 488
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>1 107 687</b>	<b>-</b>	<b>1 107 687</b>	<b>-</b>	<b>542 488</b>	<b>-</b>	<b>542 488</b>

Derivative financial instruments whose fair value is established through valuation techniques with inputs observable in the market are interest rate and currency swaps, and forward foreign exchange contracts. Fair values of these instruments are calculated based on the models using present value calculation. These models combine different inputs, including credit quality, forward and spot exchange rates as well as interest rate curves.

**(b) Assets and liabilities not measured at fair value but for which fair value is disclosed**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

<i>In thousands of Russian Roubles</i>	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL ASSETS</b>								
<b>Cash and cash equivalents</b>								
- Cash on hand	61 382	-	-	61 382	60 193	-	-	60 193
- Cash balances with the CBRF	-	12 368 018	-	12 368 018	-	5 664 974	-	5 664 974
- Correspondent accounts and overnight placements	-	4 755 133	-	4 755 133	-	2 149 596	-	2 149 596
- Balances on settlement accounts with trading systems	-	1 793 434	-	1 793 434	-	546 811	-	546 811
<b>Mandatory cash balances with CBRF</b>	<b>-</b>	<b>261 897</b>	<b>-</b>	<b>261 897</b>	<b>-</b>	<b>310 308</b>	<b>-</b>	<b>310 308</b>
<b>Due from other banks</b>	<b>-</b>	<b>2 793 894</b>	<b>-</b>	<b>2 812 558</b>	<b>-</b>	<b>27 656 364</b>	<b>-</b>	<b>27 826 586</b>
<b>Loans and advances to customers</b>	<b>-</b>	<b>-</b>	<b>23 804 183</b>	<b>23 869 394</b>	<b>-</b>	<b>-</b>	<b>26 499 258</b>	<b>27 137 769</b>
<b>Other financial assets</b>	<b>-</b>	<b>-</b>	<b>25 398</b>	<b>25 398</b>	<b>-</b>	<b>-</b>	<b>59 498</b>	<b>59 498</b>
<b>TOTAL FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>	<b>61 382</b>	<b>21 972 376</b>	<b>23 829 581</b>	<b>45 947 214</b>	<b>60 193</b>	<b>36 328 053</b>	<b>26 558 756</b>	<b>63 755 735</b>

**25 Fair Value Disclosures (Continued)**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

<i>In thousands of Russian Roubles</i>	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL LIABILITIES</b>								
<b>Due to other banks</b>								
- Correspondent accounts and overnight placements of other banks	-	4 102 063	-	4 102 063	-	1 895 762	-	1 895 762
- Term placements of other banks	-	10 586 293	-	10 783 273	-	31 535 326	-	32 008 552
<b>Customer accounts</b>								
- Current/settlement accounts of other legal entities	-	15 760 615	-	15 760 615	-	10 901 102	-	10 901 102
- Term deposits of other legal entities	-	8 905 640	-	9 137 676	-	12 804 167	-	12 832 178
- Current/demand accounts of individuals	-	3 945	-	3 945	-	8 521	-	8 521
- Term deposits of individuals	-	297	-	297	-	-	-	-
<b>Debt securities in issue</b>	-	17 834	-	16 401	-	94	-	94
<b>Other financial liabilities</b>	-	7 703	-	7 703	-	62 273	-	62 273
<b>TOTAL FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>								
	-	39 384 390	-	39 811 973	-	57 207 245	-	57 708 482

**(c) Valuation techniques and assumptions**

**Assets for which the fair value approximates their carrying value.** Fair value of liquid or short-term (less than 3 months) financial assets and financial liabilities is assumed to approximate their fair value. This assumption is also used for demand deposits and saving accounts without set maturity.

**Loans and receivables carried at amortised cost.** The estimated fair value of a financial instrument is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. The Bank applied discount rates calculated based on the government curves for each currency, appropriately amended to include:

- cost of funding for Commerzbank (based on credit default swap curve for Commerzbank AG);
- country risk differential (based on credit default swap curve for Russian Federation, currency and interest rate swap curves for each currency);
- individual credit risk (based in credit margin).

## 25 Fair Value Disclosures (Continued)

The following table gives information about applied discount rates (with adjustment for average credit margin):

<i>In % pa</i>	2015	2014
<i>Exposures denominated in Russian Roubles</i>		
up to 3 months	13.9%–14.2%	17.6%–25.0%
3 months to 1 year	13.8%–14.2%	18.6%–24.9%
over 1 year	11.7%–13.8%	11.5%–18.6%
<i>Exposures denominated in US Dollars</i>		
up to 3 months	1.9%–2.2%	1.6%–1.8%
3 months to 1 year	2.2%–2.4%	1.8%–2.0%
over 1 year	2.4%–3.9%	2.0%–3.6%
<i>Exposures denominated in Euro</i>		
up to 3 months	0.2%–1.2%	1.2%–1.5%
3 months to 1 year	1.2%–1.2%	1.5%–1.5%
over 1 year	1.1%–2.2%	1.5%–1.9%

**Liabilities carried at amortised cost.** The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank’s credit risk and also depend on currency and maturity of the instrument as described above.

The Bank’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

## 26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading (“Trading assets”). In addition, finance lease receivables form a separate category.

As at 31 December 2015 and 2014, all of the Bank’s financial assets fall in the loans and receivables category except for derivatives and securities available for sale.

As at 31 December 2015 and 2014, all of the Bank’s financial liabilities except for derivatives were carried at amortised cost.

Derivatives belong to the fair value through profit or loss measurement category.

## 27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

The outstanding balances with related parties were as follows:

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<i>In thousands of Russian Roubles</i>	<b>2015</b> <b>Commerzbank Group</b>	<b>2014</b> <b>Commerzbank Group</b>
Correspondent accounts with banks – contractual interest rate: 0% (2014: 0%)	4 698 758	2 080 999
Due from other banks – contractual interest rate: no (2014: 0.1%–16.5%)	-	12 487 683
Derivative financial instruments (assets)	5 435 557	3 329 674
Loans to customers	1 129	2 370
Other financial assets	102	1 198
Other assets	3 177	-
Due to banks (contractual interest rate: 0%–10.6% (2014: 0%–18.8%))	14 885 336	32 441 522
Customer accounts (contractual interest rate: 0%–9.5% (2014: 0%–11%))	121 699	87 777
Derivative financial instruments (liabilities)	418 024	272 127
Other financial liabilities	3 850	51 644

The income and expense items with related parties were as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b> <b>Commerzbank Group</b>	<b>2014</b> <b>Commerzbank Group</b>
Interest income	60 008	29 753
Interest expense	(124 124)	(30 998)
Fee and commission income	121 057	16 250
Fee and commission expense	(120 489)	(26 953)
Other operating income	2 843	59 992
Administrative and other operating expenses	(430 559)	(285 010)

## 27 Related Party Transactions (Continued)

At 31 December 2015, other rights and obligations with related parties were as follows:

<i>In thousands of Russian Roubles</i>	<b>2015</b> <b>Commerzbank Group</b>	<b>2014</b> <b>Commerzbank Group</b>
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	22 659 249	21 924 802
Guarantees issued by the Bank to related parties	16 208 971	10 530 815
Receivables on gross settled term deals and derivatives	23 495 141	15 544 133
Liabilities under gross settled term deals and derivatives	18 767 045	12 708 595
Irrevocable credit lines	700 000	700 000

Key management compensation is presented below:

<i>In thousands of Russian Roubles</i>	<b>2015</b>		<b>2014</b>	
	<b>Interest income</b>	<b>Loans and advances to customers</b>	<b>Interest income</b>	<b>Loans and advances to customers</b>
Loans and advances to customers	169	1 129	287	2 370
<b>Total</b>	<b>169</b>	<b>1 129</b>	<b>287</b>	<b>2 370</b>

<i>In thousands of Russian Roubles</i>	<b>2015</b>		<b>2014</b>	
	<b>Expense</b>	<b>Accrued liability</b>	<b>Expense</b>	<b>Accrued liability</b>
Salaries, short-term bonuses, benefits in-kind	42 794	6 465	29 865	5 784
Long-term bonus scheme	4 310	4 310	-	-
<b>Total</b>	<b>47 104</b>	<b>10 775</b>	<b>29 865</b>	<b>5 784</b>

At 31 December 2015, operating lease commitments for premises leased by the Bank from Commerzbank Group's related party comprised RR 407 671 thousand (2014: RR 454 584 thousand).

## 28 Events after the Reporting Date

On 9 March 2016, COMMERZBANK (EURASIJA) SAO filed the new version of the Bank's Charter with the CBR for registration. According to the new version, the title to the Bank will be changed to COMMERZBANK (EURASIJA) AO. Other changes are related to the issues of corporate governance.